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Clean Seas Seafood (CSS)

A year of consolidation

Recommendation

Hold (Buy)

Price

\$0.42

Target (12 months)

\$0.47 (previously \$0.60)

GICS Sector

Food Beverage and Tobacco

Expected Return

Capital growth	11.9%
Dividend yield	0.0%
Total expected return	11.9%

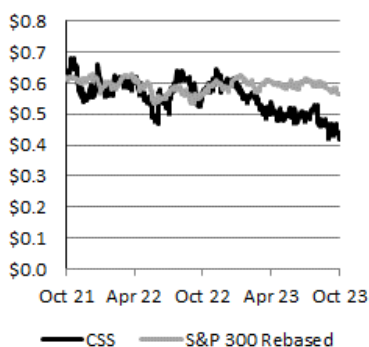
Company Data & Ratios

Enterprise value	\$69.7m
Market cap	\$69.5m
Issued capital	165.5m
Free float	100%
Avg. daily val. (52wk)	\$63,353
12 month price range	\$0.405-0.645

Price Performance

	(1m)	(3m)	(12m)
Price (A\$)	0.46	0.50	0.55
Absolute (%)	-6.52	-13.13	-21.82
Rel market (%)	-3.07	-6.55	-22.21

Absolute Price



SOURCE: IRESS

BELL POTTER SECURITIES LIMITED
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AGM commentary and trading update

CSS's AGM highlighted a more sombre trading update that we would have expected, with sales volumes broadly flat YOY and frozen inventories building. Key points:

Sales, harvest and biomass: 1Q24 sales volumes were down -1% YOY and running at an annualised rate below FY23 levels. Harvest volumes were up +23% YOY and biomass at sea was up +10% YOY. Frozen inventories climbed +44% QOQ to 540t. The uplift in Frozen inventories follows a +98% HOH uplift in 2H23 and is a pattern we would ideally like to see reverse over the remainder of FY24e.

Pricing: Average 1Q24 selling prices were up +4% YOY to \$22.62/Kg, but down -2% relative to average 2H23 pricing of \$23.02/Kg.

Commentary: We note comments that challenging market conditions have persisted throughout 2023, appears more sombre than outlook comments at the FY23 result.

We have reviewed our forecast in light of softer 1Q24 sales volumes trends and easing HOH selling prices from historically high levels. With growing harvest volumes and biomass, we continue to project YOY volume growth albeit at a lower average price point. The net effect is Operating EBITDA downgrades of -35% in FY24e, -24% in FY25e and -21% in FY26e. Our target price is downgraded to \$0.48ps (prev. \$0.60ps) reflecting a narrowing in gross margin targets and adoption of a higher WACC hurdle (based on a high higher risk free rate).

Investment view: Downgrade to Hold

We downgrade our rating from Buy to Hold. The growth in inventories seen in 1Q24 continues a trend that was observable in 2H23 and needs to be considered in the context of both CSS and TKC expanding biomass at sea. Trading at ~20x FY24e EBITDAS, we see the share price as balancing current operating earnings and the upside from developing the asset base further. While not discounting the turnaround to date, a further re-rating in the CSS share price would likely require a resumption profitable sales volume growth.

Earnings Forecast

Year end June	2023	2024e	2025e	2026e
Sales (A\$m)	69.4	73.9	80.4	86.4
Operating EBITDAS (\$m)	3.7	3.6	7.2	9.2
Reported EBITDA (\$m)	10.2	3.6	7.2	9.2
NPAT (adjusted) (A\$m)	6.0	(0.8)	1.2	2.7
NPAT (reported) (A\$m)	6.0	(0.8)	1.2	2.7
EPS (adjusted) (Acps)	3.6	(0.5)	0.8	1.6
EPS growth (%)	n.a.	n.a.	n.a.	n.a.
PER (x)	11.6	(88.6)	55.9	25.6
EV/EBITDAS (x)	18.9	19.6	9.7	7.5
Dividend (A cps)	0.0	0.0	0.0	0.0
Franking (%)	0.0	0.0	0.0	0.0
Yield (%)	0.0	0.0	0.0	0.0
ROE (%)	6.9	(0.8)	1.0	1.9

SOURCE: BELL POTTER SECURITIES ESTIMATES

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Clean Seas Seafood

COMPANY DESCRIPTION

Clean Seas Seafood Ltd (CSS) was formed by The Stehr Group in 2000 and publicly listed in 2005. The initial strategy of CSS was to propagate and grow Southern Bluefin Tuna, as well as other species including Yellowtail Kingfish. In 2012 CSS pivoted away from Tuna and began to focus on its Kingfish operations. Today CSS is a vertically integrated Kingfish producer operating hatcheries, farming and processing facilities, with lease capacity in place to support growth to ~10,000t.

TARGET PRICE

Our \$0.47ps target price is predicated on: (1) a medium term production target of 4,500-5,500t at a gross margin of \$4.75-5.25/Kg (vs 2H23 of \$5.22/Kg), resulting in an EBITDA per Kg of \$2.00-3.00/Kg.

RISKS

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

COVID-19: The substantial impact of COVID-19 on the global and domestic economies is creating enormous volatility and uncertainty in global share markets. The forecasts in the report may be subject to significant changes if this situation continues for an extended period of time.

Fish health and mortalities: There is a risk that fish stocks required for CSS products can be impacted by disease and environmental issues. Where they are not controllable, significant mortalities may occur or there may be a significant negative effect on growth and feed conversion rates.

Predators: The risk of predators attacking growout fish in sea cages is high and attacks by seals, sharks and cormorants are common. Fish losses from these types of attacks are generally low, damage by predators to the sea cages and nets can cause fish escapes.

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

Water: CSS's activities require it to have sufficient access to water sources and although the company currently has access to adequate sources of water, no assurance can be given that sufficient water will be available for future projects, or that such access will be uninterrupted in all circumstances.

Feed prices and supply: CSS purchases pelletised and other feed for its Live Fish to consume. This is an essential input for the survival and growth of the fish and therefore the success of the business. If the company was unable to source suitable feed then this would have a material adverse effect on the Company's activities.

Pricing risk: Yellowtail Kingfish prices have varied significantly in export markets over recent years mainly in response to supply-side factors. Potential decreases in the market price of Yellowtail Kingfish could cause occasions where CSS may not be able to sell its product at an economic profit.

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 kingfish could also result in lower demand for CSS products which could CSS profitability.

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

Future Funding Requirements: CSS has historically operated in a negative operating cash basis and may require additional funding in the future in order to develop its aquaculture business and to meet working capital costs. Additional equity financing may be dilutive to shareholders.

Environmental risks and licensing: Significant liabilities could be imposed on CSS for damages, clean-up costs or penalties in the event of or non-compliance with environmental laws or regulations.

Competition: Current and future potential competitors include companies with greater resources developing similar and competing products. There is no assurance that competitors will not succeed in developing products that have higher customer appeal and no guarantee that the commercialisation of CSS's products will occur, revenue growth will be stimulated or that CSS will operate profitably in the short term.

Foreign exchange rate risk: The price of CSS's product is impacted by movements in the USD, EUR and other currencies and the exchange rate between AUD and these currencies. Movements in the exchange rate and/or these currencies may adversely or beneficially affect CSS's results or operations and cash flows.

Clean Seas Seafood

as at 27 October 2023

Recommendation
Price
Target (12 months)

Hold
\$0.42
\$0.47

Table 1 - Financial summary

Year end June	2019	2020	2021	2022	2023	2024e	2025e	2026e										
Profit & Loss (A\$m)									Rating	Hold								
Sales revenue	46.1	40.3	48.5	66.2	69.4	73.9	80.4	86.4	Share price (A\$ps)	0.420								
... Change	10.8%	-12.6%	20.2%	36.5%	4.9%	6.5%	8.8%	7.5%	Valuation (A\$ps)	0.470								
EBITDAS	(1.0)	(7.2)	(20.1)	(4.8)	3.7	3.6	7.2	9.2	Shares on issue (m)	165.5								
SGARA	7.0	(0.7)	4.5	18.3	6.5	0.0	0.0	0.0	Market cap (A\$m)	69.5								
EBITDA	5.9	(7.8)	(15.6)	13.5	10.2	3.6	7.2	9.2	Net Debt (cash) + Lease liabilities (A\$m)	0.2								
Deprec. & amort.	(3.1)	(3.4)	(3.8)	(3.8)	(3.8)	(4.1)	(4.5)	(4.6)	Enterprise Value (A\$m)	69.7								
EBIT	2.8	(11.3)	(19.4)	9.7	6.3	(0.5)	2.7	4.7										
Interest expense	(0.3)	(1.4)	(1.4)	(0.8)	(0.3)	(0.6)	(0.9)	(0.8)	Year end June	2019	2020	2021	2022	2023	2024e	2025e	2026e	
Pre-tax profit	2.6	(12.6)	(20.8)	8.9	6.0	(1.1)	1.8	3.9	Valuation Ratios									
Tax expense	0.0	0.0	0.0	0.0	0.0	0.3	(0.5)	(1.2)	Adjusted EPS (¢ps)	3.1	(13.3)	(15.7)	5.5	3.6	(0.5)	0.8	1.6	
... tax rate	0%	0%	0%	0%	0%	30%	30%	30%	Change (%)	-30.2%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Minorities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	Adjusted PE (x)	13.5	(3.1)	(2.7)	7.7	11.6	(88.6)	55.9	25.6	
Net Profit	2.6	(12.6)	(20.8)	8.9	6.0	(0.8)	1.2	2.7	EV/Sales (x)	1.5	1.7	1.4	1.1	1.0	0.9	0.9	0.8	
Abs. & extras.	(1.1)	(1.8)	(11.3)	(0.2)	0.0	0.0	0.0	0.0	EV/EBITDAS (x)	(67.6)	(9.7)	(3.5)	(14.5)	18.9	19.6	9.7	7.5	
Reported Profit	1.4	(14.5)	(32.1)	8.7	6.0	(0.8)	1.2	2.7	EV/EBITDA (x)	11.8	(8.9)	(4.5)	5.2	6.9	19.6	9.7	7.5	
									NTA (\$ps)	0.85	0.66	0.41	0.47	0.51	0.59	0.70	0.85	
									PINTA (x)	0.50	0.64	1.03	0.90	0.83	0.72	0.60	0.49	
Drivers									Book Value (\$ps)	0.88	0.68	0.43	0.49	0.53	0.60	0.72	0.87	
Sales Volumes (t)	2,698	2,424	3,166	3,757	3,054	3,359	3,695	4,065	Price/Book (x)	0.48	0.61	0.97	0.86	0.80	0.70	0.59	0.48	
... change (%)	3%	-10%	31%	19%	-19%	10%	10%	10%	DPS (¢)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Average Selling price (\$/Kg)	17.10	16.63	15.31	17.61	22.73	22.00	21.75	21.25	Payout (%)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
Gross Profit per Kg (\$/Kg)	3.21	1.59	(3.07)	1.82	4.83	4.55	5.12	5.16	Yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
EBITDA per Kg (\$)	(0.38)	(2.96)	(6.36)	(1.28)	1.21	1.06	1.94	2.27										
									Performance Ratios									
Balance Sheet (A\$m)									EBITDA/Sales (%)	12.8%	-19.4%	-32.2%	20.4%	14.6%	4.8%	8.9%	10.7%	
Cash & near cash	1.0	22.2	30.1	13.0	6.4	14.4	19.0	19.0	EBIT/Sales (%)	6.2%	-28.0%	-40.1%	14.6%	9.1%	-0.7%	3.3%	5.4%	
Inventories	9.5	10.9	11.3	7.7	11.2	11.9	13.0	13.9	OCF Realisation (%)	-169%	7%	65%	43%	13%	84%	105%	113%	
Receivables	5.8	3.0	6.4	5.3	5.2	5.6	6.0	6.5	FCF Realisation (%)	-495%	24%	69%	-7%	-63%	413%	122%	136%	
Biological assets	56.6	49.8	32.5	49.6	62.3	75.8	93.4	115.7	ROE (%)	3.5%	-17.5%	-30.4%	11.0%	6.9%	-0.8%	1.0%	1.9%	
Other	1.0	1.1	1.6	1.9	1.5	1.6	1.7	1.9	ROIC (%)	3.4%	-14.7%	-31.6%	13.0%	7.3%	-0.5%	2.2%	3.3%	
Current assets	73.9	86.9	81.8	77.5	86.5	109.3	133.2	157.1	Other	5.48	4.68	4.19	4.58	4.93	5.21	4.76	4.75	
Fixed assets	16.9	16.1	16.0	17.5	18.9	21.1	21.4	21.6	Operating Cash Flow	1.05	0.70	0.87	1.58	1.30	1.48	1.00	0.99	
Right of use asset	0.0	0.5	0.3	0.7	0.8	0.3	0.3	0.3	Capex	11.11	(8.18)	(13.78)	12.32	19.11	(0.81)	2.98	5.83	
Intangibles	3.0	3.0	3.7	3.6	2.8	2.3	2.3	2.3	Net Debt/EBITDAS (x)	(10.86)	(0.58)	0.35	1.27	(0.15)	0.75	0.16	(0.28)	
Other	0.2	0.2	0.2	0.1	0.1	1.1	1.1	1.1	Net debt/equity (%)	15%	6%	-10%	-8%	-1%	3%	1%	-2%	
Non current assets	20.1	19.8	20.2	22.0	22.6	24.9	25.1	25.3										
Total assets	93.9	106.7	102.0	99.5	109.2	134.1	158.4	182.4	Cashflow (A\$m)									
Creditors	7.0	6.4	8.9	9.5	13.7	14.6	15.8	17.0	EBITDA	(1.0)	(7.2)	(20.1)	(4.8)	3.7	3.6	7.2	9.2	
Borrowings	8.9	10.9	12.0	4.4	1.4	1.4	1.4	1.4	Net Interest Expense	(0.2)	(0.6)	(1.2)	(0.7)	(0.3)	(0.6)	(0.9)	(0.8)	
Lease liabilities				0.2	0.2	0.2	0.2	0.2	Tax Paid	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Other	1.0	1.2	1.3	1.3	1.4	1.4	2.4	3.9	Change in Wkg Capital	(4.1)	0.8	(1.3)	5.2	0.8	(0.2)	(0.3)	(0.2)	
Current liabilities	16.8	18.5	22.2	15.3	16.8	17.7	19.9	22.7	Lease principal payments									
Borrowings	3.4	15.4	11.0	2.5	4.3	15.6	18.7	15.0	Other	(4.2)	6.3	11.6	5.8	(3.0)	0.0	0.0	0.0	
Lease liabilities				0.6	0.6	0.6	0.6	0.6	Operating Cash Flow	(9.6)	(0.6)	(11.1)	5.5	1.2	2.8	6.0	8.2	
Other	0.2	0.3	0.3	0.3	0.4	0.4	0.4	0.4	Capex	(3.2)	(2.4)	(3.3)	(6.0)	(5.0)	(6.0)	(4.5)	(4.5)	
Non current liabilities	3.6	15.7	11.3	3.4	5.3	16.6	19.8	16.0	Dividend paid	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Total liabilities	20.4	34.3	33.5	18.7	22.1	34.3	39.6	38.7	Free Cash Flow	(12.8)	(3.1)	(14.4)	(0.6)	(3.8)	(3.2)	1.5	3.7	
Net assets	73.5	72.5	68.5	80.7	87.1	99.8	118.7	143.7	Asset Sales	0.0	0.1	0.0	1.0	0.1	0.0	0.0	0.0	
Share capital	182.4	195.9	224.8	227.9	228.0	228.0	228.0	228.0	Acquisitions	0.0	0.0	0.0	(0.8)	0.0	0.0	0.0	0.0	
Reserves	0.9	0.8	0.1	0.5	0.7	0.7	0.7	0.7	Other	(1.6)	(1.4)	1.5	0.5	(1.9)	0.0	0.0	0.0	
Retained earnings	(109.8)	(124.2)	(156.3)	(147.7)	(141.7)	(128.9)	(110.0)	(85.0)	Equity Issues (Reduction)	0.0	11.4	24.1	(1.1)	0.0	0.0	0.0	0.0	
Outside equity interests	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(Inc.)/dec. in net debt	(14.4)	7.0	11.2	(0.9)	(5.5)	(3.2)	1.5	3.7	
Sholders' funds	73.5	72.5	68.5	80.7	87.1	99.8	118.7	143.7										
Net Debt (Cash)	11.2	4.2	(7.1)	(6.1)	(0.6)	2.7	1.1	(2.6)										

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

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