

Strategic investment in key Chilean market

12 June, 2018

Benchmark Holdings (BMK) has entered into an aquaculture breeding and genetics Joint Venture with Empresas AquaChile SA (AquaChile), the world's sixth largest salmon producer. This is a strategic move that cements BMK's presence in Chile, the second largest global producer of Atlantic salmon after Norway. In 2017 AquaChile was the largest contributor to a Chilean harvest which reached over 580,000 tons, showing year-on-year growth of 15%.

In addition to increasing BMK's visibility and presence in the Chilean Atlantic salmon market, the deal strengthens the Company's position in an important market for BMK Animal Health products, along with potential to develop genetics products and services for additional species including rainbow trout and Coho salmon. The JV is set to be immediately earnings enhancing, contributing £1.8m in adjusted EBITDA in the four-month period to September 2018. It also allows BMK to participate in the market through relatively lower capital investment and at lower risk than making acquisitions or building a facility from scratch.

BMK's investment of a £12.2m (\$16.25m) for a 49% initial stake not only provides an opportunity to participate in this huge and fast-growing market from a local, established biosecure salmon breeding facility, but also mitigates the risk of approaching it by way of cross border exports. The JV is set to target an Internal Rate of Return of over 20%, driven by high demand for disease-resistant salmon in a market that is itself in a high growth phase of recovery from disease challenges.

The deal is to be financed by BMK's £19m gross equity placing of 34.5m shares at 55 pence per share to fund the cash consideration in two tranches: \$7.5m upfront, followed by \$8.75m to be paid in December 2018. There is also a shareholder loan of \$5.4m from BMK to the JV (matched by AquaChile) which in part refinances debt and provides the JV with working capital.

BMK currently has a limited involvement in the Chilean salmon market through ova exports from its Iceland facility. Therefore, the returns on the investment are likely to be considerable given the scale of the total market.

It is also a demand-led response to the requirement for disease resistant strains of salmon ova. The opportunity to combine partners' expertise is considerable, since genetics and land-based farming techniques are important benefits in the Chilean market. A focus on sustainability, increasing production yield and disease resistance are all strategic priorities there. Furthermore, the JV provides a platform for BMK's other animal health products, notably its pioneering sea lice treatment Ectosan, offering an additional play on solving the disease challenge in the Chilean salmon industry.

BMK has opted for market entry through a partnership with AquaChile who seem to us an excellent partner owing to high market share and broad geographic reach. AquaChile reported FY17 revenue of \$398m, of which 56% of revenues were associated with Atlantic salmon sales, and produced 45.9k tons of salmon, representing c. 10% of the country's total production in 2017.

Company Data

EPIC	BMK
Price	60p
52 week Hi/Lo	80p / 35p
Market cap	£311m
ED valuation	£521m

Share Price, p



Source: ADVFN

Description

Benchmark (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: FY results 19 June, 2018

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AquaChile

BMK’s partner is a vertically integrated company that, in addition to Atlantic salmon, produces Pacific salmon, Coho salmon, rainbow trout and tilapia. It is focused on high growth by means of acquisition, including most recently the purchase of Salmones Magallanes and Pesquera Eden, providing access to 26 additional aquaculture facilities in Chile and a potential immediate 50% uplift in Atlantic salmon production capacity compared to FY17 output.

The initial targets of the JV are for a ramp-up in production capacity from 60m eggs per annum up to 100m in 2025 at peak capacity. Sales of eggs from Iceland over the initial capacity-build period are in our forecasts as incremental to BMK’s underlying Genetics division revenues. BMK is set to derive a 50% share of net earnings from the project, including £1.8m of adjusted EBITDA contribution in FY’18 rising to **£4.1m at full capacity** (anticipated in 2025 according to Management).

JV impact on Benchmark				
y/e end Sept, £m	4m to Sept ‘18	2019	2020	Full capacity pa
JV revenue	2.4	8.9	11.5	20.9
Net JV earnings	0.1	1	2.6	8.1
Net profit margin	4%	11%	23%	39%
BMK share of JV earnings	0.05	0.5	1.3	4.0
Other sources of earnings to BMK				
Additional product and services	-	0.4	0.3	0.1
Sale of eggs to JV from Iceland	-	1.5	0.9	0
IP transfer	1.8	0	0	0
Total for BMK EBITDA	1.8	2.4	2.5	4.1

Source: Benchmark Holdings

Trading update

Separately, BMK reports that the Group is trading well across all three main Divisions and is on track to meet full year financial forecasts. Highlights include excellent results from ongoing field trials of BMK’s pioneering sea lice treatment Ectosan and a high level of interest from the Norwegian market. The Company also reports that it is proactively assessing the opportunity to launch field trials for the treatment in other key markets. In Advanced Nutrition, conditions are buoyant given the quality and quantity of the Great Salt Lake live feed harvest, which is reported to be well matched to demand while underpinned by stable pricing. Progress in the Genetics division at the Salten land-based salmon ova facility is on track to meet the planned timeline for a Q3’18 commercial production start.

At this moment we are making no changes to our forecasts, which we will review after the imminent H1’18 results due on 19 June. **Until then we retain our current valuation of £521m for the business and believe that BMK presents a unique opportunity to invest in a diverse sustainable aquaculture platform.** This new partnership demonstrates a model that can enable local market penetration across the range of BMK products, and illustrates a platform that can be replicated in other markets.



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