

Aqua Bio Technology

BUY

Key share data

Sector	Health Care
Reuters	ATBT.OL
Bloomberg	ABT NO

Market Cap (NOKm)	45
Net debt (NOKm)*	-20
EV (NOKm)*	25
Net debt / equity *	-52%

Issued shares (m)	6.9
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*End of 2017 adj. for unpaid dividends

Share price



Performance

	1m	3m	12m
ABT	-3%	-19%	-21%
OSEBX	7%	6%	24%

Upcoming events

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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Focusing on top line growth after difficult period

ABT delivered slightly better-than-feared figures for 2H17, while work on new revenue streams continues with some visible income during 2018 and into 2019 likely. Having also in mind that legal issues are now behind and solid cash position is maintained, we keep our positive stance on the stock with a bit lower TP of NOK 9/sh (10).

Better-than-feared 2H figures

Aqua Bio Technology (ABT) released its annual report on April 24th with 2H17 figures reported as well. 2H17 top line came in at NOK 1.0m broadly in line with our NOK 1.4m estimate. The top line was, as communicated earlier, much lower than in previous periods due to no minimum milestones from Restorsea and still limited revenues from the changed strategy during 2017. The company indicated that the lawsuit with former customer (Access Business Group) resulted in NOK 12m additional one-off costs in 2017 further affecting the bottom line. Still, EBITDA was at NOK -10.6m, slightly better than our NOK -12.4m estimate and much better if we exclude the one-off legal costs, meaning regular OPEX came in below our expectations.

2H/17 results NOKm	2H/16	1H/17	2H/17 Reported	2H/17E Norne	Deviation
Revenues	24.4	8.9	1.0	1.4	-28.5%
EBITDA adj.	15.1	2.2	-4.1	-8.4	nm
EBITDA	13.1	-3.3	-10.6	-12.4	nm
EBIT	-1.0	-3.6	-11.3	-12.7	nm
Pretax profit	-1.2	-3.8	-11.0	-12.5	nm
Net earnings	-1.1	-2.9	-13.2	-9.5	nm
EPS rep. (NOK)	-0.16	-0.41	-1.90	-1.37	nm
EPS adj. (NOK)	1.43	0.19	-0.50	-0.93	nm

Working towards new revenue streams

Now that the legal issues seem to be behind, ABT continues to work on new revenue streams. Moana and Čugvet skin care products will be launched in more markets, while two of the ingredients the company is working on (AlgoSource and Zembra) should start generating revenues in 2018 as well. The cooperation with Banco Español de Algas should start generating revenues from 2019. Notably, ABT guides for some OPEX increase in 2018 adjusted for the legal costs in 2017, while reported total OPEX will be much lower in 2018 vs 2017.

Positive stance maintained ahead of better times

Finished products and ingredients should start generating new revenue streams during 2018 and 2019. The company is also finished with legal issues related to two former customers. In addition, cash position is still solid at NOK 21.8m at the end of 2017. Therefore, our Buy recommendation on the stock is maintained awaiting better times ahead. New TP is at NOK 9/sh (10 previously).

Estimate changes (NOKm)	2H17		1H18E		2018E		2019E		2020E	
	Act.	Est.	New	Old	New	Old	New	Old	New	Old
Operating revenues	1.0	1.4	3.0	3.9	11.9	12.6	19.0	18.9	26.6	26.5
EBITDA adj.	-4.1	-8.4	-4.3	-3.8	-3.9	-5.9	-1.5	-2.3	2.9	3.1
EBITDA Margin	<i>nm</i>	<i>nm</i>	<i>nm</i>	<i>nm</i>	-33%	-46%	-8%	-12%	11%	12%
EBIT (adj)	-4.8	-8.7	-4.8	-4.0	-4.8	-6.4	-2.5	-2.9	2.0	2.6
EBIT adj. margin	<i>nm</i>	<i>nm</i>	<i>nm</i>	<i>nm</i>	-41%	-50%	-13%	-15%	8%	10%
Non-recurring items	-6.5	-4.0	-	-	-	-	-	-	-	-
EBIT	-11.3	-12.7	-4.8	-4.0	-4.8	-6.4	-2.5	-2.9	2.0	2.6
Pre-tax profit	-11.0	-12.5	-4.8	-4.0	-4.9	-6.2	-2.6	-2.8	1.9	2.6
Tax	-2.2	3.0	1.1	0.9	1.1	1.4	0.6	0.6	-0.4	-0.6
Tax rate	-19%	-24%	23%	-23%	23%	23%	23%	23%	23%	23%
Profit after tax	-13.2	-9.5	-3.7	-3.0	-3.8	-4.8	-2.0	-2.1	1.4	2.0

DCF model

NOKm	2018E	2019E	2020E	2021E	2022E	2023E	2024E
Revenues	11.9	19.0	26.6	34.6	41.5	45.7	47.9
EBIT	-4.8	-2.5	2.0	7.6	13.2	16.2	17.6
Tax on EBIT	0.0	0.0	0.0	0.0	0.0	0.0	-4.1
NOPLAT (+)	-4.8	-2.5	2.0	7.6	13.2	16.2	13.6
Depreciation & amortization (+)	0.9	0.9	0.9	0.9	0.9	0.9	0.9
Capital expenditure (-)	-0.9	-0.9	-0.9	-0.9	-0.9	-0.9	-0.9
Change in working capital (- or +)	-5.1	2.8	-1.3	-1.4	-1.2	-0.7	-0.4
Free Cash Flow to the Firm	-10.0	0.4	0.7	6.2	12.0	15.5	13.2
NPV of FCF	-8.9	0.3	0.5	4.0	6.8	7.9	6.0

WACC calculation		Valuation, NOKm		Assumptions	
Debt ratio	1.0%	Net debt*	-20.0	L.t. growth	2.5%
Cost of debt	4.5%	Minority interest	0	L.t. tax rate	23%
Cost of debt (after tax)	3.5%				
		NPV cash flow		# shares, m**	6.9
Risk free rate	3.0%	2018-2024E	16.5	** Ex. treasury shares	
Beta	1.5	2025E-	65.2		
Market risk premium	6.0%	Total NPV cash flow	81.7		
Cost of equity	12.0%	Equity value	101.7		
WACC (2018-23)	11.9%	Value per share, NOK	14.67		
WACC (2024-)	11.9%				

* End of 2H17 adj. for unpaid dividends

Profit & Loss (NOKm)	2013	2014	2015	2016	2017	2018E	2019E	2020E
Operating revenues	22.8	23.1	38.9	49.4	9.9	11.9	19.0	26.6
Operating expenses	-15.0	-12.6	-17.7	-17.6	-11.8	-15.8	-20.6	-23.7
EBITDA	7.8	10.5	21.2	31.8	-1.9	-3.9	-1.5	2.9
Depreciation & Amortisation	-6.1	-6.4	-5.8	-4.2	-0.9	-0.9	-0.9	-0.9
EBIT (adj)	1.8	4.1	15.4	27.6	-2.9	-4.8	-2.5	2.0
Non-recurring items	-	-4.0	-	-24.7	-12.0	-	-	-
EBIT	1.8	0.1	15.4	2.9	-14.9	-4.8	-2.5	2.0
Net interest & other financial effects	0.4	1.5	-0.5	-0.4	0.1	-0.0	-0.1	-0.1
Pre-tax profit	2.2	1.6	15.0	2.5	-14.8	-4.9	-2.6	1.9
Minority interests	-	-	-	-	-	-	-	-
Taxes	-	-	-	-0.9	-1.2	1.1	0.6	-0.4
Profit after tax	2.2	1.6	15.0	1.6	-16.1	-3.8	-2.0	1.4
EPS rep. (NOK)	0.32	0.23	2.15	0.23	-2.31	-0.54	-0.29	0.21
EPS adj. (NOK)	0.32	0.69	2.21	2.90	-0.31	-0.54	-0.29	0.21
Margins								
Operating margin	8%	18%	40%	56%	-29%	-41%	-13%	8%
ROE	3%	7%	22%	30%	-4%	-10%	-6%	4%
ROCE	2%	6%	20%	39%	-6%	-13%	-7%	6%
Tax rate	0%	0%	0%	35%	-8%	23%	23%	23%
Growth rates (YoY)								
Operating revenues	12%	1%	68%	27%	-80%	20%	60%	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	2017	2018E	2019E	2020E
Goodwill	-	-	-	-	-	-	-	-
Deferred tax asset	-	-	-	1.7	-	1.1	1.7	1.3
Licences, property, plant & equipment	16.6	12.4	8.6	4.7	4.7	4.7	4.7	4.7
Other intangible assets	-	-	-	-	-	-	-	-
Non-current Assets	16.6	12.4	8.6	6.5	4.7	5.9	6.5	6.0
Inventory	31.2	29.9	29.3	15.3	17.3	17.3	17.3	17.3
Receivables	3.5	4.2	-	-	1.0	6.1	3.2	4.5
Other current assets	-	-	3.7	3.5	4.2	4.2	4.2	4.2
Cash and cash equivalents	27.0	29.2	42.0	46.2	21.8	11.8	12.0	12.6
Current Assets	61.7	63.4	75.0	65.0	44.3	39.5	36.8	38.7
Total assets	78.3	75.8	83.6	71.4	49.1	45.3	43.3	44.7
Shareholders equity	65.9	66.3	74.2	61.8	38.5	34.8	32.7	34.2
Non-controlling interests	-	-	-	-	-	-	-	-
Total equity	65.9	66.3	74.2	61.8	38.5	34.8	32.7	34.2
Deferred tax liability	-	-	-	-	-	-	-	-
Long-term interest bearing debt	9.0	5.6	5.0	1.3	0.7	0.7	0.7	0.7
Other long-term liabilities	-	-	-	-	-	-	-	-
Non-current liabilities	9.0	5.6	5.0	1.3	0.7	0.7	0.7	0.7
Current interest bearing debt	-	-	-	-	-	-	-	-
Trade payables	1.1	0.9	0.9	0.8	1.3	1.3	1.3	1.3
Other current liabilities	2.3	3.0	3.4	7.5	8.6	8.6	8.6	8.6
Current liabilities	3.4	3.9	4.3	8.3	9.9	9.9	9.9	9.9
Total liabilities	12.3	9.4	9.3	9.7	10.6	10.6	10.6	10.6
Total liabilities and equity	78.3	75.8	83.6	71.4	49.1	45.3	43.3	44.7
Working capital	33.6	33.2	28.4	14.5	17.0	22.2	19.3	20.6
Net IB debt	-18.1	-23.6	-37.0	-44.9	-21.1	-11.1	-11.3	-11.9
Capital employed	74.9	71.9	79.2	63.1	39.2	35.4	33.4	34.8
Net IB debt / equity	-27%	-36%	-50%	-73%	-55%	-32%	-35%	-35%
Equity / total assets	84%	88%	89%	86%	78%	77%	76%	76%

Share data	2013	2014	2015	2016	2017	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	6.50	6.50	6.50
Market cap (NOKm)	169.9	75.3	110.4	67.4	59.0	45.1	45.1	45.1
Enterprise value (NOKm)	151.9	51.7	73.4	22.5	37.9	34.0	33.8	33.2
EPS rep. (NOK)	0.32	0.23	2.15	0.23	-2.31	-0.54	-0.29	0.21
EPS adj. (NOK)	0.32	0.69	2.21	2.90	-0.31	-0.54	-0.29	0.21
DPS. (NOK)	-	1.00	1.50	2.00	-	-	-	-

Valuation	2013	2014	2015	2016	2017	2018E	2019E	2020E
EV/Sales	6.7	2.2	1.9	0.5	3.8	2.9	1.8	1.2
EV/EBITDA	19.4	4.9	3.5	0.7	neg	neg	neg	11.3
EV/EBIT (adj)	85.1	12.6	4.8	0.8	neg	neg	neg	16.6
P/E (adj)	77.1	15.6	7.2	3.3	neg	neg	neg	31.6
P/B (excl. goodwill)	2.6	1.1	1.5	1.1	1.5	1.3	1.4	1.3

Growth (YoY)	2013	2014	2015	2016	2017	2018E	2019E	2020E
Revenues	12%	1%	68%	27%	-80%	20%	60%	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	2017	2018E	2019E	2020E
EBITDA	34.4 %	45.4 %	54.6 %	64.4 %	-19.6 %	-32.9 %	-8.1 %	11.0 %
EBIT (adj)	7.8 %	17.8 %	39.6 %	55.8 %	-29.1 %	-40.8 %	-13.1 %	7.5 %
Pre-tax profit	9.7 %	6.8 %	38.4 %	5.1 %	-149.9 %	-41.1 %	-13.9 %	7.0 %
Net profit	9.7 %	6.8 %	38.4 %	3.3 %	-162.5 %	-31.7 %	-10.7 %	5.4 %

Profitability	2013	2014	2015	2016	2017	2018E	2019E	2020E
ROE	3.4 %	7.3 %	21.8 %	29.6 %	-4.3 %	-10.3 %	-6.0 %	4.3 %
ROCE	2.4 %	5.6 %	20.4 %	38.8 %	-5.6 %	-13.0 %	-7.2 %	5.9 %
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)
02/05/2018	Buy	9.00
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
- 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 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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