

Q3 Headwinds

27 August 2019

We update our forecasts following a Q3 update from Benchmark Holdings - the specialist in aquaculture nutrition genetics and health - with further guidance having since been provided by the company to investors.

Weak end markets affected demand in the Advanced Nutrition segment; as previously flagged, weak markets in shrimp, sea bass, and bream continue to impact demand and pricing for the group's live feed products. Added to this, there was some margin pressure due to oversupply of Artemia sourced from the CIS region, although this had a lesser impact on overall trading performance as the Company reduced sales volumes from this source. Economic factors in Mediterranean markets also continued to play a part in the demand and pricing of sea bream and sea bass, with the consequent knock on effect of demand impacting revenues in the Nutrition division. Although there may be some early signs of stabilisation in pricing, this is not expected to have a beneficial impact in the short term.

Animal Health division field trial revenues are lower primarily due to accelerated progress; success in field trials for one of the group's novel treatments has meant that fewer trials are required to demonstrate the safety and efficacy of the product. This is good news. However, in the short term less revenue will be derived from its commercial field trials as a result. The Company also experienced delays in commencing trials in new territories. The Company confirmed that marketing authorisation for its novel sea lice treatment remains on track for circa the middle of 2020.

The company is making good progress on negotiating licensing deals for the non-aquaculture health products; that could, if concluded in the short term, substantially offset the expected impact on margin caused by Nutrition and Health operational events.

In light of these operational events, we have adjusted our forecasts in line with the guidance given by the company. Our new forecasts are shown below:

Summary forecasts

y/e Sep, £m	FY17	FY18	FY19e	FY20e	FY21e
Sales	140.2	151.5	151.1	177.3	213.4
Adjusted EBITDA*	10.1	17.0	13.3	22.6	42.7
Net cash/(debt)	-23.9	-55.7	-89.7	-93.0	-80.9

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

Company Data

EPIC	BMK
Price (last close)	41.5p
52 week Hi/Lo	63p / 36.5p
Market cap	£231m

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.

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On a divisional level, the reduction in our FY19 Health revenue leaves us in line with consensus, although in percentage terms is above the 17% guided, given that our original forecast was ahead of consensus (£23.6m vs £20m consensus). We have also conservatively adjusted FY20 revenues and profits in anticipation of a lag effect as markets recover.

Divisional changes to forecasts				
£m		FY19	FY20	FY21
Advanced Nutrition				
OLD	Sales	82.3	88.1	100.4
	ADJ EBITDA	20.7	23.3	28.4
NEW	Sales	77.2	84.3	100.4
	Change	-6%	-4%	0%
	ADJ EBITDA	16.5	22.4	28.4
	Change	-20.3%	-3.9%	0.0%
Animal Health				
OLD	Sales	23.58	32.55	43.28
	ADJ EBITDA	- 9.81	- 9.21	0.91
NEW	Sales	15.8	29.1	43.3
	Change	-33%	-11%	0%
	ADJ EBITDA	- 11.78	- 9.76	0.91
	Change	-20%	-6%	0%

Source: /ED estimates

At group level our forecasts changes are summarised below, taking FY19/20 sales down by 7.9% and 3.9% respectively. Consequently, our FY19/20 EBITDA falls by 31.7% and 6%.

We are adjusting working capital assumptions in line, and assuming that there will be a skewed effect towards the end of the year, consequently unwinding during FY20 assuming a recovery in the market. As a result, our net debt forecast is for £90m falling to £80.9m by FY21 with headroom provided by the company's \$110m credit and loan facilities and therefore with liquidity well within the existing covenant.

Summary of group changes to forecasts

£m	FY19	FY20	FY21
OLD			
Sales	164	184	213
Adjusted EBITDA	19.5	24.0	42.7
Net cash/(debt)	-79.2	-81.1	-70.5
NEW			
Sales	151.1	177.3	213.4
Adjusted EBITDA	13.3	22.6	42.7
Net cash/(debt)	-89.7	-93.0	-80.9
CHANGE			
Sales	-7.9%	-3.9%	0.0%
Adjusted EBITDA	-31.7%	-6.0%	0.0%
Net cash/(debt)	-13%	-15%	-15%

Source: ED estimates

Conclusion

Our new DCF fair value in light of changes is £514.2m, or **92p per share** – down from £585 or 104p per share – including the new net debt forecasts. In the coming months, we look forward to further news on the company's innovative sea lice treatment, financial results and news about the disease resistant shrimp.



Investor Access

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