

New Zealand King Salmon Investments

Sustaining stronger export focus is the key to growth

New Zealand King Salmon (NZK) is the world's largest producer of king (chinook) salmon products. Based in Nelson, NZK harvests and sells ~8,000mtpa of fresh, smoked, and frozen king salmon (56% of NZ's ~14,400mtpa totals) from 9 sea bay farms. Global salmon output is ~3.2million mtpa, while the world's largest Atlantic salmon producer, Mowi ASA, harvests 450,000mtpa. NZK's core brands include Ora King (ultra-premium foodservice); Regal (premium retail); Southern Ocean (value retail) and Omega Plus (petfood). Ora King sells in +1200 restaurants, with 10k+ Instagram followers. NZK plans to expand all export sales categories, while lifting harvest yields. NZ's Aquaculture Strategy aims to generate NZ\$3b sales to open by 2035, up from NZ\$620m today (11% CAGR). As water temperatures warm, NZK is keen to shift its Marlborough Sounds bay farms to cooler, deeper Open Ocean waters, 7kms offshore. Two 5,000mt sites (capex NZ\$35m) are under local application and NZK has also applied to NZ's Environment Court to expand its bay farms from 1.5-2.25 hectares. NZK's COVID-19 headwinds have resulted in lost restaurant sales & higher export costs; however new channels are continually being developed, including Safeway, Amazon US and Chinese ecommerce pet site, Boqii. All NZK packaging will be reusable, recyclable, compostable by 2025, lifting sustainability.

Business model

Listed on both the ASX and NZX since October 2016, NZK is the world's largest premium salmon aquaculture producer, with a 30-year history and 500+ staff. Formed from the merger of Regal Salmon & Southern Ocean Seafoods in 1996, NZK focuses on cultivating, processing and selling branded fresh, smoked, marinated and frozen king salmon to the retail, pet food & foodservice sectors. King salmon is prized for its high protein omega-3 health benefits & rich taste, while comprising just ~0.7% of global salmon stocks. Exports are ~55% of sales, with the US its largest market (~37%). New export channels (eg Safeway US, Amazon US, China Boqii online pet food) should drive future growth. Farm expansion plans (+100%) require local NZ authority consent (incl. public hearings).

Recent company commentary

FY20 NZ\$25.1m EBITDA achieved bottom-range guidance, flat with 2019, assisted by a NZ\$4m COVID-19 wage subsidy. While volumes fell 16% (6,331 vs 7,520), revenues were down just 10%, aided by a 7% rise in salmon price rises. NZK will not pay a final dividend, after a NZ\$0.02 interim, given net debt up NZ\$22m. Omega-Plus pet sales are growing well off a low base, while premium foodservice sales may take +18 months to fully recover. NZK has not provided FY21 guidance but notes it will be challenging to exceed the FY20 EBITDA given the uncertain global environment due to COVID-19, usual summer fish performance and increased freight costs.

NZK aims to double production & lift margins to outrank peers

NZK operates in the same sector as Tassel Group (33ktpa Atlantic salmon harvest / \$107m EBITDA; 21% margins) & Huon Aquaculture (36ktpa harvest / \$47m EBITDA; 14% margins), although running a harvest rate 1/4 the size. NZK has a 5yr plan to more than double sales through improved fish husbandry and the acquisition of new water space.

Historical earnings and ratios

Year end	Revenue (NZ\$m)	EBITDA Adj.* (NZ\$m)	NPAT Adj.* (NZ\$m)	NPAT Rep.	EPS Adj.*(c)	EPS Rep.	EV/Sales^ (x)	EV/EBITDA^ (x)	P/E^ (x)
06/17a	136.4	21.6	22.8	11.8	16.5	8.5	1.8	11.2	10.6
06/18a	160.3	26.17	14.5	16.1	10.5	11.6	2.1	12.8	22.8
06/19a	172.6	25.2	12.9	11.3	9.3	8.2	1.5	10.4	19.7
06//20a	155.3	25.1	11.2	18.0	8.1	13.0	1.9	11.5	23.1

Source: Company data *EBITDA & NPAT adj for one-time, non-cash items ^based on yr end price

Aquaculture

4 September 2020

Share details

ASX Code	NZK
Share price (3-Sep)	A\$1.70
Market Capitalisation	\$236.3M
Shares on issue	138.99M
Net debt at 30/06/2020	NZ\$31.0M
Free float	29%

Share performance (12 months)



Upside Case

- Expanded export growth (food services; retail; ecommerce; pet food) across US; Asia & Europe
- Approval to establish 2 Open Ocean farms
- Approval to expand bay farms to 2.25ha

Downside Case

- Growth limited if unsuccessful in its expansion applications
- Yield loss due to disease; high water temps
- Atlantic salmon oversupplies reduce prices

Catalysts/upcoming events

- 1Q21 "Blue Endeavour" deep water farm hearing
- AGM (Nov20); FY21 Interim results (Feb21)

Comparable companies (Aust/NZ)

Huon Aquaculture (ASX:HUO), Sanford (ASX:SAN), Tassel Group (ASX:TAS)

Top 5 shareholders

Oregon Group Ltd	40.02%
China Resources NG Fung	9.93%
ANZ New Zealand Investments Ltd	3.09%
Grant Rosewarne	1.79%
John Ryder	1.43%

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FINANCIAL SERVICES GUIDE

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