

Strategy for key Chilean market

30 May 2019

Benchmark Holdings BMK has provided an update on its Chile salmon breeding and genetics strategy under its JV with Empresas AquaChile. The Company has the opportunity to take control of a salmon egg breeding facility owned by the JV, providing an opportunity to shape the strategy of its operations in this key geography.

The underlying drivers and rationale for the strategy remain constant and particularly in view of renewed algal bloom disease challenges; meeting high demand for disease-resistant salmon produced under the most stringent biosecure conditions.

- In 2018 BMK entered a JV with Empresas AquaChile (subsequently acquired by Agrosuper) to shore up its presence and build market share in Chile, which is the second largest global producer of salmon, and harvested over 630,000 tonnes of Atlantic salmon in 2018. BMK's equity investment of £12m for a 49% initial stake in the JV plus a £4m loan - enabled it to set up a platform in this huge and fast-growing market from a local, established land based, biosecure salmon breeding facility.
- Discussions are underway to take control of the facility which is likely to entail a return of the original £12m cash equity stake, IP rights genetic stock and biomass and resources, with the cash to be reinvested to build capacity and reinforce biosecurity. This is likely to provide BMK significant advantages overall, including the opportunity to take a dominant role in shaping the strategy of its operations in Chile, which might include the higher level of influence in cross-selling Group products and services, and potentially eventual ownership of any resulting new IP.
- The financial targets set by BMK on entering the JV, earnings accretion of up to £4m of EBITDA at full capacity, equivalent to an Internal Rate of Return target of over 20%, are expected to be unchanged by this shift in strategy.

We make no changes to our forecasts ahead of further detail on the financial terms of the deal, but reiterate our DCF valuation of BMK stands at **£585m - or 105p per share**.

In contrast, the c 30% 12 months fall in the share price has created a mismatch between Group valuation and forthcoming potential. News flow in 2019 and beyond includes detail on innovations notably the commercial strategy for the specific pathogen resistant (SPR) shrimp, expansion of field trials for the novel sea lice treatment and vaccine trial results.

Summary financials

Y/E end 30 Sept, £m	FY17	FY18	FY19e	FY20e	FY21e
Sales	140.2	151.5	172.7	193.4	215.4
Adjusted EBITDA*	10.1	17.0	22.1	27.0	43.7
Net cash/(debt)	(23.9)	(55.7)	(64.1)	(61.2)	(43.0)
EV/sales	1.8	1.9	1.7	1.5	1.3

Source: Company historic figures / ED forecasts* Earnings before interest, tax, depreciation, amortisation, exceptional items and acquisition related expenditure

Company Data

EPIC	BMK
Price	42p
52 week Hi/Lo	65p / 40p
Market cap	£237m

Share Price, p



Source: ADVFN

Description

Benchmark Holdings (BMK) helps deliver improved healthcare products and services to the Animal Health and Aquaculture industry. Rising demand from clients for its products and services to manage sustainability practice in worldwide production and supply chains underlines BMK's opportunity for significant organic and external growth.

Next news: interim results 25 June

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