

**Analyst**

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# Huon Aquaculture (HUO)

## Bottom fishing

**Recommendation**  
**Buy** (Initiation)  
**Price**  
**\$4.00**  
**Target (12 months)**  
**\$4.55** (unchanged)

**Expected Return**

Capital growth	13.8%
Dividend yield	1.3%
Total expected return	15.1%

**Company Data & Ratios**

Enterprise value	\$425.4m
Market cap	\$349.3m
Issued capital	87.3m
Free float	31.9%
Avg. daily val. (52wk)	\$259,369
12 month price range	\$3.07-5.00

GICS sector

**Food Beverage and Tobacco**

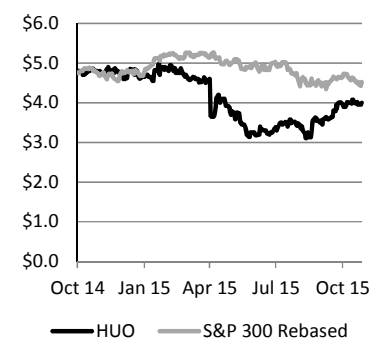
**Disclosure:** Bell Potter Securities acted as co-manager in HUO's Oct'14 IPO and received fees for that service.

**Note:** EV has been adjusted to include committed capex for growth initiatives.

**Price Performance**

	(1m)	(3m)	(12m)
Price (A\$)	3.85	3.49	4.86
Absolute (%)	3.90	14.61	-17.70
Rel market (%)	5.30	19.30	-11.66

**Absolute Price**



SOURCE: IRESS

BELL POTTER SECURITIES LIMITED  
 ACN 25 006 330 7721  
 AFSL 243480

## Integrated salmon producer

HUO is a vertically integrated salmon producer in Tasmania with operations that span the entire supply chain across hatcheries, marine farms and harvesting & processing. HUO's primary products are fresh HOG salmon (~80% of revenues) with the majority of this distributed through the wholesale channel (~75% FY15 of revenue). In 2014 HUO embarked on a \$200m investment program aimed at delivering a step change in production capacity. The benefits of this investment began to manifest in FY15 (i.e. lower costs) and will likely become clearly visible by FY17e with the benefit of stronger volumes, lower costs and a cyclical recovery in pricing looking to take hold.

## FY16 to reflect a low in returns

FY15 pricing was adversely impacted by the combination of strong domestic supply growth (+8%) and Russian import bans that saw a displacement of European salmon into the Australian market. The layover of weaker domestic prices and an increased component of exported product (22% of sales in FY16e vs. 15% in FY15), is expected to again see average lower price points realised in FY16e. However, tighter global supply demand dynamics in CY16-17e on the back of lower biomass growth in Norway and lower smolt volumes put to sea in Chile (combined 80% of global supply) suggest an improving export pricing outlook and this combined with more favourable YOY pricing comparisons as we enter 4Q16e, suggest returns are likely to bottom in FY16e.

## Initiate coverage with a Buy rating

We initiate coverage on HUO with a Buy rating and a \$4.55ps target price. Our Buy rating on HUO is supported by: (1) completion of a significant investment in the asset base to deliver both volume growth and lower production costs over FY16-18e; and (2) a recovery in average realised selling prices and earnings in FY17-18e through the combination of a more favourable global supply-demand backdrop and a favourable shift in sales mix from export to domestic markets. Major capital projects look to be concluding in FY16e and this combined with a stronger earnings base should deliver an improving ROIC profile.

**Earnings Forecast**

	2015	2016e	2017e	2018e
Sales (\$m)	191.7	214.0	242.7	256.5
Operating EBITDA (\$m)	39.8	39.1	53.7	58.2
Reported NPAT (\$m)	16.6	5.2	28.1	31.8
Operating NPAT (\$m)	20.5	13.5	23.6	28.0
Operating EPS (cps)	23.5	15.4	27.0	32.1
EPS growth (%)	n.a.	-34.4	75.5	18.7
PER (x)	17.0	26.0	14.8	12.5
FCF Yield (%)	4.1	6.7	10.3	7.5
EV/EBITDA (x)	10.7	10.9	7.9	7.3
Dividend (cps)	0.0	5.0	9.0	11.0
Franking (%)	0.0	100.0	100.0	100.0
Yield (%)	0.0	1.3	2.3	2.8
ROE (%)	6.8	2.1	10.5	11.0

SOURCE: BELL POTTER SECURITIES ESTIMATES.

DISCLAIMER AND DISCLOSURES  
 THIS REPORT MUST BE READ WITH THE DISCLAIMER  
 AND DISCLOSURES ON PAGE 19 THAT FORM PART OF IT.

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# Background and investment view

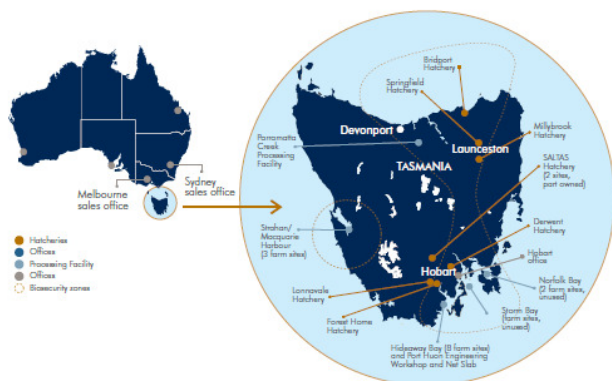
Huon was established in 1986 by founders Peter and Frances Bender and listed on the ASX in October 2014. HUO is a vertically integrated salmon producer in Tasmania with operations that span the entire supply chain across hatcheries, marine farms and harvesting & processing. HUO's primary products are fresh HOG (Head On Gutted) salmon (~80% of revenues) with the majority of this distributed through the wholesale channel (~75% FY15 of revenue). In addition to HOG, HUO produces value added product (smoked products, pate and caviar) though this makes up only 10% of revenues today. A summary of HUO's operations and the domestic landscape is summarised below.

Figure 1 - Tasmanian industry structure

	Hatcheries	Farming operations	Primary processing	Secondary processing	Sales mix
<b>SALTAS</b>	Industry body owned by Tasmanian Government and Salmon producers Production: 3.7m smolt				
<b>Huon</b>	SALTAS, 6 company owned hatcheries & 2 contract growers Production: 5m smolt growing to 7m	8 farming sites, operating at 70% capacity utilisation 2015 Production: 16,536t	Parramatta Creek	Mount Barker (SA) relocating to Parramatta Ck (TAS)	Wholesale - 75% Retail - 10% Export - 15%
<b>Tassal</b>	SALTAS & Two company owned hatcheries Production: 7m smolt growing to 8.2m	7 farming sites 2015 Production: 23,144t	Dover	Huonville & Margate (TAS)	Wholesale - 28% Retail - 68% Export - 4%
<b>Petuna</b>	SALTAS plus one hatchery Production: 3m smolt set to grow to 6m	Macquarie Harbour 2015e Production: 6,000t	Devonport		
<b>Van Diemen aquaculture</b>		Rowell 2015e Production: 2,800t			

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Figure 2 – HUO asset location



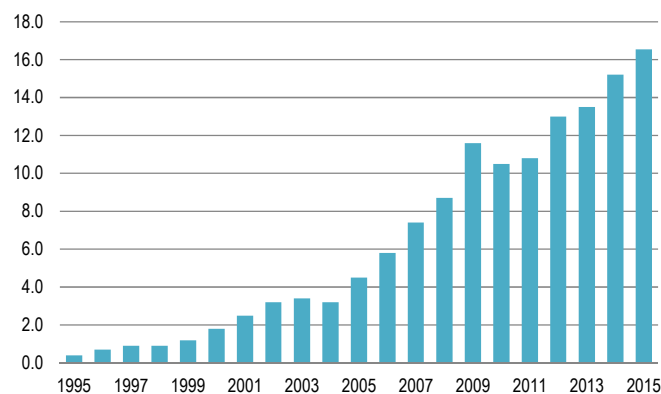
SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Figure 3 – HUO farming leases

Marine lease	Macquarie Harbour	Southern Farms
Proportion of FY2014 production	~10%	~90%
Name	Macquarie Harbour	Huon River and D'Entrecasteaux Channel, Storm Bay, Norfolk Bay
Sites	3 used farm sites	8 used farm sites, 1 unused farm site, 2 unused farm sites
Total lease size	230ha	451ha, 200ha, 67ha
Status	In use, In the process of being developed	In use and fully developed, Not in use, In the process of being reorganised prior to use, Undeveloped

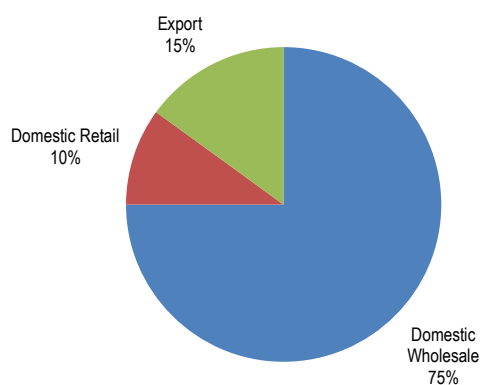
SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Figure 4 – HUO historical volume growth



SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Figure 5 - FY15 HUO sales by distribution channel



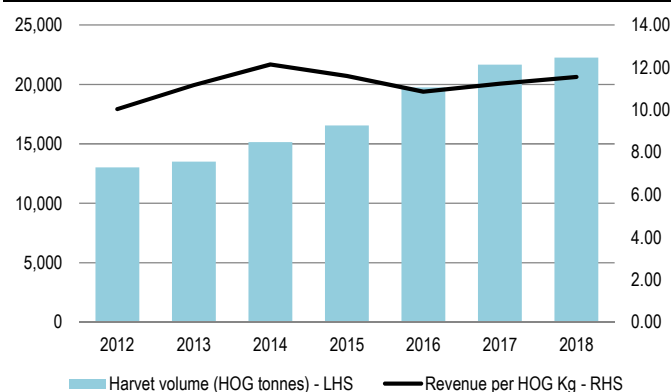
SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

**INVESTMENT VIEW**

We initiate coverage on HUO with a Buy rating and a \$4.55ps target prices. Our Buy rating on HUO is supported by:

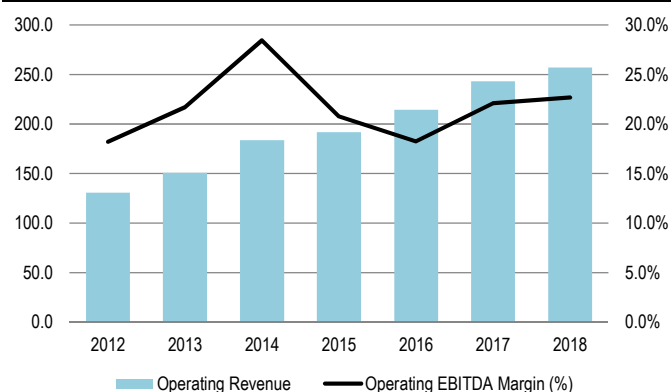
**Investment in new capacity and optimisation of leases:** HUO is in the midst of a \$200m capital investment program aimed at significantly lifting sales volumes as well as reducing production costs (on a per Kg basis). Expansion of hatchery facilities and utilisation of lease space at Macquarie Harbor and Storm Bay (in total ~30% unutilised) are key drivers of this. The investment in production capacity is expected to drive a material uplift in sales volumes and earnings over the medium term.

**Figure 6 - HUO sales volumes vs. Average realised selling price**



SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

**Figure 7 - Revenues and operating EBITDA actuals and forecast**



SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

**FY16e to represent a cyclical low in pricing:** FY15 pricing was adversely impacted by the combination of strong domestic supply growth (+8%) and Russian import bans which saw the displacement of European volumes into Australia. The layover of weaker domestic prices and an increased component of exported product (22% of sales in FY16e vs. 15% in FY15), is expected to see continued average price declines in 1H16e. However, tighter global supply demand dynamics in CY16-17e on the back of lower biomass growth in Norway and lower smolt volumes put to sea in Chile (combined 80% of global supply) suggest an improving export pricing outlook and this combined with more favourable YOY pricing comparisons in the domestic market as we approach 4Q16e, suggest an earnings bottom is likely in FY16e.

**Strong domestic demand growth:** Domestic demand for salmon has been growing at compound growth of +9.2% p.a. over the last ten years and this has accelerated in the last five years to +12.5% p.a. Healthier eating and significant investment by the industry in brand awareness have been the main drivers of this trend and look unlikely to change in the near term. Biomass growth at HUO's largest domestic competitor slowed to 5.6% in in FY15 (after growing +24% in FY14) and this in our view puts HUO in a reasonable position to expand sales to the domestic market at above system growth in the near term.

**Privileged assets with high barriers to entry:** HUO is coming to the end of its capex program that will see it capable of producing in excess of 25kt of salmon at full capacity. Quarantine restrictions in Tasmania and the ownership structure of SALTAS make sourcing biological material for new entrants difficult. This is in addition to the difficulty of securing new farming sites, fresh water (for bathing) and the significant upfront working capital investment required to enter the market (working capital investment leads sales by three years). With margins well in excess of global peers we see domestic salmon producers as operating privileged assets which would be difficult to replicate.

**TARGET PRICE DETERMINATION**

In deriving our target price for HUO we have utilised an ROIC based approach deriving a target price of \$4.55ps. In deriving our target price we have utilised FY17e ROIC forecasts

and a WACC hurdle of 9.8% deriving an implied FY17e EV/EBITDA multiple of 7.5x. Material assumptions are detailed in the section below.

**FY16e estimates not reflective of earnings potential:** We do not see FY16e earnings estimates as reflective of what HUO is capable of generating under more favourable operating conditions. Average price points in FY16e in our view are reflective of a cyclical low and as such we see FY17-18e earnings as a better guide as to where the share price of HUO is headed over the next 12-18 months. Over FY16-18e we are projecting +49% growth in Operating EBITDA from and growth in ROIC from 7.4% to 13.8% on the back of stronger harvest volumes, lower production costs and improving average price points.

**WACC hurdle reflects farming and processing assets:** We have utilised a pre-tax WACC of 9.8% reflective of an assumed asset beta of 0.8x and gearing ratio (net debt/net debt to equity) of 18% (inclusive of committed capex). Our asset beta of 0.8x is a combination of the 0.7x asset beta we utilise for farming assets and 0.9x asset beta we utilise for processing assets and a reflection of the mixed asset base of the group.

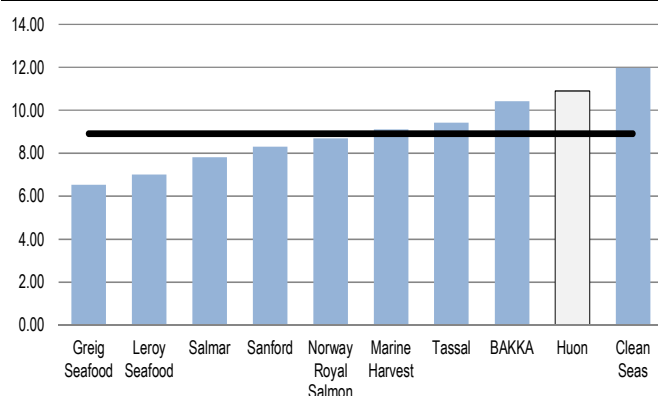
Figure 8 – ROIC based approach

	2014	2015	2016	2017	2018
Risk Free Rate	5.5%				
Borrowing Margin	2.0%				
Mkt Risk Premium	5.5%				
Asset Beta	0.80				
Net debt/(net debt+equity)	17.9%				
Equity Beta	0.88				
Terminal Growth Rate	3.0%				
Cost of Debt	7.5%				
Cost Of Equity	10.3%				
WACC	9.8%				
Current Share Price (\$ps)	4.00				
Shares On Issue	87.3				
Equity (MV \$m)	349.3				
FY15 Net Debt (\$m)	33.0				
FY15 Net debt + committed capex (\$m)	76.1				
Operating EBIT	44.4	30.4	22.2	36.5	41.6
Invested Capital	174.4	280.1	300.5	293.1	302.0
ROIC (%)	25.4%	10.9%	7.4%	12.5%	13.8%
long-term growth rate	3.0%	3.0%	3.0%	3.0%	3.0%
Pre-tax WACC (%)	9.8%	9.8%	9.8%	9.8%	9.8%
Depreciation & amortisation	7.9	9.4	16.9	17.3	16.7
Operating EBITDA	52.3	39.8	39.1	53.7	58.2
Derived EV/EBITDA	10.98	8.12	4.95	7.57	8.19
<b>Implied Enterprise Value</b>	<b>574.3</b>	<b>323.2</b>	<b>193.9</b>	<b>406.7</b>	<b>477.1</b>
Net Cash (Debt)		(33.0)	(52.6)	(24.9)	(11.6)
Surplus Franking credits		15.9	15.9	15.9	15.9
<b>Implied market value</b>		<b>306.1</b>	<b>157.2</b>	<b>397.6</b>	<b>481.4</b>
Shares on issue		87.3	87.3	87.3	87.3
<b>Implied Value per share (\$ps)</b>		<b>3.50</b>	<b>1.80</b>	<b>4.55</b>	<b>5.51</b>
Time weighting				100%	
<b>Implied target price</b>				<b>4.55</b>	

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

**Peer group comparison:** Trading at 10.9x FY16e Operating EBITDA (inclusive of committed capex) HUO is trading at a 22% premium to other listed aquaculture stocks and a 5% discount to the domestic agricultural sector (ex-BAL). As highlighted we do not see FY16e as the best guide for value of HUO or direction of the share price and note that on FY17e estimates HUO is trading broadly in line with its listed aquaculture peer group.

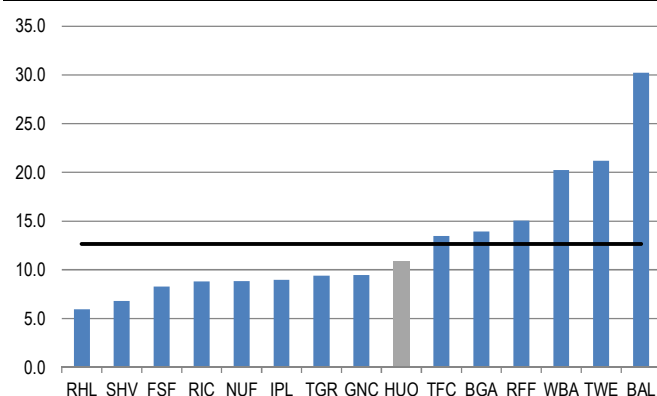
Figure 9 - EV/EBITDA listed aquaculture exposures



SOURCE: BLOOMBERG AND BELL POTTER ESTIMATES

NOTE: TGR ADJUSTED FOR RECEIVABLE FUNDING AND HUO INCLUDES COMMITTED CAPEX

Figure 10 - EV/EBITDA domestic agricultural stocks



SOURCE: BLOOMBERG AND BELL POTTER ESTIMATES

# Salmon markets

## Global backdrop

Global salmon production has been growing at a compound growth rate of +8% p.a. over the last 10 years and +10% p.a. over the last 5 years. Global supply is dominated by Norway, Chile and Scotland who combined account for 87% of production. In the near term supply growth out of Norway is expected to be restricted due to a 1% YOY reduction in biomass (on lower average sea temperatures) and supply out of Chile is also likely to be down with lower smolt releases in 2015. These two markets account for 80% of global supply and as such suggest limited supply growth into 2016 is likely. Over the longer-term supply growth is expected to contract from historical levels due to increasing biological constraints in Europe and Chile.

Figure 11 - CY14 Global production by country

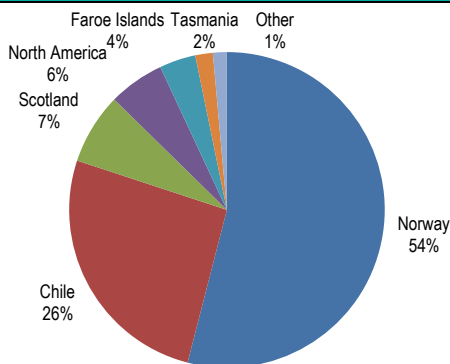
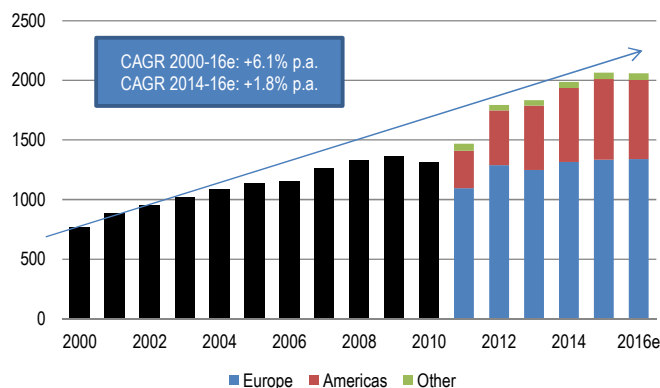


Figure 12 – Global supply growth by region



SOURCE: MARINE HARVESTS AND COMPANY REPORTS

SOURCE: MARINE HARVEST AND COMPANY REPORTS

Global demand for Salmon has been growing at compound growth of +7.8% p.a. over the last seven years with major buyers being the EU, US and Russia. Trade flows of salmon tend to be largely regional with salmon typically marketed as a fresh product. Quarantine restrictions, speed to market and transportation costs are the major drivers of this trend. Traditional flows in salmon indicate the relative isolation of Australia to the rest of global markets and this isolation and large cost to ship drives a higher relative margin (per HOG Kg) of the domestic producers relative to other global participants.

Figure 13 – Global salmon flows

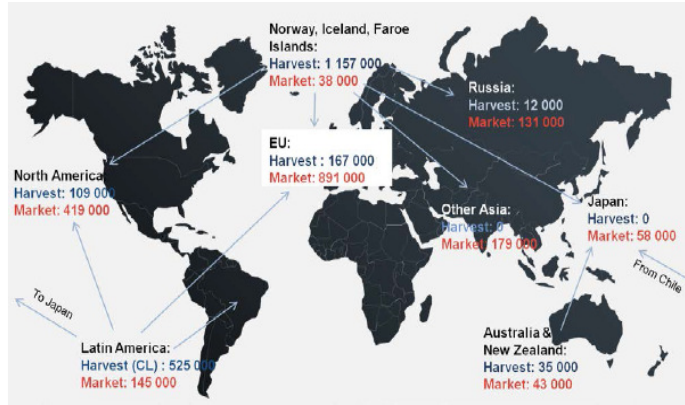
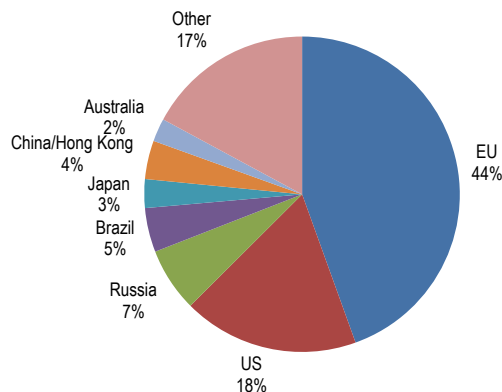
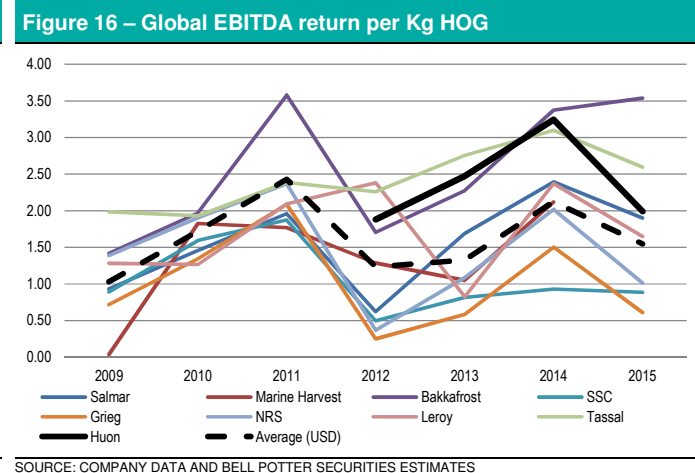
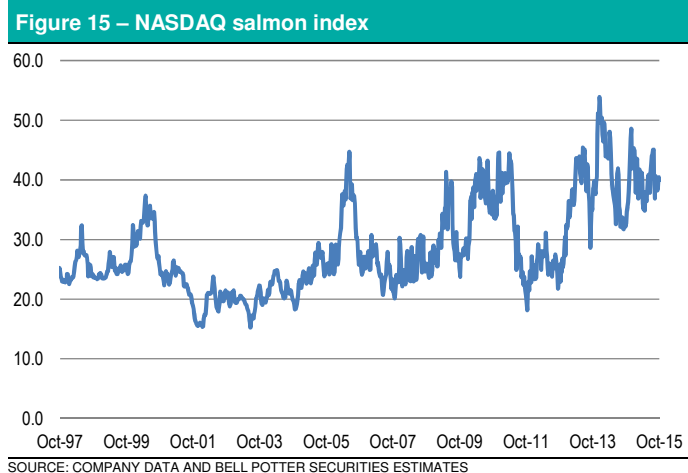


Figure 14 – CY14 Global consumption by region



Global demand for salmon continues to grow, driven primarily by income growth and urbanisation, together with a widespread shift in habits towards healthy eating and sushi style foods (which have increased the use of salmon over tuna). Continued growth in global demand in a constrained supply environment is likely to generate pricing tension

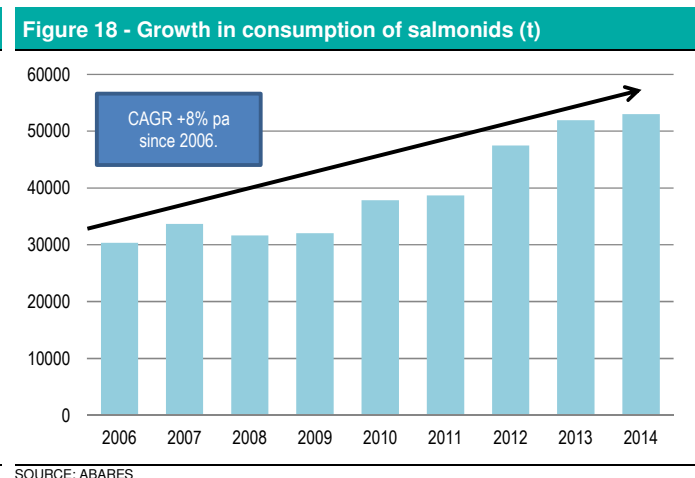
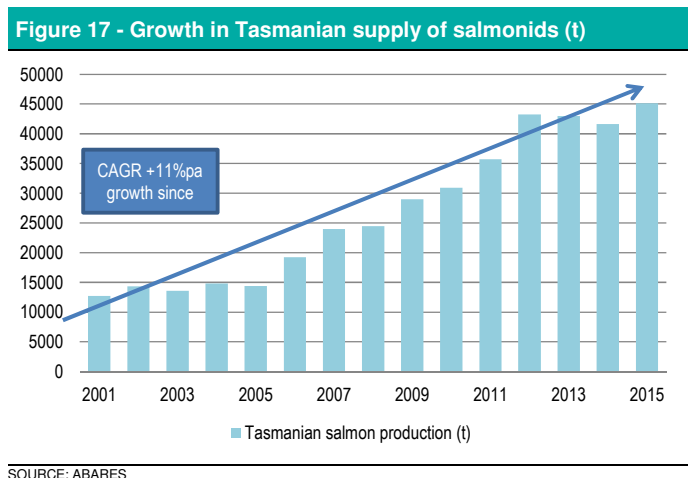
and to a degree this is reflected in a +18% YOY gain in the NASDAQ salmon index YTD (in Norwegian Kroner).



Despite improving export prices the domestic market is still the best margin outcome from the domestic supply chain. The regional nature of salmon trade flows and the isolated nature of Australia, historically has ensured that margins domestically have exceeded global averages and this is expected to remain a feature of the industry.

### Australia in a global context

The Australian market is relatively small in terms of global supply accounting for ~2% of global production and only a modest contributor to export markets. Quarantine regulations and geographic isolation from other major suppliers sees a fresh HOG market that is almost exclusively supplied by domestic product with local aquaculture operators supplying ~88% of the fresh and smoked volumes and all of this sourced from Tasmanian producers. Domestic demand for salmon has been growing at a compound growth rate of +7.8% pa since 2006, with per capita consumption growing at +6.2% pa over the same time frame. Nearly all of this demand growth has been met by an expansion in Tasmanian farmed salmon production which has grown at a compound growth rate of 11% pa over the same time.



Almost all locally supplied products is grown in Tasmania and for the most part supplied by the aquaculture industry. Industry ownership can be classified as concentrated with four vertically integrated suppliers (two of which are associated entities) controlling the supply chain. There are currently 48 licenced salmonid farming leases in Tasmanian State waters which occupy a total of 2,196Ha in six marine farming areas. Farming takes place in south



east Tasmania including the Huon River estuary and D'Entrecasteaux Channel; in Macquarie Harbour on the west coast; and the Tamar Estuary in the north of the State, with a summary of the major operators and asset base highlighted below.

**Figure 19 - Tasmanian industry structure**

	Hatcheries	Farming operations	Primary processing	Secondary processing
<b>SALTAS</b>	Industry body owned by Tasmanian Government and Salmon producers Production: 3.7m smolt			
<b>Huon</b>	SALTAS, 6 company owned hatcheries & 2 contract growers Production: 5m smolt growing to 7m	8 farming sites, operating at 70% capacity utilisation 2015 Production: 16,536t	Parramatta Creek	Mount Barker (SA) relocating to Parramatta Ck (TAS)
<b>Tassal</b>	SALTAS & Two company owned hatcheries Production: 7m smolt, growing to 8.2m	7 farming sites 2015 Production: 23,144t	Dover	Huonville & Margate (TAS)
<b>Petuna</b>	SALTAS plus one hatchery Production: 3m smolt set to grow to 6m	Macquarie Harbour 2015e Production: 6,000t	Devonport	
<b>Van Diemen aquaculture</b>		Rowell 2015e Production: 2,800t		

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Barriers for new entrants into the industry are extremely high not only due to the large upfront investment in fixed assets and working capital (i.e. a three year working capital cycle before harvesting) but also due to the lack of available biological material (eggs, sperm and broodstock) and marine leases in cost effective areas.

**Figure 20 - Barriers to entry for new entrants in Tasmania**

Process	Barrier	Comment
Broodstock	High	Tasmanian biosecurity and environmental laws prohibit the importation of broodstock. It would be unlikely for SALTAS (owned by the industry) to supply a new entrant.
Hatcheries	High	Tasmanian biosecurity and environmental laws prohibit the importation of bio material such as eggs. It would be unlikely for SALTAS (owned by the industry) to supply a new entrant. Significant upfront capital investment required.
Marine Farms	High	Tasmania is the only region where salmon can be grown in aquaculture. Existing industry control the majority of licenses. Remaining site locations are higher cost to serve. Large upfront capital investment.
Fresh Water	High	Majority of accessible fresh water held by established producers

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

**GROWING BIOMASS AND LIKELY IMPACT ON THE MARKET**

In response to continued growth in demand the industry released a strategic plan in 2010 with a view to doubling salmon production by 2020. In 2012 the State and Federal Government approved an amendment to the Macquarie Harbour farming plan which paves the way for a ~50% increase in salmon production over the next five years. In addition to additional lease area (supporting 21,500t growth in production) initiatives around breeding programs and improving mortality rates by all three participants support material growth in development, with each addressed below:

**Huon:** A \$200m capex program to improve fish mortality and breeding programs as well as enable the utilisation of surplus leases (~30% unused lease space) is expected to drive a doubling in production volumes by 2020, adding ~15,000t to production.

**Tassal:** In 2009 TGR initiated a \$200m capital program aimed at lifting production towards 25,000t (from ~15,000t at the time) TGR is now approaching the end of its capex cycle and supplied 22,258t in FY15 suggesting an incremental uplift in supply from current levels is likely to be in the region of ~3,742t with the majority of this step up likely to occur in FY16-17e.



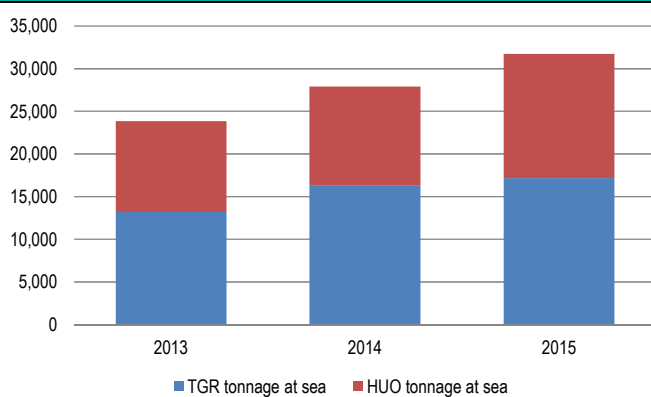
**Petuna:** Have announced a number of investments in expanding capacity at its hatchery (Cressy \$3 investment), Macquarie Harbour leases (\$24m) and processing facilities (\$4m), with the aim of doubling capacity, adding ~6,500t to production.

If all successful in the initiatives already outlined would look to take the industry in Tasmania towards its goal of doubling capacity by 2020 (2010 production levels ~32,000t).

With a 2-3 year growth cycle, lead times in getting new capacity to market tends to be long dated and many cases requires a step change in operating capacity by domestic producers. Operators tend to respond to similar demand signals and history demonstrates a supply-demand and pricing cycle which follows the introduction and absorption of capacity as it enters the market.

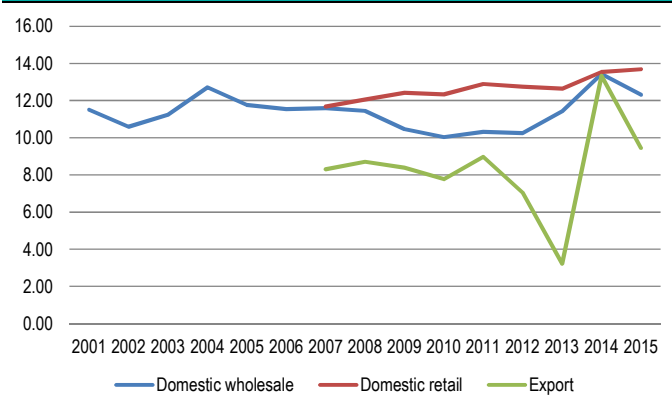
In 2010 the industry responded to a supply growth signal, which given the lead times saw domestic pricing peak in FY14, following three years of muted supply growth. Domestic supply growth expanded in FY15 (+8% YOY from the three major producers) at the same time that Russian import bans saw a doubling in imported volumes and this culminated in a significant downward correction in average selling prices (visible 2H15e) that is only now starting to be recovered. History would suggests that average prices achieved in FY16e are likely to be lower than FY15 levels and that the market will take a further 12-18months to demonstrate YOY gains, which is consistent with our base view. However, as supply growth is absorbed and the market moves to deficit domestic pricing should recover.

Figure 21 – Biological asset history growth (t)



SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Figure 22 – Through the cycle pricing trends (\$/HOG Kg) - TGR

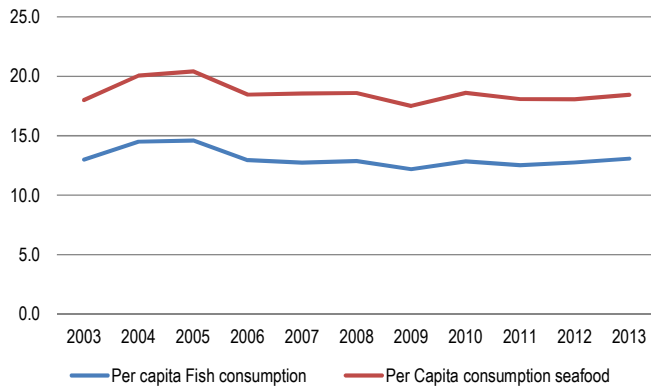


SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

The largest risk factor in our view to the industry is that market suppliers need to invest in lifting salmon per capita consumption in order for the market to absorb volume growth over the next 2-3 years which looks likely to exceed average demand growth trends. On the surface we see two things that the industry will need to confront that will likely see margins remain below FY14 levels through the next two years:

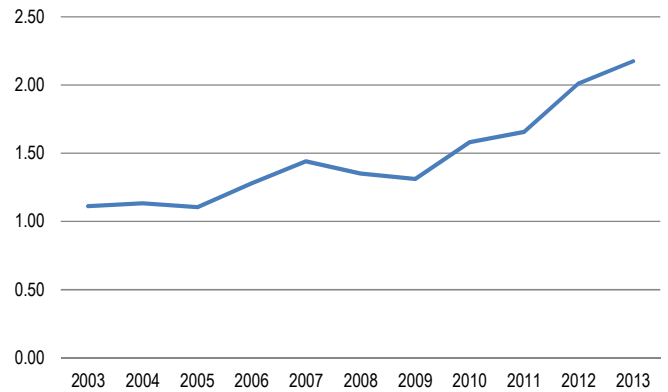
**Increase consumption of salmon:** Consumption of salmon products has significantly exceeded seafood consumption growth in Australia and grown from ~3.5% of seafood consumption in 2003 to ~9% of consumption in 2014. Investment in brands and promotion of salmon has been the main driver of this. Per capita consumption of salmon has grown 54% over the last five years and at ~2.3Kg is now at a level broadly consistent with the EU (2.19Kg and 9% of total seafood consumption). Total Australian seafood consumption per capita has been relatively stable the last eight years and this suggests that in order for the market to absorb additional tonnage of salmon further market share gains are required.

Figure 23 – Per capita consumption of seafood in Australia



SOURCE: ABARES AND ABS

Figure 24 – Per capita consumption of salmon in Australia



SOURCE: ABARES AND ABS

**Shift surplus product into the export market:** Price points in global markets are far more volatile and given the freight cost advantage in the Australian market, exporters tend to generate a significantly lower margin than domestic suppliers in Australia enjoy. Over the last four years the margins generated by Australian producers have exceeded global averages on average by A\$1.02/HOG Kg (spread of \$0.81-1.26/HOG Kg) and this suggests to us that any surplus material sold into export markets will likely see reduced overall group margins. This is assumed in our base case pricing scenarios.

# HUO Financials

## PROFIT AND LOSS

Over the next three years we are projecting compound growth in EBITDA of 15.7% p.a. on the back of rising harvest volumes, improving average price points (in FY17-18e) and continued improvement in fish mortality rates (and hence cost per HOG Kg).

Figure 25 – Summary Profit & Loss

	2012	2013	2014	2015	2016e	2017e	2018e
Harvest volume (HOG tonnes)	13,021	13,500	15,156	16,536	19,756	21,668	22,255
...change (%)		3.7%	12.3%	9.1%	19.5%	9.7%	2.7%
Average price (\$/HOG Kg)	10.04	11.17	12.13	11.59	10.85	11.22	11.55
...change (%)		11.3%	8.6%	-4.4%	-6.4%	3.4%	2.9%
Domestic Wholesale	96.9	113.8	155.7	143.8	144.9	165.5	186.6
Domestic Retail	8.0	16.3	17.7	19.2	21.6	24.4	27.5
Export	25.9	20.7	10.5	28.8	47.9	53.3	42.9
<b>Operating Revenue</b>	<b>130.7</b>	<b>150.8</b>	<b>183.9</b>	<b>191.7</b>	<b>214.4</b>	<b>243.2</b>	<b>256.9</b>
Gross Profit	66.2	84.2	108.0	112.4	122.0	140.3	148.6
Gross Profit per HOG Kg (\$)	5.08	6.24	7.12	6.80	6.18	6.48	6.68
<b>Operating EBITDA</b>	<b>23.8</b>	<b>32.7</b>	<b>52.3</b>	<b>39.8</b>	<b>39.1</b>	<b>53.7</b>	<b>58.2</b>
<b>EBITDA per HOG Kg (\$)</b>	<b>1.83</b>	<b>2.42</b>	<b>3.45</b>	<b>2.41</b>	<b>1.98</b>	<b>2.48</b>	<b>2.62</b>
SGARA	3.1	1.4	4.5	(5.3)	(11.8)	6.4	5.4
<b>Reported EBITDA</b>	<b>26.8</b>	<b>34.1</b>	<b>56.8</b>	<b>34.5</b>	<b>27.4</b>	<b>60.2</b>	<b>63.7</b>
Depreciation	(9.4)	(8.1)	(7.9)	(9.4)	(16.9)	(17.3)	(16.7)
Reported EBIT	17.5	26.0	48.8	25.1	10.4	42.9	47.0
Net Interest expense	(5.7)	(4.8)	(3.2)	(2.4)	(3.0)	(2.7)	(1.5)
Taxation expense	(2.4)	(6.5)	(13.1)	(5.9)	(2.2)	(12.1)	(13.7)
Minorities	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Underlying NPAT</b>	<b>9.4</b>	<b>14.7</b>	<b>32.5</b>	<b>16.8</b>	<b>5.2</b>	<b>28.1</b>	<b>31.9</b>
Non-recurring items	0.0	0.0	0.0	(0.2)	0.0	0.0	0.0
<b>Reported NPAT</b>	<b>9.4</b>	<b>14.7</b>	<b>32.5</b>	<b>16.6</b>	<b>5.2</b>	<b>28.1</b>	<b>31.9</b>
<b>Operating EBITDA</b>	<b>23.8</b>	<b>32.7</b>	<b>52.3</b>	<b>39.8</b>	<b>39.1</b>	<b>53.7</b>	<b>58.2</b>
<b>Operating EBIT</b>	<b>14.4</b>	<b>24.6</b>	<b>44.4</b>	<b>30.4</b>	<b>22.2</b>	<b>36.5</b>	<b>41.6</b>
<b>Operating NPAT</b>	<b>7.2</b>	<b>13.7</b>	<b>29.4</b>	<b>20.5</b>	<b>13.5</b>	<b>23.6</b>	<b>28.1</b>

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

The principal drivers of earnings in the HUO business are sales volumes, fish mortality and average selling prices and we deal with each below.

**Selling prices:** Average selling prices are a function of market segmenting and the supply/demand balance. HUO is largely exposed to the wholesale market where a fragmented customer base has resulted in pricing being volatile over the last 15 years and responsive to movements in domestic supply and the capacity to source from offshore. For example, rapid growth in domestic supply of +80% over 2007-11 resulted in pricing compression of 11% and was followed by a 30% uplift in prices over 2011-14 when supply growth of 18% tracked well below demand growth.

In FY15 domestic supply growth of +8% and an influx of imported product from Europe (following Russian bans) saw average wholesale prices fall ~4-8%. The majority of this compression was felt in 4Q15 and despite recent price increases we expect average wholesale prices to be down ~8% YOY in FY16e. In addition to lower average domestic prices we expect an increased portion of product to be export sales (at ~5% discount to domestic pricing), resulting in an overall decline in average prices of 6.4% for HUO in FY16e. As we enter FY17-18e we expect a more favourable supply demand dynamic and a more favourable mix to result in modest price increases (3-4% pa). On an annualised basis a 1% change in average pricing has the scope to impact FY16e EBITDA by \$2.1m.

**Selling volumes and mortality rates:** Decisions around the investment in inventory are made three years in advance and typically in reaction to market conditions at the time. This in our view is what has caused the sharp pick-up in supply growth by TGR and HUO. Supply is dictated by smolt input, biomass growth and mortality rates. Investment in selective breeding programs has seen considerable advancements in genetics that is

seeing improved feed conversion ratios and mortality rates lifting production volumes and lowering costs. Over the next three years we are projecting compound harvest volume growth of 10% pa, with a material 19% uplift in FY16e. On an annualised basis a 1% change in volume growth assumptions has the scope to FY16e EBITDA by \$1.2m.

We are also projecting a contraction in mortality rates to towards 10% in FY17e (from 14% in FY14) through investment in fortress pens, breeding and a higher to sea weight. On an annualised basis a 1% change in mortality rates has the scope to impact EBITDA by \$1.2m.

**Feed costs influence:** Feed is the single largest cost in salmon farming, accounting for ~50% of the cost of production. Today feed products have a relatively high cereal based protein element in the mix, meaning volatility in corn, soybean and wheat prices can influence the cost base of the business. The direct impact year-on-year is difficult to monitor given the costs are incurred on a three year basis and as such any movement in price needs to be sustained to have a material impact on operating EBITDA.

### CONTROLLED GROWTH STRATEGY AND THE BALANCE SHEET

In FY14 HUO commenced its Controlled Growth Strategy (CGS) which would see ~\$200m in capital committed over the four years to FY17e and \$9m pa in additional opex for the dry hire rent of a well boat. The main initiatives under the CGS are detailed in the table below though at a high level the initiatives are aimed at increasing production capacity, removing seasonality from the supply chain and improving efficiencies within the asset base.

Figure 26 – HUO capex program

Capex Initiatives						
Project	Description	Cost (\$m)	Completion	Progress	Benefits	Opportunity
Broodstock	New broodstock facility at Derwent hatchery	1	FY15	Complete	Enables manipulation of spawning time improving quality & volumes of eggs.	Production uplift
Hatcheries	Hatcheries	26	FY16	80% complete	Increase smolt capacity by 50% Improve quality of smolt Replace more expensive contract hatcheries	Capacity to increase by 50%
Marine Farms	Feed Barges	35	Rolled out over the next 3 yrs	60% complete	Construction of multiple 320t feed barges to support sea operations Improved fee logistics Deliver feed consistently to remote & exposed locations Improved spreading of feed through pens	HUO utilises only 70% of available marine farming capacity
	New harvest, fed & smolt vessel	5	Acquired 2015 Deferred settlement	Complete	Improved harvest efficiency Transfer 180t feed at a time to feed barges More efficient transfer of smolt	Projects increase production and reduce costs
	Fortress Pens	80	CY16	75% complete	Double net system keeps seals at bay Improved carrying capacity of pens Opportunity to locate pens further offshore	
	New mooring system	10	FY16	64% complete	Enables use of fortress pens and offshore farming	
Processing	Processing consolidation	20	2H15	Complete	Increased capacity Lower overhead costs (savings of \$1m in first year) Remove handling, packaging and freight costs	Increased production Flexible platform for growth
Other Projects	Includes: New harvest, smolt & feed vessel, feed storage, support boats and bathing equipment	35	FY17	On track		
<b>Total capex</b>		<b>212</b>				
Opex Initiatives						
Project	Description	Cost (\$m pa)	Completion	Progress	Benefits	Opportunity
Marine Farms	Well boat	9	FY15	Delivered & commissioned Dec'14	Eliminate 1250lbs pa (xx% of requirements) Replaces existing bathing operations Bathing less stressful on the fish	Supports production growth

SOURCE: COMPANY DATA

At the time of the IPO, here was ~\$140m to be invested and with \$97m deployed in FY15, we expect the residual to be deployed in FY16e. The IPO had raised ~\$120m in net proceeds to be utilised in the CGS and at the end of FY15 HUO had net debt of \$33m, with ~\$30m in available term facilities. Historically operating cash realisation has been high at 83%, of operating NPAT (ie. ex-SGARA) though with the investment in biomass growth in FY15 this slowed to 58%. We expect a recovery in operating cashflow over the next three years as biomass growth more closely aligns to revenue growth, however, with capital to be deployed we expect a further uplift in net debt in FY16e, with net debt/EBITDA peaking at 1.9x in FY16e.

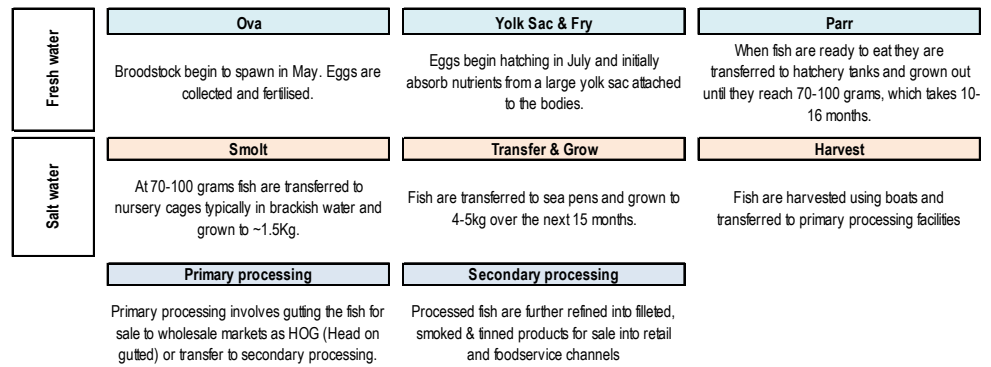
# Salmon farming basics

Salmon is a generic term given to all salmonid species (eg. Atlantic salmon, trout etc...). Salmon is anadromous (born in fresh water, live in to salt water and reproduce in fresh water) and found in the Atlantic & Pacific oceans and other land locked lakes. Atlantic salmon is the most commercially available salmonoid and ~60% of the global supply is from aquaculture operations largely confined in Norway, Chile, Scotland and Canada.

## SALMON FARMING BASICS

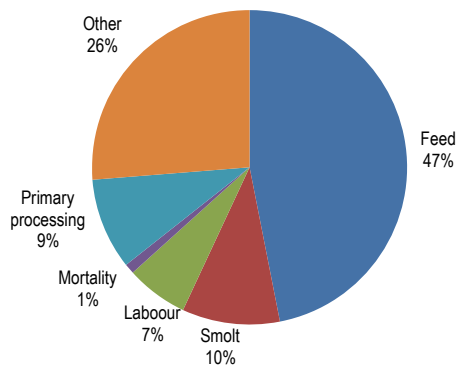
The salmon farming process is long duration with a production cycle (from egg to harvest) taking on average 2-3years and is a working capital intensive process with the working capital committed over the production period the equivalent of ~7-8x the EBITDA generated per Kg. The largest cost components in the process are feed and smolt which combined represents ~55-60% of the industry cost structure. The charts below look at the standard life cycle in the Tasmanian industry and global average cost structures.

Figure 27 - Salmon growth cycle



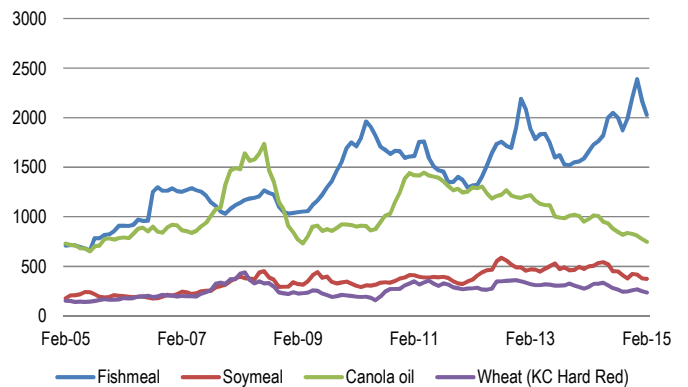
SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Figure 28 – Global average cost structure to EBITDA



SOURCE: MARINE HARVESTS AND COMPANY REPORTS

Figure 29 – Fish feed cost components (USD/t)



SOURCE: MARINE HARVEST AND COMPANY REPORTS

# Board and management

## **Peter Margin – Non-executive Chairman**

Peter has many years of leadership experience in major Australian and international food companies. Peter's most recent role was CEO of ASX-listed company Goodman Fielder Limited. Prior to this Peter was CEO and COO of ASX listed company National Foods Limited. Peter has also held senior management roles in Simplot Australia Limited, Pacific Brands Limited, East Asiatic Company and HJ Heinz Company Australia Limited. Peter is currently a non-executive director of ASX-listed companies Bega Cheese Limited, PMP Limited, Pact Limited and Nufarm Limited and of National Stock Exchange of Australia listed company Ricegrowers Limited

## **Peter Bender CEO & Managing Director**

Founder of Huon with over 28 years' experience in fish farming operations. Peter is responsible for the leadership, operations and strategic direction of Huon. He sets business strategy and leads the executive team to deliver growth. Prior to founding Huon, Peter established with a partner the largest trellised apricot orchard in Tasmania and ran several other small businesses He was named E&Y's Entrepreneur of the Year in the Retail, Consumer and Industrial Products category within the Southern Region division (CY2007). Peter is also a director of the TSGA and Salmon Enterprises of Tasmania Pty Ltd.

## **Frances Bender – Executive Director**

Founder of Huon with over 28 years' experience in fish farming operations. Frances provides Huon a leading voice in both local, national and international industry, regulatory and stakeholder forums. She was a keynote speaker at the 2014 World Aquaculture Forum in Adelaide and led the industry's response to the (former) Federal Government's Biosecurity Bill. Frances has been instrumental in the design of the Huon brand and its marketing direction and will continue to be responsible for these areas after ASX listing. She has also fulfilled various roles with Huon from payroll, HR, accounts and customer service and continues to provide active leadership and guidance in these areas. Francis is currently an alternate director for TSGA.

## **Neil Kearney – Non-executive Director**

Neil has significant leadership experience in major Australian and international food companies with senior roles at Goodman Fielder Limited and National Foods Limited. His most recent role was Chief Strategy Officer of ASX-listed company Goodman Fielder Limited from 2011 – 2014 and before that he was CEO and Managing Director of Warrnambool Cheese & Butter Factory Co. Holdings Limited from 2007 – 2009.

## **Simon Lester – Non-executive Director**

Simon has been an adviser to Huon since 1994, with extensive experience within the salmon industry. He has 30 years' experience in corporate finance and corporate tax, having advised the Tasmanian Government and State owned business enterprises. His former roles include Partner at Deloitte Touche Tohmatsu and PBS Partners as well as senior management roles at Price Waterhouse and KPMG. Simon is a member of Financial Services Institute of Australasia, Institute of Chartered Accountants in Australia, The Tax Institute and Australian Risk Policy Institute.

## **Philip Wiese – Deputy CEO**

More than 20 years' commercial management and senior accounting experience and joined Huon in 2008. Philip guides and implements Huon's strategy. He works closely with Huon's CEO with a key focus on growth of the business. During his time at Huon, the

company has almost doubled its production from approximately 8,000t to the current level of around 15,000t. He also oversaw the Company's expansion into Macquarie Harbour and the Southern Ocean Trout acquisition. Philip's former roles include Commercial Management positions with publicly listed companies including Orica Limited as well as a range of Financial Management roles with companies both in Australia and internationally.

**Thomas Haselgrove – CFO & company secretary**

23 years' experience within audit, statutory accounting and commerce and joined Huon in 2006. Tom manages Huon's financial strategy, control and compliance and communicating financial results to the management team. His role also includes treasury, compliance, statutory, tax and audit and company secretarial duties. His former roles include a range of financial and commercial positions in the fast moving consumer goods sector such as Chiquita Brands and Southcorp as well as five years at Ernst & Young as a Chartered Accountant and two years as a SAP Business Analyst.



# Substantial shareholders

The largest shareholder in HUO is Surveyors Investments Pty Ltd, a company controlled by directors Peter and Frances Bender. Together Peter and Frances Bender have a relevant interest in 67.99% of the company, made up of 44,527,252 (50.98%) held by Surveyors Investments Pty Ltd, 14,848,267 (17.00%) held by Peter, and 5,794 (0.01%) held by Frances. Perpetual was a substantial holder when HUO listed although ceased to hold substantial position on the 12<sup>th</sup> October 2015.

**Figure 30 - Substantial shareholders**

Holder	Shares held	% held
Surveyors Investments Pty Ltd	44,527,252	50.98%
Peter James Bender	14,848,267	17.00%

SOURCE: COMPANY DATA

The combined direct holdings of the Board were 14,881,209 shares (17.04%). The board controls 59,408,671 shares (68.02%) with the inclusion of Surveyors Investments Pty Ltd.

**Figure 31 - Directors' interest**

Director	Shares held	% held
Peter Margin	6,316	0.01%
Peter Bender*	59,381,523	67.99%
Frances Bender*	59,381,523	67.99%
Neil Kearney	6,316	0.01%
Simon Lester	14,516	0.02%

SOURCE: COMPANY DATA, \*PETER AND FRANCIS BENDER ARE BOTH DIRECTORS OF SURVEYORS INVESTMENTS PTY LTD

# Risks

Major risks to an investment in HUO include but are not limited to:

**Predator risk:** Risks relating to predators (primarily seals) may impact Huon's fish stock through higher mortality rates and fish stress, which negatively impact the production volume and quality of the fish stock.

**Disease risk:** Risks relating to disease outbreak could widely impact HUO's fish and lead to higher mortality rates and lower quality stock. There is a risk that diseases such as Amoebic Gill Disease (AGD), Infectious Salmon Anaemia (ISA) or Salmon Orthomyxovirus (SOMV) could adversely impact HUO's fish stocks.

**Fresh water supply risk:** There is a risk to HUO that if access to fresh water supply was significantly limited or restricted, Huon's farming operations could be materially impacted as fresh water is a critical component to its production processes.

**Seasonal and environmental risk:** Seasonal and environmental conditions such as increasing water temperatures, storms and floods could disrupt HUO's operations and/or increase mortality rates among the fish stock, restrict the growth of fish and negatively impact feed conversion ratios.

**Risk of overstocking:** Environmental monitoring in Macquarie Harbour has shown some concerning results in recent years with dissolved oxygen trending downward at depth. It is possible that stocking levels in Macquarie Harbour may need to be reduced and at this stage Huon is not planning any increase in stocking in Macquarie Harbour. HUO grows ~10% of its stocks in Macquarie Harbor.

**Feed prices and supply:** Feed is one of the largest cost in a salmon farming operation. Feed costs are, in turn, a function of the cost of production of key inputs such as fish meal and fish oil, and other vegetable and meat by-product protein sources. Increases in prices of key inputs and/or disruptions in their supply would have a corresponding effect on the price or supply of feed, which could have a material adverse effect on Huon's business and financial performance.

**Pricing risk:** Falls in the prevailing market price for salmon and/or a reduction in the consumption of salmon could have a material adverse impact on Huon's financial performance. HUO's general wholesale market practice is to negotiate with customers an agreed price that reflects long-term supply and demand scenario, and as a result, it is not possible to guarantee consistency in respect of prices for future transactions.

**Demand risk:** There is a risk that a change in economic conditions could cause consumers to reduce their consumption of salmon as they "trade down" to cheaper sources of seafood and proteins. Changes in consumer dietary preferences or sentiment towards seafood and salmon could also result in lower demand for salmon which could reduce the price at which HUO is able to sell its salmon products.

**Contamination risk:** Like all food producers, HUO is exposed to the risk of product contamination and product recalls. There is also a risk of a serious food poisoning incident as a result of an operational lapse in food safety, sanitation procedures or malicious tampering.

**Brand risk:** There is a risk that an incident beyond the control of HUO could occur, such as widespread loss of consumer confidence in seafood or salmon, or the occurrence of a serious food safety incident involving another brand of salmon, which would have the effect of reducing consumer confidence or preferences for salmon generally or a Huon product specifically.

**Regulatory risk:** Federal, State and Local environmental laws and regulations affect nearly all of HUO's operations and failure to comply with such laws could result in penalties, damages and/or loss of permits or licences required by HUO to operate its hatcheries, marine farms or processing facilities

# Huon Aquaculture

as at 23 November 2015

Recommendation

Buy

Price

\$4.00

Target (12 months)

\$4.55

Table 1 - Financial summary

June Year end	2012	2013	2014	2015	2016e	2017e	2018e
<b>Profit &amp; Loss (A\$m)</b>							
Sales revenue	130.7	150.8	183.9	191.7	214.0	242.7	256.5
...change (%)		15.3%	22.0%	4.3%	11.6%	13.4%	5.7%
EBITDA	26.8	34.1	56.8	34.5	27.4	60.2	63.7
Deprec. & amort	(9.4)	(8.1)	(7.9)	(9.4)	(16.9)	(17.3)	(16.7)
EBIT	17.5	26.0	48.8	25.1	10.4	42.9	47.0
Interest expense	(5.7)	(4.8)	(3.2)	(2.4)	(3.0)	(2.8)	(1.5)
Pre-tax profit	11.8	21.2	45.6	22.7	7.4	40.2	45.5
Tax expense	(2.4)	(6.5)	(13.1)	(5.9)	(2.2)	(12.0)	(13.6)
...tax rate	21%	31%	29%	26%	30%	30%	30%
Minorities	-	-	-	-	-	-	-
<b>Net Profit</b>	<b>9.4</b>	<b>14.7</b>	<b>32.5</b>	<b>16.8</b>	<b>5.2</b>	<b>28.1</b>	<b>31.8</b>
Abs. & extras.	-	-	-	(0.2)	-	-	-
<b>Reported Profit</b>	<b>9.4</b>	<b>14.7</b>	<b>32.5</b>	<b>16.6</b>	<b>5.2</b>	<b>28.1</b>	<b>31.8</b>
<b>Operating results (Ex-SGARA):</b>							
Operating EBITDA	23.8	32.7	52.3	39.8	39.1	53.7	58.2
Operating EBIT	14.4	24.6	44.4	30.4	22.2	36.5	41.6
Operating NPAT	7.2	13.7	29.4	20.5	13.5	23.6	28.0
<b>Cashflow (A\$m)</b>							
Operating EBITDA	23.8	32.7	52.3	39.8	39.1	53.7	58.2
Net Interest Expense	(5.8)	(5.0)	(3.2)	(2.4)	(2.7)	(2.9)	(2.1)
Tax Paid	0.2	(0.3)	(1.7)	(11.0)	(5.8)	(10.1)	(12.0)
Change in Wkg Capital	(5.1)	(10.2)	(6.3)	(9.8)	(2.2)	3.0	(12.0)
Other	0.5	0.1	0.4	0.7	-	-	-
<b>Operating Cash Flow</b>	<b>13.6</b>	<b>17.4</b>	<b>41.6</b>	<b>17.3</b>	<b>28.5</b>	<b>43.8</b>	<b>32.1</b>
Dividends paid	-	-	-	-	-	(6.1)	(8.7)
Capex	(5.6)	(10.7)	(44.8)	(101.9)	(48.1)	(10.0)	(10.0)
<b>Free Cash Flow</b>	<b>8.0</b>	<b>6.7</b>	<b>(3.2)</b>	<b>(84.6)</b>	<b>(19.6)</b>	<b>27.6</b>	<b>13.3</b>
Asset Sales	-	-	-	0.1	-	-	-
Aquisitions	-	-	-	(3.3)	-	-	-
Other	-	-	-	(0.8)	-	-	-
Equity Issues(Reduction)	-	-	-	120.1	-	-	-
<b>(Inc.)/dec. in net debt</b>				<b>31.5</b>	<b>(19.6)</b>	<b>27.6</b>	<b>13.3</b>
<b>Balance Sheet (A\$m)</b>							
Cash & near cash			2.2	13.8	15.0	14.0	14.0
Inventories & WIP			5.1	11.4	12.9	14.6	15.4
Biological assets			122.8	151.8	157.5	158.8	172.9
Receivables			20.6	19.6	21.4	24.3	25.7
Other Current assets			2.6	8.8	8.8	8.8	8.8
<b>Current assets</b>			<b>153.4</b>	<b>205.5</b>	<b>215.7</b>	<b>220.6</b>	<b>236.9</b>
Fixed assets			95.4	184.5	215.7	208.4	201.8
Intangibles			10.8	13.3	13.3	13.3	13.3
Other assets			0.9	1.3	1.5	1.7	1.8
<b>Non current assets</b>			<b>107.1</b>	<b>199.1</b>	<b>230.5</b>	<b>223.4</b>	<b>216.9</b>
<b>Total assets</b>			<b>260.5</b>	<b>404.6</b>	<b>446.2</b>	<b>444.0</b>	<b>453.7</b>
Creditors			35.2	59.6	66.5	75.4	79.6
Current borrowings			6.2	5.9	8.8	-	-
Other current liabilities			12.2	5.2	16.6	13.6	5.9
<b>Current liabilities</b>			<b>53.6</b>	<b>70.7</b>	<b>91.9</b>	<b>88.9</b>	<b>85.5</b>
Non-current borrowings			60.5	40.9	58.8	38.9	25.6
Other liabilities			36.5	45.9	47.6	48.0	52.2
<b>Non-current liabilities</b>			<b>97.0</b>	<b>86.8</b>	<b>106.3</b>	<b>86.9</b>	<b>77.8</b>
<b>Total liabilities</b>			<b>150.6</b>	<b>157.5</b>	<b>198.2</b>	<b>175.8</b>	<b>163.3</b>
<b>Net assets</b>			<b>109.9</b>	<b>247.1</b>	<b>247.9</b>	<b>268.2</b>	<b>290.4</b>
Share capital			42.9	164.3	164.3	164.3	164.3
Reserves			-	-	-	-	-
Retained earnings			67.0	82.8	83.6	103.9	126.1
Outside equity Interests			-	-	-	-	-
<b>S/holders' funds</b>			<b>109.9</b>	<b>247.1</b>	<b>247.9</b>	<b>268.2</b>	<b>290.4</b>
Net Debt (Cash)			64.5	33.0	52.6	24.9	11.6

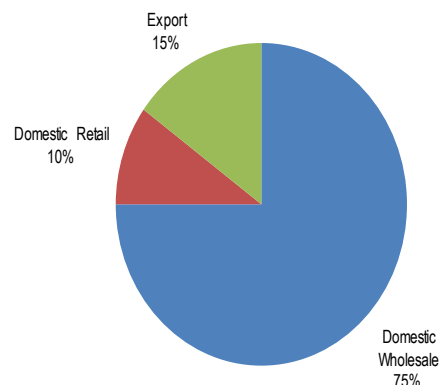
Price	\$4.00
Recommendation	Buy
Target Price (A\$ps)	\$4.55
Diluted issued capital (m)	87.3
Market cap (\$m)	349.3
Enterprise Value	425.4
Free Float	

June Year end	2012	2013	2014	2015	2016e	2017e	2018e
<b>Valuation Ratios</b>							
Operating EPS (¢ps)				23.5	15.4	27.0	32.1
...change (%)					-34.4%	75.5%	18.7%
Reported EPS (¢ps)				19.2	6.0	32.2	36.5
...change (%)					-69.0%	439.2%	13.3%
PE (x)				17.0	26.0	14.8	12.5
EV/EBITDA (x)				10.7	10.9	7.9	7.3
EV/EBIT (x)				16.9	40.7	9.9	9.1

NTA (\$ps)	2.71	2.72	2.95	3.20
P/NTA (x)	1.48	1.47	1.36	1.25
Book Value (\$ps)	2.83	2.84	3.07	3.33
Price/Book (x)	1.41	1.41	1.30	1.20
DPS (¢ps)	-	5.0	9.0	11.0
Payout (%)	n.a.	32.5%	33.3%	34.3%
Yield (%)	0.0%	1.3%	2.3%	2.8%
Franking (%)	0%	100%	100%	100%

<b>Performance Ratios</b>							
EBITDA/sales (%)	20.5%	22.6%	30.9%	18.0%	12.8%	24.8%	24.8%
EBIT/sales (%)	13.4%	17.2%	26.6%	13.1%	4.9%	17.7%	18.3%
OCF Realisation (%)	82.0%	79.5%	111.5%	57.9%	93.9%	107.1%	71.7%
FCF Realisation (%)	85.5%	45.6%	-9.9%	-503.4%	-375.7%	120.1%	69.3%
ROE (%)				6.8%	2.1%	10.5%	11.0%
ROIC (%)				11.1%	3.6%	14.5%	15.8%
Asset turn (years)	2.86	4.19	7.16	3.68	1.62	3.49	3.82
Capex/Depn (x)	0.60	1.31	5.65	10.86	2.85	0.58	0.60
Interest cover (x)	3.09	5.47	15.17	10.57	3.48	15.55	31.01
Net debt/EBITDA				1.14	0.96	1.92	0.41
Net debt/equity (%)				59%	13%	21%	9%

FY15 sales by channel



SOURCE: BELL POTTER SECURITIES ESTIMATES

**Recommendation structure**

**Buy:** Expect >15% total return on a 12 month view. For stocks regarded as 'Speculative' a return of >30% is expected.

**Hold:** Expect total return between -5% and 15% on a 12 month view

**Sell:** Expect <-5% total return on a 12 month view

*Speculative Investments are either start-up enterprises with nil or only prospective operations or recently commenced operations with only forecast cash flows, or companies that have commenced operations or have been in operation for some time but have only forecast cash flows and/or a stressed balance sheet.*

*Such investments may carry an exceptionally high level of capital risk and volatility of returns.*

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