

CMD showcases expertise and strategy

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Benchmark Holdings held a well-attended Capital Markets Day (CMD) on 27 March, which highlighted its strategic targets for fulfilling its growth potential spanning Advanced Nutrition, Genetics and Animal Health.

Strong underlying dynamics include the ongoing recovery of supply in salmon markets following disease challenges, with higher pricing trends supported by strong demand and with signs of shrimp production entering a new growth phase. We have consistently said that BMK holds a unique position within aquaculture markets and that its strategic aims are set to translate into upward momentum in revenue and margin. We reiterate our forecasts of 13% revenue CAGR from FY17-20 with drivers across each Division leading to uplift in adjusted EBITDA from £10m in FY17 to £24.6m in FY20.

Advanced Nutrition

This division holds a market leading position in the \$500m hatchery feed market including a strong global presence (ex-China) of over 40% share in most markets for shrimp and marine fish nutrition, notably in artemia (brine shrimp) and enrichment diets. BMK has a limited share of the broader \$1bn in farm health and feed additives market.

Growth opportunities therefore lie in two areas: firstly, diversifying across into-the-farm or grow-out segments by extending new technologies and products from an in-house pipeline of probiotics, feed additives and water treatments; then also expanding into high demand species such as salmon and tilapia.

Notably, the priority for the division is to complete the ongoing development of a 100% artemia replacement feed for shrimp and marine fish estimated by 2020, which is a sustainable, and higher margin, product than live artemia (Company peak sales estimate: £30m). The availability of live artemia could be subject to ongoing pressure, with current supply already closely matched to demand. So alternative, high nutritional quality replacement feed forms are needed to complement artemia, given the aquaculture industry growth outlook.

Plans for geographic expansion include setting up new partnerships to build a significant presence in China, where annual seafood consumption is c 60m tonnes according to the OECD (equivalent to 40% of annual global consumption). Other key Advanced Nutrition opportunities lie in the development of new diets: to promote biosecurity, resilience and immunity, leading to healthier more disease resistant strains of shrimp and marine fish.

Benchmark Genetics

This is a leading producer of salmon ova and broodstock and lumpfish, and it holds around a 33% share of this £90m market. The key demands of the industry include strong underlying requirement for year-round delivery of high quality eggs under bio-secure conditions leading to buoyant industry growth of between 5-7% per annum.

Company Data

EPIC	BMK
Price	57p
52 week Hi/Lo	98p / 36p
Market cap	£295m
ED valuation/share	99.8p

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.

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Benchmark Genetics currently derives over 90% of its revenues (FY17 £30.5m) from salmon eggs. But it aims to replicate this leading position in salmon across into the shrimp markets and into tilapia, leveraging its established relationships in Advanced Nutrition at hatcheries.

The provision of genetics products and services serving the largely Asia based shrimp industry represents a key growth opportunity. This is because it is an industry still adopting best practice - only an estimated **30%** of shrimp producers utilise genetic methods to improve traits to promote shrimp yield and disease resistance, compared to **90%** of salmon producers. Therefore, the launch of a specific pathogen resistant (SPR) shrimp for Asia, which is currently in field trials, is set to be a first-to-market product, and BMK is already shoring up new market entry routes through local partners and existing relationships.

Otherwise, the fruits of ongoing CAPEX into the land-based salmon ova production facility at SalmoBreed Salten is set to crystallise in the near term with increased in-house production capacity there set to reach peak production by 2020 with 150 million ova per annum (currently 20 million per annum). This, together with the prospect of ongoing price increases driven by sustained demand and ongoing recovery in salmon production, will contribute to volume and value growth over the near term.

Animal Health

This business boasts both an in-house vaccine development and state-of-the-art production capacity at its Braintree facility which offers flexibility and know-how in bringing a differentiated offering. The division, which is focused on high unmet need and employing innovation in approach, for example by using virus like particle (VLP) recombinant technology, has a combined pipeline of over 40 animal health products with estimated peak sales value over £550m, including 17 in the more advanced development or regulatory stages (Company peak sales estimate: £300m).

The priorities for the Animal Health division include the roll-out of a novel sea lice treatment process, which combines Ectosan and proprietary CleanTreat purification system, and which is currently in commercial field trials. Meaningful revenues from the premium priced treatment are expected during FY18 and are forecast to increase nicely by FY20 as the product attains full market approval.

The treatment process **removed 100%** of sea lice from salmon in test trials, and this along with its excellent welfare and safety profile places it to gain a high market share, which the company estimates will lead to peak sales of £45m.

BMK initially targets the large opportunity in Norway for the treatment process where c 1.1m tonnes of salmon are treated per annum, then extending into UK Canada and Chile with the prospect of full market approval in 2020. As a reminder, **the sea lice threat costs the salmon industry \$500m per annum.**

Other growth drivers include a Salmon vaccines portfolio (with combined £99m of peak sales) which addresses major diseases including Pancreas Disease (PD), Salmonid Rickettsial Septicaemia (SRS), and T mar (Tenacibaculum maritimum) lesions. The division will seek to leverage cross-selling opportunities through INVE relationships.

Follow-on opportunities include oral vaccines for salmon and marine fish focusing on core antigens and patented technology, and in Mediterranean fish vaccines.

Financials

We reiterate our sales and adjusted EBITDA forecasts across the group.

Our estimate is for 15.6% revenue growth to £162m in FY18, rising to £200.9m by FY20, equivalent to a **CAGR of 13% over the forecast period**. We project that adjusted EBITDA will rise over 50% from £10m up to £15.2m in FY18, and reaching £24.6m in FY20, equivalent to a 12% margin.

Product mix and direct selling capabilities are estimated to be key drivers of margin expansion in Advanced Nutrition, with pricing growth and new species additive factors in Genetics. Animal Health drivers include product launches of higher margin products, starting with Ectosan – CleanTreat, which should drive the longer term break-even status of the division.

BMK is in a period of ongoing CAPEX investment, although with sufficient headroom to operate through its debt facility and remaining below the stated net-debt/EBITDA covenant of 3x. Ongoing R&D investment is sustainable, on our forecasts, by means of operational cashflow. We have increased our estimated working capital and CAPEX assumptions in FY18-20 in line with the guidance given at the CMD (and we bring taxation in FY20 in line with prior years), as summarised below. After excluding a total of £22m of ring-fenced project finance from our new FY18 estimated total net debt of £54.5m, this still falls comfortably below the stated covenant at 2.1x FY18e adjusted EBITDA.

BMK appears very well positioned given its diversified approach to meet strong underlying demand growth for farmed seafood, whilst benefitting from synergies across the Group. Our DCF is supported by undemanding multiples falling sharply over the forecast period.

Rolling forwards our model, the DCF value remains at £521m, or 99.8p per share.

Changes to summary forecasts			
Sep 30 y/e, £m	FY18e	FY19e	FY20e
Old			
Sales	162.0	181.8	200.9
Adjusted EBITDA*	15.2	20.4	24.6
Adjusted EPS p*	0.5	1.0	2.6
Net cash/(debt)	(50.0)	(45.7)	(33.3)
New			
Sales	162.0	181.8	200.9
Adjusted EBITDA*	15.2	20.4	24.6
Adjusted EPS p*	0.5	1.0	1.8
Net cash/(debt)	(54.5)	(56.5)	(55.7)
EV/Sales	2.0	1.8	1.6
EV/EBITDA	21.1	15.6	13.0

Source: Company historic data, ED estimates *adjusted for exceptional & acquisition costs



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