

Måsøval (MAS)

Norway | Aquaculture | MCAP NOK 3 957m

13 August 2023

Buy

Target price: NOK 45.5
 Current price: NOK 30.5
 Upside 49%

An Unbelievable Catch

Måsøval AS (“the Company” or “Måsøval”) is a Global GAP certified salmon farmer. The Company’s integrated business model enables capitalization through the entire value chain. With sustainable practices and below-industry-average morality, escape and lice infestation rate, Måsøval is in a solid position to capitalize on the market tailwind moving towards a sustainable future. In September 28 2022, the Norwegian government proposed a 40.0% resource rent tax on farmed salmon. This unnerved investors and share prices of the industry went down by an average of 28.3% (measured from September 26 - September 29). The market has since regained trust in the bigger actors, whose share prices increased by an average of 30.3% since the drawdown, and their P/E multiples have risen from 8.4 - 13.3. However, the fear of regulatory risk still lingers for smaller companies due to a lack of engagement and research. With the confidence that Måsøval will follow suit, we therefore justify a P/E multiple of 9.0x 2023s estimated earnings, and weighted equally with a DCF-valuation, we see an upside of 49%.

Key takeaways:

- **Positioned to benefit from market tailwind:** With the government’s ambition to double the output of farmed salmon until 2030 and the Company’s numerous licenses in the pipeline, Måsøval obtains a strong growth potential. The inquired licenses will allow harvesting to grow 67.4% until 2027E, preserving the Company’s high margins. Furthermore, the harvesting is executed sustainably, which is in line with the Ministry of Fisheries’ ambitions, allowing Måsøval to gain market share from actors unable to attain the stricter regulations.
- **Ability to withstand setback from proposed tax:** The fear of how the resource rent tax will affect the profitability of salmon farmers has left the market unjustifiably unattended. Måsøval’s integrated sales and processing unit, alongside both educational and development licenses in combination with secondary revenue streams stemming from Måsøval Service, will lead to only 70.2% of revenue being issued for tax in 2027E resulting in a profit margin of 23.5%. This will result in an effective tax rate of 44.2%, 12.8 percentage units lower than the uneducated market consensus.
- **Unjustified fear of resource rent tax creates re-rate potential:** Prior to the resource rent tax, Måsøval, along with peers, traded at P/E multiples in the range of 21.0x – 26.0x. The Company is currently trading at a P/E of 6.3x. The leading actors in the sector have regained the market’s trust by actively and openly addressing the effect and working towards the government to lower the rate. While smaller farmers are still lagging and have not engaged the market to the same extent, which is expected to change and will drive current valuation towards a P/E of 9.0x

Analysts

Vilhelm Bornefalk	Equity Analyst
Mary Darbinyan	Equity Analyst

Market Data, NOK

Exchange	Merkur Market
Shares (m)	122.5
MCAP (m)	3957.0
EV (m)	5946.0

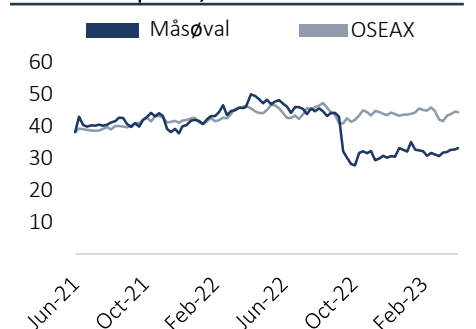
Metrics & Drivers	22A	23E	24E
EV/EBIT	5.97x	7.26x	6.15x
EV/EBITDA	5.02x	5.96x	5.19x
EV/S	2.78x	2.46x	2.08x
P/E	5.98x	11.2x	9.25x
ND/EBITDA	1.46x	1.81x	1.37x

Forecast, NOKm	22A	23E	24E
Total revenue	1992.1	2420.1	2614.1
Rev. growth y/y	61.2%	21.5%	8.0%
Gross Profit	1242.5	1590.2	1662.3
Gross Margin	62.4%	65.7%	63.6%
EBITDA	859.6	1165.4	1180.2
EBITDA Margin	43.2%	48.2%	45.1%
EBIT	884.5	1073.2	1150.8
EBIT Margin	44.4%	44.3%	44.0%

Major Shareholders

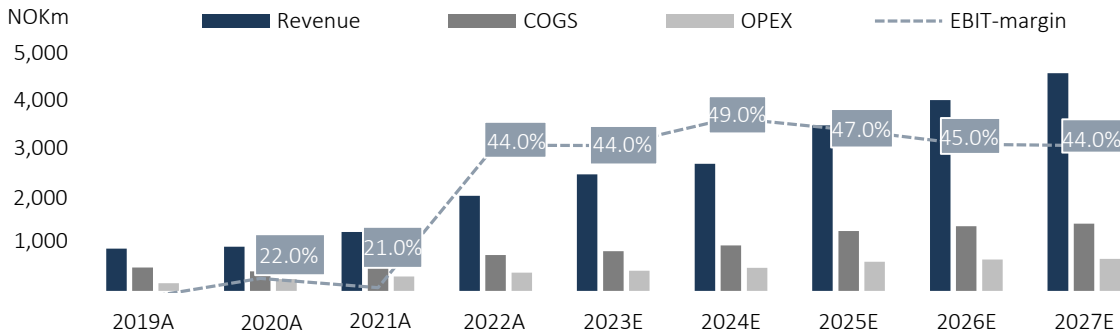
Måsøval Eindom AS	69.9%
Verdipapirfond Odin Norge	7.3%
Vartdal Invest AS	3.9%
J.P Morgan Bank Luxembourg	3.5%

Price Development, NOK



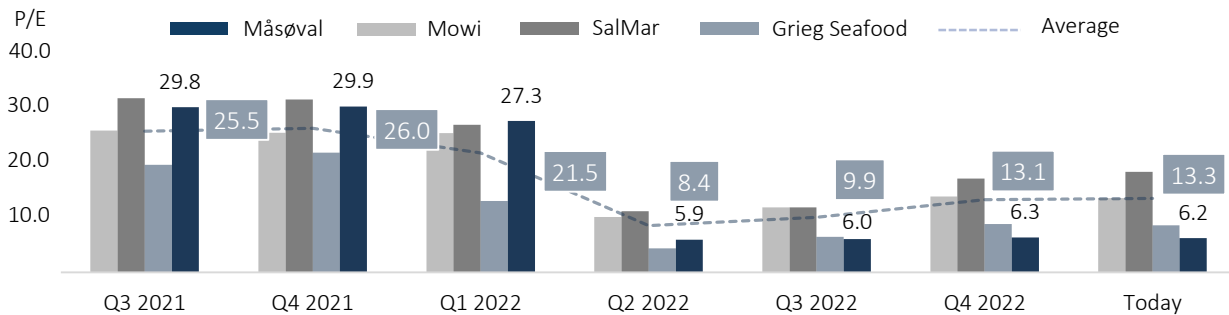
Investment thesis in charts

Margin Expansion as a result of a scalable business model



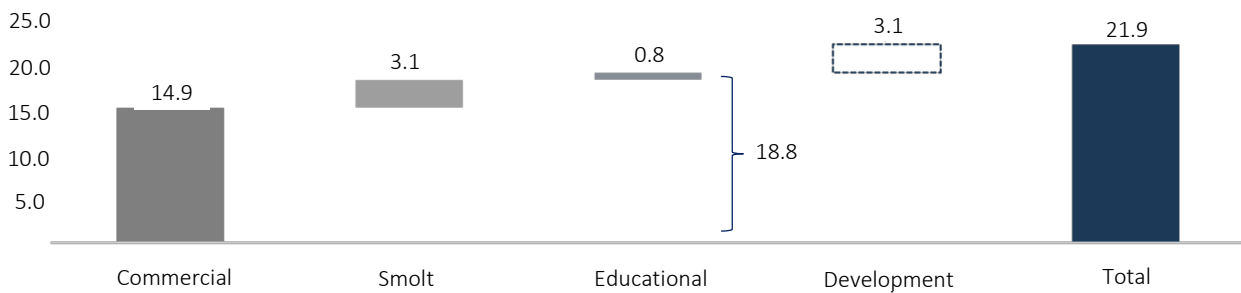
Sources: Analyst Estimates, Måsøval

Industry Valuations before and after resource rent tax proposal



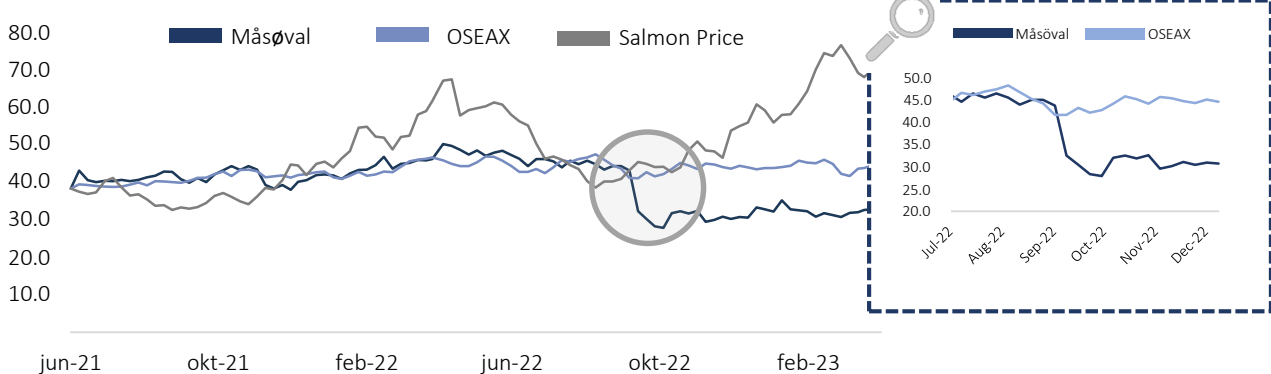
Source: Bloomberg

Current MAB (thousand tonnes) distribution



Sources: Analyst Estimates, Måsøval

Misunderstanding about the salmon tax rate does not justify current valuation



Source: Bloomberg

Investment thesis

Strong growth potential with margins expanding to normalized levels

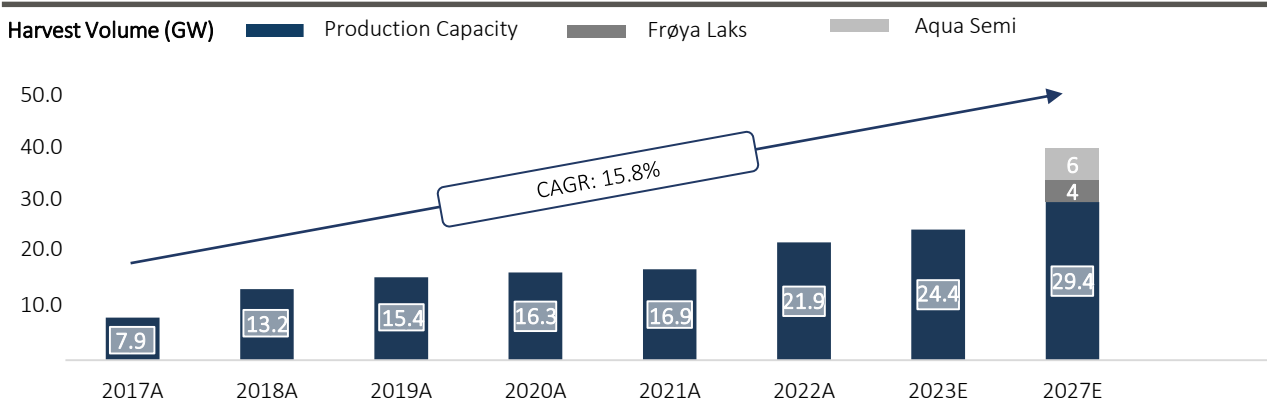
Måsøval has a strong growth potential with licenses amounting to 17,500 tonnes of MAB, of which 15,000 are estimated to be utilized in their pipeline, allowing harvesting to grow 67.4% from 2022 to 2027E, an estimated capacity of 36,800 tonnes. This will drive topline 13.7% y/y during the same period. The EBIT-margin expanded from 2021 (20.6%) - 2022 (44.4%), due to fully utilizing best practices on farming sites acquired in 2021. An EBIT-margin expansion is estimated as a result of high capacity utilization, below industry average mortality, escape and lice infestation rate, and operational leverage. Whereas OPEX will increase with a 6-year CAGR of 9.7%, amounting to 15.5% of revenue in 2027E compared to the current 19.2%.

Sustainable operations fit to benefit from the market tailwind

The sustainable operation allows for higher margins and enables a higher number of granted licenses by the Ministry of Fisheries, pushing an environmentally friendly agenda. Måsøval, being the only company among direct peers with a Global GAP certificate, is in a favourable position for further cost-efficient growth in a governmentally regulated market. The Company gains market share and creates moats by outperforming regulations, whereas commercial licenses are allocated to the applicants who are regarded as best meeting the allocation criteria, stagnating growth of unsustainable competitors.

Ability to withstand setback from an unfavourable tax proposal

The not yet finalized tax proposition has now been lowered from 40.0% to 35.0 % and is predicted to be even more beneficial for the industry when entered into force. The resource rent tax will only affect the value created in the sea for commercial licenses. However, only 70.2% of revenue is being issued for the resource rent tax in 2027E. In contrast, sales, educational, and future development licenses from the production unit Aqua Semi are not issued by taxation, resulting in a profit margin of 23.5%, and an effective tax rate of 44.2%, 12.8 percentage units lower than the uneducated market consensus.



Sources: Måsøval

Risk of expansion due to outsourcing of smolt

There is a risk with expansion as smolt will need to be outsourced as more than its current capacity will be needed. COGS will rise in 2025E, whereas smolt cost will increase by 20%, and time management might be affected negatively as smolt will not be ready on command. Capacity utilization is therefore estimated to decrease from a historical average of 99.6% to 95.3% from 2025E and onward.

Company Overview

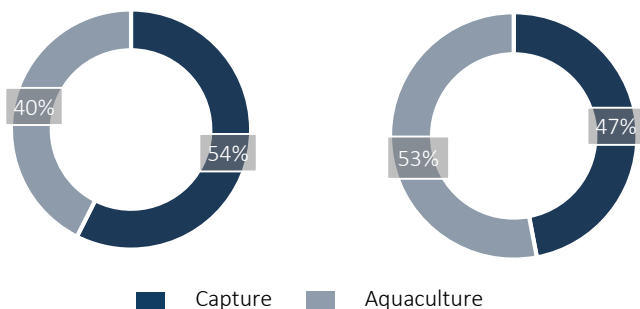
Recent integration of the entire value chain through successful acquisitions

Måsøval is a Norwegian salmon farming company founded in 1973 and went public in 2021. The Company is the seventh largest fish farming company in the country and operates along the Norwegian coastline in Production Areas 5 and 6, recognized as the most coveted areas for salmon farming worldwide. Through continuous strategic acquisitions, the Company has secured in-house smolt and post-smolt production, harvesting, processing and sales and distribution capabilities. Thus, the Company has now become fully integrated. Benefitting from the advantageous natural conditions, the Company yields robust farming results, which, when synergized with efficient operational skills, lead to favorable financial performance.

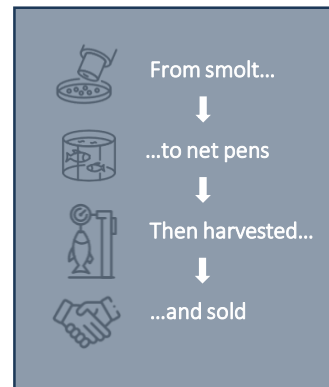
Business Model

Competitive advantage by outstanding sustainable practices

Måsøval generates revenue mainly by selling harvested salmon. The procedure commences from smolt on land, to fish farmed in net pens, through sales and processing unit to wholesalers in Norway along with the rest of Europe, North America and Asia. The sales consist of packaged and delivered salmon being purchased on spot or forward market with prices dependent on the received grade, adding an additional revenue stream of 12.0%. Fish health is of great importance with below industry average mortality, escape and lice infestation rate, allowing for the highest gross margins (62.4%) and operating margins (44.4%) in the industry in 2022A.



Source: Måsøval



Market Overview

A growing governmentally regulated market

The Norwegian Aquaculture market is regulated by licenses, which the Ministry of Fisheries grants through auction or by being best suited regarding sustainable practices. One commercial license amounts to 780 tonnes of maximum allowed biomass (MAB) and has a market value of roughly 130 NOKm. Norway is the world's largest exporter of salmon and currently produces an output of 1.5 million tonnes of gutted weight. Mowi, SalMar and Bakkafrøst hold the biggest market shares, with Måsøval having the seventh largest market position. The government's ambition is to double production until 2030 and to do so in a sustainable manner. The price of salmon is determined by supply and demand, and the product is being traded both on the spot and forward market. Output volumes have risen by a 10-year CAGR of 4.6%, and prices have increased by a CAGR of 8.8% during the same period. The price is expected to further increase with a growing population and rising demand for a healthy and sustainable source of protein.

Description of the proposed resource rent tax

On September 28 2022 the Norwegian government proposed a resource rent tax on salmon farmed in Norwegian waters in order to compensate municipalities for usage of national property. The tax was later reworked and is currently affecting salmon from commercial licenses caught from net pens before processing. A discount of 70 NOKm is further instated.

Valuation

Måsöval is trading at an unjustified discount

The peers are other salmon farmers and have been chosen based on size, geographical location and business model. Måsöval is currently trading at a P/E multiple of 6.2x, in comparison to the peer median of 8.0x. Måsöval alongside peers are currently trading under their historical multiples, which prior to the proposed tax proposition were around 20x-30x. The industry's largest actors have in higher extent publically addressed how the tax will affect future operations and made an effort to further lower the rate. The same has not been done by smaller actors. The relative volume traded has risen for SalMar and Mowi compared to Måsöval as prices rise. We assume the market to be rational and Måsöval to follow suit. As there median since Q2 has risen by 46% We justify the same development for Måsöval and apply a P/E multiple of 9.0x 2023E's estimated earnings, indicating a target price of 45.6 and an upside of 49.6%.

Peer Valuation	Market Data (NOKm)		Financials 2022			Valuation
Company Name	Market Cap	Enterprise Value	EBITDA margin	ROIC	Revenue-CAGR	P/E
	LTM		LTM		2022A-2024E	LTM
AKVA Group	2,097	3,085	6.4%	(2.2)%	3.1%	(n/a)
Icelandic Salmon	4,551	4,843	26.6%	15.7%	4.5%	8.4
Grieg Seafood	8,440	10,663	29.9%	10.5%	6.2%	22.6
Salmons Camanchaca	3,487	4,246	22.4%	14.8%	8.4%	7.1
Austevoll Seafood	16,680	25,671	23.3%	9.8%	4.7%	7.6
Median	4,551	4,843	23.3%	10.5%	4.7%	8.0
Mean	7,051	9,702	21.7%	9.7%	5.4%	11.4
Måsöval	3,920	5,909	51.4%	15.4%	11.5%	6.2

Company Name	Q3 2021	Q4 2021	Q1 2022	Q2 2022	Q3 2022	Q4 2022	Today
Mowi	25.6	25.2	25.1	10	11.7	13.7	13.4
SalMar	31.4	31.2	26.6	11	11.7	16.9	18.1
Bakkafrost	28.3	28.8	29.1	13.6	18.6	25.2	21.6
Grieg Seafood	19.4	21.6	12.9	4.3	6.4	8.7	8.5
Salmones Camanchaca	n/a	n/a	35	7.9	5.9	7.4	6.8
Average	26.2	26.7	25.7	9.4	10.9	14.4	13.7
Mean	27.0	27.0	26.6	10.0	11.7	13.7	13.4
Måsöval	29.8	29.9	27.3	5.9	6.0	6.3	6.2

Source: Bloomberg

Discounted cash flow valuation indicates an upside of 40.6%

A DCF with estimates from 2022A-2027E has been performed, implying an intrinsic value of 45.0 NOK and a 47.5% upside. The WACC is calculated to 9.0%, and a terminal growth rate of 2.0% is assumed— the book value of debt accounts for 29.1% of the total capital. The cost of debt is calculated to be 2.6%, and the cost of equity to 12.0%.

Terminal Growth Rate	Share Price	WACC						
	45,00	7,5%	8,0%	8,5%	9,0%	9,5%	10,0%	10,5%
1,4%	81,26	64,13	49,44	36,73	25,61	15,81	7,12	
1,6%	85,88	67,90	52,57	39,34	27,81	17,68	8,72	
1,8%	90,82	71,92	55,87	42,09	30,12	19,65	10,40	
2,0%	96,12	76,20	59,38	45,00	32,56	21,71	12,15	
2,2%	101,82	80,78	63,12	48,08	35,13	23,87	13,99	
2,4%	107,97	85,69	67,10	51,35	37,85	26,15	15,92	
2,6%	114,62	90,96	71,34	54,82	40,72	28,55	17,95	

Appendix: Income Statement

NOKm	2019	2020	2021	2022	2023E	2024E	2025E	2026E	2027E
Revenue	888.2	928.1	1 235.6	1 992.1	2 420.1	2 879.6	3 832.8	4 179.4	4 319.5
COGS	(488.4)	(410.6)	(578.2)	(749.7)	(830.0)	(951.8)	(1255.6)	(1357.2)	(1406.1)
Gross profit	399.8	517.5	657.4	1 242.5	1 590.2	1 927.8	2 577.2	2 822.2	2 913.5
<i>Gross margin</i>	45.0%	55.8%	53.2%	62.4%	65.7%	66.9%	67.2%	67.5%	67.4%
OPEX									
Personel costs	(94.1)	(106.5)	(141.4)	(196.8)	(218.4)	(250.2)	(320.7)	(346.2)	(357.9)
Other operating expenses	(70.4)	(139.0)	(158.8)	(186.0)	(206.4)	(231.9)	(291.4)	(308.4)	(312.6)
EBITDA	235.3	272.0	357.1	859.6	1 165.4	1 445.6	1 965.1	2 167.6	2 242.9
<i>EBITDA-margin</i>	26.5%	29.3%	28.9%	43.2%	48.2%	50.2%	51.3%	51.9%	51.9%
Depreciation and Amortization	(47.7)	(50.5)	(68.5)	(166.2)	(158.1)	(177.6)	(231.3)	(244.8)	(248.1)
Operational EBIT	187.7	221.5	288.6	693.4	1 007.3	1 268.0	1 733.9	1 922.9	1 994.7
Production Tax	n/a	n/a	(6.8)	(8.9)	(10.8)	(12.8)	(17.0)	(18.6)	(19.2)
Profits sharing with co-location partners	(20.4)	(16.4)	(25.5)	(46.2)	(51.1)	(60.8)	(81.0)	(88.3)	(91.2)
Biological assets - Net fair value adjusted	n/a	n/a	n/a	246.2	127.8	215.1	164.6	47.3	31.5
EBIT	167.3	205.0	254.1	884.5	1073.2	1409.5	1800.4	1863.3	1915.8
<i>EBIT-margin</i>	18.8%	22.1%	20.6%	44.4%	44.3%	48.9%	47.0%	44.6%	44.4%
Interest income	6.2	60.0	5.8	10.0	5.0	5.0	5.0	5.0	5.0
Interest expenses	(36.5)	(39.0)	(68.6)	(91.8)	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)
EBT	136.9	226.0	191.4	802.7	978.2	1314.5	1705.4	1768.3	1820.8
<i>EBT-margin</i>	15.4%	24.4%	15.5%	40.3%	40.4%	45.6%	44.5%	42.3%	42.2%
Tax expense	(35.1)	(43.3)	(45.8)	(176.4)	(455.3)	(496.9)	(516.3)	(594.9)	(795.8)
Net income	101.8	182.7	145.6	626.3	522.8	817.6	1 189.1	1 173.4	1 025.0
<i>Net margin</i>	11.5%	19.7%	11.8%	31.4%	21.6%	28.4%	31.0%	28.1%	23.7%

WACC

Cost of Debt	2.36%
Cost of Equity	12.0%
Risk-Free Rate	3.2%
Beta	1.3
Risk Premium	10.0%
Amount of Debt	0.3
Amount of Equity	0.7
WACC	9.0%

DCF Valuation Breakdown 2032E

Sum of forecasted value (NOKm)	8,799
Terminal Value (NOKm)	12,012
Enterprise Value (NOKm)	20,811
Net Debt (NOKm)	15,298
Market Cap (NOKm)	3,920
No. Shares (m)	123
Equity value per share (NOK)	45.0

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