

# Haikui Seafood AG

April 28, 2015



## Information Analysis

### Analysts

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### Evaluation Result

**N.A.**

(previous: n.a.)

### Fair Value

**N.A.**

(previous: n.a.)

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

## Well prepared for the “New Normal”

In fiscal year 2014, Haikui Seafood stabilized its operations and at the same time started with the construction of the new factory. While sales slightly increased by 2.9% (2.0% at constant currency) to €121m, EBIT and EBIT margin dropped to €13.9m and 11.5%, respectively. Both were again affected by the intense competitive environment and the rising labor costs in China. With the successful containment of EMS affecting prawns and a more favorable wild catch, the raw material supply improved compared to the previous year. All in all, the fiscal year was in line with the guidance of the management and our own expectations. Only the cash balance is significantly above our forecasted figure due to lower than expected working capital positions, government repayments and currency effects. The cash balance will partly be reduced by the further investments in the factory in the next year.

The Company started to build the new production facilities in the middle of 2014 (see page two). The new factory will include modern production lines for frozen as well as canned seafood products, which will add additional production capacities. The current factory will cease production once the Company relocates to the new factory. Due to the high grade of automation, Haikui expects to increase the efficiency of the production process and to lower its labor costs. With the new factory, the Company is also able to broaden the product spectrum and further diversify the risk of being affected by price fluctuation of specific species. However, the relocation to the new premise and the optimization of the routines will take its time so that we don't expect substantial improvements before 2018.

In January 2015, the Company's financial controller Mr. Edward Lee was added to the management board. Mr. Lee has been with the Company since 2011 and already accompanied the management at various visits in Europe. He is the second English speaking member on the management board of Haikui besides CFO Alan Gey.

**We continue to suspend our valuation as we have not yet reached an agreement regarding the compliance items discussed in our previous research studies.**

### Key data / Earnings

Year	Sales (€ m)	EBITDA (€ m)	EBIT (€ m)	EBT (€ m)	Net Profit (€ m)	EPS (€)	DPS* (€)	EBIT-Margin	Net-Margin
2014a	121.1	15.6	13.9	14.1	10.6	1.03	0.00	11.5%	8.7%
2015e	127.1	15.5	12.5	11.9	8.9	0.87	0.00	9.8%	7.0%
2016e	133.5	18.2	13.4	12.5	9.4	0.91	0.09	10.0%	7.0%
2017e	144.2	20.8	16.0	15.0	11.3	1.10	0.11	11.1%	7.8%
2018e	155.7	23.3	18.5	17.8	13.4	1.30	0.13	11.9%	8.6%

\*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 Q1 2015	May 29, 2015
Market segment	Regulated Market
Transparency standard	Prime Standard

Financial ratios	2015e	2016e	2017e
EV/Sales*	neg.	neg.	neg.
EV/EBITDA*	neg.	neg.	neg.
EV/EBIT*	neg.	neg.	neg.
P/E adj.	3.5	3.3	2.7
Price/Bookvalue	0.2	0.2	0.1
Price/FCF	neg.	neg.	3.5
ROE (in %)	4.7	4.7	5.4
Dividend yield (in %)	0.0	3.2	3.9

\*neg. ratios: net cash higher than MarketCap

Number of shares outs. (in '000)	10,276		
MarketCap / EV (in € m)	33.41 / neg.		
Free float (in %)	15.3		
Ø daily trading vol. (3M, in €)	6,574		
12M high / low (in €; XETRA-close)	4.64 / 2.14		
Price April 27th, 2015 (in €; XETRA-close)	2.83		
Performance	1M	6M	12M
absolute (in %)	3.6	-20.0	-35.7
relative (in %)	1.8	-40.9	-49.7



Haikui Seafood AG (red/grey), Performance 1y vs. CDAX (black)

Source: Bloomberg

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## Discussion of Operations and Outlook

### Construction and financing of the new factory

The DEG loan amounting to approx. €18.2m granted in December 2013 was taken as the starting point for the construction of the new factory. Haikui secured land use rights of 1000 mu (approx. 67 ha) in December 2013 for €9.4m and paid €9.2m. Subsequently, it signed an agreement with the Chinese authorities to relocate the operations from the current factory to the new factory in the industrial zone (the "Relocation Agreement") in October 2014. With the Relocation Agreement superseding the agreement signed in December 2013, the prepayments for the rights were entirely returned by the government. Based on the terms of the Relocation Agreement, the Company purchased 200 mu (for €2.7m) within the same area with an option to acquire the remaining 800 mu for later expansions. After the ground works were finished, construction works began during the second half of 2014. The first tranche of the DEG loan of approx. €4m was paid out in the fourth quarter of 2014, while the remaining DEG funds will be paid out in 2015. The DEG loan is going to cover approx. one third of the factory's cost, the remaining part will be financed by the Company's operations and cash reserves. Haikui anticipates that the factory is going to be ready for occupancy in the middle of 2016. The current production facilities will be closed down by the government six months after the new factory has been in operation. Haikui is in negotiations about compensation payments which will be disbursed by the government.

### Operations summary

In fiscal year 2014, Haikui's financial results mirror the competitive market environment. Revenues slightly increased to €121.1m (+2.9%, yoy). Gross profit as well as gross margin came down by 6.7% and 1.7%-age points, mainly due relatively higher material costs (77.0% vs. 75.1% of revenues in 2014 and 2013) which could not be fully passed on to the market. While raw material supply in general recovered due to better wild catch and aquaculture output, the keen competition for raw material kept price drops at bay. In addition, labor costs per unit of production have again risen in the wake of the overall Chinese wage rate trend. On the other side, sales prices were negatively affected by competition which not only stems from the domestic players but also from other Asian markets such as Bangladesh, Vietnam and Thailand. In contrast to previous years, labor costs and overhead costs in relation to revenues did not change significantly with direct material still accounting for more than 90% of the cost of sales.

Operating costs rose by 5.2% to approx. €6.2m whereby general and administration expenses in particular showed a strong increase resulting from higher employee compensations. As a result, EBIT margin came down by 2.1%-age points. Financial expenses were again negligible reflecting the low leverage of the Company.

The reduced tax expenses (€3.5m vs. €4.4m) over-compensated the decline of EBT. Consequently, net income increased by 3.3% to €10.6m (or €1.03 per share). Together with the destocking of the inventory, the repayment of funds for the land use rights and currency effects, cash balance increased by €43.9m despite capital expenditures for the factory of €14.2m.

### Haikui in comparison to other Asian seafood processors

In comparison to other publicly listed Asian seafood processing companies (specifically Thai Union Frozen Products, Dalian Zhangzidao Fishery Group, Haixin Foods Co., Baiyang Aquatic Group and Zhanjiang Guolian Aquatic Products Co.), Haikui has done a great job in keeping margins at healthy levels. Gross profit and EBIT margins both significantly exceeded the median margins of this peer group in the past. In our view, Haikui is able to achieve these margins by relieving its invoice conditions and by conceding its supplier base through pre-

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payments and short settlement terms. Our view is substantiated by the activity ratios which return rather long DSO and DIO figures and short DRO numbers. Compared to the peer group companies, Haikui takes on average almost twice as long to collect its receivables and settles its payables 30 – 50 days earlier. Furthermore, inventory is kept 20-30 days longer in storage as compared to Haikui’s competitors.

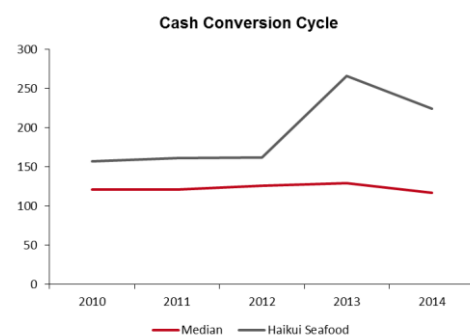
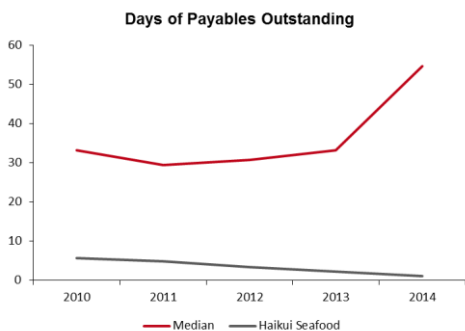
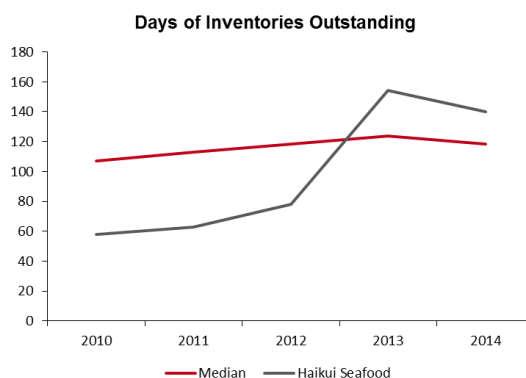
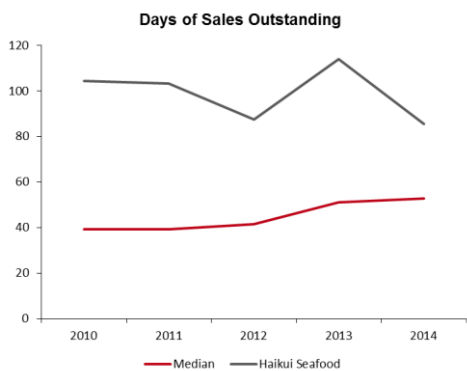
Apparently, the solid financial position leaves Haikui a greater leeway for its negotiations with its customers and suppliers compared to other seafood processors. We believe, that with this strategy together with the broad product spectrum, the Company is able to evade the devastating price competition caused by market participants who are obliged to liquidate their inventories for financing purposes. In the long run, it would nevertheless be important to streamline the cash conversion cycle (currently 200+ days) to free up Company resources. In fact, Haikui has shortened its cash conversion cycle by approx. 40 days since 2013.

### Selected figures of publicly listed Asian seafood processors, median values

Median PG values	2010	2011	2012	2013	2014
GP Margin	11.86%	9.97%	10.50%	4.83%	8.80%
EBIT Margin	6.94%	7.04%	5.24%	4.36%	4.33%
DSO	39	39	41	51	53
DIO	107	113	118	124	119
DPO	33	29	31	33	55
Cash Conversion Cycle*	121	121	126	130	117
<i>Number of Companies</i>	5	5	5	5	2

\* Cash Conversion Cycle figures cannot be derived by the numbers in the table

Source: Bloomberg, BankM Research



Source: Bloomberg, BankM Research

## The “new normal”

### Outlook:

For our outlook, we have changed our previous view that market environment is going to improve significantly in the near future. Although EMS seems to have been overcome and raw material supply in general is also trending upwards due to for example the intensification of aquaculture, the aforementioned competition will nevertheless restrain gross margin; the strong demand for seafood raw materials is likely to prevent purchase prices from declining substantially and selling prices are also prone to remain under pressure. Thus, we perceive last year's business environment not as transitory but rather as “the new normal”. The operation of the new factory will likely increase the efficiency of Haikui, however the magnitude is very difficult to estimate as one of the main factors for sales and gross profit is the composition of the raw material which is almost unpredictable. The basic trend that fish and other seafood are going to take a larger share of our diet is intact.

The management has communicated a guidance of 5% revenue growth (at constant currency) and an EBIT margin between 8% and 10%. The anticipated drop of the EBIT margin is rationalized by the tight market conditions and rising production costs.

## Haikui's Stock and Valuation

### Stock performance:

During the last 12 months, Haikui's stock declined by 35.7% from €4.39 to €2.83 (XETRA close April 27, 2015) and clearly underperformed the benchmark CDAX (+28.0%). The stock performance was significantly affected by the bad news flow from other Chinese companies listed at the German stock exchange in the middle of the year; Haikui itself had not to report any bad news. Based on daily stock price returns in the last 12 months, the annualized volatility is at 65% with a mean daily trading volume of ca. 2,200 pieces.

### Valuation:

We continue to suspend our valuation as we have not yet reached an agreement regarding the compliance items discussed in our previous research studies.

### Dividend:

Subject to the regeneration of the adverse market situation and the successful construction of the new factory, we consider a first dividend payment in 2017 for fiscal year 2016.

## Tables

### Profit & Loss Account

Fiscal Year 31.12 (IFRS)		2013a	2014a	2015e	2016e	2017e	2018e	4y - CAGR 2014 - 2018
	in € '000							
<b>Total Sales</b>		<b>117,638</b>	<b>121,093</b>	<b>127,148</b>	<b>133,505</b>	<b>144,185</b>	<b>155,720</b>	
	Growth rate in %	-39.7	2.9	4.0	5.0	8.0	8.0	6.5
Cost of sales		96,418	101,300	108,076	113,479	121,116	130,026	
<b>Gross Profit</b>		<b>21,220</b>	<b>19,793</b>	<b>19,072</b>	<b>20,026</b>	<b>23,070</b>	<b>25,694</b>	
	Growth rate in %	-57.8	-6.7	-3.6	5.0	15.2	11.4	6.7
Selling and marketing expenses		1,826	1,338	1,405	1,475	1,593	1,721	
General and administration expenses		4,065	4,860	5,200	5,200	5,500	5,500	
Other income		810	389	0	0	0	0	
Other expenses		199	67	0	0	0	0	
<b>EBIT</b>		<b>15,940</b>	<b>13,917</b>	<b>12,467</b>	<b>13,351</b>	<b>15,977</b>	<b>18,473</b>	
	Growth rate in %	-63.8	-12.7	-10.4	7.1	19.7	15.6	7.3
Finance Result (+inc./-exp)		-1,285	172	-585	-837	-938	-638	
<b>EBT</b>		<b>14,655</b>	<b>14,089</b>	<b>11,882</b>	<b>12,514</b>	<b>15,039</b>	<b>17,836</b>	
	Growth rate in %	-66.3	-3.9	-15.7	5.3	20.2	18.6	6.1
Taxes on Income (Exp./Inc.-)		4,423	3,519	2,971	3,128	3,760	4,459	
<b>Net profit</b>		<b>10,232</b>	<b>10,570</b>	<b>8,912</b>	<b>9,385</b>	<b>11,279</b>	<b>13,377</b>	
	Growth rate in %	-68.2	3.3	-15.7	5.3	20.2	18.6	6.1
<i>For information purposes</i>								
Depreciation and amortization		1,637	1,660	3,058	4,839	4,850	4,870	
<b>EBITDA</b>		<b>17,577</b>	<b>15,577</b>	<b>15,525</b>	<b>18,189</b>	<b>20,826</b>	<b>23,344</b>	
No. of shares (Ø outstanding)		10,276	10,276	10,276	10,276	10,276	10,276	
Net profit / share (EPS)		1.00	1.03	0.87	0.91	1.10	1.30	

Source: Haikui Seafood AG, BankM Research

### Profit & Loss Margins

	in %	2013a	2014a	2015e	2016e	2017e	2018e
Gross Profit Margin		18.0	16.3	15.0	15.0	16.0	16.5
EBITDA Margin		14.9	12.9	12.2	13.6	14.4	15.0
EBIT Margin		13.6	11.5	9.8	10.0	11.1	11.9
EBT Margin		12.5	11.6	9.3	9.4	10.4	11.5
Net Profit Margin		8.7	8.7	7.0	7.0	7.8	8.6

Source: Haikui Seafood AG, BankM Research

**Cash Flow Statement**

Fiscal Year 31.12 (IFRS)	2013a	2014a	2015e	2016e	2017e	2018e	4y - CAGR 2014 - 2018
in € '000							
<b>Earnings before Taxes</b>	<b>14,655</b>	<b>14,089</b>	<b>11,882</b>	<b>12,514</b>	<b>15,039</b>	<b>17,836</b>	
+ Depreciation and amortization	1,637	1,660	3,058	4,839	4,850	4,870	
- income taxes paid	7,936	3,123	3,181	3,089	3,602	4,284	
<b>= Cash Earnings</b>	<b>8,356</b>	<b>12,626</b>	<b>11,759</b>	<b>14,264</b>	<b>16,286</b>	<b>18,423</b>	
<i>Growth rate (in %)</i>	-77.0	51.1	-6.9	21.3	14.2	13.1	9.9
- Chg. in net working capital	-1,764	-23,572	16,917	4,162	6,475	7,231	
+ finance expenses	14	11	86	1,301	1,244	1,188	
- finance income	182	190	-499	464	306	551	
+ Other non-cash item	1,422	-377	874	-115	0	-220	
<b>= Operating Cash Flow</b>	<b>11,374</b>	<b>35,642</b>	<b>-3,699</b>	<b>10,823</b>	<b>10,750</b>	<b>11,610</b>	
<i>Growth rate (in %)</i>	-55.5	213.4	-110.4	-392.6	-0.7	8.0	-24.5
- Capex	9,681	14,214	17,219	19,674	2,025	200	
+ Repayment of adv. for land use rights	0	9,895	0	0	0	0	
<b>= Free Cash Flow</b>	<b>1,693</b>	<b>31,323</b>	<b>-20,918</b>	<b>-8,851</b>	<b>8,725</b>	<b>11,410</b>	
<i>Growth rate (in %)</i>	-93.0	n.a.	n.a.	n.a.	n.a.	n.a.	-22.3
+ Other net items	-131	34	289	-952	-938	-858	
- Dividends (previous year)	0	0	0	0	939	1,128	
- Payout interest-free loan	0	0	0	0	0	0	
+ Increase in share capital (net)	0	0	0	0	0	0	
+ Bank loans	-233	3,778	14,136	-804	-804	-804	
<b>= Incr. in Cash (+)/Decr. in Cash (-)</b>	<b>1,329</b>	<b>35,135</b>	<b>-6,494</b>	<b>-10,607</b>	<b>6,044</b>	<b>8,620</b>	

Source: Haikui Seafood AG, BankM Research

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## Balance sheet

Fiscal Year 31.12 (IFRS)	2013a	2014a	2015e	2016e	2017e	2018e
in € '000						
<b>Assets</b>						
<b>Total Fixed Assets</b>	<b>27,679</b>	<b>33,062</b>	<b>45,476</b>	<b>60,541</b>	<b>57,716</b>	<b>53,485</b>
Tangible assets	12,210	26,097	38,302	53,252	48,602	44,151
Intangible assets	11,279	3,685	5,114	5,114	5,114	5,114
<i>t/o Goodwill</i>	740	833	833	833	833	833
Deferred tax assets	226	346	0	0	0	0
Other non-current assets	3,964	2,934	2,060	2,175	4,000	4,220
<b>Total Current Assets</b>	<b>131,888</b>	<b>163,291</b>	<b>174,410</b>	<b>168,164</b>	<b>181,001</b>	<b>197,203</b>
Inventories	43,576	34,158	39,973	41,972	44,796	48,092
Accounts receivable	29,853	26,864	38,318	40,234	43,453	46,929
Total liquid funds	49,814	93,686	87,192	76,585	82,629	91,249
Other current assets	8,645	8,583	8,926	9,373	10,122	10,932
<b>Balance Sheet Total</b>	<b>159,567</b>	<b>196,353</b>	<b>219,886</b>	<b>228,706</b>	<b>238,718</b>	<b>250,688</b>
<b>Shareholder's Equity / Liabilities</b>						
<b>Shareholders Equity</b>	<b>155,398</b>	<b>186,565</b>	<b>195,477</b>	<b>204,862</b>	<b>215,203</b>	<b>227,452</b>
Subscribed capital	10,276	10,276	10,276	10,276	10,276	10,276
Share premium	2,164	5,595	5,595	5,595	5,595	5,595
Retained earnings and other reserves	142,958	170,694	179,606	188,991	199,332	211,581
<b>Total Liabilities</b>	<b>4,169</b>	<b>9,788</b>	<b>24,409</b>	<b>23,843</b>	<b>23,515</b>	<b>23,236</b>
<b>Long term liabilities</b>	<b>1,735</b>	<b>5,249</b>	<b>19,385</b>	<b>18,581</b>	<b>17,776</b>	<b>16,972</b>
Bank loans (interest bearing)	1,735	5,249	19,385	18,581	17,776	16,972
<b>ST Liab. &lt; 1 year</b>	<b>2,434</b>	<b>4,539</b>	<b>5,024</b>	<b>5,263</b>	<b>5,739</b>	<b>6,265</b>
Trade payables	15	596	1,184	1,244	1,327	1,425
Bank loans	271	305	305	305	305	305
Tax payables	464	953	743	782	940	1,115
Other current liabilities	1,684	2,685	2,792	2,932	3,167	3,420
<b>Balance Sheet Total</b>	<b>159,567</b>	<b>196,353</b>	<b>219,886</b>	<b>228,706</b>	<b>238,718</b>	<b>250,688</b>

Source: Haikui Seafood AG, BankM Research

## Balance Sheet Ratios

in % of Total Assets	2013a	2014a	2015e	2016e	2017e	2018e
Total Fixed Assets	17.3	16.8	20.7	26.5	24.2	21.3
Total Current Assets	82.7	83.2	79.3	73.5	75.8	78.7
Inventories	27.3	17.4	18.2	18.4	18.8	19.2
Trade receivables	18.7	13.7	17.4	17.6	18.2	18.7
Total liquid funds	31.2	47.7	39.7	33.5	34.6	36.4
Shareholders Equity	97.4	95.0	88.9	89.6	90.1	90.7
Long Term Liabilities	1.1	2.7	8.8	8.1	7.4	6.8
Short Term Liabilities	1.5	2.3	2.3	2.3	2.4	2.5
Total Liabilities	2.6	5.0	11.1	10.4	9.9	9.3

Source: Haikui Seafood AG, BankM Research

**Key Ratios**

	2013a	2014a	2015e	2016e	2017e	2018e
Return on Assets (in %)	6.5	5.9	4.3	4.2	4.8	5.5
Return on Equity (in %)	6.8	6.2	4.7	4.7	5.4	6.0
Gross Profit Margin (in %)	18.0	16.3	15.0	15.0	16.0	16.5
EBIT Margin (in %)	13.6	11.5	9.8	10.0	11.1	11.9
Net Profit Margin (in %)	8.7	8.7	7.0	7.0	7.8	8.6
Current Ratio	54.19	35.98	34.71	31.95	31.54	31.48
Quick Ratio	32.73	26.56	24.98	22.20	21.97	22.06
Equity Ratio	0.97	0.95	0.89	0.90	0.90	0.91
Gearing	0.03	0.05	0.12	0.12	0.11	0.10
Interest Coverage Ratio	8.52	49.53	145.15	10.26	12.84	15.55
Earnings per Share in €	1.00	1.03	0.87	0.91	1.10	1.30
Dividends per Share in €	0.00	0.00	0.00	0.09	0.11	0.13
Dividend Payout Ratio	0.00	0.00	0.00	0.10	0.10	0.10
FCF per Share in €	0.16	3.05	-2.04	-0.86	0.85	1.11
Book Value per Share in €	15.12	18.16	19.02	19.94	20.94	22.13
Days Sales Outstanding	114	85	94	107	106	106
Days in Inventory	154	140	125	132	131	130
Days in Payables	2	1	3	4	4	4
Cash Conversion Cycle	266	224	216	235	233	232
Total Asset Turnover	0.74	0.62	0.58	0.58	0.60	0.62
Working Capital to Sales	0.70	0.57	0.69	0.69	0.68	0.68
CAPEX to Sales	0.08	0.12	0.14	0.15	0.01	0.00
Depreciation/Sales	0.01	0.01	0.02	0.04	0.03	0.03
Tax Rate (in %)	30.2	25.0	25.0	25.0	25.0	25.0
Number of Employees	1,722	1,568	1,600	1,650	1,700	1,700
Sales/Employee in € '000	68.31	77.23	79.47	80.91	84.81	91.60
Net Profit/Employee in € '000	5.94	6.74	5.57	5.69	6.63	7.87

Source: Haikui Seafood AG, BankM Research

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**Responsible for the content of this document: biw Bank für Investments und Wertpapiere AG (biw AG), Willich, Germany.**

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

Regulatory authority for biw AG is the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin), Graurheindorfer Straße 108, 53117 Bonn, Germany and Lurgiallee 12, 60439 Frankfurt am Main, Germany.

Issuer of the analysed instruments is Haikui Seafood AG.

#### Notice according to sec. 4 §. 4 N<sup>o</sup> 4 FinAnV (previous publications regarding the issuer within the last 12 months):

Analysts	Date	Evaluation result	Fair value
Dr. Roger Becker, David Szabadvari	April 29, 2014	Buy	€ 16.02
Dr. Roger Becker, David Szabadvari	May 23, 2014	Buy	€ 16.50
David Szabadvari, Dr. Roger Becker	August 26, 2014	Buy	€ 17.23
Dr. Roger Becker, David Szabadvari	November 12, 2014	n.a.	n.a.
Dr. Roger Becker, David Szabadvari	December 02, 2014	n.a.	n.a.

### II. Additional Information:

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#### 3. Date of first publication of this document:

April 28, 2015

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

Closing prices of April 27, 2015

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