

Aqua Bio Technology

BUY

Key share data

Sector	Health Care
Reuters	ATBT.OL
Bloomberg	ABT NO

Market Cap (NOKm)	61
Net debt (NOKm)*	-35
EV (NOKm)*	26
Net debt / equity *	-64%

Issued shares (m)	6.9
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*End of 2016 adj. for dividends

Share price



Performance

	1m	3m	12m
ABT	-7%	3%	-15%
OSEBX	6%	4%	21%

Upcoming events

1H17 report	August 16, 2017
Arbitration hearing	Sept.-Oct., 2017

Norne Securities AS is a market maker in the shares of Aqua Bio Technology

Analyst

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Keeping our positive stance ahead of likely more eventful 2H

Ahead of the 1H17 report due on August 16th, we have made some adjustments to our model, but keep our positive stance at an unchanged TP of NOK 12/sh. We admit that the company has challenges, but the pricing of the stock seems still too low for us.

Weaker results as regular milestones ended, but one-time payment helps

Aqua Bio Technology (ABT) will release its 1H17 report on August 16th, since the company now reports on a half-yearly basis. We expect revenues of NOK 9.1m, considerably weaker compared to the figures seen for the past few years. The reason is that the regular milestone payments from Restorsea, which we saw the past couple of years, ended and the results will be helped just by the one-time payment of USD 1m from the same Restorsea in 1Q17. We include only marginal contribution from the company's new products/ingredients in 1H17 at this point, as most of the effect should start being seen in 2H17 and in 2018/19.

In addition, the arbitration costs (hearing in September/October) should burden the bottom line. Thus, we see NOK -4.0m on the bottom line, but around break-even excluding the one-off legal costs.

H1/17 results	H1/16	H2/16	H1/17E
NOKm			Norne
Revenues	25.1	24.4	9.1
EBITDA adj.	16.7	15.1	0.5
EBITDA	6.7	13.1	-3.5
EBIT adj.	13.8	13.8	-0.3
EBIT	3.8	-1.0	-4.3
Pretax profit	3.7	-1.2	-4.0
Net earnings	2.7	-1.1	-4.0
EPS rep. (NOK)	0.39	-0.16	-0.57
EPS adj. (NOK)	1.47	1.43	0.00

No news, but active preparations for new launches

The company did not release any major news since our last update in February. However, we met the management and the preparations for new product/ingredient launches are going at a high speed. Therefore, we expect much more news in 2H17 and hopefully already in the 1H17 presentation.

Positives stance maintained at an unchanged TP of NOK 12/sh

After meeting the management, we reviewed our estimates and made some changes. However, we keep our TP of NOK 12/sh and Buy recommendation unchanged. We acknowledge that there are challenges for the company, but current valuation is very low with only minor value above the net cash.

Estimate changes (NOKm)	1H17E		2017E		2018E		2019E	
	New	Old	New	Old	New	Old	New	Old
Operating revenues	9.1	9.4	12.6	13.1	16.9	17.4	23.7	23.5
EBITDA	0.5	0.8	-6.8	-6.3	-3.4	-3.0	2.6	2.3
EBITDA Margin	5%	9%	-54%	-48%	-20%	-17%	11%	10%
EBIT (adj)	-0.3	0.1	-8.3	-7.8	-4.9	-4.4	1.1	0.8
EBIT adj. margin	-3%	1%	-66%	-60%	-29%	-26%	5%	4%
Non-recurring items	-4.0	-2.0	-6.0	-3.0	-	-	-	-
EBIT	-4.3	-1.9	-14.3	-10.8	-4.9	-4.4	1.1	0.8
Pre-tax profit	-4.0	-1.6	-13.8	-10.3	-4.6	-4.1	1.3	1.1
Tax	-	-	-	-	-	-	-	-
Tax rate	0%	0%	0%	0%	0%	0%	0%	0%
Profit after tax	-4.0	-1.6	-13.8	-10.3	-4.6	-4.1	1.3	1.1

DCF model

NOKm	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E
Revenues	12.6	16.9	23.7	30.8	37.0	40.7	42.7	44.8
EBIT	-14.3	-4.9	1.1	7.8	14.3	17.6	19.2	20.8
Tax on EBIT	0.0	0.0	0.0	0.0	0.0	0.0	-1.2	-5.0
NOPLAT (+)	-14.3	-4.9	1.1	7.8	14.3	17.6	18.0	15.8
Depreciation & amortization (+)	1.5	1.5	1.5	1.2	0.4	0.4	0.4	0.4
Capital expenditure (-)	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4
Change in working capital (- or +)	2.3	-0.6	-0.6	-0.6	-0.5	-0.3	-0.2	-0.2
Free Cash Flow to the Firm	-10.9	-4.4	1.6	8.0	13.8	17.3	17.8	15.7
NPV of FCFF	-9.8	-3.6	1.1	5.2	8.0	9.0	8.4	6.6

WACC calculation	
Debt ratio	7.0%
Cost of debt	4.5%
Cost of debt (after tax)	3.4%
Risk free rate	3.0%
Beta	1.5
Market risk premium	6.0%
Cost of equity	12.0%
WACC (2017-23)	11.5%
WACC (2024-)	11.4%

Valuation, NOKm	
Net debt*	-34.9
Minority interest	0
NPV cash flow	
2017-2024E	25.0
2025E-	76.1
Total NPV cash flow	101.1
Equity value	136.1
Value per share, NOK	19.63

* End of 2016 adj. for dividends

Assumptions	
Lt. growth	2.5%
Lt. tax rate	24%
# shares, m**	6.9

** Ex. treasury shares

Profit & Loss (NOKm)	2012	2013	2014	2015	2016	2017E	2018E	2019E
Operating revenues	20.3	22.8	23.1	38.9	49.4	12.6	16.9	23.7
Operating expenses	-12.3	-15.0	-12.6	-17.7	-17.6	-19.4	-20.3	-21.2
EBITDA	8.0	7.8	10.5	21.2	31.8	-6.8	-3.4	2.6
Depreciation & Amortisation	-5.5	-6.1	-6.4	-5.8	-4.2	-1.5	-1.5	-1.5
EBIT (adj)	2.4	1.8	4.1	15.4	27.6	-8.3	-4.9	1.1
Non-recurring items	-	-	-4.0	-	-24.7	-6.0	-	-
EBIT	2.4	1.8	0.1	15.4	2.9	-14.3	-4.9	1.1
Net interest & other financial effects	-1.5	0.4	1.5	-0.5	-0.4	0.5	0.3	0.2
Pre-tax profit	0.9	2.2	1.6	15.0	2.5	-13.8	-4.6	1.3
Minority interests	-	-	-	-	-	-	-	-
Taxes	-	-	-	-	-0.9	-	-	-
Profit after tax	0.9	2.2	1.6	15.0	1.6	-13.8	-4.6	1.3
EPS rep. (NOK)	0.15	0.32	0.23	2.15	0.23	-1.98	-0.66	0.19
EPS adj. (NOK)	0.15	0.32	0.69	2.21	2.90	-1.12	-0.66	0.19
Margins								
Operating margin	12%	8%	18%	40%	56%	-66%	-29%	5%
ROE	2%	3%	7%	22%	30%	-15%	-12%	4%
ROCE	4%	2%	6%	20%	38%	-15%	-11%	3%
Tax rate	0%	0%	0%	0%	35%	0%	0%	0%
Growth rates (YoY)								
Operating revenues	>1000%	12%	1%	68%	27%	-75%	35%	40%
EBIT (adj)	nm	-27%	130%	275%	79%	nm	nm	nm
EPS (adj)	nm	108%	118%	218%	31%	nm	nm	nm

Balance sheet (NOKm)	2012	2013	2014	2015	2016	2017E	2018E	2019E
Goodwill	-	-	-	-	-	-	-	-
Deferred tax asset	-	-	-	-	1.7	1.7	1.7	1.7
Licences, property, plant & equipment	21.9	16.6	12.4	8.6	4.7	3.7	2.6	1.5
Other intangible assets	-	-	-	-	-	-	-	-
Non-current Assets	21.9	16.6	12.4	8.6	6.5	5.4	4.3	3.3
Inventory	31.9	31.2	29.9	29.3	15.3	15.3	15.3	15.3
Receivables	3.0	3.5	4.2	3.7	3.0	0.8	1.4	1.9
Other current assets	-	-	-	-	-	-	-	-
Cash and cash equivalents	21.0	27.0	29.2	42.0	46.2	28.8	24.6	26.5
Current Assets	55.9	61.7	63.4	75.0	64.5	44.9	41.3	43.7
Total assets	77.8	78.3	75.8	83.6	71.0	50.3	45.7	47.0
Shareholders equity	62.0	65.9	66.3	74.2	61.8	41.1	36.4	37.7
Non-controlling interests	-	-	-	-	-	-	-	-
Total equity	62.0	65.9	66.3	74.2	61.8	41.1	36.4	37.7
Deferred tax liability	-	-	-	-	-	-	-	-
Long-term interest bearing debt	9.8	9.0	5.6	5.0	4.3	4.3	4.3	4.3
Other long-term liabilities	-	-	-	-	-	-	-	-
Non-current liabilities	9.8	9.0	5.6	5.0	4.3	4.3	4.3	4.3
Current interest bearing debt	-	-	-	-	-	-	-	-
Trade payables	1.8	1.1	0.9	0.9	0.8	0.8	0.8	0.8
Other current liabilities	4.2	2.3	3.0	3.4	4.1	4.1	4.1	4.1
Current liabilities	6.0	3.4	3.9	4.3	4.9	4.9	4.9	4.9
Total liabilities	15.8	12.3	9.4	9.3	9.2	9.2	9.2	9.2
Total liabilities and equity	77.8	78.3	75.8	83.6	71.0	50.3	45.7	47.0
Working capital	33.1	33.6	33.2	32.1	17.5	15.3	15.9	16.4
Net IB debt	-11.2	-18.1	-23.6	-37.0	-41.9	-24.5	-20.3	-22.1
Capital employed	71.8	74.9	71.9	79.2	66.1	45.4	40.8	42.1
Net IB debt / equity	-18%	-27%	-36%	-50%	-68%	-60%	-56%	-59%
Equity / total assets	80%	84%	88%	89%	87%	82%	80%	80%

Share data	2012	2013	2014	2015	2016	2017E	2018E	2019E
Shares outstanding, year end (mill.)	5.864	6.935	6.944	6.944	6.944	6.944	6.944	6.944
Share price, year end (NOK)	13.25	24.50	10.85	15.90	9.70	8.72	8.72	8.72
Market cap (NOKm)	77.7	169.9	75.3	110.4	67.4	60.6	60.6	60.6
Enterprise value (NOKm)	66.5	151.9	51.7	73.4	25.5	36.1	40.2	38.4
EPS rep. (NOK)	0.15	0.32	0.23	2.15	0.23	-1.98	-0.66	0.19
EPS adj. (NOK)	0.15	0.32	0.69	2.21	2.90	-1.12	-0.66	0.19
DPS. (NOK)	-	-	1.00	1.50	2.00	-	-	-

Valuation	2012	2013	2014	2015	2016	2017E	2018E	2019E
EV/Sales	3.3	6.7	2.2	1.9	0.5	2.9	2.4	1.6
EV/EBITDA	8.4	19.4	4.9	3.5	0.8	neg	neg	15.0
EV/EBIT (adj)	27.2	85.1	12.6	4.8	0.9	neg	neg	35.8
P/E (adj)	86.6	77.1	15.6	7.2	3.3	neg	neg	46.2
P/B (excl. goodwill)	1.3	2.6	1.1	1.5	1.1	1.5	1.7	1.6

Growth (YoY)	2012	2013	2014	2015	2016	2017E	2018E	2019E
Revenues	>1,000%	12%	1%	68%	27%	-75%	35%	40%
EBITDA	nm	-2%	34%	102%	50%	nm	nm	nm
EBIT (adj)	nm	-27%	130%	275%	79%	nm	nm	nm
EPS (rep)	nm	108%	-29%	851%	-89%	nm	nm	nm
EPS (adj)	nm	108%	118%	218%	31%	nm	nm	nm

Margins	2012	2013	2014	2015	2016	2017E	2018E	2019E
EBITDA	39.3 %	34.4 %	45.4 %	54.6 %	64.4 %	-54.1 %	-20.1 %	10.8 %
EBIT (adj)	12.1 %	7.8 %	17.8 %	39.6 %	55.8 %	-65.9 %	-28.9 %	4.5 %
Pre-tax profit	4.4 %	9.7 %	6.8 %	38.4 %	5.1 %	-109.6 %	-27.3 %	5.5 %
Net profit	4.4 %	9.7 %	6.8 %	38.4 %	3.3 %	-109.6 %	-27.3 %	5.5 %

Profitability	2012	2013	2014	2015	2016	2017E	2018E	2019E
ROE	1.6 %	3.4 %	7.3 %	21.8 %	29.6 %	-15.1 %	-11.9 %	3.5 %
ROCE	3.7 %	2.4 %	5.6 %	20.4 %	38.0 %	-14.9 %	-11.3 %	2.6 %
Dividend yield	0.0 %	0.0 %	9.2 %	9.4 %	20.6 %	0.0 %	0.0 %	0.0 %

Recommendation, valuation, risk and sources

Recommendation and target price

Recommendation history for Aqua Bio Technology during the previous 12 months:

Date	Recommendation	Target price (NOK)
10/08/2017	Buy	12.00
23/02/2017	Buy	12.00
07/02/2017	Buy	12.00
21/11/2016	Hold	12.00
11/11/2016	Hold	14.00
24/08/2016	Hold	14.00
20/07/2016	Hold	14.00

Valuation

To arrive at our share price target, we have used a DCF valuation with a 40% discount and rounded the result.

Risks

The main risks to our target price on Aqua Bio Technology are the following:

- Different than assumed revenue and cost development, especially in the long-run, where prospects are most uncertain
- The company is to a large extent dependent on large distribution companies; any issues within these partnerships may cause disruption in sales and profits
- There is high uncertainty over the in-licensing strategy and what results will it yield
- Foreign currency movements, as most of the sales are in USD
- There is a considerable legal risk, as the company is once again involved in a lawsuit with a US customer that is pending arbitration in London.

Sources

The sources used in the preparation of this report were: Aqua Bio Technology, Oslo Stock Exchange, Infront and Thomson Reuters.

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Risk	Total return next 12 months (upside to target price)		
	Buy	Hold	Sell
Low	> 10%	2% - 10%	< 2%
Medium	> 15%	3% - 15%	< 3%
High	> 25%	5% - 25%	< 5%

In addition to the general recommendations, “Trading Buy” and “Trading Sell” recommendations can be used in the case where the analyst predicts a short term share price performance different from the twelve-month general recommendation. “Trading Buy” is given when the share price is expected to rise and “Trading Sell” is given when the share price is expected to fall in the short term (several days to several weeks horizon).

Our risk assessments range from “high risk” to “medium risk” and “low risk” and are based on a subjective assessment of the following factors: 1) volatility in the share price, 2) liquidity in the share, 3) strength of the balance sheet, 4) absolute earnings level and trend and 5) estimate risk.

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Target prices may be based on one or several valuation methods, for instance, the discounted cash flow (DCF) analysis or applying “fair” pricing multiple(s) based on historical valuation or peer pricing level. Target price may not necessarily equal to the “fair value” of the financial instrument – certain discount or premium is possible due to various reasons, depending on the analyst’s view of what the price may be within the 12 months period. Norne Securities AS plans to update the recommendation based on the following events: the target price is achieved; new accounting figures are released; any significant news on the company or its industry is announced.

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POTENTIAL CONFLICTS OF INTEREST

Norne Securities AS is a market maker in the shares of Aqua Bio Technology.

This report has been presented to the issuer before dissemination for a check of factual information. Amendments of factual information have not been made following this.

Share holdings of Norne employees in Aqua Bio Technology:

Responsible analyst(s)	0
All Norne analysts	0
All Norne employees	0
Norne Securities AS	0

The overview of share holdings is updated continuously. A list of total share holdings of the Norne Securities' employees and the date of last overview can be found on <https://www.norne.no/compliance/>. Shareholdings that Norne Securities AS owns as a result of own-account trading that is part of its investment services operations (such as market making) are not included in the table above.

Distribution of Norne Securities' recommendations during three months up till June 30, 2017:

	Buy	Hold	Sell
Total recommendations	60	27	15
% of total	59%	26%	15%
Corporate clients*	20	10	1
% of corporate clients*	65%	32%	3%

* Includes publicly disclosed not immaterial investment banking services or issues of financial instruments where Norne Securities AS has been lead manager or co-lead manager, and market making clients during the 12 months prior to the overview date.

Note: In the table above, Trading Buy recommendation is treated as Buy, and Trading Sell is treated as Sell.

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