

New Zealand King Salmon

1H21 Preview — Taking the Temperature

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OUTPERFORM

Market conditions remain tough and we expect New Zealand King Salmon (NZK) to report a subdued 1H21 result on Wednesday, 24 February 2021. We expect investor focus will be on export channel performance, given the fluid backdrop of COVID-19 restrictions in key markets. NZK's previous guidance commentary indicated FY21 Operating EBITDA was unlikely to exceed FY20 (FY20 NZ\$25m, FY21E NZ\$22m), however, NZK has since changed its balance date to year end January (previously June) to better align with fish performance.

NZX Code	NZK	Financials: Jun/	20A	21E	22E	23E	Valuation (x)	20A	21E	22E	23E
Share price	NZ\$1.56	NPAT* (NZ\$m)	18.0	7.4	15.8	19.3	PE	12.0	29.3	13.7	11.3
Target price	NZ\$2.65	EPS* (NZc)	13.0	5.3	11.4	13.9	EV/EBIT	13.9	19.6	10.4	8.8
Risk rating	Medium	EPS growth* (%)	58.1	-58.8	n/a	21.9	EV/EBITDA	9.0	11.3	7.2	6.3
Issued shares	139.0m	DPS (NZc)	2.0	3.0	5.0	6.0	Price / NTA	1.6	1.6	1.3	1.2
Market cap	NZ\$217m	Imputation (%)	100	100	100	100	Cash div yld (%)	1.3	1.9	3.2	3.8
Avg daily turnover	46.6k (NZ\$81k)	*Based on normalised profits					Gross div yld (%)	1.8	2.7	4.5	5.3

Key areas of focus at NZK's 1H21 result

- **Export market performance** — High COVID-19 case numbers and revolving lockdowns in key export markets continue to suppress demand. NZK has made noticeable progress in its push into USA retail markets, announcing new hires and new distribution agreements.
- **Prices** — NZK has a track record of delivering price gains. We understand NZK has not undertaken any price changes on its export product, but elevated promotional activity in domestic retail, in combination with unfavourable mix change, is likely to weigh on average price achieved.
- **Water temperatures and fish performance** — Warming waters have proved a challenge for NZK in recent years. The 2020–2021 summer to date has been cooler than prior periods in the high-risk areas; however, the marine environment forecast appears challenging.
- **Farm consents and open ocean** — NZK operates a number of under performing locations, we look for an update on a possible relocation of these consents. In 2019 NZK applied for its first open ocean site, which would eventually allow for ~8,000MT of production over an 18 month cycle. A hearing on its application is due to occur in May 2021.

1H21 conference call — 12:00pm on Wednesday, 24 February 2021

Dial in details: New Zealand 0800 122 136, Conference ID: 10011811.

Figure 1. 1H21E result expectations

	1H20	1H21E	% change
Revenue	84.2	74.6	-11%
EBITDA	33.9	13.6	-60%
EBIT	29.5	8.9	-70%
Normalised NPAT	20.8	5.6	-73%
EPS (cps)	15.0	4.0	-73%
DPS (cps)	2.0	1.5	-25%

Source: Forsyth Barr analysis

New Zealand King Salmon (NZK)

Priced as at 22 Feb 2021 (NZ\$)

1.56

12-month target price (NZ\$)*	2.65
Expected share price return	69.9%
Net dividend yield	2.8%
Estimated 12-month return	72.6%

Spot valuations (NZ\$)	
1. DCF	2.81
2. Comparative multiples	2.40
3. Market multiple	n/a

Key WACC assumptions	
Risk free rate	1.30%
Equity beta	1.01
WACC	6.4%
Terminal growth	2.0%

DCF valuation summary (NZ\$m)	
Total firm value	447
(Net debt)/cash	(31)
Less: Capitalised operating leases	
Value of equity	416

Profit and Loss Account (NZ\$m)	2019A	2020A	2021E	2022E	2023E
Sales revenue	172.6	155.3	160.9	204.4	219.2
Normalised EBITDA	25.2	26.5	22.0	34.2	39.0
Depreciation and amortisation	(6.2)	(9.4)	(9.4)	(10.4)	(11.1)
Normalised EBIT	18.9	17.1	12.6	23.8	27.9
Net interest	(1.1)	(1.7)	(2.3)	(1.9)	(1.2)
Associate income	0	0	0	0	0
Tax	4.4	6.9	2.9	6.1	7.5
Minority interests	0	0	0	0	0
Normalised NPAT	11.4	18.0	7.4	15.8	19.3
Abnormals/other	0	0	0	0	0
Reported NPAT	11.4	18.0	7.4	15.8	19.3
Normalised EPS (cps)	8.2	13.0	5.3	11.4	13.9
DPS (cps)	5.0	2.0	3.0	5.0	6.0

Valuation Ratios	2019A	2020A	2021E	2022E	2023E
EV/EBITDA (x)	8.6	8.8	11.1	7.1	6.2
EV/EBIT (x)	11.5	13.7	19.3	10.2	8.7
PE (x)	19.0	12.0	29.3	13.7	11.3
Price/NTA (x)	1.8	1.6	1.6	1.3	1.2
Free cash flow yield (%)	-1.5	-5.5	2.8	5.5	10.2
Net dividend yield (%)	3.2	1.3	1.9	3.2	3.8
Gross dividend yield (%)	4.5	1.8	2.7	4.5	5.3

Capital Structure	2019A	2020A	2021E	2022E	2023E
Interest cover EBIT (x)	17.3	9.9	5.4	12.7	23.6
Interest cover EBITDA (x)	23.0	15.3	9.4	18.2	32.9
Net debt/ND+E (%)	5.2	14.4	14.2	10.9	5.5
Net debt/EBITDA (x)	0.4	1.2	1.4	0.8	0.3

Growth Rates	2019A	2020A	2021A	2022A	2023A
Revenue (%)	7.7	-10.0	3.6	27.0	7.2
EBITDA (%)	-3.8	5.3	-17.1	55.7	14.0
EBIT (%)	-10.1	-9.6	-26.3	88.7	17.3
Normalised NPAT (%)	-30.5	58.6	-58.8	>100	21.9
Normalised EPS (%)	-30.6	58.1	-58.8	>100	21.9
Ordinary DPS (%)	0.0	-60.0	50.0	66.7	20.0

Key Ratios	2019A	2020A	2021E	2022E	2023E
Return on assets (%)	8.5	6.2	4.6	7.8	9.0
Return on equity (%)	6.7	9.8	4.1	7.4	8.3
Return on funds employed (%)	9.5	7.0	5.2	8.8	10.1
EBITDA margin (%)	14.6	17.1	13.7	16.7	17.8
EBIT margin (%)	11.0	11.0	7.8	11.7	12.7
Capex to sales (%)	8.2	10.4	6.4	8.5	6.9
Capex to depreciation (%)	228	172	110	167	136
Imputation (%)	100	100	100	100	100
Pay-out ratio (%)	61	15	56	44	43

Cash Flow (NZ\$m)	2019A	2020A	2021E	2022E	2023E
EBITDA	25.2	26.5	22.0	34.2	39.0
Working capital change	(8.7)	(13.6)	(0.2)	3.3	7.0
Interest & tax paid	(5.5)	(8.7)	(5.4)	(8.2)	(8.9)
Other	0	0	0	0	0
Operating cash flow	10.9	4.2	16.4	29.3	37.1
Capital expenditure	(14.2)	(16.1)	(10.3)	(17.3)	(15.0)
(Acquisitions)/divestments	0.0	0.0	0	0	0
Other	0	(1.4)	(1.0)	(1.0)	(1.0)
Funding available/(required)	(3.2)	(13.3)	5.1	11.0	21.0
Dividends paid	(7.1)	(6.9)	(4.2)	(6.9)	(8.3)
Equity raised/(returned)	0.0	0.0	0	0	0
(Increase)/decrease in net debt	(10.4)	(20.2)	0.9	4.0	12.7

Operating Performance	2019A	2020A	2021E	2022E	2023E
Revenue split by market (NZ\$m)					
Domestic	79.8	66.7	69.1	88.1	94.2
Export	92.9	88.6	91.8	116.4	125.0
Total	172.6	155.3	160.9	204.4	219.2
Revenue split by market (%)					
Domestic	46%	43%	43%	43%	43%
Export	54%	57%	57%	57%	57%

Balance Sheet (NZ\$m)	2019A	2020A	2021E	2022E	2023E
Working capital	17.8	33.5	33.9	30.8	24.0
Fixed assets	51.8	60.5	63.5	72.5	78.5
Intangibles	46.8	47.9	48.1	48.4	48.6
Right of use asset	0	4.6	4.6	4.6	4.6
Other assets	82.9	105.7	99.5	120.5	126.3
Total funds employed	199.3	252.2	249.7	276.7	282.0
Net debt/(cash)	9.2	31.0	30.1	26.1	13.4
Lease liability	0	3.3	3.4	3.5	3.7
Other liabilities	21.4	33.6	33.6	33.6	33.6
Shareholder's funds	168.8	184.3	182.5	213.5	231.4
Minority interests	0	0	0	0	0
Total funding sources	199.3	252.2	249.7	276.7	282.0

Revenue split by country (NZ\$m)	2019A	2020A	2021E	2022E	2023E
New Zealand	79.8	66.0	69.1	88.1	94.2
North America	58.5	58.4	58.9	77.7	83.3
Australia	11.9	9.3	11.2	14.3	15.3
Japan	5.9	5.3	5.0	6.1	6.6
Europe	3.1	3.6	2.9	3.7	4.0
Other	13.5	12.7	13.7	14.5	15.9
Total	172.6	155.3	160.9	204.4	219.2

Harvest volume (MT)	7,931	7,336	8,500	8,500	9,000
Average realised price (NZ\$/kg)	23.01	24.99	23.80	24.33	24.64

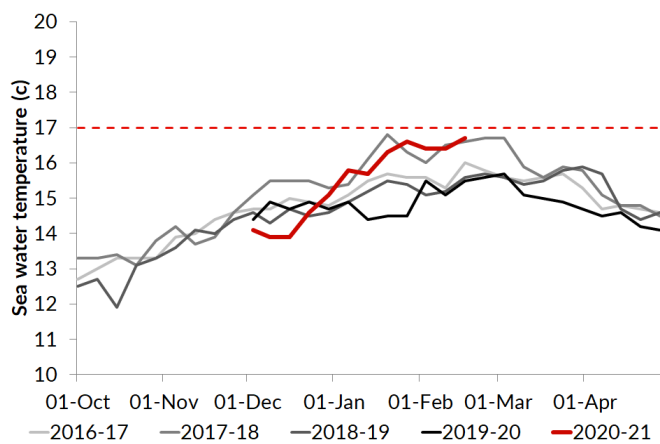
* Forsyth Barr target prices reflect valuation rolled forward at cost of equity less the next 12-months dividend

Water temperature data

The optimal SST (sea surface temperature) range for fish performance is 12°C to 17°C, with days over 17°C a key driver of higher mortalities (alongside low oxygen, disease, and stress).

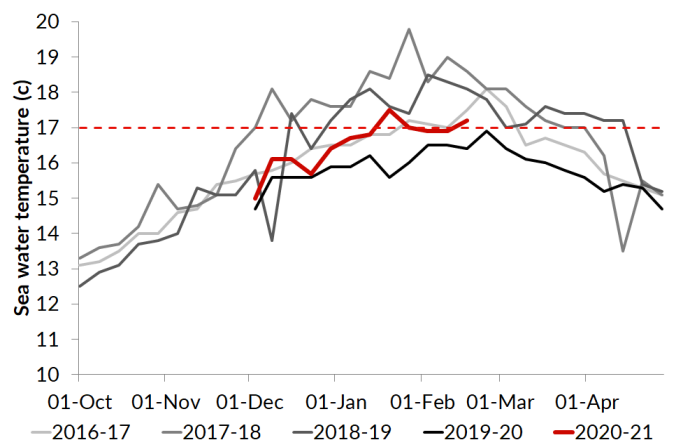
FY18 and FY19 had as many as 18 and 19 weeks (respectively) with temperatures over 17°C in the period December-April. NZK annual mortalities spiked to 20% and 23% in those years, from 8.5% in FY17. Mortalities reduce both the current and following year harvests, as well as increase cost per tonne. Temperatures to date remain consistent with our mortality forecast (FY21E mortality rate 14%). As a guide a +2% increase in mortality would have a c. -6% impact on forecast EBITDA.

Figure 2. Water temperature – Tory Channel



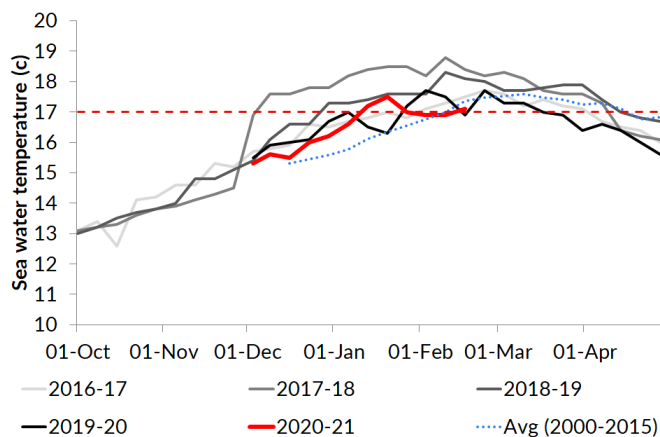
Source: NZK, Forsyth Barr analysis

Figure 3. Water temperature – Queen Charlotte



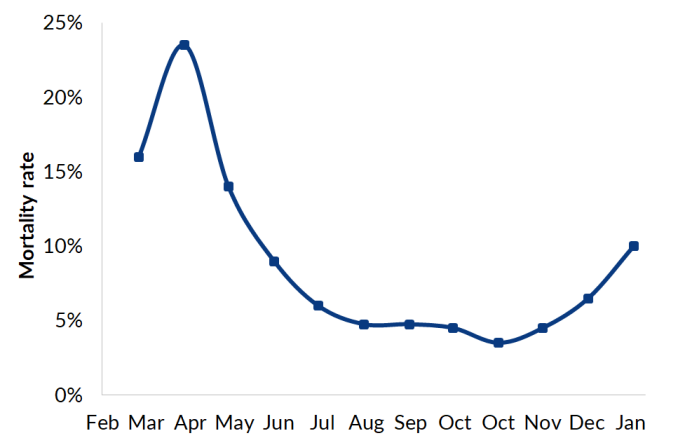
Source: NZK, Forsyth Barr analysis

Figure 4. Water temperature – Pelorus

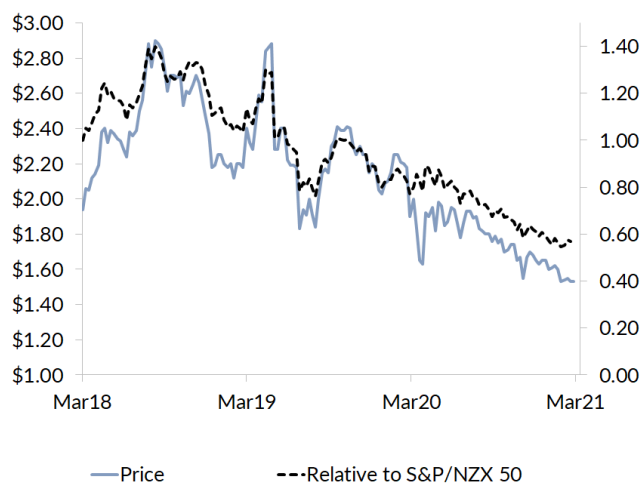


Source: NZK, Forsyth Barr analysis

Figure 5. Indicative fish mortality seasonality



Source: NZK, Forsyth Barr analysis

Figure 6. Price performance


Source: Forsyth Barr analysis

Figure 7. Substantial shareholders

Shareholder	Latest Holding
Oregon Group	40.2%
China Resources	10.0%
New Zealand Superannuation Fund	6.5%

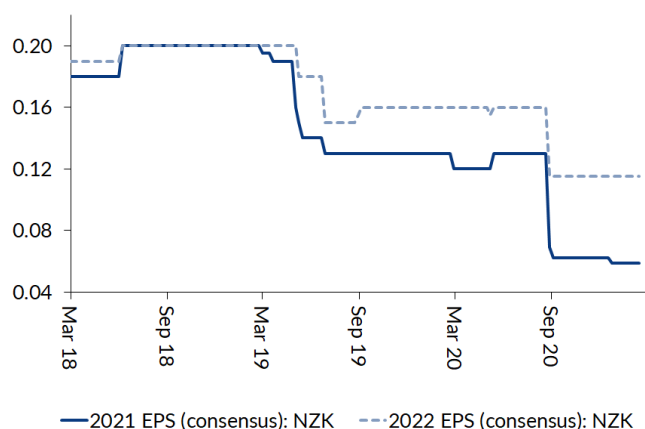
Source: NZX, Forsyth Barr analysis, NOTE: based on SPH notices only

Figure 8. International valuation comparisons

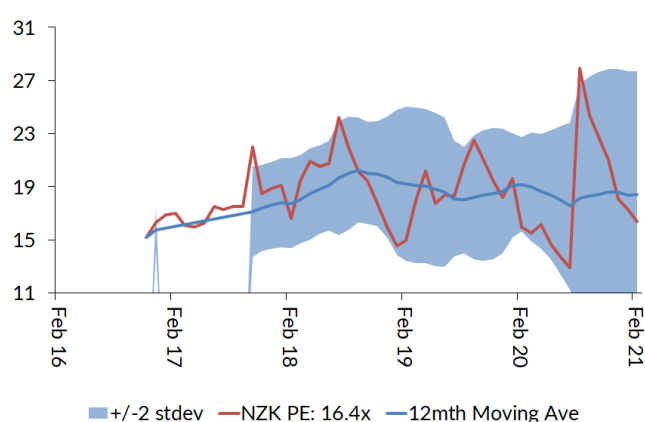
Company	Code	Price	Mkt Cap	PE		EV/EBITDA		EV/EBIT		Cash Yld
(metrics re-weighted to reflect NZK's balance date - June)										
			(m)	2021E	2022E	2021E	2022E	2021E	2022E	2022E
New Zealand King Salmon	NZK NZ	NZ\$1.56	NZ\$217	29.3x	13.7x	11.3x	7.2x	19.6x	10.4x	3.2%
SANFORD *	SAN NZ	NZ\$4.50	NZ\$421	16.3x	11.1x	8.6x	6.8x	14.2x	10.2x	4.5%
HUON AQUACULTURE GROUP	HUO AT	A\$2.61	A\$287	<0x	21.0x	25.0x	9.6x	<0x	23.1x	1.4%
TASSAL GROUP	TGR AT	A\$3.22	A\$680	12.8x	10.6x	8.3x	7.2x	13.3x	10.9x	4.8%
MOWI ASA	MOWI NO	€193.15	€99,880	>50x	>50x	>75x	>75x	>75x	>75x	0.4%
SALMAR ASA	SALM NO	kr535.40	kr60,661	24.9x	20.0x	15.9x	13.5x	19.8x	16.5x	3.9%
DELEGAT GROUP *	DGL NZ	NZ\$14.65	NZ\$1,482	22.9x	19.9x	14.7x	13.1x	17.1x	15.1x	1.3%
SCALES *	SCL NZ	NZ\$4.80	NZ\$682	21.2x	19.0x	9.5x	8.6x	13.4x	11.9x	4.5%
COMVITA *	CVT NZ	NZ\$3.25	NZ\$227	21.2x	17.2x	11.5x	10.5x	20.6x	17.3x	1.5%
Compco Average:				19.9x	17.0x	13.4x	9.9x	16.4x	15.0x	2.8%
EV = Current Market Cap + Actual Net Debt NZK Relative:				47%	-19%	-16%	-27%	20%	-31%	15%

EV = Current Market Cap + Actual Net Debt

Source: *Forsyth Barr analysis, Bloomberg Consensus, Compco metrics re-weighted to reflect headline (NZK) companies fiscal year end

Figure 9. Consensus EPS momentum (NZ\$)


Source: Forsyth Barr analysis

Figure 10. One year forward PE (x)


Source: Forsyth Barr analysis

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