

Haikui Seafood AG

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Information Analysis

Analysts

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Evaluation result

BUY

(previous: BUY)

Fair value

€17.23

(previous: €16.50)

BankM Research on Bloomberg, Thomson/Reuters, Factset, CapitalIQ and www.BankM.de

Negative Trend halted - Challenges remain

After the disappointing results of the previous 12 months, operations of Haikui Seafood AG in the second quarter showed an encouraging, yet not totally unexpected result, at least regarding top line: For the first time since 1Q13, the Company posted a positive quarterly revenue growth by YoY comparison (+4.8% in € terms and +9.1% at constant currency). However, gross profit margin came down significantly to 12.8% in Q2, mainly due to industry related challenges such as the high raw material prices, increasing wage rates and the competitive environment. In addition, Haikui granted rebates to attract new customers and to retain existing ones. According to management, the first samples of wild catch after the fishing restriction period looked decent enough to justify the current Company guidance. The relief of the problem with the shrimp related EMS disease which was reported by Undercurrent News in May could potentially improve both revenues and gross profit in the mid-term.

The construction of the new factory is expected to be launched in 3Q14 as envisaged by the Company after the ground works and planning phase were finalized in the second quarter. Accordingly, the disbursement of the loan from DEG, a subsidiary of the German Development Bank (KfW), is also expected to occur in the third quarter since the payments are linked to the progress of the construction works.

The Company restated its full year guidance of 5 - 10% revenue growth in RMB terms and an EBIT margin between 11 and 13%.

As in the previous years, Haikui is going to attend the German Equity Forum and will present the operational activities to the public on Nov 25.

Based on the Q2 report, we adhere to our forecasts and our DCF analysis. We have adjusted the multiple analysis for the most current market data. We calculate a fair value of €17.23 per share and reiterate our Buy rating.

Key data / Earnings

Year	Sales (€ m)	EBITDA (€ m)	EBIT (€ m)	EBT (€ m)	Net Profit (€ m)	EPS (€)	DPS* (€)	EBIT-Margin	Net-Margin
2012a	195.1	45.6	44.0	43.5	32.2	3.16	0.00	22.5%	16.5%
2013a	117.6	17.6	15.9	14.7	10.2	1.00	0.00	13.6%	8.7%
2014e	123.5	16.3	13.8	14.1	10.6	1.03	0.00	11.2%	8.6%
2015e	134.6	18.3	15.5	15.8	11.8	1.15	0.00	11.5%	8.8%
2016e	154.8	24.5	19.9	19.1	14.4	1.40	0.14	12.9%	9.3%
2017e	178.1	35.3	30.6	29.7	22.3	2.17	0.22	17.2%	12.5%

*Not considering withholding taxes and transaction costs

Source: Haikui Seafood AG, BankM Research

Sector	Food processing
WKN	A1JH3F
ISIN	DE000A1JH3F9
Bloomberg/Reuters	H8K GY/ H8K.DE
Accounting standard	IFRS
Financial year	Dec 31
Financial reporting Q3 2014	November 21, 2014
Market segment	Regulated Market
Transparency standard	Prime Standard

Financial ratios	2014e	2015e	2016e
EV/Sales	neg.*	neg.	neg.
EV/EBITDA	neg.	neg.	neg.
EV/EBIT	neg.	neg.	neg.
P/E adj.	3.9	3.5	2.9
Price/Bookvalue	0.2	0.2	0.2
Price/FCF	neg.	neg.	neg.
ROE (in %)	6.6	6.9	7.8
Dividend yield (in %)	0.0	0.0	3.5

*neg. ratios: net cash higher than MarketCap

Number of shares outs. (in '000)	10,276		
MarketCap / EV (in € m)	41.10 / neg.		
Free float (in %)	15.3		
Ø daily trading vol. (3M, in €)	7,445		
12M high / low (in €; XETRA-close)	7.30 / 3.90		
Price August 25, 2014 (in €; XETRA-close)	4.00		
Performance	1M	6M	12M
absolute (in %)	-5.3	-30.3	-30.1
relative (in %)	-8.1	-40.4	-41.7

Benchmark index DaxSubsec. All Food Perf.



Haikui Seafood AG (red/grey), Performance 1y vs. DAXsubsector All Food Performance (black)

Source: Bloomberg

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Haikui's Stock and Valuation

Stock performance:

During the last 12 months, Haikui's stock declined by 30.1% from €5.72 to €4.00 (XETRA close August 25, 2014) and clearly underperformed the benchmark Daxsubsec. All Food Performance (+19.9%). Based on daily stock price returns in the last 12 months, the annualized volatility is at 46% with a mean daily trading volume of ca. 2,300 pieces. At the time being, the stock trades near its all-time low but seems to have stabilized at the current level for the last six weeks.

Valuation

The increase of the fair value mainly results from a higher peer group valuation. The DCF-model returns a valuation of €12.63 per share, which is €0.10 higher than in our last report due to a lower German government bond yield curve.

The peer group of the Chinese companies listed at the German stock exchange returns an implicit value of €5.76 per share, €0.14 less than in our last update. This peer group's median P/E amounts to 2.60.

The peer group of the international seafood related companies returns an implicit value of €22.39 per share, €1.52 more than in our last update. This peer group's median P/E amounts to 12.64.

The peer group of the Chinese seafood related companies returns an implicit value of €35.81 per share, €4.25 more than in our last update. This peer group's median P/E amounts to 30.94.

The peer group of international small/mid cap food processing companies returns an implicit value of €23.32 per share, €0.22 less than in our last update. This peer group's median P/E amounts to 17.78.

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Tables

Profit & Loss Account

Fiscal Year 31.12 (IFRS)		2012a	2013a	2014e	2015e	2016e	2017e	4y - CAGR 2013 - 2017
	in € '000							
Total Sales		195,121	117,638	123,520	134,637	154,832	178,057	
	<i>Growth rate in %</i>	28.3	-39.7	5.0	9.0	15.0	15.0	10.9
Cost of sales		144,839	96,418	103,757	113,095	128,511	140,665	
Gross Profit		50,282	21,220	19,763	21,542	26,321	37,392	
	<i>Growth rate in %</i>	32.6	-57.8	-6.9	9.0	22.2	42.1	15.2
Selling and marketing expenses		1,669	1,826	1,917	2,090	2,403	2,764	
General and administration expenses		4,186	4,065	4,000	4,000	4,000	4,000	
Other income		238	810	0	0	0	0	
Other expenses		683	199	0	0	0	0	
EBIT		43,982	15,940	13,846	15,452	19,918	30,628	
	<i>Growth rate in %</i>	35.9	-63.8	-13.1	11.6	28.9	53.8	17.7
Finance Result (+inc./-exp)		-440	-1,285	282	299	-781	-930	
<i>Finance income</i>		228	585	403	421	459	158	
<i>Finance expense</i>		668	1,870	121	121	1,240	1,087	
EBT		43,542	14,655	14,128	15,751	19,137	29,699	
	<i>Growth rate in %</i>	41.6	-66.3	-3.6	11.5	21.5	55.2	19.3
Taxes on Income (Exp./Inc.-)		11,358	4,423	3,532	3,938	4,784	7,425	
Net profit		32,184	10,232	10,596	11,814	14,353	22,274	
	<i>Growth rate in %</i>	20.4	-68.2	3.6	11.5	21.5	55.2	21.5
<i>For information purposes</i>								
Depreciation and amortization		1,630	1,637	2,478	2,845	4,607	4,691	
EBITDA		45,612	17,577	16,324	18,297	24,525	35,319	
No. of shares (Ø outstanding)		10,173	10,276	10,276	10,276	10,276	10,276	
Net profit / share (EPS)		3.16	1.00	1.03	1.15	1.40	2.17	

Source: Haikui Seafood AG, BankM Research

Profit & Loss Margins

	in %	2012a	2013a	2014e	2015e	2016e	2017e
Gross Profit Margin		25.8	17.0	16.0	16.0	17.0	21.0
EBITDA Margin		23.4	14.9	13.2	13.6	15.8	19.8
EBIT Margin		22.5	13.6	11.2	11.5	12.9	17.2
EBT Margin		22.3	12.5	11.4	11.7	12.4	16.7
Net Profit Margin		16.5	8.7	8.6	8.8	9.3	12.5

Source: Haikui Seafood AG, BankM Research

Cash Flow Statement

Fiscal Year 31.12 (IFRS)	2012a	2013a	2014e	2015e	2016e	2017e	4y - CAGR 2013 - 2017
in € '000							
Earnings before Taxes	43,542	14,655	14,128	15,751	19,137	29,699	
+ Depreciation and amortization	1,630	1,637	2,478	2,845	4,607	4,691	
- income taxes paid	8,881	7,936	3,113	3,836	4,573	6,765	
= Cash Earnings	36,291	8,356	13,493	14,760	19,171	27,625	
<i>Growth rate (in %)</i>	12.7	-77.0	61.5	9.4	29.9	44.1	34.8
- Chg. in net working capital	11,095	-1,764	1,398	7,360	12,814	12,736	
+ finance expenses	14	14	121	121	1,240	1,087	
- finance income	162	182	403	421	459	158	
+ Other non-cash item	521	1,422	-218	-230	-243	0	
= Operating Cash Flow	25,569	11,374	11,595	6,871	6,895	15,819	
<i>Growth rate (in %)</i>	141.4	-55.5	1.9	-40.7	0.3	129.4	8.6
- Capex	1,300	9,681	21,263	7,582	19,674	-2,262	
= Free Cash Flow	24,269	1,693	-9,667	-711	-12,779	18,081	
<i>Growth rate (in %)</i>	163.2	-93.0	n.a.	n.a.	n.a.	n.a.	80.8
+ Other net items	148	-131	282	299	-781	-930	
- Dividends (previous year)	0	0	0	0	0	1,435	
- Payout interest-free loan	1,972	0	0	0	0	0	
+ Increase in share capital (net)	2,052	0	0	0	0	0	
+ Bank loans	-290	-233	10,895	7,263	-2,179	-2,179	
= Incr. in Cash (+)/Decr. in Cash (-)	24,207	1,329	1,509	6,852	-15,739	13,537	

Source: Haikui Seafood AG, BankM Research

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Balance sheet

Fiscal Year 31.12 (IFRS)	2012a	2013a	2014e	2015e	2016e	2017e
in € '000						
Assets						
Tangible assets	13,566	12,210	27,417	32,527	47,967	46,042
Intangible assets	2,189	11,279	15,082	14,709	14,336	13,963
<i>t/o Goodwill</i>	746	740	740	740	740	740
Deferred tax assets	295	226	0	0	0	0
Other non-current assets	1,118	3,964	4,182	4,412	4,655	0
Total Fixed Assets	17,168	27,679	46,681	51,648	66,958	60,005
Inventories	37,995	43,576	38,376	41,830	47,531	52,027
Accounts receivable	43,546	29,853	37,225	40,575	46,662	53,661
Total liquid funds	48,938	49,814	51,323	58,175	42,437	55,973
Other current assets	7,949	8,645	9,077	9,894	11,378	13,085
Total Current Assets	138,428	131,888	136,002	150,475	148,008	174,746
Balance Sheet Total	155,596	159,567	182,683	202,123	214,966	234,752
Shareholder's Equity / Liabilities						
Subscribed capital	10,276	10,276	10,276	10,276	10,276	10,276
Share premium	2,164	2,164	2,164	2,164	2,164	2,164
Retained earnings and other reserves	134,229	142,958	153,554	165,367	179,720	200,559
Shareholders Equity	146,669	155,398	165,994	177,807	192,160	212,999
Long term liabilities	2,036	1,735	12,630	19,893	17,714	15,535
<i>t/o Bank loans (interest bearing)</i>	2,036	1,735	12,630	19,893	17,714	15,535
ST Liab. < 1 year	6,891	2,434	4,059	4,422	5,092	6,218
<i>t/o Trade payables</i>	1,133	15	1,137	1,239	1,408	1,542
<i>t/o Bank loans</i>	281	271	271	271	271	271
<i>t/o Tax payables</i>	3,932	464	883	984	1,196	1,856
<i>t/o other current liabilities</i>	1,545	1,684	1,768	1,927	2,216	2,549
Total Liabilities	8,927	4,169	16,689	24,315	22,806	21,753
Balance Sheet Total	155,596	159,567	182,683	202,123	214,966	234,752

Source: Haikui Seafood AG, BankM Research

Balance Sheet Ratios

in % of Total Assets	2012a	2013a	2014e	2015e	2016e	2017e
Total Fixed Assets	11.0	17.3	25.6	25.6	31.1	25.6
Total Current Assets	89.0	82.7	74.4	74.4	68.9	74.4
Inventories	24.4	27.3	21.0	20.7	22.1	22.2
Trade receivables	28.0	18.7	20.4	20.1	21.7	22.9
Total liquid funds	31.5	31.2	28.1	28.8	19.7	23.8
Shareholders Equity	94.3	97.4	90.9	88.0	89.4	90.7
Long Term Liabilities	1.3	1.1	6.9	9.8	8.2	6.6
Short Term Liabilities	4.4	1.5	2.2	2.2	2.4	2.6
Total Liabilities	5.7	2.6	9.1	12.0	10.6	9.3

Source: Haikui Seafood AG, BankM Research

Key Ratios

	2012a	2013a	2014e	2015e	2016e	2017e
Return on Assets (in %)	23.1	6.5	6.2	6.1	6.9	9.9
Return on Equity (in %)	24.6	6.8	6.6	6.9	7.8	11.0
Gross Profit Margin (in %)	25.8	17.0	16.0	16.0	17.0	21.0
EBIT Margin (in %)	22.5	13.6	11.2	11.5	12.9	17.2
Net Profit Margin (in %)	16.5	8.7	8.6	8.8	9.3	12.5
Current Ratio	20.09	54.19	33.50	34.03	29.07	28.11
Quick Ratio	13.42	32.73	21.81	22.33	17.50	17.63
Leverage	0.06	0.03	0.09	0.12	0.11	0.09
Gearing	0.06	0.03	0.10	0.14	0.12	0.10
Interest Coverage Ratio	65.84	8.52	114.00	127.23	16.06	28.16
Earnings per Share in €	3.16	1.00	1.03	1.15	1.40	2.17
Dividends per Share in €	0.00	0.00	0.00	0.00	0.14	0.22
Dividend Payout Ratio	0.00	0.00	0.00	0.00	0.10	0.10
FCF per Share in €	2.39	0.16	-0.94	-0.07	-1.24	1.76
Book Value per Share in €	14.42	15.12	16.15	17.30	18.70	20.73
Days Sales Outstanding	87.44	113.87	99.11	105.46	102.83	102.83
Days in Inventory	77.98	154.40	144.15	129.43	126.90	129.17
Days in Payables	3.36	2.17	2.03	3.83	3.76	3.83
Cash Conversion Cycle	162.06	266.09	241.23	231.05	225.97	228.17
Total Asset Turnover	1.25	0.74	0.68	0.67	0.72	0.76
Working Capital to Sales	0.46	0.70	0.69	0.69	0.68	0.67
CAPEX to Sales	0.01	0.08	0.17	0.06	0.13	-0.01
Depreciation/Sales	0.01	0.01	0.02	0.02	0.03	0.03
Tax Rate (in %)	26.1	30.2	25.0	25.0	25.0	25.0
Number of Employees	2,131	1,722	1,800	2,000	2,400	2,800
Sales/Employee in € '000	91.56	68.31	68.62	67.32	64.51	63.59
Net Profit/Employee in € '000	15.10	5.94	5.89	5.91	5.98	7.95

Source: Haikui Seafood AG, BankM Research

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Authors: David Szabadvari, CIIA, Dr. Roger Becker, CEFA, Analysts

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Issuer of the analyzed instrument is Haikui Seafood AG.

Notice according to sec. 4 §. 4 N° 4 FinAnV (previous publications regarding the issuer at least within the last 12 months):

Analysts	Date	Evaluation result	Fair value
Dr. Roger Becker, David Szabadvari	September 3, 2013	Buy	€20.00
Dr. Roger Becker, David Szabadvari	December 4, 2013	Neutral	€14.09
Dr. Roger Becker, David Szabadvari	April 29, 2014	Buy	€16.02
Dr. Roger Becker, David Szabadvari	May 23, 2014	Buy	€16.50

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3. Date of first publication of this document:

August 26, 2014

4. Date and time of prices of the instruments quoted in this document:

Prices as of August 25, 2014

5. Updates:

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Haikui Seafood AG

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