

Aqua Bio Technology

BUY

Key share data

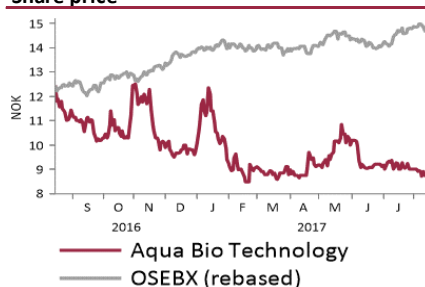
Sector	Health Care
Reuters	ATBT.OL
Bloomberg	ABT NO

Market Cap (NOKm)	58
Net debt (NOKm)*	-27
EV (NOKm)*	31
Net debt / equity *	-53%

Issued shares (m)	6.9
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*End of 1H17 adj. for unpaid dividends

Share price



Performance

	1m	3m	12m
ABT	-10%	-4%	-17%
OSEBX	2%	2%	19%

Upcoming events

Arbitration hearing	2017
2H17 report	February 21 2018

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

Analyst

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Good underlying figures; expectations for growth in 2H

ABT reported in-line 1H17 sales and EBITDA yesterday, but adjusted figures were better than expected. New launches are ongoing that should lead to more revenue streams already from 2H17 in line with our expectations. Therefore, after some adjustments to our model, we keep our Buy recommendation and NOK 12/sh target price unchanged.

Better-than-expected adjusted 1H figures

Aqua Bio Technology (ABT) released its 1H17 report yesterday with top line of NOK 8.9m being in line with our NOK 9.1m estimate. The top line was, as communicated earlier, much lower than last year due to no minimum milestones from Restorsea. At the same time, 1H revenues were helped by the USD 1m received from the same Restorsea for the renewal of the agreement for the next 5 years. Reported EBITDA came in at NOK -3.3m, which was in line with our NOK -3.5m estimate. However, the figures continue to be negatively affected by the dispute with the former US client, where arbitration is pending. NOK 5.5m additional legal costs were incurred in 1H (NOK 4.0m expected by us), making the adjusted EBITDA NOK 2.2m vs NOK 0.5m in our model.

New revenue streams in action, more to come

ABT indicated that on the ingredient side the cooperation with AlgoSource should start generating revenues already in 2H17, while the revenues from the ingredients with Zembra are expected from 2018. Technology partnership with Banco Español de Algas is expected to lead to some new ingredient launches in 2018 as well.

On the finished skin care products, Cuvget is on sale in Norway, Sweden, Finland and Portugal already, while Moana line is on sale in Norway. Launches in more countries (Germany, Austria, Switzerland, the UK and Italy) are in preparation for both brands.

Arbitration with Access later this year

The arbitration with Access Business Group (affiliated with Amway) is still pending, but delayed from September to later in 2017. ABT continues to incur significant costs related to this and an end to the matter would be a highly welcome development. It remains to be seen when this ends and if ABT is able to get back at least some of the NOK 17m spent on the issue.

Positive stance maintained

ABT indicates growth from new launches from 2H, albeit from the likely very low level. This is in line with our expectations and we did not change our revenue estimates. We, however, made some other adjustments to our model, but keep the target price at NOK 12/sh and maintain our Buy recommendation. The company is in a turnaround phase with interesting and more diversified pipeline than before, while the market attaches little value above the net cash position.

Estimate changes (NOKm)	1H17		2H17E		2017E		2018E		2019E	
	Act.	Est.	New	Old	New	Old	New	Old	New	Old
Operating revenues	8.9	9.1	3.7	3.5	12.6	12.6	16.9	16.9	23.6	23.7
EBITDA adj.	2.2	0.5	-6.1	-7.3	-4.0	-6.8	-0.8	-3.4	5.2	2.6
EBITDA Margin	24%	5%	nm	nm	-31%	-54%	-5%	-20%	22%	11%
EBIT (adj)	1.9	-0.3	-6.4	-8.0	-4.5	-8.3	-1.3	-4.9	4.7	1.1
EBIT adj. margin	21%	nm	nm	nm	-35%	-66%	-8%	-29%	20%	5%
Non-recurring items	-5.5	-4.0	-4.0	-2.0	-9.5	-6.0	-	-	-	-
EBIT	-3.6	-4.3	-10.4	-10.0	-14.0	-14.3	-1.3	-4.9	4.7	1.1
Pre-tax profit	-3.8	-4.0	-10.2	-9.8	-14.0	-13.8	-1.1	-4.6	4.9	1.3
Tax	0.9	-	2.4	-	3.3	-	0.3	-	-1.2	-
Tax rate	24%	0%	24%	0%	24%	0%	24%	0%	24%	0%
Profit after tax	-2.9	-4.0	-7.7	-9.8	-10.6	-13.8	-0.8	-4.6	3.8	1.3

DCF model

NOKm	2H17E	2018E	2019E	2020E	2021E	2022E	2023E	2024E
Revenues	3.7	16.9	23.6	30.7	36.9	40.6	42.6	44.7
EBIT	-10.4	-1.3	4.7	11.2	16.9	20.2	21.8	23.6
Tax on EBIT	0.0	0.0	0.0	0.0	0.0	-4.9	-5.2	-5.7
NOPLAT (+)	-10.4	-1.3	4.7	11.2	16.9	15.4	16.6	17.9
Depreciation & amortization (+)	0.3	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Capital expenditure (-)	-0.4	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8
Change in working capital (- or +)	2.7	-1.2	0.1	-0.6	-0.5	-0.3	-0.2	-0.2
Free Cash Flow to the Firm	-7.8	-2.8	4.6	10.4	16.2	14.8	16.2	17.5
NPV of FCFF	-7.4	-2.3	3.4	7.0	9.8	8.0	7.8	7.6

WACC calculation	
Debt ratio	2.0%
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	12.00%
WACC (2017-21)	11.9%
WACC (2022-)	11.8%

Valuation, NOKm	
Net debt*	-27.4
Minority interest	0
NPV cash flow	
2H17-2024E	33.9
2025E-	83.0
Total NPV cash flow	116.9
Equity value	144.3
Value per share, NOK	20.82

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

** Ex. treasury shares

* End of 1Q17 adj. for unpaid dividends

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	23.6
Operating expenses	-12.3	-15.0	-12.6	-17.7	-17.6	-16.6	-17.7	-18.4
EBITDA	8.0	7.8	10.5	21.2	31.8	-4.0	-0.8	5.2
Depreciation & Amortisation	-5.5	-6.1	-6.4	-5.8	-4.2	-0.5	-0.5	-0.5
EBIT (adj)	2.4	1.8	4.1	15.4	27.6	-4.5	-1.3	4.7
Non-recurring items	-	-	-4.0	-	-24.7	-9.5	-	-
EBIT	2.4	1.8	0.1	15.4	2.9	-14.0	-1.3	4.7
Net interest & other financial effects	-1.5	0.4	1.5	-0.5	-0.4	0.0	0.2	0.2
Pre-tax profit	0.9	2.2	1.6	15.0	2.5	-14.0	-1.1	4.9
Minority interests	-	-	-	-	-	-	-	-
Taxes	-	-	-	-	-0.9	3.3	0.3	-1.2
Profit after tax	0.9	2.2	1.6	15.0	1.6	-10.6	-0.8	3.8
EPS rep. (NOK)	0.15	0.32	0.23	2.15	0.23	-1.53	-0.12	0.54
EPS adj. (NOK)	0.15	0.32	0.69	2.21	2.90	-0.49	-0.12	0.54
Margins								
Operating margin	12%	8%	18%	40%	56%	-35%	-8%	20%
ROE	2%	3%	7%	22%	30%	-6%	-2%	8%
ROCE	4%	2%	6%	20%	38%	-8%	-3%	10%
Tax rate	0%	0%	0%	0%	35%	24%	24%	24%
Growth rates (YoY)								
Operating revenues	>1000%	12%	1%	68%	27%	-74%	34%	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	7.5	7.8	6.6
Licences, property, plant & equipment	21.9	16.6	12.4	8.6	4.7	5.0	5.3	5.5
Other intangible assets	-	-	-	-	-	-	-	-
Non-current Assets	21.9	16.6	12.4	8.6	6.5	12.5	13.0	12.1
Inventory	31.9	31.2	29.9	29.3	15.3	17.8	17.8	17.8
Receivables	3.0	3.5	4.2	3.7	3.0	0.8	2.0	1.9
Other current assets	-	-	-	-	-	-	-	-
Cash and cash equivalents	21.0	27.0	29.2	42.0	46.2	19.5	16.9	21.7
Current Assets	55.9	61.7	63.4	75.0	64.5	38.1	36.8	41.5
Total assets	77.8	78.3	75.8	83.6	71.0	50.7	49.8	53.6
Shareholders equity	62.0	65.9	66.3	74.2	61.8	44.1	43.3	47.0
Non-controlling interests	-	-	-	-	-	-	-	-
Total equity	62.0	65.9	66.3	74.2	61.8	44.1	43.3	47.0
Deferred tax liability	-	-	-	-	-	-	-	-
Long-term interest bearing debt	9.8	9.0	5.6	5.0	4.3	1.0	1.0	1.0
Other long-term liabilities	-	-	-	-	-	-	-	-
Non-current liabilities	9.8	9.0	5.6	5.0	4.3	1.0	1.0	1.0
Current interest bearing debt	-	-	-	-	-	-	-	-
Trade payables	1.8	1.1	0.9	0.9	0.8	1.1	1.1	1.1
Other current liabilities	4.2	2.3	3.0	3.4	4.1	4.5	4.5	4.5
Current liabilities	6.0	3.4	3.9	4.3	4.9	5.5	5.5	5.5
Total liabilities	15.8	12.3	9.4	9.3	9.2	6.5	6.5	6.5
Total liabilities and equity	77.8	78.3	75.8	83.6	71.0	50.7	49.8	53.6
Working capital	33.1	33.6	33.2	32.1	17.5	17.6	18.8	18.7
Net IB debt	-11.2	-18.1	-23.6	-37.0	-41.9	-18.5	-15.9	-20.7
Capital employed	71.8	74.9	71.9	79.2	66.1	45.1	44.3	48.0
Net IB debt / equity	-18%	-27%	-36%	-50%	-68%	-42%	-37%	-44%
Equity / total assets	80%	84%	88%	89%	87%	87%	87%	88%

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	8.35	8.35	8.35
Market cap (NOKm)	77.7	169.9	75.3	110.4	67.4	58.0	58.0	58.0
Enterprise value (NOKm)	66.5	151.9	51.7	73.4	25.5	39.5	42.0	37.3
EPS rep. (NOK)	0.15	0.32	0.23	2.15	0.23	-1.53	-0.12	0.54
EPS adj. (NOK)	0.15	0.32	0.69	2.21	2.90	-0.49	-0.12	0.54
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	3.1	2.5	1.6
EV/EBITDA	8.4	19.4	4.9	3.5	0.8	neg	neg	7.1
EV/EBIT (adj)	27.2	85.1	12.6	4.8	0.9	neg	neg	7.9
P/E (adj)	86.6	77.1	15.6	7.2	3.3	neg	neg	15.4
P/B (excl. goodwill)	1.3	2.6	1.1	1.5	1.1	1.3	1.3	1.2

Growth (YoY)	2012	2013	2014	2015	2016	2017E	2018E	2019E
Revenues	>1,000%	12%	1%	68%	27%	-74%	34%	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 %	-31.3 %	-4.6 %	22.1 %
EBIT (adj)	12.1 %	7.8 %	17.8 %	39.6 %	55.8 %	-35.4 %	-7.6 %	19.9 %
Pre-tax profit	4.4 %	9.7 %	6.8 %	38.4 %	5.1 %	-110.6 %	-6.4 %	20.9 %
Net profit	4.4 %	9.7 %	6.8 %	38.4 %	3.3 %	-84.1 %	-4.9 %	15.9 %

Profitability	2012	2013	2014	2015	2016	2017E	2018E	2019E
ROE	1.6 %	3.4 %	7.3 %	21.8 %	29.6 %	-6.4 %	-1.9 %	8.3 %
ROCE	3.7 %	2.4 %	5.6 %	20.4 %	38.0 %	-8.0 %	-2.9 %	10.2 %
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)
17/08/2017	Buy	12.00
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.

TARGET PRICE AND UPDATES

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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