

Bakkafrost

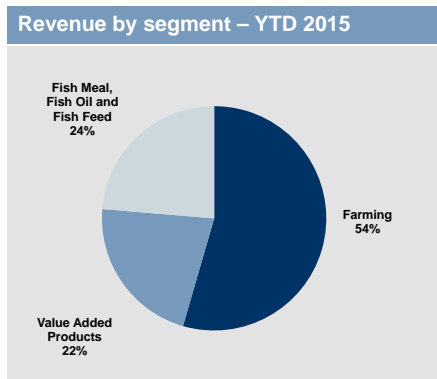
Industry (GICS): Food Products
Sector (Nordea): Seafood

BB

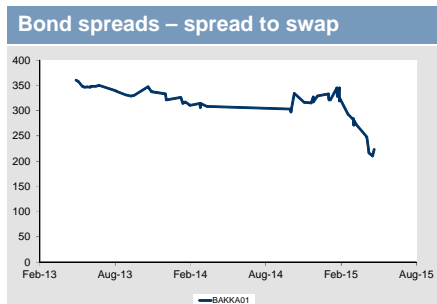
Positive

Key info	
Country	Norway
Bloomberg debt	BAKANO Corp
Bloomberg equity	BAKKA NO
Moody's	NR/---
S&P	NR/---
Market cap.(bn)	DKK 8.13/NOK 9.16

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Source: Company data and Nordea Markets



Source: OSE and Nordea Markets

Key credit metrics and ratios (adjusted numbers)										
DKKm	2008	2009	2010	2011	2012	2013	2014	2015E	2016E	2017E
EBITDA	0	-81	225	339	363	674	989	1,356	1,385	1,401
- margin	n.m.	-14%	27%	26%	20%	27%	37%	47%	48%	47%
EBIT	0	159	247	335	323	587	834	1,251	1,256	1,364
- margin	n.m.	27%	30%	25%	17%	24%	31%	44%	44%	46%
Shareholders' equity	0	536	902	1,061	1,263	1,665	2,064	2,637	3,140	3,706
Debt	0	291	79	834	832	860	605	526	436	356
Debt/(Debt+Equity)	n.m.	0.4	0.1	0.4	0.4	0.3	0.2	0.2	0.1	0.1
FFO/Debt	n.m.	43.0%	197.3%	36.9%	40.1%	77.5%	120.1%	200.4%	214.3%	269.5%
FOCF/Debt	n.m.	59.3%	88.6%	33.8%	17.9%	29.5%	89.6%	71.8%	140.5%	189.3%
DCF/Debt	n.m.	57.6%	66.4%	10.8%	12.0%	18.1%	53.6%	10.3%	41.5%	61.5%
EBITDA interest coverage	n.m.	2.0	-25.3	-11.0	-23.6	-23.3	-30.6	-39.0	n.m.	n.m.
Debt/EBITDA	n.m.	-3.6	0.4	2.5	2.3	1.3	0.6	0.4	0.3	0.3
ROC	n.m.	38.4%	25.6%	20.6%	14.3%	22.6%	28.2%	37.4%	32.9%	31.9%

Source: Company data and Nordea Markets

All-time high margins

Bakkafrost delivers margins well above peers, has a rock solid balance sheet and benefits from the still sound market conditions. The group is well positioned for its investment plans, which we expect will have only a marginal negative effect on the overall credit profile. However, we revise our recommendation on the group's bonds to Market Perform from Outperform, following significant spread tightening.

Q1 2015 earnings above our expectations

Bakkafrost posted earnings above our expectations and generated all-time high margins and profitability well above industry peers. Turnover fell y/y by 3%, while overall EBITDA jumped by 25% and the group's EBITDA margin strengthened to 43% (Q1 2014: 33%). Despite general price pressure in the quarter, Bakkafrost managed to extract high prices in North America, Asia and Russia.

Stronger and stronger credit profile

Bakkafrost's credit profile strengthened further thanks to healthy earnings and still sound cash flow. Net debt/EBITDA (12-month rolling) and FFO/total debt ended the quarter at 0.3x and 137%, respectively (Q4 2014: 0.3x and 120%).

Credit view

We maintain our shadow rating on Bakkafrost at BB with a Positive outlook, reflecting the demonstrated strengthening of its credit profile and continued sound market conditions. We expect leverage to increase moderately during Q2, when the new wellboat is delivered, but we expect the credit profile to remain particularly strong for its rating category.

All-time high margins

Bakkafrost continues to outperform industry peers with respect to profitability and credit strength.

Q1 2015 earnings beat our expectations

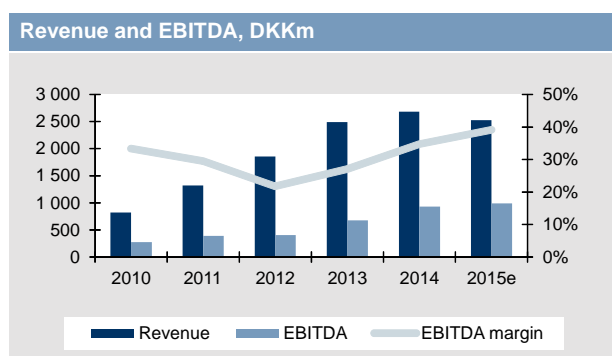
Bakkafrost posted earnings above our expectations, generating all-time high margins and profitability well above industry peers. Turnover fell y/y by 3%, while overall EBITDA jumped by 25% and the group EBITDA margin strengthened to 43% (Q1 2014: 33%). Despite general price pressure in the quarter, Bakkafrost managed to extract high prices in North America, Asia and Russia.

Reiterated harvest guidance for 2015

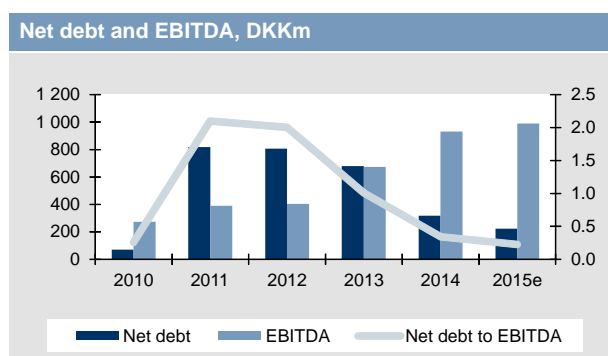
Total harvested volumes increased y/y by 5% to 9,726 tonnes gutted weight (Q1 2014: 9,269). Bakkafrost reiterated its full-year harvest guidance of 49,000-51,000 tonnes gutted weight.

Higher funds from operations

The group's reported FFO (funds from operations) jumped y/y by 30%, while operating cash flow declined by 25% owing to seasonal working capital build-up. Net capex amounted to DKK 106m, mainly related to investments in a new harvesting plant and a new wellboat.



Source: Company data and Nordea Markets



Source: Company data and Nordea Markets

Stronger and stronger credit profile

Bakkafrost's credit profile strengthened further thanks to healthy earnings and still sound cash flow. Net debt/EBITDA (12-month rolling) and FFO/total debt ended the quarter at 0.3x and 137%, respectively (Q4 2014: 0.3x and 120%).

Investment programme

The investment plan over the next three years will total about DKK 1,120m, including a new harvest plant estimated at DKK 450m and a new wellboat estimated at DKK 230m. The harvest plant is expected to be up and running in 2016 and will likely bring operational savings of DKK 70-90m a year from 2017. The new wellboat is planned for delivery on 12 June 2015 and will result in a moderate leverage increase during Q2.

Strong liquidity reserve

Bakkafrost's liquidity reserve amounted to DKK 1,368m as of end-Q1, comprising DKK 415m in cash in hand and DKK 953m in undrawn and unrestricted credit facilities.

Sound market outlook

Global demand growth in the salmon market has increased during in recent years owing to high growth in emerging markets and stable growth in other markets. Bakkafrost expects global supply growth to be limited in 2015 to around 4-5% and to only 2-3% in 2016.

Credit profile considerations

Supportive business risk profile elements

The business risk profile is supported by:

- Bakkafrost being a low-cost producer, with significantly higher operating margins than its fish farming peers
- Strong business diversification, controlling the whole value chain
- Favourable geographical location, providing ideal conditions for fish farming
- Conservative financial profile.

Challenging business risk profile elements

The business risk profile is challenged by:

- Exposure to a highly volatile and cyclical industry
- Volatile raw material prices
- High business risk, with significant biological risk
- No geographical diversification.

Weak business risk profile

We are of the opinion that the overall business risk profile associated with Bakkafrost can be considered Weak according to the "expanded rating matrix" from Standard & Poor's below.

Mitigating business risk factors

Fish farming is characterised by very high business risk and the business risk profile associated with pure-play fish farmers can be considered Vulnerable. However, we give Bakkafrost credit for vertical business diversification (the group is self-supplied with fish feed and smolt) and for its favourable location.

Expanded Rating Matrix							
Business Risk Profile	- Financial Risk Profile -						
	Minimal	Modest	Intermediate	Significant	Aggressive	Highly Leveraged	
Excellent	AAA/AA+	AA	A+/A	A-	BBB	BBB-/BB+	
Strong	AA/AA-	A+/A	A-/BBB+	BBB	BB+	BB	
Satisfactory	A/A-	BBB+	BBB/BBB-	BBB-/BB+	BB	B+	
Fair	BBB/BBB-	BBB-	BB+	BB	BB-	B	
Weak	BB+	BB+	BB	BB-	B+	B/B-	
Vulnerable	BB-	BB-	BB-/B+	B+	B	B-	
Core ratios		Supplementary coverage ratios		Supplementary payback ratios			
	FFO/Debt (%)	Debt/EBITDA (x)	FFO/Interest (x)	EBITDA/Interest (x)	CFO/Debt (%)	FOCF/Debt (%)	DCF/Debt (%)
Minimal	> 60	< 1.5	> 13	> 15	> 50	> 40	> 25
Modest	45-60	1.5-2	9-13	10-15	35-50	25-40	15-25
Intermediate	30-45	2-3	6-9	6-10	25-35	15-25	10-15
Significant	20-30	3-4	4-6	3-6	15-25	10-15	5-10
Aggressive	12-20	4-5	2-4	2-3	10-15	5-10	2-5
Highly Leveraged	< 12	> 5	< 2	< 2	< 10	< 5	< 2

Source: Standard & Poor's

Minimal financial risk profile

Our opinion is that the financial risk profile associated with Bakkafrost can be considered as Minimal. According to the guidelines from S&P, we evaluate credit ratios on a time series basis and we consider the group's credit ratios for the previous two years, as well as the current year's forecast.

Bond details

Ticker	Issuer	Corp	Bond	Issue	Maturity	Coupon	Size (m)	Rank
BAKKA01	Bakkafrost P/F	BB	BB-	2013-02-14	2018-02-14	N3M +415	NOK 500	Senior unsecured

Last trade level(s)

The 2018 (BAKKA01) bond last traded on the OSE on 28 April 2015 at 105.13 (spread to swap +223 bp).

Key bond details

- Senior unsecured
- Subordinated secured bank debt
- Put option at 101% if a change of control event occurs
- A change of control event would be triggered by anyone becoming owner of more than 50% of the shares
- Maximum dividend of 50% of previous year's net profit
- Book equity ratio shall be above the highest of: 1) 35%; or 2) the highest requirement in bank loan agreements
- Leverage ratio shall be below the lowest of: 1) 4.0x; or 2) the lowest requirement in bank loan agreements.

Selected bank debt details

- Revolving credit facility of DKK 553m due in 2017
- Instalment loan of DKK 200m, repayable with DKK 25m on a quarterly basis
- Maximum net debt to EBITDA of 3.5x
- Minimum equity ratio of 40%.

Reported numbers and forecasts

Income statement										
DKKm	2008	2009	2010	2011	2012	2013	2014	2015E	2016E	2017E
Total revenue	0	597	820	1,321	1,855	2,491	2,683	2,869	2,863	2,962
- growth	n.a.	n.a.	37.5%	61.1%	40.4%	34.3%	7.7%	6.9%	-0.2%	3.5%
Gross profit	0	218	705	1,339	1,295	2,231	2,564	2,236	2,215	2,383
- margin	n.m.	36.6%	86.0%	101.4%	69.8%	89.5%	95.5%	78.0%	77.4%	80.5%
EBITDA	0	-81	225	339	363	674	989	1,356	1,385	1,401
- margin	n.m.	-13.6%	27.4%	25.6%	19.6%	27.0%	36.9%	47.3%	48.4%	47.3%
EBITA	0	159	247	335	323	587	834	1,251	1,256	1,364
- margin	n.m.	26.6%	30.1%	25.3%	17.4%	23.6%	31.1%	43.6%	43.9%	46.1%
EBIT	0	159	247	335	323	587	834	1,251	1,256	1,364
- margin	n.m.	26.6%	30.1%	25.3%	17.4%	23.6%	31.1%	43.6%	43.9%	46.1%
Net finance	0	-37	-8	-30	-11	50	6	-37	-10	-2
Pre-tax profit	0	181	307	370	324	728	899	1,157	1,246	1,362
Taxes	0	-33	-47	-47	-55	-138	-252	-281	-312	-340
Net profit, continuing operations	0	148	260	323	281	589	647	875	935	1,021
Discontinued operations	0	0	0	0	0	0	0	0	0	0
Net profit to equity	0	148	260	325	281	589	647	863	911	997
EBITDA (credit adj)	0	-81	225	339	363	674	989	1,356	1,385	1,401
EBIT (credit adj)	0	159	247	335	323	587	834	1,251	1,256	1,364
Interest expense (credit adj)	0	41	9	31	15	29	32	35	14	6

Source: Company data and Nordea Markets

Balance Sheet										
DKKm	2008	2009	2010	2011	2012	2013	2014	2015E	2016E	2017E
Goodwill	0	0	136	370	294	295	295	295	295	295
Other intangibles	0	69	0	0	0	0	0	0	0	0
Tangible assets	0	330	356	829	813	917	1,041	1,625	2,094	2,484
Shares associates	0	23	26	36	89	115	125	124	124	124
Interest bearing assets	0	0	0	0	0	0	0	0	0	0
Deferred tax assets	0	0	0	0	0	0	0	0	0	0
Other non-interest bearing non-current assets	0	0	0	0	0	0	0	0	0	0
Other non-current assets	0	0	1	0	2	2	1	1	1	1
Non-current assets	0	421	519	1,234	1,198	1,328	1,463	2,045	2,514	2,904
Inventory	0	359	511	880	990	1,201	1,281	1,300	1,300	1,349
Accounts receivable	0	132	126	154	212	278	172	400	362	375
Other current assets	0	0	20	17	146	122	142	197	178	185
Cash and cash equivalents	0	36	9	17	25	182	405	171	133	174
Current assets	0	527	665	1,067	1,373	1,784	2,000	2,068	1,973	2,083
Assets held for sale	0	0	0	0	0	0	0	0	0	0
Total assets	0	949	1,185	2,302	2,571	3,112	3,463	4,113	4,487	4,987
Shareholders equity	0	536	902	1,026	1,263	1,665	2,064	2,625	3,104	3,646
Minority interest	0	0	0	35	0	0	0	12	36	60
Deferred tax	0	0	120	256	258	311	414	451	451	451
Convertible debt	0	0	0	0	0	0	0	0	0	0
Long term interest bearing debt	0	130	38	734	732	760	505	426	336	256
Non-current liabilities	0	0	0	0	0	0	0	0	0	0
Pension provisions	0	0	0	0	0	0	0	0	0	0
Other long-term provisions	0	0	0	0	0	0	0	0	0	0
Other long-term liabilities	0	56	0	0	0	0	117	91	91	91
Non-current liabilities	0	186	158	990	990	1,071	1,036	969	879	799
Short-term provisions	0	0	0	0	0	0	0	0	0	0
Accounts payable	0	66	83	151	218	276	263	408	369	383
Other current liabilities	0	0	0	0	0	0	0	0	0	0
Short term interest bearing debt	0	161	42	100	100	100	100	100	100	100
Current liabilities	0	227	125	251	318	376	363	508	469	483
Liabilities for assets held for sale	0	0	0	0	0	0	0	0	0	0
Total liabilities and equity	0	949	1,185	2,302	2,571	3,112	3,463	4,113	4,487	4,987
Cash and cash eq (credit adj)	0	36	9	17	25	182	405	171	133	174
Total assets (credit adj)	0	949	1,185	2,302	2,571	3,112	3,463	4,113	4,487	4,987
Shareholders equity (credit adj)	0	536	902	1,061	1,263	1,665	2,064	2,637	3,140	3,706
Debt (credit adj)	0	291	79	834	832	860	605	526	436	356

Source: Company data and Nordea Markets

Cash flow statement

DKKm	2008	2009	2010	2011	2012	2013	2014	2015E	2016E	2017E
EBITDA	0	-81	225	339	363	674	989	1,356	1,385	1,401
Adj due to change in group structure	0	0	0	0	0	0	0	0	0	0
Change in Provisions	0	0	3	-3	46	-52	-103	-37	0	0
Other non-cash adjustments	0	-34	-15	5	-49	97	53	56	-67	-78
Net financials	0	-11	7	-28	-13	-55	-28	-37	-10	-2
Dividends received	0	0	0	0	0	0	0	0	0	0
Paid taxes	0	0	0	-32	-73	-86	-81	-244	-312	-340
Other	0	310	0	44	39	37	33	-2	-62	-21
Operating cash flow before NWC	0	184	220	323	314	614	863	1,092	935	960
Change in NWC	0	9	-82	56	-51	-195	-91	-183	18	-55
Operating cash flow	0	193	138	379	263	419	772	909	953	904
CAPEX	0	-21	-68	-98	-114	-165	-230	-531	-340	-230
Free operating cash flow	0	172	70	281	149	254	543	378	613	674
Dividends paid	0	-5	-18	-191	-49	-98	-218	-324	-432	-455
Share issues / buybacks	0	0	68	0	0	0	0	0	0	0
Discretionary cash flow	0	167	121	90	100	156	324	54	181	219
Other investments / divestments	0	-12	-4	-1	17	-7	-13	-28	-67	0
Other	0	-9	64	-976	-107	-22	42	0	-23	-58
Proceeds from sale of assets	0	0	0	351	1	2	11	2	0	0
Net change to group borrowing/repayments	0	-111	-207	543	-2	28	-172	-79	-90	-80
Other	0	0	0	0	0	0	31	-182	-39	-40
Change in cash	0	35	-27	8	8	157	223	-234	-38	41
Adjusted metrics										
Funds from operations (FFO) (adj)	0	125	157	308	333	667	727	1,055	935	960
Operating cash flow (OCF) (adj)	0	193	138	379	263	419	772	909	953	904
Free operating cash flow (FOCF) (adj)	0	172	70	281	149	254	543	378	613	674
Discretionary cash flow (DCF) (adj)	0	167	53	90	100	156	324	54	181	219

Source: Company data and Nordea Markets

Key ratios

	2008	2009	2010	2011	2012	2013	2014	2015E	2016E	2017E
Profitability										
ROC	n.m.	38.4%	25.6%	20.6%	14.3%	22.6%	28.2%	37.4%	32.9%	31.9%
ROIC after tax	n.m.	30.4%	15.0%	13.5%	11.3%	16.4%	23.5%	34.0%	27.3%	26.4%
ROE after tax	n.m.	55.1%	36.1%	33.7%	24.6%	40.3%	34.7%	36.8%	31.8%	29.6%
Debt & Interest coverage										
FFO/Debt	n.m.	43.0%	197.3%	36.9%	40.1%	77.5%	120.1%	200.4%	214.3%	269.5%
FOCF/Debt	n.m.	59.3%	88.6%	33.8%	17.9%	29.5%	89.6%	71.8%	140.5%	189.3%
DCF/Debt	n.m.	57.6%	66.4%	10.8%	12.0%	18.1%	53.6%	10.3%	41.5%	61.5%
EBITDA interest coverage	n.m.	2.0	-25.3	-11.0	-23.6	-23.3	-30.6	-39.0	n.m.	n.m.
FFO cash interest coverage	n.m.	3.1	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.
Leverage										
Debt/EBITDA	n.m.	-3.6	0.4	2.5	2.3	1.3	0.6	0.4	0.3	0.3
Equity ratio	n.m.	56.5%	76.2%	44.6%	49.1%	53.5%	59.6%	63.8%	69.2%	73.1%
Debt/(Debt+Equity)	n.m.	0.4	0.1	0.4	0.4	0.3	0.2	0.2	0.1	0.1
Capital expenditure										
CAPEX/Depreciation and amortisation	n.m.	-0.54	1.61	1.46	1.43	1.91	2.37	5.06	2.64	1.44
CAPEX/Sales	n.m.	0.04	0.08	0.07	0.06	0.07	0.09	0.19	0.12	0.08
Working capital ratios										
Inventory turnover (days)	n.m.	220	227	243	195	176	174	165	166	166
Receivables turnover (days)	n.m.	81	56	43	42	41	23	51	46	46
Days sales outstanding (days)	n.m.	40	37	42	43	40	36	52	47	47
Per share data										
EPS	0.00	1.98	5.32	6.66	5.76	12.06	13.32	17.67	18.64	25.21
EPS (adj.)	0.00	1.98	5.11	6.49	5.72	11.71	12.92	17.95	18.64	20.41
DPS	0.0	0.0	0.0	1.0	3.0	6.0	6.6	8.8	9.3	10.2
BVPS	n.m.	179.3	18.5	21.0	25.8	34.1	42.2	53.7	63.5	74.6
Equity valuation and yield										
Market cap.	n.a.	n.a.	2,311	1,716	3,006	4,142	6,759	8,134	8,134	8,134
Enterprise value	n.a.	n.a.	2,356	2,531	3,724	4,705	6,834	8,377	8,349	8,252
P/E	n.a.	n.a.	8.9	5.3	10.7	7.0	10.4	9.4	8.9	6.6
P/BV	n.a.	n.a.	2.6	1.7	2.4	2.5	3.3	3.1	2.6	2.2
EV/Sales	n.a.	n.a.	2.9	1.9	2.0	1.9	2.5	2.9	2.9	2.8
EV/EBITDA	n.a.	n.a.	10.5	7.5	10.2	7.0	6.9	6.2	6.0	5.9
Dividend yield	n.a.	n.a.	0.0%	2.8%	4.9%	7.1%	4.8%	5.3%	5.6%	6.1%
Payout ratio	n.m.	3.4%	6.8%	58.7%	17.4%	16.6%	33.7%	37.5%	47.4%	45.6%

Source: Company data and Nordea Markets

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Over the next three months, the fixed income instrument's total return is expected to exceed the total return of the relevant

Market perform

Over the next three months, the fixed income instrument's total return is expected to be in line with the total return of the relevant

Underperform

Over the next three months, the fixed income instrument's total return is expected to be below the total return of the relevant

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Recommendation	Count	% distribution
Outperform	88	17%
Market perform	284	56%
Under perform	140	27%
Total	512	100%

As of 1 January 2015

Issuer Review

This report has not been reviewed by the Issuer prior to publication.

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