

Benchmark Holdings



Strong outlook in uncertain times

9 March 2022

Benchmark's recent Q1 FY22 results highlighted strong operating trends in its three business areas and a positive outlook in key end-markets, especially farmed salmon. The group's strong position serving the aquaculture industry should, in our view, insulate it from economic shocks resulting from the geo-political situation and thus make for attractive, safe haven investment. Nevertheless, Benchmark will have to contend with significant input cost inflation and will undoubtedly see some knock-on effects from disruption to its customers' end markets. Although the Q1 results would ordinarily have supported a modest upgrade, we have decided to maintain our current financial forecasts pending greater clarity. These forecasts support a DCF-based valuation of £606m, equivalent 86p/share.

- Q1 results:** Sales and EBITDA were ahead of our forecasts and, absent the current geo-political crisis, would normally have supported a modest upgrade. Overall revenues were up 38% at £40m, reflecting growth in Nutrition (+26%), Genetics (20%) and Health (347%). Group adjusted EBITDA in the quarter was up by 145% at £7.4m.
- Market outlook:** Salmon prices have increased by c 45% this year (~NOK91/kg) and, prior to 24 February, were considered to have had a very positive outlook for 2022. Salmon prices appear to have only dipped marginally (-2%) since then. Benchmark, it should be stressed, is likely to only be indirectly affected by such price changes.
- Safe haven status:** Benchmark's resilient share price performance post 24 February suggests investors consider it to be a safe haven in these turbulent times. Listed aquaculture companies such as Mowi and Norway Royal Salmon have seen share price declines of ~10% in the 10 days, most likely reflecting their exposure to Russian and/or Ukrainian export markets.
- Strong balance sheet:** Benchmark's strong balance sheet, following last year's £20m fundraise, and liquidity position (£61.6m at of 21 February) have become a more prominent positive element in its investment case. Net debt at 31 December was £64.3m (£43.1m excluding lease liabilities).
- Possible Norwegian listing:** A share listing in Oslo designed to access to the aquaculture investment environment there remains under consideration with a decision on its form expected later this year. This may be linked to a refinancing of Benchmark's NOK855m bond, which falls due in mid 2023.
- Financial forecasts and valuation:** In view of the uncertainties presented by the current geo-political crisis, we have decided to maintain our current financial forecasts, where ordinarily the Q1 results would have supported a modest upgrade. These forecasts support a fair value of £606m, equivalent to 86p/share. However, we note that this was struck using an 11% cost of capital, which may no longer adequately reflect either the current inflationary environment and/or equity risk premium. Forecasts are shown in the table below.

Company Data

EPIC	BMK
Price (last close)	52p
52 week High/Low	68p/48p
Market cap	£373m
Net debt (LBSD)	£64.3m
Fair value/share	86p
Sector	Pharma & Biotech

Share Price, p



Source: ADVFN

Description

Benchmark Holdings is a UK-headquartered company that provides advanced genetics, health and nutrition products to the global aquaculture industry. These products are designed to help customers manage productivity and animal health/welfare, while reducing environmental impact.

Benchmark has market leadership positions in the supply of salmon eggs and in live feed (Artemia) used in shrimp farming.

Summary forecasts

y/e 30 Sept, £m	FY20	FY21	FY22e	FY23e
Sales	105.6	125.1	157.4	183.8
AEBITDA*	14.5	19.4	28.1	42.0
Net cash/(debt)	-37.6	-80.9	-75.3	-72.6
EV/Sales	4.1	3.3	2.7	2.3

Source: Company historic data/Equity Development forecasts * Adjusted earnings before interest, tax, depreciation, amortisation, exceptional items, and acquisition related expenditure

Robin Davison (Analyst)

0207 065 2690
robin@equitydevelopment.co.uk

Hannah Crowe

0207 065 2692
hannah@equitydevelopment.co.uk

Investment thesis

Benchmark offers investors indirect exposure to the global aquaculture industry, for which it is a key supplier. Its customers provide an important source of protein (fish and crustaceans) for human consumption that has seen consistent growth in share over time. While the extent to which aquaculture may be affected by economic after-effects of the geo-political situation and the underlying post-pandemic inflationary pressures is almost impossible to predict, we consider this food-related sector as being likely to be resilient compared to almost all others.

Benchmark has global leadership positions in two businesses - salmon eggs and Artemia (a live feed used in shrimp farming) – and has strong market positions in a number of others (eg feed used in salmon farming etc). It also offers a unique, environmentally-responsible therapeutic treatment for sea lice, addressing a major problem for salmon farmers.

Benchmark has reported several consecutive quarters showing strongly improving results in all three of its business areas, suggesting it is emerging from a long-term investment and restructuring phase and heading towards sustainable and profitable growth. Key customer end-markets, such as farmed salmon, have also shown a strong recovery from previous pandemic-affected levels and are up by c 45% this year (~NOK91/kg) and considered, prior to 24 February, to have had a very positive outlook for 2022. Salmon prices appear have only dipped marginally (-2%) since 24 February (see Exhibit 3, later).

Sensitivities/risks

Post the 24 February, we consider that the key risks to investment case relate to the geo-political crisis and the economic after-effects on its customers and suppliers. Benchmark's management confirmed that it was seeing input cost inflation in the Q1 analyst call (two days prior to Ukraine crisis) and this will have certainly worsened since. At the time, management believed the higher costs were within levels that could be recovered in higher selling prices, although going forward this is more uncertain. Benchmark will undoubtedly see further price rises on fuel costs, utilities, logistics (shipping etc), feed and other important inputs that are likely to be significant but are difficult to quantify at this time. Operationally, we believe Benchmark should be largely unaffected, but its customers are likely to have exposure to Russia and Ukraine as end-markets.

The company has a strong balance sheet and liquidity position following its £20m equity fundraising last year, which we consider that this will become a more prominent positive element in its investment case. However, Benchmark will have to refinance its NOK855m senior bond, which falls due on in July 2023. If this can be done, it could remove something that may otherwise become an overhang as it approaches the due date.

Valuation

In view of the current uncertainties, we have decided to maintain our current financial forecasts, which support a fair value of £606m, equivalent to 86p/share. This was struck using an 11% cost of capital, although we note this may no longer adequately reflect either the current inflationary environment and/or the equity risk premium. Our valuation model is sensitive to cost of capital and, for example, a 12% figure would reduce the valuation to £510m (72p/share).

Financials

As noted above, in view of the difficulties currently in assessing the impact of both inflationary and geo-political factors, we are maintaining our current financial forecasts for the time being. This is despite the fact that Benchmark's Q1 FY22 results were ahead of expectations and would normally have supported a modest upgrade (see Exhibits 1 and 2).

Exhibit 1: Q1 FY22 Results summary (£m)

	Revenue	% change (CER)	AEBITDA	% change
Advanced Nutrition	£19.1m	26% (28%)	£4.3m	335% (337%)
<i>of which Artemia</i>	£9.7m	24%		
... Diets	£7.4m	33%		
Genetics	£15.2m	20% (18%)	£3.3m	-16% (-19%)
<i>of which salmon eggs</i>	£9.9m	3%		
Net FV movement biological assets			£3.4m	29% (23%)
Health	£5.8m	347% (348%)	£0.5m	149% (149%)
Group Revenue	£40.0m	38% (38%)	£7.4m	145% (142%)

Notes: % change is compared with restated 2020 figures adjusted to reflect current businesses, CER compared with restated figures at constant exchange rates. % change for Artemia, Diets and salmon eggs businesses calculated by Equity Development.

Exhibit 2: ED divisional P&L forecasts

	FY 2021	FY2022e	FY 2023e
Revenue			
Advanced Nutrition	£70.5m	£77.6m	£85.3m
Genetics	£46.8m	£54.3m	£64.2m
Health	£7.8m	£25.5m	£36.0m
Adjusted EBITDA			
Advanced Nutrition	£13.8m	£15.5m	£18.8m
Genetics	£11.5m	£13.0m	£15.0m
Health	-£2.7m	£7.8m	£14.8m

Source: Equity Development forecasts. Note Divisional AEBITDA figures do not sum to Group forecast figures, because of central costs, intra-group sales and eliminations.

Exhibit 3: Nasdaq salmon price index (NOK/Kg)


Source: <https://salmonprice.nasdaqomxtrader.com/public/report?0>. Note: x-axis is week number in the year.

Exhibit 4: Income Statement

y/e 30 Sept, £'000s	2020	2021	2022E	2023E
Revenues	105,565	125,110	157,360	183,761
Cost of goods sold	-50,603	-59,477	-74,147	-83,560
Gross Profit	54,962	65,633	83,213	100,201
Admin Expenses	-33,337	-38,221	-44,672	-46,083
Share based payments	-1,669	-830	-830	-830
R&D	-7,282	-7,010	-8,000	-9,551
EBITDA	12,379	18,236	28,100	42,026
Adjusted EBITDA	14,493	18,052	28,100	42,026
Operating Loss	-16,161	-6,416	3,625	16,715
Depreciation	-6,995	-5,017	-6,025	-6,641
Amortisation	-19,402	-16,293	-15,108	-15,328
Interest income	-11,697	-3,802	-7,426	-7,205
Loss before tax	-27,858	-10,218	-3,801	9,511
Adj. PBT	9,928	23,562	75,226	92,214
Current tax income	-204	-70	-512	-1,902
Net loss from discontinued operations	-9,174	0	0	0
Adj. net income	-4,403	9,163	14,137	26,278
Net loss continuing operations	-37,236	-10,288	-4,313	7,608
EPS (p)	-5.4	-1.5	-0.6	1.0

Source: Company historic figures/Equity Development estimates.

Exhibit 5: Balance Sheet

y/e 30 Sept, £'000s	2020	2021	2022E	2023E
Current assets	145,750	124,026	154,147	176,979
Cash and equivalents	71,605	39,460	52,134	61,801
Accounts receivable	39,371	46,498	58,484	68,296
Inventories	18,926	20,947	26,409	29,761
Biological assets	15,848	17,121	17,121	17,121
Non-current assets	343,285	357,964	356,869	355,554
Property, plant & equipment	65,601	78,780	87,755	96,730
right of use assets	10,347	25,531	25,531	25,531
Intangible assets	247,003	229,040	218,970	208,680
Equity- investees	3,690	3,354	3,354	3,354
Other non-current assets	16,644	21,259	21,259	21,259
Current liabilities	-55,375	-63,519	-75,549	-85,397
Short-term debt	-2,856	-1,612	-1,612	-1,612
Accounts payable	-2,483	-9,042	-9,042	-9,042
Other current liabilities	-45,692	-46,668	-58,698	-68,546
Non-current liabilities	-4,344	-6,197	-6,197	-6,197
Long-term debt	-138,220	-138,872	-145,872	-152,872
Lease liabilities	-103,819	-109,737	-109,737	-109,737
Other non-current liabilities	0	0	-7,000	-14,000
Equity	-34,401	-29,135	-29,135	-29,135

Source: Company historic figures/Equity Development estimates

Exhibit 6: Cashflow statement

y/e 30 Sept, £'000s	2020	2021	2022E	2023E
Operating cash flow	-6,199	2,448	23,174	37,194
Profit before tax	-31,949	-11,576	3,625	16,715
Tax credit	314	2,397	2,397	2,397
Non-cash adjustments inc impairment	12,353	19,839	20,521	20,741
Change in working capital	5,475	-11,612	-10,845	-8,744
Interest paid	9,695	7,987	7,987	7,987
Taxes paid	-2,087	-4,587	-512	-1,902
Investing cash flow	30,637	-23,090	-20,528	-20,528
CAPEX on tangible assets	-5,851	-17,683	-15,000	-15,000
CAPEX on intangible assets/capitalised R&D	-5,563	-5,038	-5,038	-5,038
Acquisitions/disposals	261	0	0	0
Other investing cash flows	41,790	-369	-490	-490
Financing cash flow	30,133	-14,669	12,089	-7,000
Proceeds from equity	41,666	750	19,089	0
Increase in loans	-1,754	-3,106	0	0
Other financing cash flow, lease liabilities	-9,779	-12,313	-7,000	-7,000
Net increase in cash	61,783	-35,309	14,735	9,666
Exchange rate effects	-899	-4,227	0	0
Cash at start of year	16,051	76,935	37,399	52,134
Cash at end of year	76,935	37,399	52,134	61,801
Net cash/debt at end of year	-37,553	-80,931	-75,257	-72,590

Source: Company historic figures/Equity Development estimates



Contacts

Hannah Crowe

Direct: 0207 065 2692

Tel: 0207 065 2690

hannah@equitydevelopment.co.uk

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More information is available on our website www.equitydevelopment.co.uk

Equity Development, 15 Eldon Street, London, EC2M 7LD

Contact: info@equitydevelopment.co.uk | 020 7065 2690