

Aqua Bio Technology

BUY

Key share data

Sector	Health Care
Reuters	ATBT.OL
Bloomberg	ABT NO

Market Cap (NOKm)	51
Net debt (NOKm)*	-27
EV (NOKm)*	23
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	22%	-10%	-7%
OSEBX	4%	0%	20%

Upcoming events

2017 annual report	April 24 2018
AGM	May 30 2018
1H18 report	August 22 2018

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

Analyst

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Focus on new revenue streams; litigation now behind

Ahead of the annual 2017 report due on April 24th we have made some adjustments to our model but keep our positive stance at a lowered TP of NOK 10/sh (NOK 12/sh previously).

Likely low sales in 2H17 and one-offs should burden the bottom line

Aqua Bio Technology (ABT) will release its 2017 annual report on April 24th. We expect 2H17 revenues of NOK 1.4m, 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. From 2H17 the results will reflect the company's new strategy with sales of finished products (Moana and Čuvget brands), some small revenues from Restorsea (Aquabeautine XL sales) and ingredient (first revenues from AlgoSource were expected in 2H17) revenues. ABT guided for some cost increase but the results should also still be affected by one-offs related to the dispute with Access Business Group (Amway). Thus, we see 2H17 bottom line at NOK -9.5m.

2H/17 results	2H/16	1H/17	2H/17E
NOKm			Norne
Revenues	24.4	8.9	1.4
EBITDA adj.	15.1	2.2	-8.4
EBITDA	13.1	-3.3	-12.4
EBIT adj.	13.8	1.9	-8.7
EBIT	-1.0	-3.6	-12.7
Pretax profit	-1.2	-3.8	-12.5
Net earnings	-1.1	-2.9	-9.5
EPS rep. (NOK)	-0.16	-0.41	-1.37
EPS adj. (NOK)	1.43	0.19	-0.93

Three significant news since our last update

1. An agreement with Swiss Tanner was signed giving exclusive distribution rights of Čuvget and Moana in Germany, Switzerland and Austria. This means revenues from three significant new markets.
2. Dispute with Access Business Group was resolved with minimal further costs to ABT, as parties are carrying their own costs.
3. After initial acquisition attempt at the end of 2017 and due diligence, ABT renegotiated better terms with Scandiderma on Čuvget and will reconsider its acquisition option in 1Q19. It was indicated that more commercial data is needed to get better estimates of future potential of additional companies that have rights of product sales in North America.

Positive stance maintained at a lowered TP of NOK 10/sh (12 previously)

We have reviewed our model and decided to increase our cost estimates that would be needed to achieve the estimated growth. Still, the DCF with a 40% discount returns a NOK 10/sh TP, which shows there is plenty of upside in the stock. The risk is high, but the company is well financed, has strong growth opportunities that should start yielding results this year and legal issues are now behind. Therefore, our Buy recommendation stays.

Estimate changes (NOKm)	2H17E		2017E		2018E		2019E	
	New	Old	New	Old	New	Old	New	Old
Operating revenues	1.4	3.7	10.3	12.6	12.6	16.9	18.9	23.6
EBITDA adj.	-8.4	-6.1	-6.3	-4.0	-5.9	-0.8	-2.3	5.2
EBITDA Margin	nm	nm	-61%	-31%	-46%	-5%	-12%	22%
EBIT (adj)	-8.7	-6.4	-6.8	-4.5	-6.4	-1.3	-2.9	4.7
EBIT adj. margin	nm	nm	-66%	-35%	-50%	-8%	-15%	20%
Non-recurring items	-4.0	-4.0	-9.5	-9.5	-	-	-	-
EBIT	-12.7	-10.4	-16.3	-14.0	-6.4	-1.3	-2.9	4.7
Pre-tax profit	-12.5	-10.2	-16.3	-14.0	-6.2	-1.1	-2.8	4.9
Tax	3.0	2.4	3.9	3.3	1.4	0.3	0.6	-1.2
Tax rate	24%	24%	24%	24%	23%	24%	23%	24%
Profit after tax	-9.5	-7.7	-12.4	-10.6	-4.8	-0.8	-2.1	3.8

DCF model

NOKm	2H17E	2018E	2019E	2020E	2021E	2022E	2023E	2024E
Revenues	1.4	12.6	18.9	26.5	34.5	41.4	45.5	47.8
EBIT	-12.7	-6.4	-2.9	2.6	9.3	15.1	18.5	20.2
Tax on EBIT	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-4.7
NOPLAT (+)	-12.7	-6.4	-2.9	2.6	9.3	15.1	18.5	15.6
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 +)	3.1	-1.4	0.2	-0.6	-0.6	-0.6	-0.3	-0.2
Free Cash Flow to the Firm	-9.7	-8.0	-2.9	1.7	8.4	14.3	17.9	15.1
NPV of FCF	-9.7	-7.1	-2.3	1.2	5.4	8.2	9.1	6.9

WACC calculation	
Debt ratio	2.0%
Cost of debt	4.5%
Cost of debt (after tax)	3.5%
Risk free rate	3.0%
Beta	1.5
Market risk premium	6.0%
Cost of equity	12.0%
WACC (2017-21)	11.9%
WACC (2022-)	11.8%

Valuation, NOKm	
Net debt*	-27.4
Minority interest	0
NPV cash flow	
2H17-2024E	11.6
2025E-	76.0
Total NPV cash flow	87.7
Equity value	115.0
Value per share, NOK	16.60

Assumptions	
L.t. growth	2.5%
L.t. tax rate	23%
# shares, m**	6.9

** Ex. treasury shares

* End of 1H17 adj. for unpaid dividends

Profit & Loss (NOKm)	2013	2014	2015	2016	2017E	2018E	2019E	2020E
Operating revenues	22.8	23.1	38.9	49.4	10.3	12.6	18.9	26.5
Operating expenses	-15.0	-12.6	-17.7	-17.6	-16.5	-18.5	-21.3	-23.4
EBITDA	7.8	10.5	21.2	31.8	-6.3	-5.9	-2.3	3.1
Depreciation & Amortisation	-6.1	-6.4	-5.8	-4.2	-0.5	-0.5	-0.5	-0.5
EBIT (adj)	1.8	4.1	15.4	27.6	-6.8	-6.4	-2.9	2.6
Non-recurring items	-	-4.0	-	-24.7	-9.5	-	-	-
EBIT	1.8	0.1	15.4	2.9	-16.3	-6.4	-2.9	2.6
Net interest & other financial effects	0.4	1.5	-0.5	-0.4	0.0	0.2	0.1	0.1
Pre-tax profit	2.2	1.6	15.0	2.5	-16.3	-6.2	-2.8	2.6
Minority interests	-	-	-	-	-	-	-	-
Taxes	-	-	-	-0.9	3.9	1.4	0.6	-0.6
Profit after tax	2.2	1.6	15.0	1.6	-12.4	-4.8	-2.1	2.0
EPS rep. (NOK)	0.32	0.23	2.15	0.23	-1.78	-0.69	-0.31	0.29
EPS adj. (NOK)	0.32	0.69	2.21	2.90	-0.74	-0.69	-0.31	0.29
Margins								
Operating margin	8%	18%	40%	56%	-66%	-50%	-15%	10%
ROE	3%	7%	22%	30%	-10%	-12%	-6%	6%
ROCE	2%	6%	20%	38%	-12%	-16%	-8%	7%
Tax rate	0%	0%	0%	35%	24%	23%	23%	23%
Growth rates (YoY)								
Operating revenues	12%	1%	68%	27%	-79%	23%	50%	40%
EBIT (adj)	-27%	130%	275%	79%	nm	nm	nm	nm
EPS (adj)	108%	118%	218%	31%	nm	nm	nm	nm

Balance sheet (NOKm)	2013	2014	2015	2016	2017E	2018E	2019E	2020E
Goodwill	-	-	-	-	-	-	-	-
Deferred tax asset	-	-	-	1.7	8.1	9.5	10.1	9.5
Licences, property, plant & equipment	16.6	12.4	8.6	4.7	5.0	5.3	5.5	5.8
Other intangible assets	-	-	-	-	-	-	-	-
Non-current Assets	16.6	12.4	8.6	6.5	13.1	14.8	15.7	15.3
Inventory	31.2	29.9	29.3	15.3	17.8	17.8	17.8	17.8
Receivables	3.5	4.2	3.7	3.0	0.4	1.8	1.5	2.2
Other current assets	-	-	-	-	-	-	-	-
Cash and cash equivalents	27.0	29.2	42.0	46.2	17.6	9.7	6.9	8.7
Current Assets	61.7	63.4	75.0	64.5	35.8	29.3	26.3	28.7
Total assets	78.3	75.8	83.6	71.0	48.9	44.1	42.0	44.0
Shareholders equity	65.9	66.3	74.2	61.8	42.3	37.6	35.4	37.5
Non-controlling interests	-	-	-	-	-	-	-	-
Total equity	65.9	66.3	74.2	61.8	42.3	37.6	35.4	37.5
Deferred tax liability	-	-	-	-	-	-	-	-
Long-term interest bearing debt	9.0	5.6	5.0	4.3	1.0	1.0	1.0	1.0
Other long-term liabilities	-	-	-	-	-	-	-	-
Non-current liabilities	9.0	5.6	5.0	4.3	1.0	1.0	1.0	1.0
Current interest bearing debt	-	-	-	-	-	-	-	-
Trade payables	1.1	0.9	0.9	0.8	1.1	1.1	1.1	1.1
Other current liabilities	2.3	3.0	3.4	4.1	4.5	4.5	4.5	4.5
Current liabilities	3.4	3.9	4.3	4.9	5.5	5.5	5.5	5.5
Total liabilities	12.3	9.4	9.3	9.2	6.5	6.5	6.5	6.5
Total liabilities and equity	78.3	75.8	83.6	71.0	48.9	44.1	42.0	44.0
Working capital	33.6	33.2	32.1	17.5	17.2	18.5	18.3	18.9
Net IB debt	-18.1	-23.6	-37.0	-41.9	-16.6	-8.7	-5.9	-7.7
Capital employed	74.9	71.9	79.2	66.1	43.3	38.6	36.4	38.5
Net IB debt / equity	-27%	-36%	-50%	-68%	-39%	-23%	-17%	-21%
Equity / total assets	84%	88%	89%	87%	87%	85%	84%	85%

Share data	2013	2014	2015	2016	2017E	2018E	2019E	2020E
Shares outstanding, year end (mill.)	6.935	6.944	6.944	6.944	6.944	6.944	6.944	6.944
Share price, year end (NOK)	24.50	10.85	15.90	9.70	8.50	7.30	7.30	7.30
Market cap (NOKm)	169.9	75.3	110.4	67.4	59.0	50.7	50.7	50.7
Enterprise value (NOKm)	151.9	51.7	73.4	25.5	42.5	41.9	44.7	43.0
EPS rep. (NOK)	0.32	0.23	2.15	0.23	-1.78	-0.69	-0.31	0.29
EPS adj. (NOK)	0.32	0.69	2.21	2.90	-0.74	-0.69	-0.31	0.29
DPS. (NOK)	-	1.00	1.50	2.00	-	-	-	-

Valuation	2013	2014	2015	2016	2017E	2018E	2019E	2020E
EV/Sales	6.7	2.2	1.9	0.5	4.1	3.3	2.4	1.6
EV/EBITDA	19.4	4.9	3.5	0.8	neg	neg	neg	14.0
EV/EBIT (adj)	85.1	12.6	4.8	0.9	neg	neg	neg	16.9
P/E (adj)	77.1	15.6	7.2	3.3	neg	neg	neg	25.1
P/B (excl. goodwill)	2.6	1.1	1.5	1.1	1.4	1.3	1.4	1.4

Growth (YoY)	2013	2014	2015	2016	2017E	2018E	2019E	2020E
Revenues	12%	1%	68%	27%	-79%	23%	50%	40%
EBITDA	-2%	34%	102%	50%	nm	nm	nm	nm
EBIT (adj)	-27%	130%	275%	79%	nm	nm	nm	nm
EPS (rep)	108%	-29%	851%	-89%	nm	nm	nm	nm
EPS (adj)	108%	118%	218%	31%	nm	nm	nm	nm

Margins	2013	2014	2015	2016	2017E	2018E	2019E	2020E
EBITDA	34.4 %	45.4 %	54.6 %	64.4 %	-61.2 %	-46.4 %	-12.4 %	11.5 %
EBIT (adj)	7.8 %	17.8 %	39.6 %	55.8 %	-66.2 %	-50.4 %	-15.1 %	9.6 %
Pre-tax profit	9.7 %	6.8 %	38.4 %	5.1 %	-158.7 %	-49.2 %	-14.6 %	9.9 %
Net profit	9.7 %	6.8 %	38.4 %	3.3 %	-120.6 %	-37.9 %	-11.2 %	7.6 %

Profitability	2013	2014	2015	2016	2017E	2018E	2019E	2020E
ROE	3.4 %	7.3 %	21.8 %	29.6 %	-9.9 %	-12.0 %	-5.8 %	5.6 %
ROCE	2.4 %	5.6 %	20.4 %	38.0 %	-12.4 %	-15.5 %	-7.6 %	6.8 %
Dividend yield	0.0 %	9.2 %	9.4 %	20.6 %	0.0 %	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)
18/04/2018	Buy	10.00
17/08/2017	Buy	12.00
10/08/2017	Buy	12.00
23/02/2017	Buy	12.00

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

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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Norne Securities' general recommendations – Buy, Hold and Sell – are based on the expected absolute return on the financial instrument within the next 12 months, which equals to an upside to the target price, in combination with a risk profile. The target price represents the price level which the analyst expects the financial instrument to trade at within the coming 12 months. The table below shows the ranges of returns under different risk levels, based on which the recommendation is being determined:

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 the report have 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 March 31, 2018:

	Buy	Hold	Sell
Total recommendations	57	28	5
% of total	63%	31%	6%
Corporate clients*	24	10	0
% of corporate clients*	71%	29%	0%

* 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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