

W U T I S

MOWI[®]

Mowi ASA

Equity Research

Target Price:	EUR 21.59
Current Price:	EUR 18.05
<i>Upside Potential:</i>	+ 19.63%

Recommendation: STRONG BUY

Vienna, January 29th, 2021

Team Overview

Equity Research



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Hattinger**

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- Task distribution
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Agenda

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Stock Price Performance

After years of stable growth Mowi's share price fell as a result of the COVID-19 pandemic

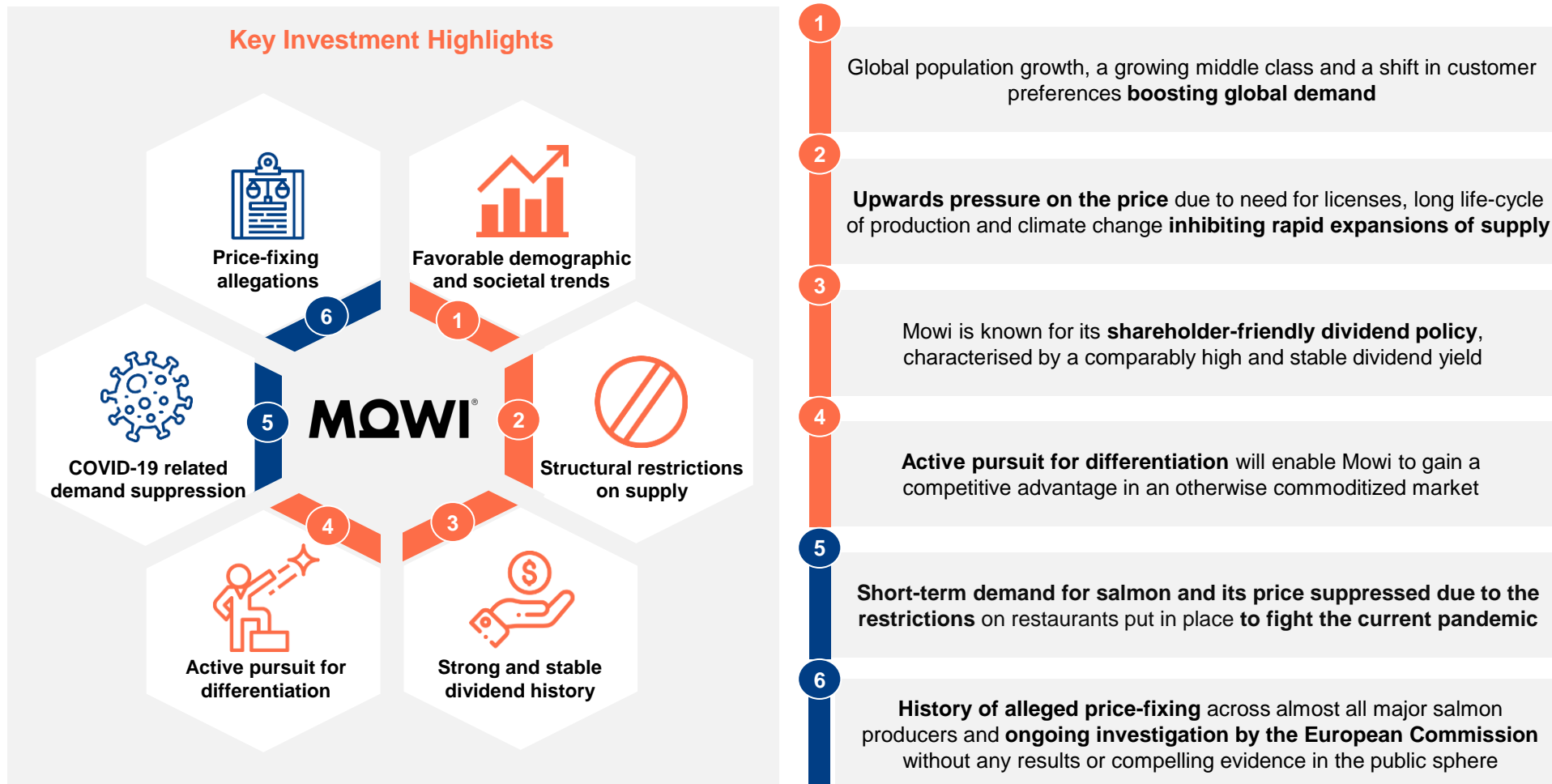


Share price – Major Events

- [1] 13. November 2018 – **Rebranding Marine Harvest to Mowi ASA** and introducing new premium line of products
- [2] 19. July 2019 – **Mowi acquires K Strømmen Lakseoppdrett AS**
- [3] 12. March 2020 – **\$2 billion wiped off value of farmed salmon producers** in massive **COVID-19 sell-off** due to marked decline in the price of fresh salmon
- [4] 21. May 2020 – **Slow recovery** after first lockdown wave, followed by **readjusting** after heading into the **second wave of lockdowns**
- [5] 9. November 2020 – Breaking News of first **"milestone" vaccine** which offers 90% protection

Executive Summary

Mowi profits from favourable macrotrends and strategic initiatives





Business Overview

Company Overview

Mowi is the world-leading producer of farm-raised salmon

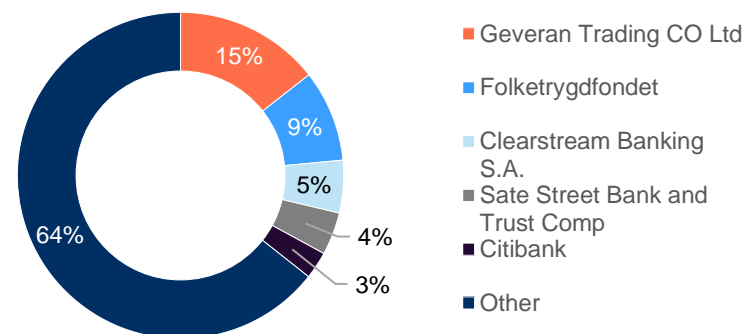
Business description

- **Mowi ASA** is the **world's largest producer of farm-raised salmon**, both by volume and revenue, offering seafood products to approximately **70 countries** and providing customers with **7.4 million meals a day**
- **Foundation:** 1964
- **Headquarter:** Bergen, Norway
- **Employees:** 14,537
- **Market Cap in € millions:** 9.449,7
- **Ticker:** Mowi ASA (OSE), MNHVF (Nasdaq OTC)

Key financial metrics

In € millions	2017	2018	2019	LTM
Revenue	3,626.1	3,749.8	4,074.2	3,805.9
% YoY growth	3.52%	3.28%	7.98%	(7.07%)
COGS	2,071.7	1,823.9	2,300.0	2,260.7
Gross Profit	1,577.7	1,988.0	1,835.6	1,606.6
% Margin	43.5%	53.0%	45.1%	42.2%
EBIT	666.0	889.8	590.0	352.2
% Margin	18.4%	23.7%	14.5%	9.3%
Net Profit	462.5	566.6	477.6	273.2
% Margin	12.8%	15.1%	11.7%	7.2%
Net debt (BV)	917.0	1,107.3	1,763.7	1,970.5
Equity (BV)	2,315.4	2,878.9	2,892.6	2,721.9

Shareholder structure



Senior leadership team



Ivan Vindheim
Chief Executive Officer
(since 2012)



Kristian Ellingsen
Chief Financial Officer
(since 2015)



Per-Roar Gjerde
Chief Operating Officer Farming Americas and the Faroes
(since 2007)



Øyvind Oaland
Chief Technology Officer/Head of Global R&D
(since 2000)

Strategy

Mowi is actively pursuing differentiation to compete in a competitive commodity market



Mowi Pure Brand Roll-out

- **2019:** launch of new global brand **MOWI Pure** in Poland
- **Premium brand** with finest salmon from Norway targeting younger audience
- **2020:** continued the roll-out of the brand in France and USA
- **Higher margins** through excluding third-party sellers and **direct selling** to restaurant chains, stores and e-commerce stores such as AmazonFresh, leading to **independency** against spot prices (unique quality product)



Traceability and Transparency

- **Safe seafood**, as consuming farm-raised salmon is both safe and healthy
- **Increasing customer trust** through transparency and operational excellence
- **Integrated value chain** (from the parental broodstock to sales) allows full control and integrity of their products
- **“Blue Revolution”** as a sustainable strategy to operate an eco-efficient value chain and raise salmon in harmony with nature (**aligns** with **10 SDGs** of United Nations)



R&D Capabilities

- Global presence and company size allow Mowi to **invest heavily** in potential biological and technological **research fields** and **innovative ideas**
- Recent collaboration with **X** to increase **sustainable salmon farming**
- **R&D** activities are **categorized** in
 - Fish welfare and robustness
 - Footprint
 - New growth
 - Production efficiency
 - Product quality and safety

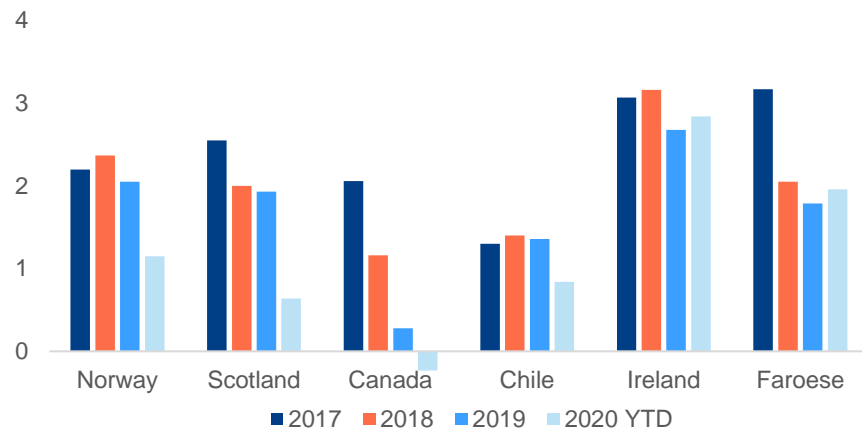
Mowi aims to actively differentiate themselves in order to de-commoditize their products

Financials / KPI's

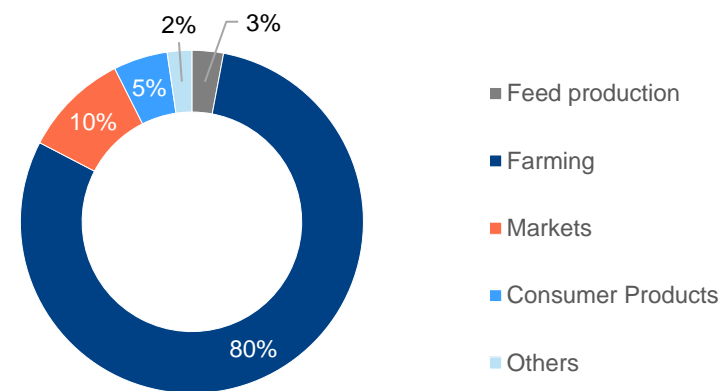
W U T I S

Maintaining a stable cost structure and growing harvest volumes are key to Mowi's success

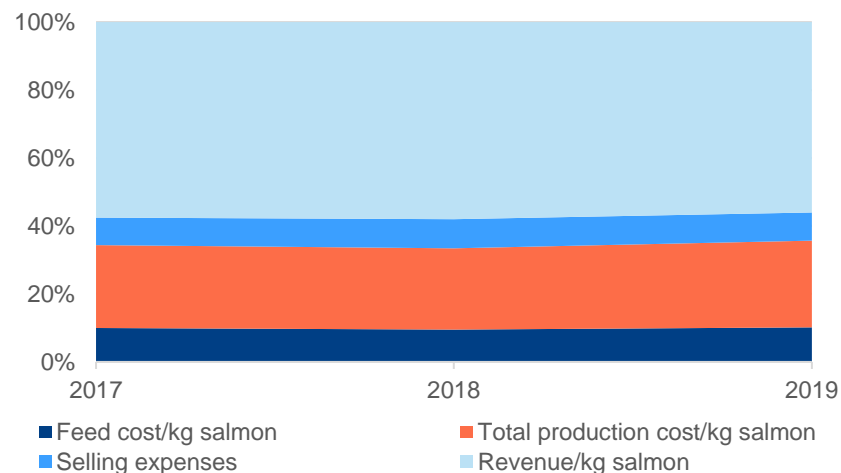
Operational EBIT per region (€ per kg salmon)



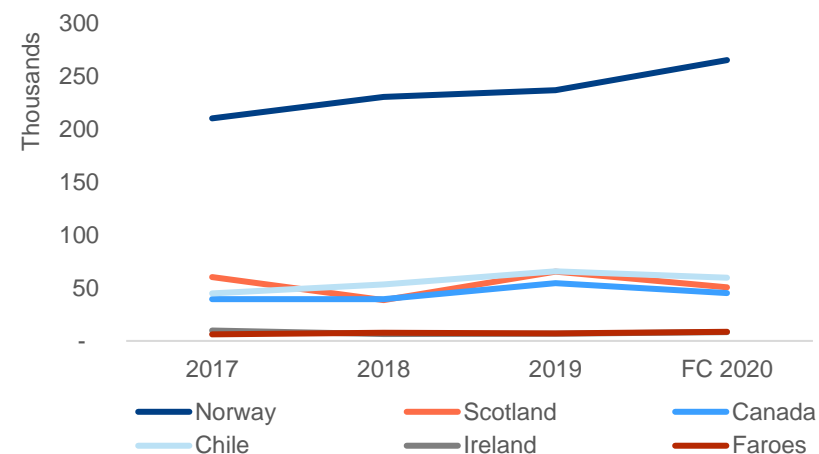
Operational EBIT by sector (in %)



Cost split (in %)



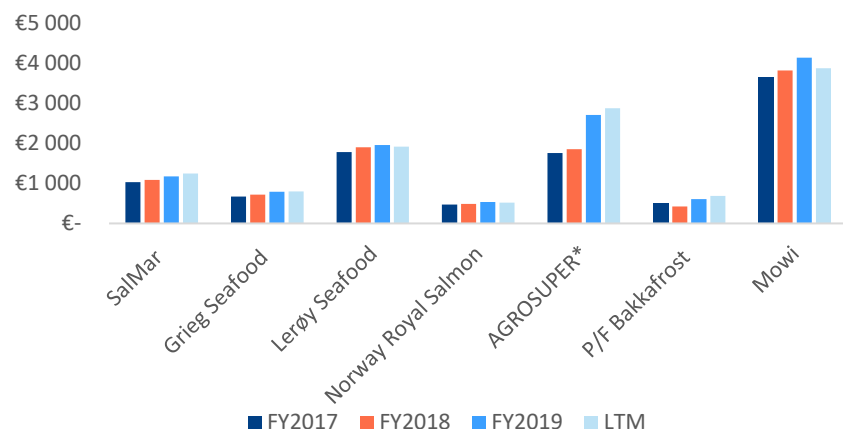
Harvest per region per year (in tonnes GWT)



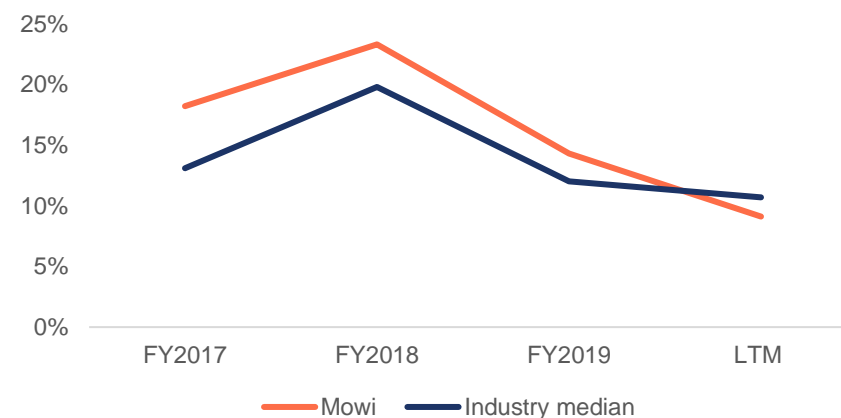
Competitor Benchmarking

Mowi offers a comparably low-risk capital structure and a high dividend yield

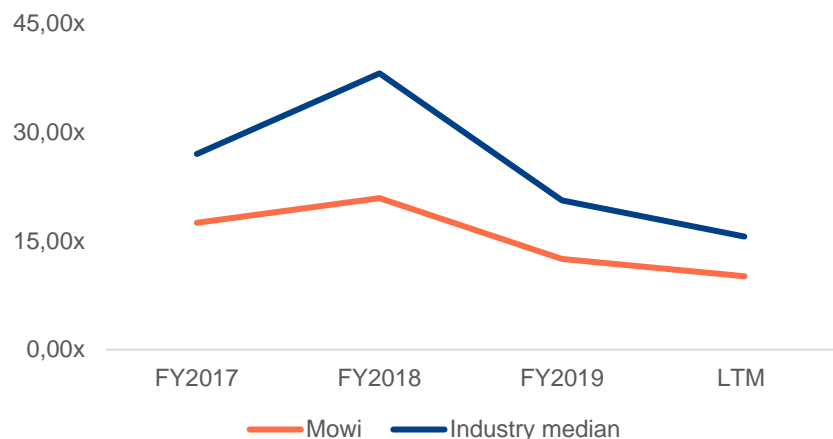
Total revenue (in € mn)



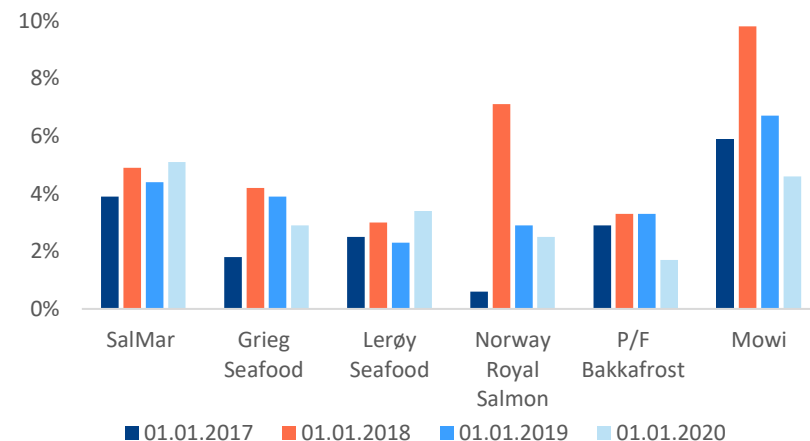
EBIT margin (in %)



EBITDA/Interest expense



Yearly dividend yield (in %)





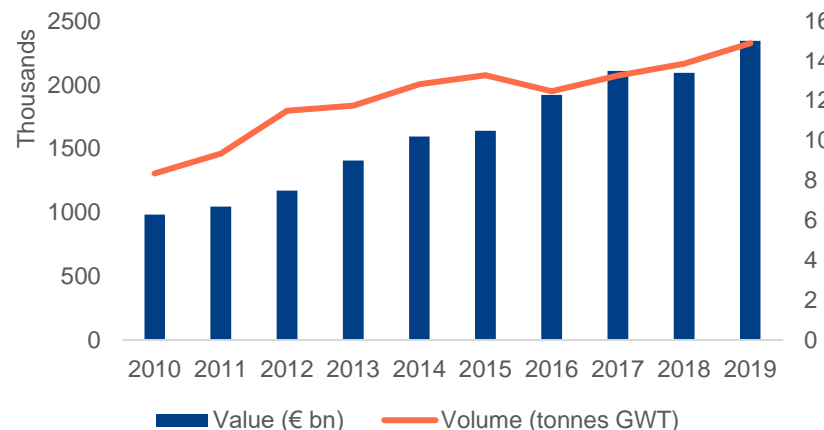
Market Overview

Industry Overview

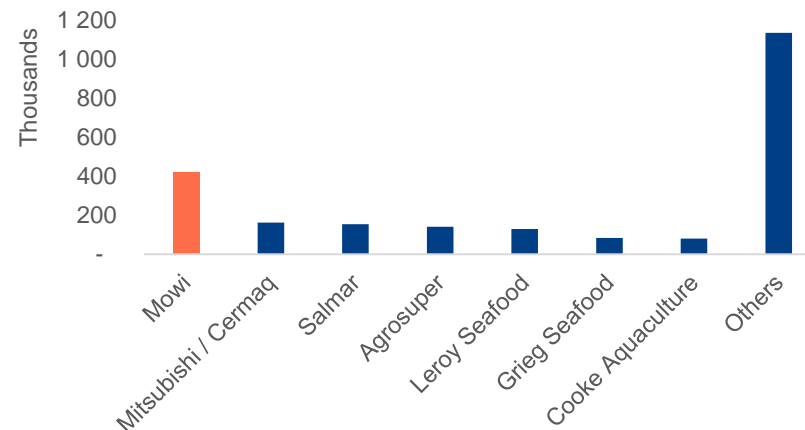
W U T I S

Stable growth and lots of large to medium sized players characterize the salmon market

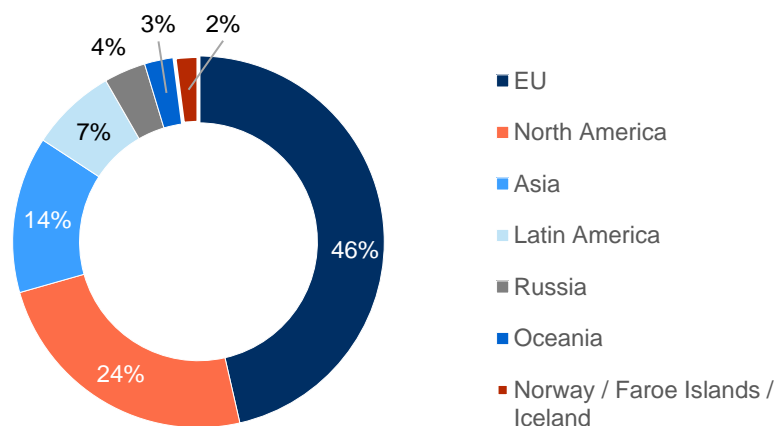
Global market size



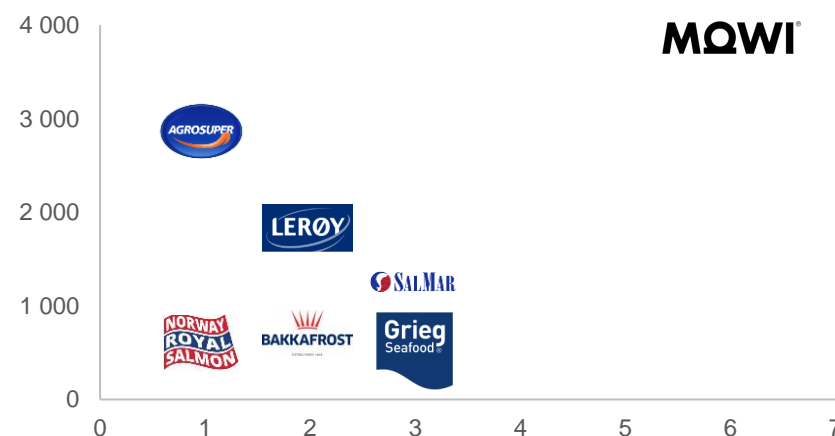
Industry structure (salmon tonnes GWT in 2019)



Current market split by geography



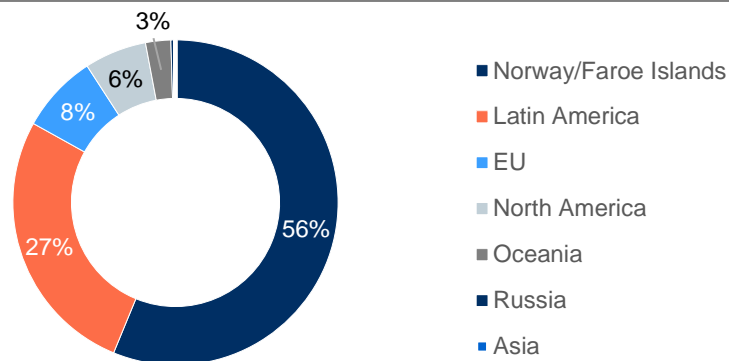
LTM revenue in € mn / # of countries with salmon farming operations



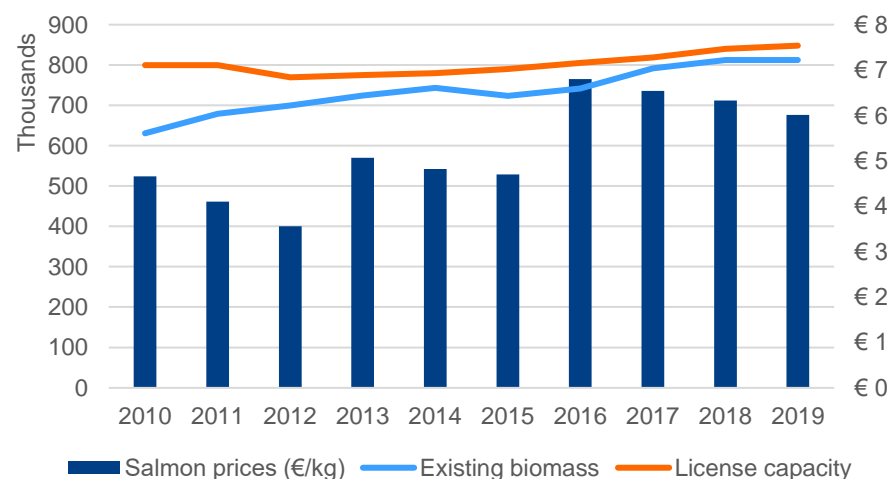
Supply: Geographies and regulatory

International activity leads to a strong impact of national farming policies

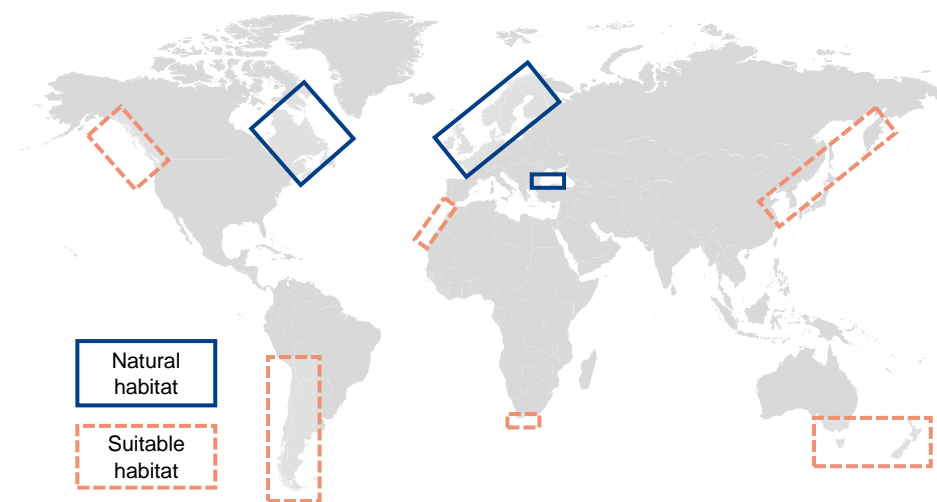
Global salmon supply per region 2019 (tonnes GWT)



Farming license capacity in Norway (tonnes GWT)*



Structural restrictions impede salmon farming



Steady water temperature and sheltered coastline
Salmon farms are very sensitive requiring between 8°C - 14°C and a sheltered coastline with limited sea streams

Climate change
Changing seawater temperature challenges current areas of production and makes (re-location) essential

Restriction to licenses
Amount of licenses possible in certain areas is heavily restricted due to biological risks

Demand: Growth trends

Various trends accelerate salmon demand growth globally

Demographic trends



Global population growth

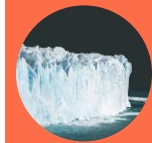
World's population is expected to grow to almost 10 billion by 2050



Growing middle class

Middle class is growing as a result of income growth in emerging markets

Consumer preferences



Climate change and resource efficiency

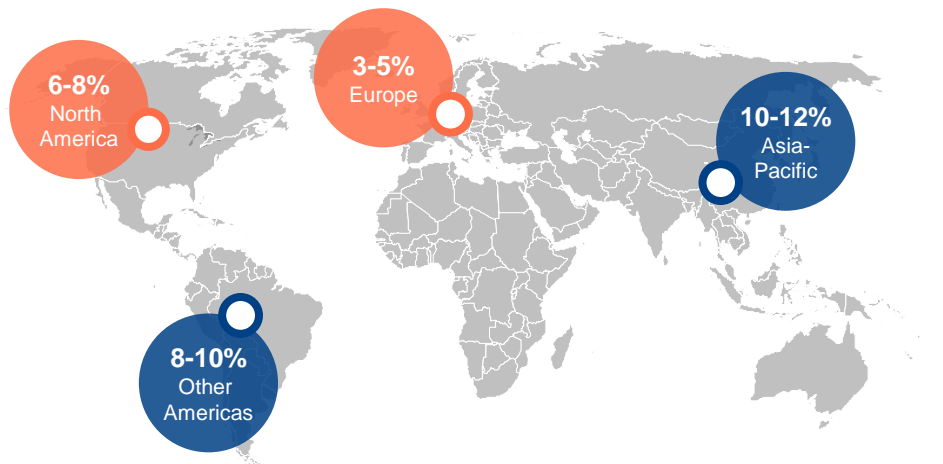
Concerns about climate change are influencing dietary choices and increased consumption of fish can reduce global GHG emissions



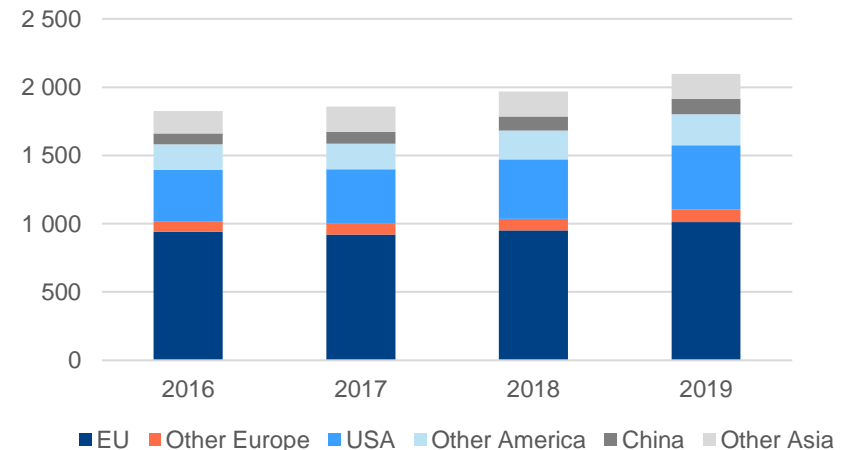
Health concerns

Increasingly being promoted by global health authorities and salmon is rich in omega-3 fatty acids, vitamins and minerals

Expected demand growth 2021-2025



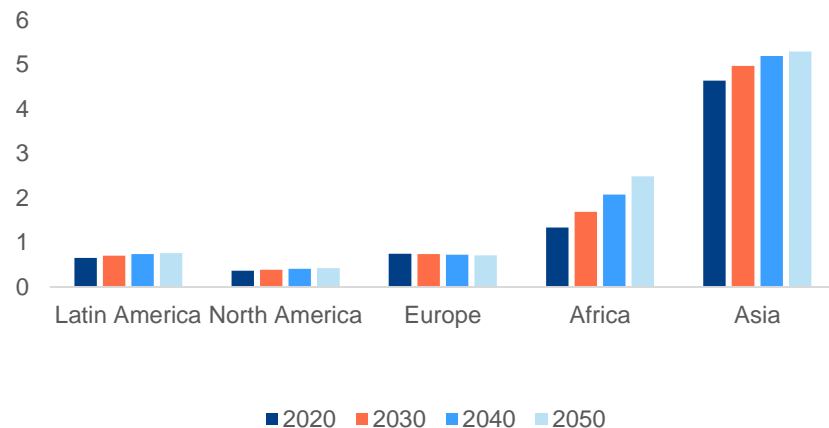
Historical global market demand (in GWT)



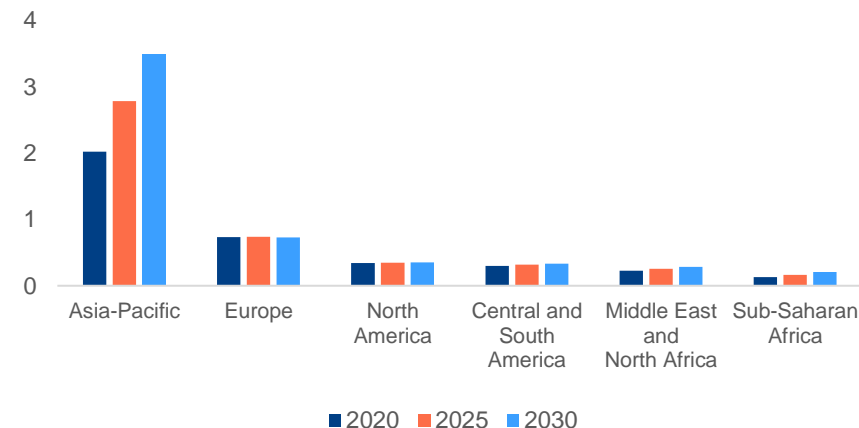
Demand: Demographic trends

Stable global population growth in specific regions ensures continued steady demand

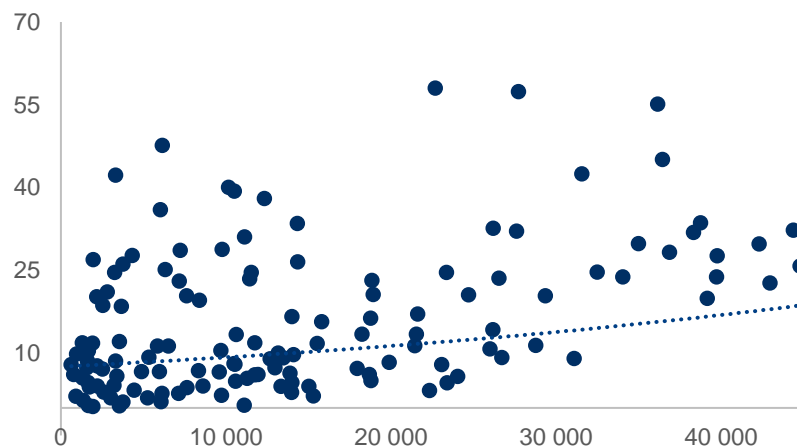
Population forecast by region (in bn)



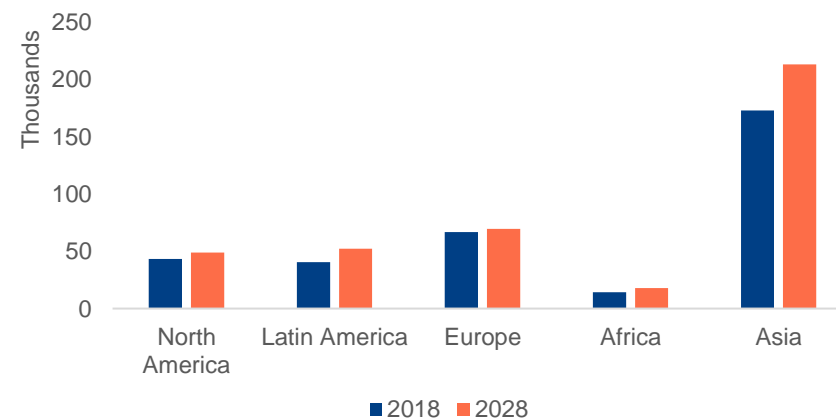
Global middle-class forecast (in bn)



GDP per capita (in \$) and fish consumption (in kg/capita/year)



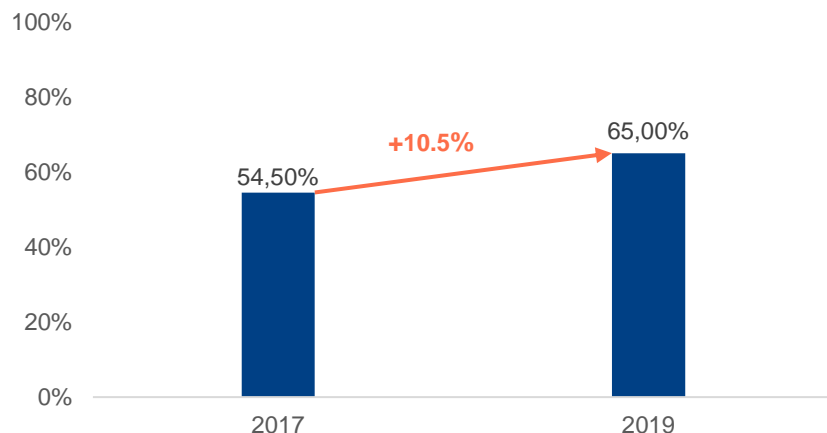
Protein consumption forecast (in tonnes)



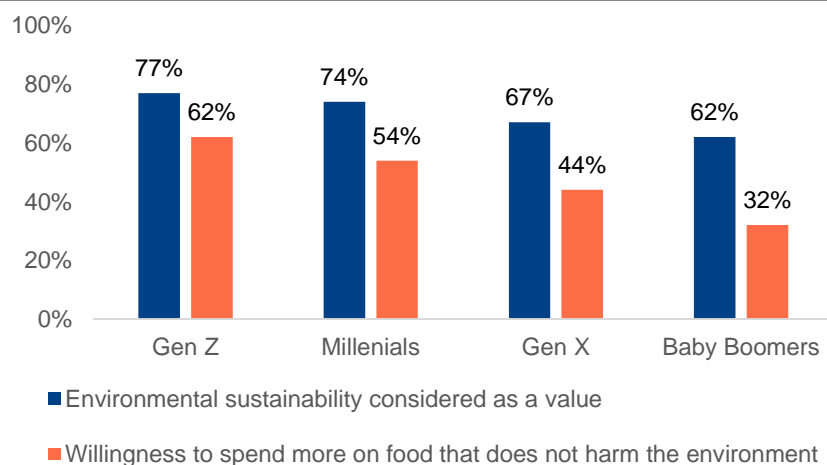
Demand: Consumer preferences

Younger generations foster salmon demand through health and climate concerns

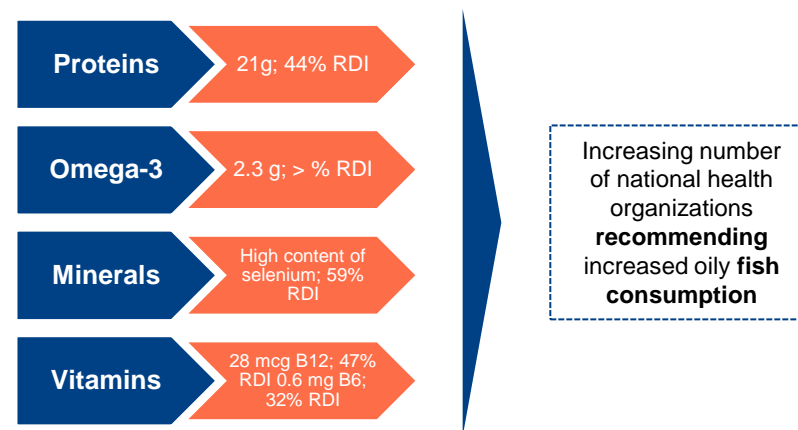
Health concerns as the main reason for changing diet (survey in %)







Sustainability concerns as a value for food purchase (survey in %)



A healthy product: for 100 g of salmon



Resource efficient protein

				
Carbon footprint	0.60	0.88	1.30	5.92
Land use	3.7	7.1	102	185
Feed conversion ratio	1.2-1.5	1.7-2	2.7-5	6-10
Protein retention (in %)	28%	37%	21%	14%
Calorie retention (in %)	25%	27%	16%	7%
Edible yield (in %)	68%	46%	52%	57%
Water consumption (l/kg)	2,000	4,300	6,000	15,400



Valuation

Valuation Universe

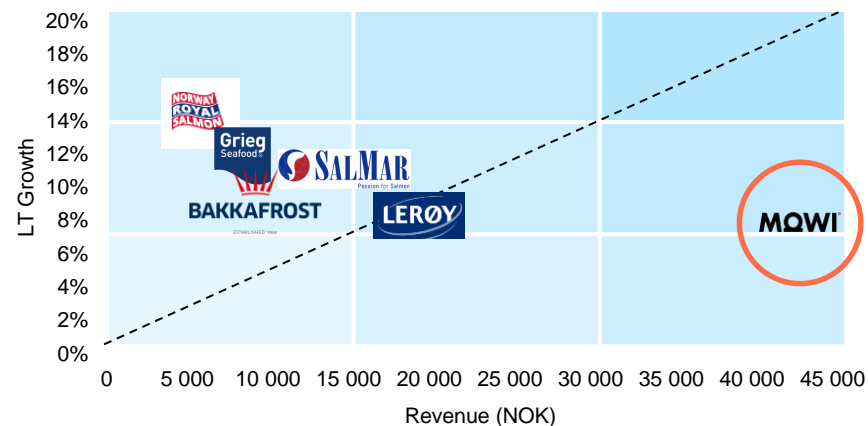
W U T I S

Mowi is dominating the salmon market with their 30% market share

Peers – overview



Peer group concentration



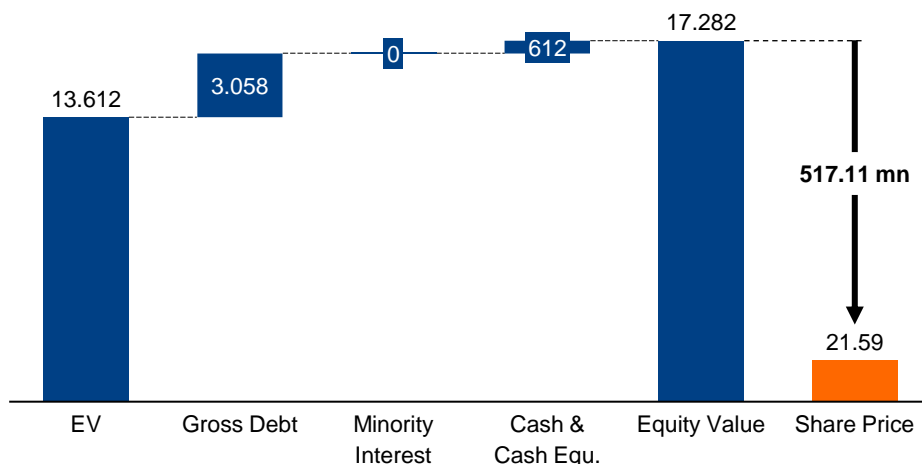
Peer group information



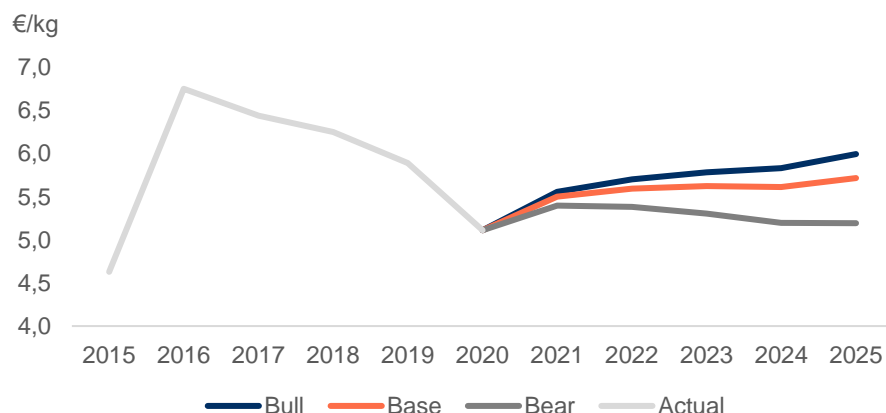
Valuation Summary

Mowi presents a strong upside, with their fair value at €21.59

Equity bridge



Implied salmon price scenarios



Outcome in different valuation scenarios



+ 39.02 %

The bullish case scenario is mainly driven by a **higher increase in global demand**, led by stronger influence of climate change movements as well as a **new health awareness of middle class from emerging markets**



+ 19.63 %

Mowi's base case scenario is based on the **continuation of the current demographic and societal trends** worldwide combined with the **structural restrictions on supply**



- 14.26 %

The bearish case scenario assumes **longer than expected COVID-19 related restrictions** as well as a **slower increase in demand** based on the trends outlined and unexpected supply expansion

Valuation approach

Salmon supply

Salmon demand

Implied salmon price +
Forecasted operational scenarios

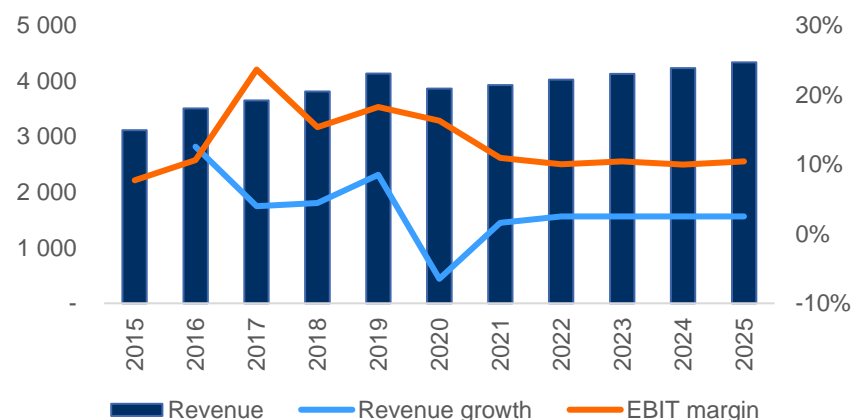
Fair value

(Salmon price / Mowi correlation: 0.59)

DCF Analysis

Strong drivers will positively influence the share price

Revenue forecast in € mn



Operating assumptions



Revenue development:

Market leadership and rising sales of value-added products will lead to an increased revenue of 4-5 %



EBIT:

Mowi's integrated value chain will allow for resource and cost efficiency, leading to higher EBIT margins over time



Demand:

Macro trends will influence and further increase demand across the globe

Sensitivity analysis

Implied share price

		EV/EBITDA				
		7,0x	8,0x	9,0x	10,0x	11,0x
WACC	1.9%	18.0	20.2	22.4	24.5	26.7
	2.4%	17.5	19.6	21.7	23.8	25.9
	2.9%	16.9	19.0	21.6	23.1	25.1
	3.4%	16.4	18.4	20.4	22.4	24.4
	3.9%	15.9	17.8	19.8	21.7	23.7

Key inputs



WACC (2.89%):

Cost of Debt: 2.01%, Cost of Equity: 4.37%, Marginal Tax Rate: 22%



Terminal value:

Peer group EV/EBITDA multiple (adjusted for exceptional periods): 9.0x



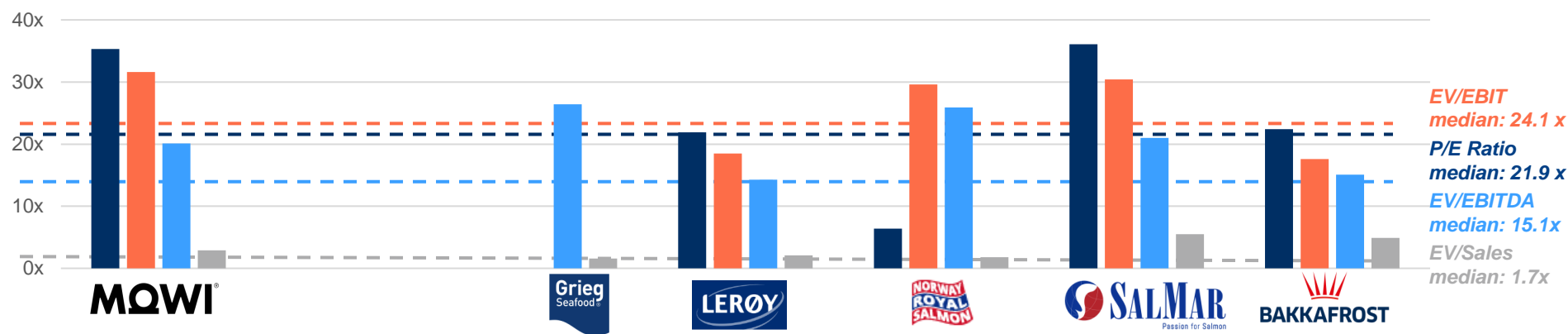
Beta (0.69):

Historical Equity Beta (OBX), target D/E: 1.5

CCA Analysis

W U T I S

Comparable companies analysis shows competitive advantage of Mowi



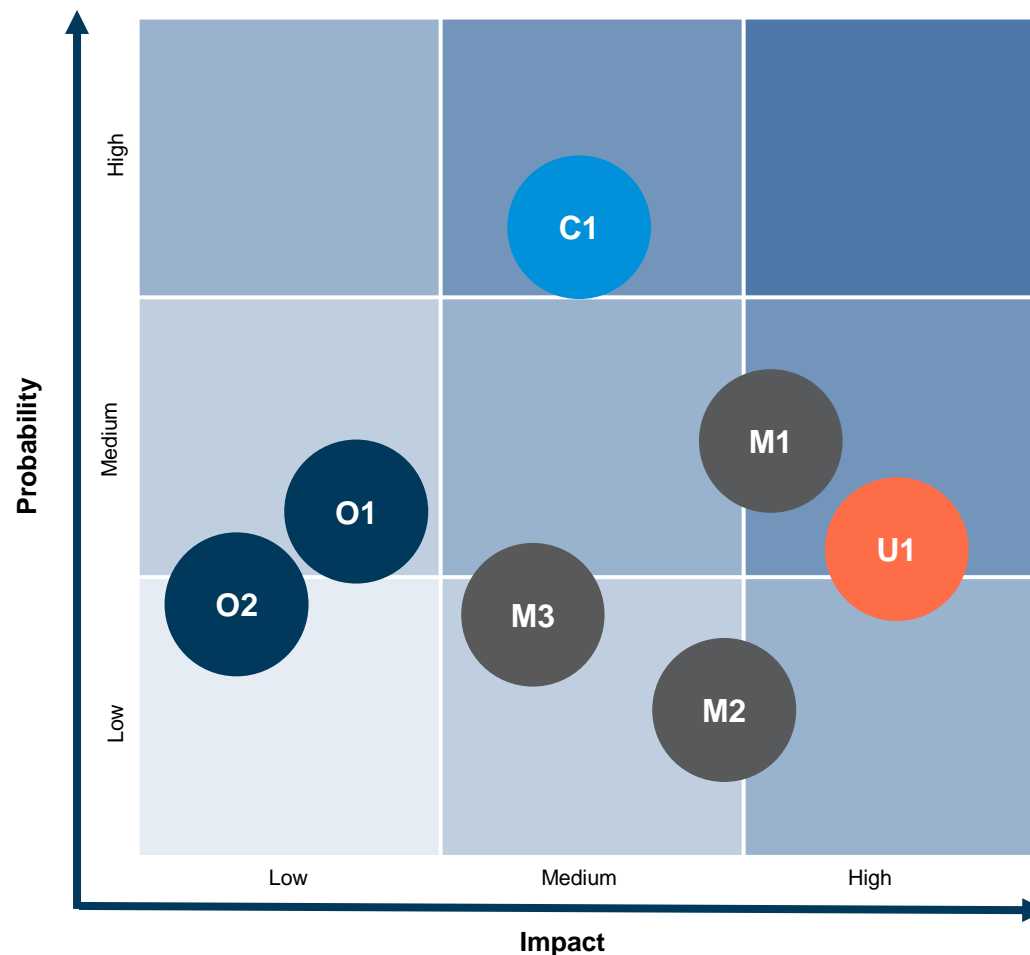
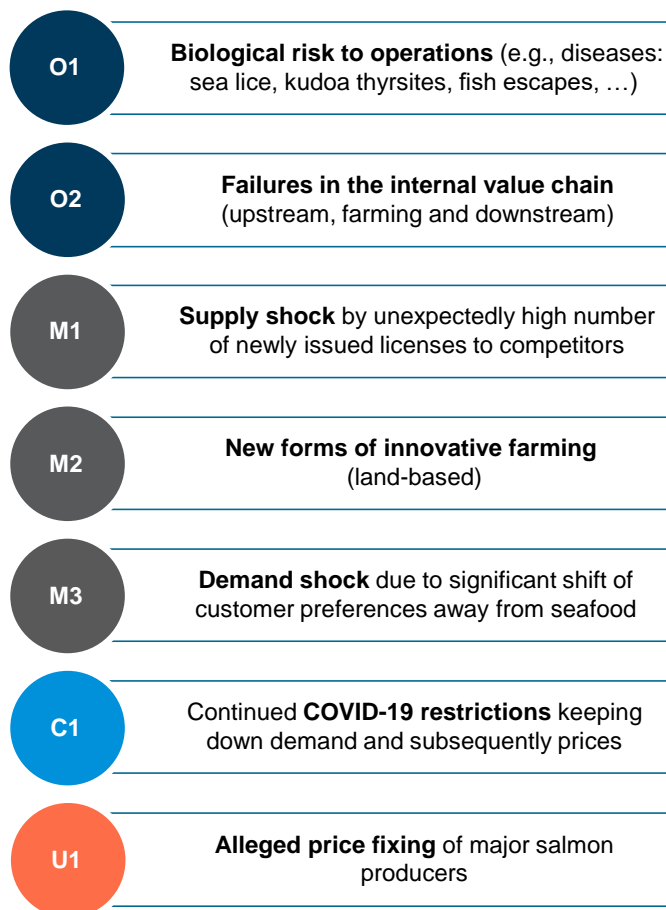
Peer Companies	Country	Currency	Enterprise Value (mn)	P/E Ratio	EV/EBIT	EV / EBITDA	EV / Sales
MOWI ASA	NO	NOK	11,121.66	35.3x	31.6x	20.1x	2.9x
Alliance Select Foods International	PHL	PHP	2,860	NA	NA	NA	0.8x
Blumar SA	CL	CLP	506,933	NA	NA	NA	1.6x
Camanchaca SA	CL	CLP	449,640	NA	61.7x	10.9x	1.0x
Grieg Seafood ASA	NO	NOK	13,016	NA	NA	26.4x	1.6x
Lerøy Seafood Group ASA	NO	NOK	42,738	21.9x	18.5x	14.3x	2.1x
NEW Zealand King Salmon Invest	NZ	NZD	262	12.5x	11.7x	8.8x	1.7x
Norway Royal Salmon ASA	NZ	NOK	9,839	6.4x	29.6x	25.9x	1.8x
P/F Bakkafrost	NO	NOK	39,006	36.1x	30.4x	21.0x	5.5x
SalMar ASA	NO	NOK	63,601	22.4x	17.6x	15.1x	4.9x
Median			53,836	21.9x	24.1x	15.1x	1.7x
Average			67,454	19.8x	28.2x	17.5x	2.3x



Risks and Catalysts

Company Specific Risks

Various risks could potentially impede Mowi's profitability



Operations (O) – Market (M) – COVID-19 (C) – Uncategorized (U)

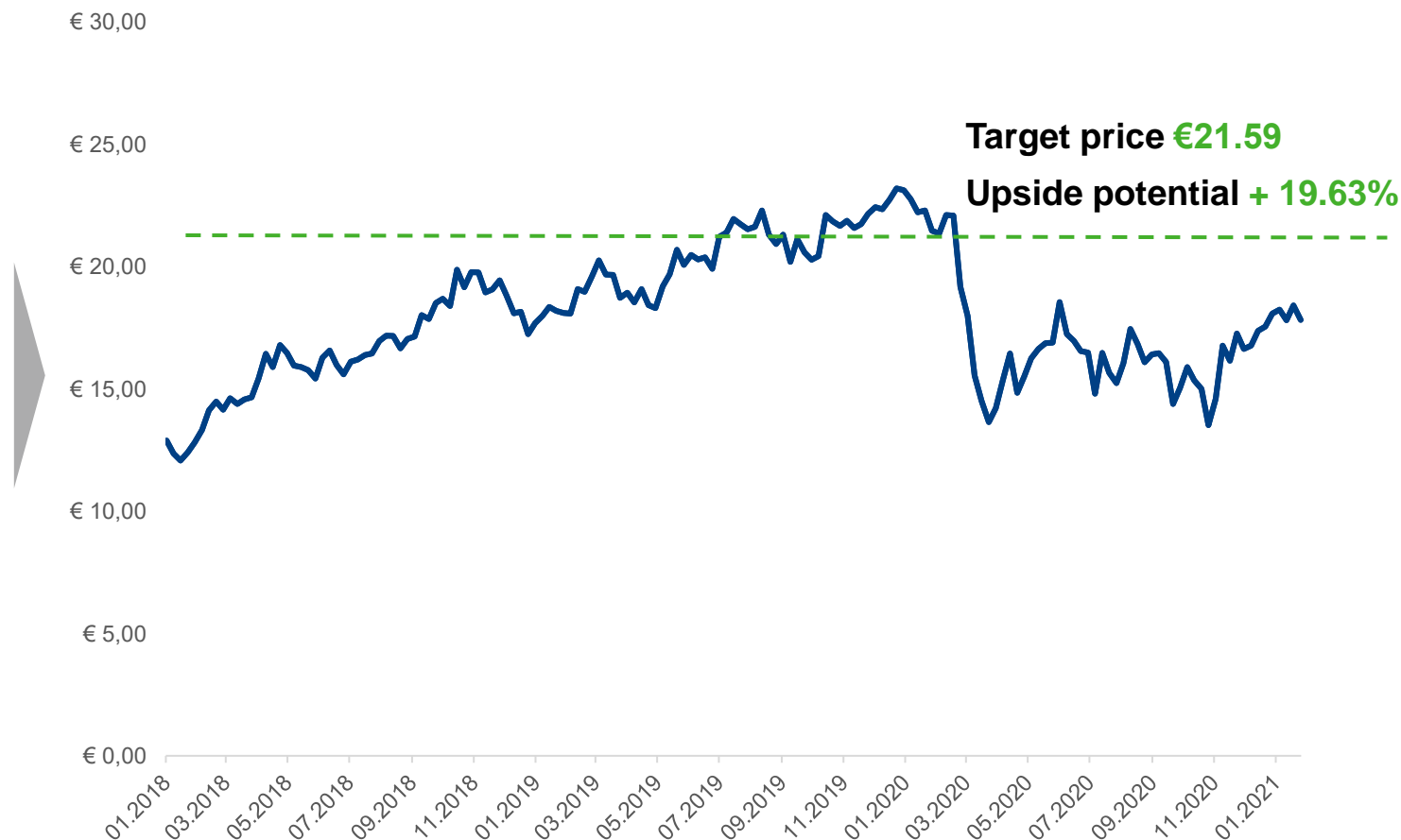
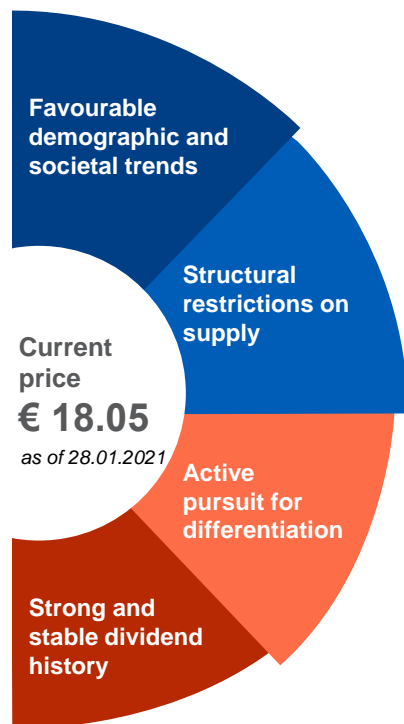
Catalysts

Variety of events which can influence Mowi's share price performance

Catalyst	Type	Influenced factor	Estimated impact on share price
Earlier than expected end of COVID-19 related restrictions	Hard	Demand and salmon price	Strong – Mowi's share price is heavily affected by the current restrictions due to the decrease of the global salmon price
Sustainability pricing mechanisms	Hard	Demand and salmon price	Strong – Implementation of measures to price in sustainability of production into goods would significantly increase attractiveness of salmon to end consumers
Customer preference shift rendering salmon as a superfood	Soft	Demand and salmon price	Strong – As seen in various other agriculture products, customer preference shifts can heavily impact the price development, significantly increasing margins achieved
Successful differentiation strategy	Soft	Correlation to salmon price	Strong – Successfully implementing strategies to differentiate will enable Mowi to charge higher prices than what the market would pay for the commodity
Increased governmental support	Soft	Operational efficiency	Medium – Especially in Norway the salmon farming industry is an important part of the overall industry, deregulation would increase margins
Continued political unrest in Chile	Soft	Supply and salmon price	Medium – Increase in power by current opposition would result in significant decrease of new aquaculture license issuances

Conclusion

Mowi is significantly undervalued with an upside potential of 19.63%



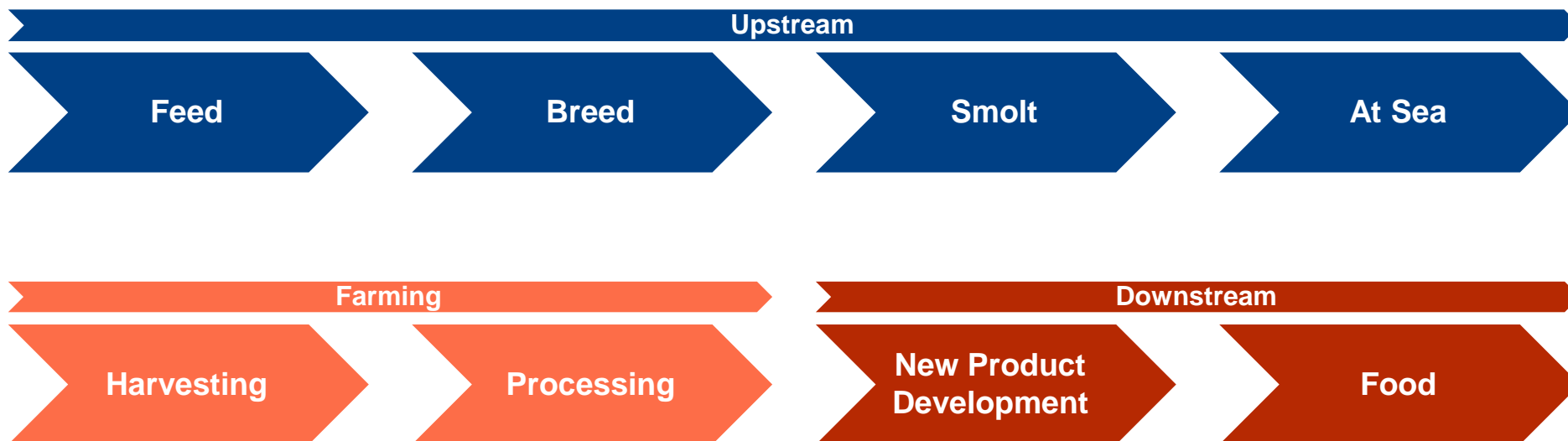


Appendix

Fully integrated value chain

W U T I S

Mowi enjoys full control of their products: from the parental broodstock to sales



Mowi ASA engages in all stages of the value creation process and is therefore independent against various external risks which could threaten their value chain

SWOT analysis

W U T I S

Strengths predominate weaknesses, fostering Mowi as a value investment

STRENGTHS

- **Focus on quality**, receiving a wide variety of certifications
- High level of **vertical integration**, resulting in a strong operational partner network
- **Economies of scale**, **market leader** and **worldwide** presence
- **Strong R&D capabilities**, creating a unique competitive advantage by being at the forefront of Innovation

OPPORTUNITIES

- Further **establishment of key technological partnerships** to boost R&D initiatives like **with Alphabet's X**
- Robust global **demand growth** for salmon
- Strategy to **de-commoditize their products**, decreasing reliance on global salmon spot prices
- **Differentiation** by further implementation of traceability initiatives

MOWI

- Highly dependent on **European market**
- Vulnerable to **global salmon spot prices**
- Poor performance and **negative operational EBIT** in **Canada**

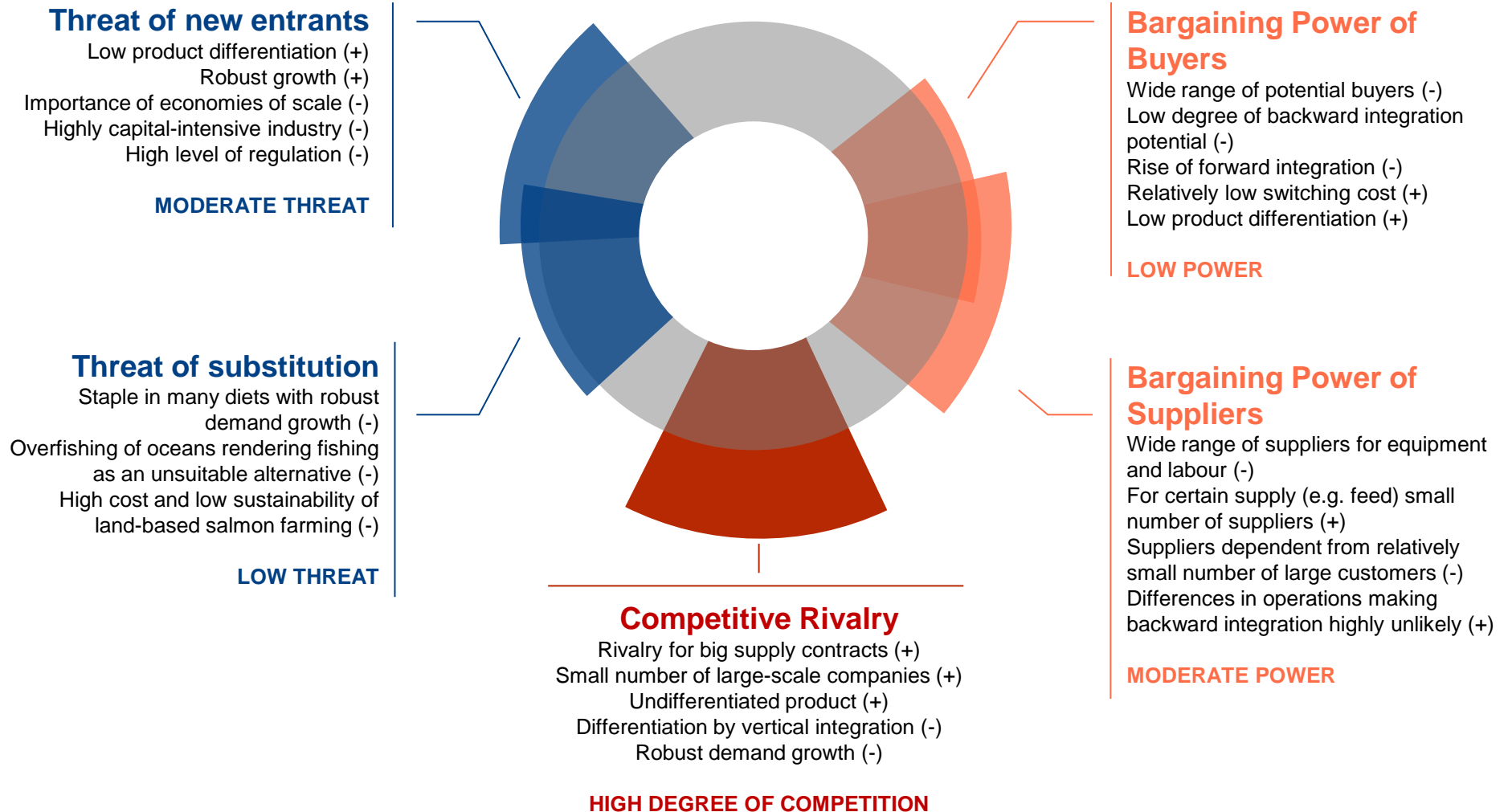
WEAKNESSES

- Continued **COVID-19 impact** on global demand due to shut-downs and further governmental activities
- **Biological risks** to operations, especially in the production process of their fish products
- **Perishable nature** of products
- **Strict and changing regulations** in various countries

THREATS

Industry analysis


Industry characterized by varying degrees of strength of forces




Supply: Population and Technology

Despite inherent risks salmon production is continuously evolving


Livestock at risk



Geographical differences
Disease and climate problems, vary with geographic location



Salmon lice
Costing farms approximately 9% of revenues per year



Excess feed and faeces
Causing algal blooms, toxic for fish and environment

Technology adds an increasing amount of value

MOWI

November 2019:

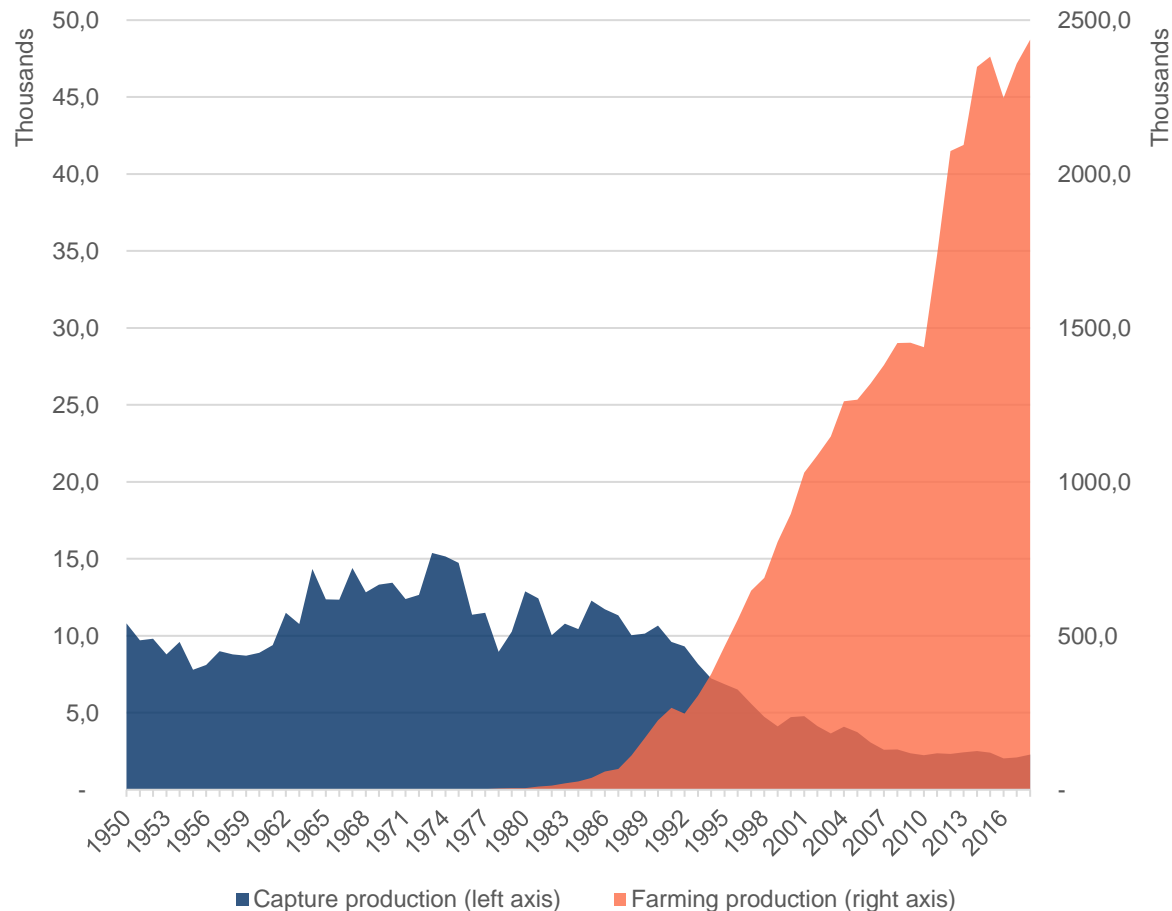
Construction plans for a fully automated underwater salmon plant for € mn 320

Google

March 2020:

MOWI makes collaboration with Alphabet's X program public (data intelligence project in plants)

Commercial salmon production (in tonnes livestock)



Valuation 1

DCF Model (Base Case)

EUR (m)	2015	2016	2017	2018	2019	LTM 2020	2021	2022	forecast 2023	2024	2025
Fractional years per period						0,75	1,00	1,00	1,00	1,00	1,00
Cumulative fractional years from close						0,75	1,75	2,75	3,75	4,75	5,75
Assumptions											
Net debt											
Fully diluted shares outstanding											
Tax rate											
Unlevered Free Cash Flow (UFCF)											
EBITDA	454,3	685,0	941,8	887,0	1.006,4	978,1	1.066,9	1.078,0	1.131,8	1.188,4	1.247,9
EBITA would be correct (D&A not split tho so EBITDA)	454,3	685,0	941,8	887,0	1.006,4	978,1	1.066,9	1.078,0	1.131,8	1.188,4	1.247,9
Taxes	91,8	219,9	59,9	165,0	131,1	52,8	163,9	162,7	170,9	179,4	188,4
Unlevered net income	362,5	465,1	881,9	722,0	875,3	925,3	903,0	915,2	961,0	1.009,0	1.059,5
Depreciation	139,8	142,5	150,4	153,4	287,1	324,6	322,1	338,2	355,1	372,8	391,5
Capital expenditures	215,8	186,9	225,0	286,8	432,6	319,6	294,0	404,6	336,1	441,6	463,7
Change in working capital		247,1	-305,3	497,3	-63,8	-136,6	9,3	225,9	42,2	92,9	97,6
Unlevered free cash flow	286,5	173,6	1.112,6	91,3	793,6	1.066,9	921,8	622,9	937,8	847,3	889,6
DCF Valuation											
Terminal cash flow (09x terminal multiple)											11.230,8
Total cash flow - EBITDA Multiple	286,5	173,6	1.112,6	91,3	793,6	1.066,9	921,8	622,9	937,8	847,3	12.120,4
Net present value											13.611,9
Implied share price											21,6

Valuation 2

DCF Model (Bull Case)

EUR (m)	2015	2016	2017	2018	2019	LTM 2020	2021	2022	forecast 2023	2024	2025
Fractional years per period						0,75	1,00	1,00	1,00	1,00	1,00
Cumulative fractional years from close						0,75	1,75	2,75	3,75	4,75	5,75
Assumptions											
Net debt											
Fully diluted shares outstanding											
Tax rate											
Unlevered Free Cash Flow (UFCF)											
EBITDA	454,3	685,0	941,8	887,0	1.006,4	978,1	1.178,7	1.206,4	1.278,8	1.355,5	1.436,8
EBITA would be correct (D&A not split tho so EBITDA)	454,3	685,0	941,8	887,0	1.006,4	978,1	1.178,7	1.206,4	1.278,8	1.355,5	1.436,8
Taxes	91,8	219,9	59,9	165,0	131,1	52,8	196,7	199,1	211,0	223,7	237,1
Unlevered net income	362,5	465,1	881,9	722,0	875,3	925,3	982,0	1.007,3	1.067,8	1.131,8	1.199,7
Depreciation	139,8	142,5	150,4	153,4	287,1	324,6	284,5	301,6	319,7	338,9	359,2
Capital expenditures	215,8	186,9	225,0	286,8	432,6	319,6	269,3	382,1	313,7	423,8	449,2
Change in working capital		247,1	-305,3	497,3	-63,8	-136,6	24,5	245,2	61,0	114,7	121,6
Unlevered free cash flow	286,5	173,6	1112,6	91,3	793,6	1066,9	972,8	681,7	1.012,8	932,2	988,1
DCF Valuation											
Terminal cash flow (09x terminal multiple)											12.931,4
Total cash flow - EBITDA Multiple	286,5	173,6	1.112,6	91,3	793,6	1.066,9	972,8	681,7	1.012,8	932,2	13.919,5
Net present value											15.421,7
Implied share price											25,1

Valuation 3

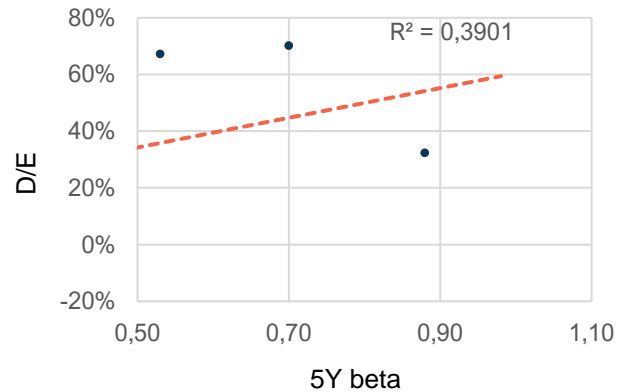
DCF Model (Bear Case)

EUR (m)	2015	2016	2017	2018	2019	LTM 2020	2021	2022	forecast 2023	2024	2025
Fractional years per period						0,75	1,00	1,00	1,00	1,00	1,00
Cumulative fractional years from close						0,75	1,75	2,75	3,75	4,75	5,75
Assumptions											
Net debt											
Fully diluted shares outstanding											
Tax rate											
Unlevered Free Cash Flow (UFCF)											
EBITDA	454,3	685,0	941,8	887,0	1.006,4	978,1	858,8	843,9	869,2	895,3	922,2
EBITA would be correct (D&A not split tho so EBITDA)	454,3	685,0	941,8	887,0	1.006,4	978,1	858,8	843,9	869,2	895,3	922,2
Taxes	91,8	219,9	59,9	165,0	131,1	52,8	110,8	105,1	108,3	111,5	114,9
Unlevered net income	362,5	465,1	881,9	722,0	875,3	925,3	748,1	738,8	760,9	783,8	807,3
Depreciation	139,8	142,5	150,4	153,4	287,1	324,6	355,4	366,0	377,0	388,3	400,0
Capital expenditures	215,8	186,9	225,0	286,8	432,6	319,6	301,8	405,1	333,5	427,3	440,1
Change in working capital		247,1	-305,3	497,3	-63,8	-136,6	21,1	188,3	6,5	52,6	54,2
Unlevered free cash flow	286,5	173,6	1112,6	91,3	793,6	1066,9	822,8	511,4	797,9	692,2	712,9
DCF Valuation											
Terminal cash flow (09x terminal multiple)											8.299,5
Total cash flow - EBITDA Multiple	286,5	173,6	1.112,6	91,3	793,6	1.066,9	822,8	511,4	797,9	692,2	9.012,5
Net present value											10.448,3
Implied share price											15,5

Valuation 4

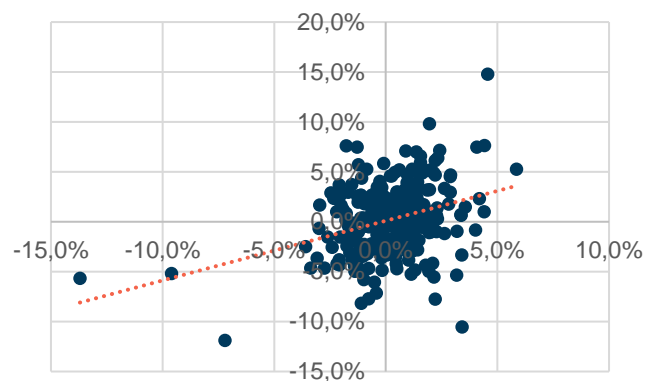
Quantitative analysis

Peer group beta



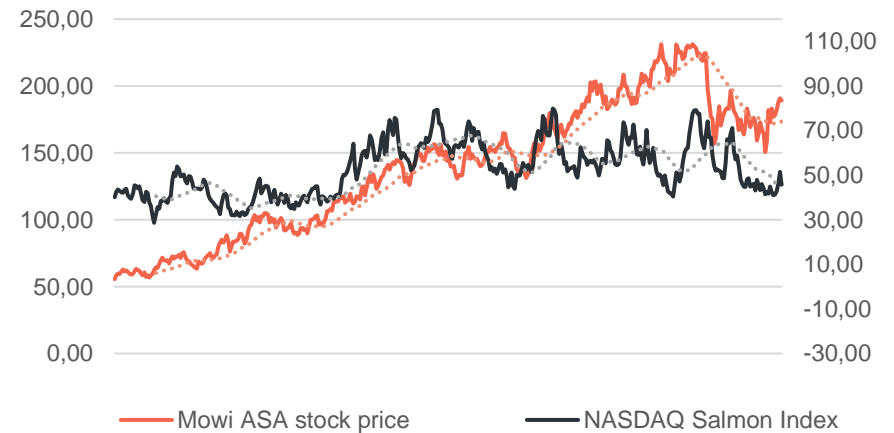
Median
unlevered
beta: 0,32

Historical equity beta (OBX)



Regression
slope: 0,60

Salmon price / Mowi ASA corellation (2013 – 2020)



Salmon price forward prices

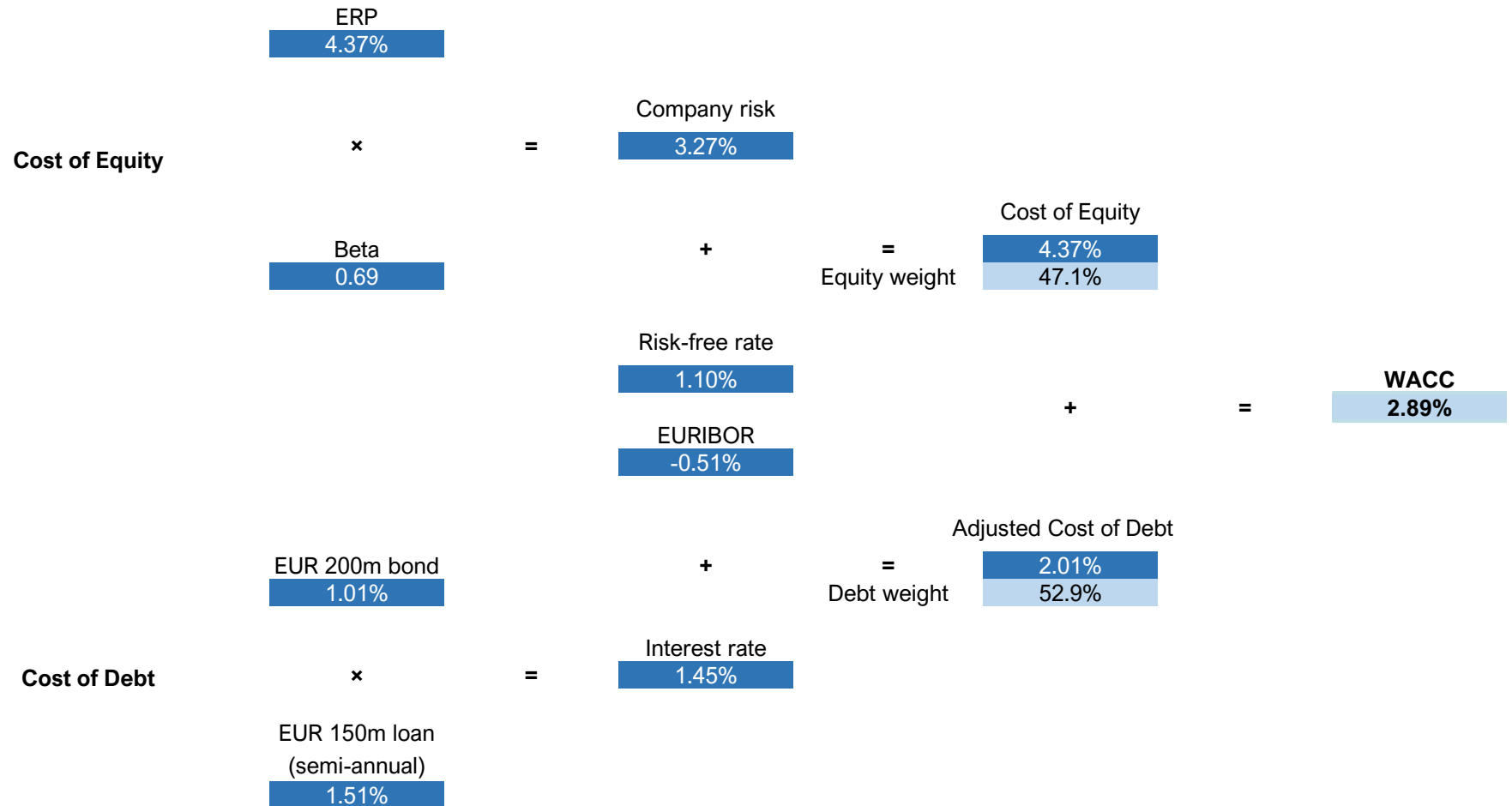


Valuation 5

WACC Tree

W U T I S

Weighted Average Cost of Capital (WACC)



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