

# OCEANETHIX INTERNATIONAL HOLDINGS LIMITED

## Transforming the growing and handling of live seafood into China

### DIRECTORS

Chuly Lee, Chairman  
 Lloyd Moskalik, Managing Director  
 Derek Condell, Non-Executive Director  
 Brian Wong, Non-executive Director  
 Nicole Kit Hung Tang, Non-executive Director  
 Nigel Kong Yiu Wong, Non-executive Director  
 John Zhong, Non-executive Director

### MARKET DATA

NSX Code: OCX  
 Current Price: \$0.04  
 52 week Share Price Range: \$0.04 - \$0.11  
 Market Capitalisation: \$11.6 million  
 Enterprise Value: \$10.8 million

### CAPITAL STRUCTURE

Listed Shares: 290.24 million  
 Unlisted Options: 27.3 million

### FINANCIAL SUMMARY

AUD\$mill	2012-13 (A)	2013-14 (E)	2014-15 (E)
Revenue	1.1	1.8	11.0
EBITDA	0.4	0.6	7.5
Net Profit	0.35	0.4	5.8
EPS (c)	0.1	0.01	2.0
PER (x)	40.0	40.0	2.0
EBITDA/ EV (x)	27.0	18.0	1.4

### MAJOR SHAREHOLDERS

Focal Creation International Holdings 10.0%  
 Park Hill Management 5.2%

### SENIOR ANALYST

Michael Gordon  
 (03) 9607 1371

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### KEY POINTS

- NSX listed, Oceanethix has developed and is now commercialising advanced technology for the handling, storage and distribution of live seafood into China.
- The ATOLL system fully recycles all water and waste and incorporates sophisticated filtration and feeding systems. It is environmentally sound with no discharges.
- The key benefits of the technology are greatly improved product quality and markedly reduced mortality rates.
- The value proposition is based on a turnkey solution encompassing the supply, management and maintenance of a live seafood storage and handling facility.
- The company is selling country and regional licences to distributors who will sell the ATOLL modules and provide maintenance services.
- Joint venture partnerships will be created with OCX acquiring an interest in its licensees who will in turn hold a cross holding interest in OCX.
- The business model should generate high margins and require relatively little capital from OCX.
- First licences are now in place; sales pipeline is building; FY 2015 rapid acceleration in revenues.
- By June 2016, about 200 modules are expected to be operating with a volume throughput of about 80 tonnes per week. FY 2016 revenue is targeted to reach A\$30 million with an EBIT margin in excess of 65%.
- The balance sheet is debt free and expected to remain relatively lowly geared.
- Substantial valuation upside potential as revenues and profits rapidly build over the next two years.

## INVESTMENT PROPOSITION

***Leveraged to rapidly growing demand in Asia for high quality live seafood***

Oceanethix provides investors with exposure to the very large seafood market in Asia and the rapidly growing demand for high quality fresh seafood. The company's technology has the potential to transform the live seafood logistics industries in these regions where there are major issues regarding product quality and high mortality rates. The customer value proposition is compelling and the company's technology represents a radical departure from traditional growing and handling processes.

As a technology and service provider, Oceanethix will capture value created by growth in the live seafood markets without bearing any of the operating risk. Accordingly, its revenues will be high quality and relatively low risk.

Oceanethix' business model encompasses a range of one-off transaction fees from the sale of country/regional licences and modules as well as recurring income, which will emerge as the principal source of revenue as the installed base of operating modules grows.

***Revenue expected to reach \$30 million in FY2016***

As the company is in the early stage of commercialisation, its revenue base is currently small but will grow rapidly as its business model is rolled out. However, investors are yet to digest the opportunity and the company's earnings potential. The company has published data that points to a revenue target of about A\$30 million in FY 2016 with the EBIT margin anticipated to exceed 65% which, if achieved, will drive a very powerful valuation surge over the next few years.

## BUSINESS OVERVIEW

***Unique closed loop water handling and waste management technology for the growing and handling of live seafood***

NSX listed, Oceanethix is commercialising an innovative technology for the handling, storage and distribution of live seafood into China. After more than ten years of development, Oceanethix has recently launched its unique closed loop system which promises to vastly improve the quality and efficiency of the live seafood supply chain from grower to the table.

The company's ATOLL technology is a modular system designed primarily to address the problem of handling and transport of live seafood in Asia, and China in particular. The specific problems addressed by the technology are polluted growing and handling environments, poor storage and transshipment capabilities and high mortality rates.

ATOLL is a closed loop system designed for both the aquaculture and logistics markets. It incorporates a storage tank with 100% water and waste recycling together with filtration and feeding systems controlled through a sophisticated monitoring platform. The system enables seafood to be stored and warehoused inland and away from coastlines but close to markets and it can also be used in logistics management for the handling of seafood in transit to and through markets.

***Benefits include much better quality seafood, accessibility to new markets for live seafood and markedly lower mortality rates***

The technology delivers markedly lower mortality rates (to as low as 5%), much better quality and access to new markets previously too remote for live seafood. Accordingly, higher quality, higher value product is more accessible and will gain share from lower quality chilled and frozen product..

An insurance policy protecting the operator's seafood inventory against equipment failure or disease will underpin the value proposition and ensure that most systems are sold with associated maintenance agreements. Under these agreements, two technical staff will be permanently maintained at each site whilst the facility will also be externally

monitored.

***Build and manage  
business model***

To demonstrate the functionality of the ATOLL system, Oceanethix has fully operational demonstration facilities in Hong Kong and Shanghai, where live seafood is managed for third party wholesalers/distributors. The Hong Kong facility has 11 ATOLL modules, with a holding capacity of 5 to 7 tonnes, operating on the 15th floor of a logistics facility, in an industrial area, whilst the Shanghai facility, which is operating within the Xi Jiao International Fresh Food Logistics Market, has two ATOLL modules.

The business model is based on building and managing production /handling facilities for distribution or logistics customers; a turnkey solution. Revenue will be generated through the sale of the modules which have a holding capacity of about 500kg, and a management fee based on volume throughout.

***The sale of  
regional/country licenses  
provides a pathway to  
implementation***

The company's commercialisation strategy primarily revolves around selling master country licences to operators who will have the responsibility of rolling out this model through the sale and installation of the ATOLL system and the provision of maintenance services. Licensees will pay an establishment fee and ongoing fee of 10% of gross revenues. Licences have already been sold in Singapore (the fee amounted to the equivalent of A\$1 million) and Korea with others under negotiation.

To ensure an alignment of interests and to ensure that Oceanethix maintains a high degree of influence and control over implementation of the business model, the company will acquire interests in each licensee who will in turn acquire a small interest in Oceanethix.

## **LATEST PROFIT RESULT AND SHORT TERM EARNINGS OUTLOOK**

Oceanethix reported a profit of HK\$2.4 million (~A\$330K) from revenue of HK\$12.6 million (~A\$1.7 million) for the six months ended 31 December 2013. As the company only commenced operations in November 2012 there are no comparison results.

With the company effectively still in its start-up phase, its revenue base is very small and still to build momentum. The contributors to revenue during the period under review were a deposit on the sale of a licence for Singapore and fees from managing third party inventory through the company's Shanghai facility.

Revenue is expected to grow rapidly over the next few years as country licences are sold and as sales momentum builds.

***Big lift in revenue and  
profit in FY 2015 as sales  
of modules gain  
momentum***

With the finalisation of the sale of the Singapore licence and ongoing inventory management fees, a net profit in FY 2014 of about A\$0.6 million from revenue of about A\$2.2 million is expected. With rising module sales, further sales of country licences and increasing management fees, revenue in FY 2015 is anticipated to exceed A\$11 million with net profit of about A\$5.8 million.

## **BUSINESS DRIVERS AND GROWTH PROFILE**

East and South East Asia (including China and Japan) dominate the world's seafood industry and account for nearly two-thirds of the annual 126 million tonnes of fish consumed globally as food (FAO). Aquaculture is the source of about 40% of global fish production, however, it contributes in excess of 70% of China's annual production.

Seafood has long been a food staple and the primary source of protein in Asia with the

***Asia is the world's  
biggest consumer of  
seafood***

***Rising incomes driving demand for fresh seafood***

industrialisation of China over the past 20 years and the steep rise in the middle class driving substantial growth in the level of consumption of live seafood. Annual per capita consumption of live seafood is expected to increase from under 20kg in 2004 to nearly 36kg in 2020. However, the Chinese the production and supply chain is ill prepared for this growth.

Leaving aside poor growing conditions and weak quality control, the handling and distribution system is poor and inefficient resulting in high mortality rates. Poor handling conditions also adversely affect the large volume of imported seafood from Australia, North America and elsewhere. Whilst fresh seafood is readily available in the main cities and coastal regions, inland provinces and lesser cities mostly have access to only lesser quality chilled and frozen seafood. These issues are also typical of much of east and south east Asia.

With rising incomes, demand for higher quality product will rise as will demand for newer, imported “exotic” varieties.

***Oceanethix’ technology has the potential to transform aquaculture in China***

Oceanethix’ ATOLL system has the potential to transform the production and supply chains for fresh live seafood. As a growing system it will open up vast areas of land locked China and elsewhere to high quality fresh seafood. The system will enable aquaculture to be industrialised and transformed from a rural land/water intensive industry into an urban industry. Oceanethix has demonstrated the potential by locating its own modules on the 15<sup>th</sup> level of an industrial building in Hong Kong, whilst The Korea Maritime Institute has a vision to develop vertical aquafarming centres of 15-20 storeys and selected ATOLL in 2012 as its preferred technology due to its 100% water recycling and zero waste discharge. Notwithstanding, strong interest in this area, Oceanethix is focussed on logistics applications of its technology.

As the company is still in the early stages of commercialisation, revenue will grow rapidly off a low base. With its strategy of selling licences to regional operators, it will be able to accelerate growth without requiring significant capital.

***Commercialisation Strategy is to sell region/country licences and to acquire equity in these partners***

Over the next 3 to 5 years, licences are expected to be sold covering most of east and south east Asia. Inasmuch as China will be pivotal due to its sheer size, an issue to be worked through is whether a licence will be sold to a single operator or whether licences are sold at the provincial level. Based on the fee achieved for the Singapore licence, China could generate licence fees of A\$30 million or more.

As the master licences are secured and infrastructure established, sales of modules will gather momentum and underpin the long term growth in management fees. Data published by Oceanethix suggests that the installed base of modules is expected to approach 200 by June 2016 with the volume of seafood handled growing from about 4 tonnes per week in the current year to an average of about 38 tonnes per week through FY 2015 to 80 tons per week through FY2016. On this basis, which represents only a very small share of the potential China market, the company has projected revenue to exceed A\$11 million in FY 2015 and to reach A\$30 million in FY 2016. As Oceanethix will primarily service its licensees, margins are expected to rise sharply with an EBIT margin in excess of 65% anticipated in FY 2016.

## FINANCIAL SUMMARY

INCOME STATEMENT		
(HK\$'000)	FY 13	Interim 14
Operating Revenue	8,060	12,601
<b>EBITDA</b>	<b>3,078</b>	<b>2,519</b>
Depreciation	-	(108)
Finance Cost	-	(1)
<b>PRE TAX PROFIT</b>	<b>3,078</b>	<b>2,410</b>
Tax	(508)	-
<b>NET PROFIT</b>	<b>2,570</b>	<b>2,410</b>

BALANCE SHEET		
(HK\$'000)	June 2013	Dec 2013
Current Assets		
Cash & Equivalents	616	5,699
Receivables	9,055	6,066
Inventory	348	-
	10,019	11,765
Non-Current Assets		
Plant & Equipment	1,059	1,091
Intangibles	1,161	1,161
Other	3,500	1,906
<b>Total Assets</b>	<b>15,739</b>	<b>15,923</b>
Current Liabilities		
Payables	5,188	4,777
Other		
	5,188	4,777
Non-Current Liabilities	-	2,050
Shareholders' Equity	10,551	9,096
<b>Liabilities &amp; Equity</b>	<b>15,739</b>	<b>15,923</b>

CASH FLOW		
(HK\$'000)	FY 13	Interim 14
Net Cash Flow From Operations	(5,798)	104
Net Cash Flow From Investing	(12,990)	13,809
Net cash Flow From Financing	19,404	19,404
<b>Net Change In Cash</b>	<b>616</b>	<b>5,699</b>

KEY RATIOS		
(%)	FY 13	Interim 14
EBITDA Margin	38.2	20.0
Net Debt/Equity	0	0
Intang./Equity	11.0	12.8

### Commentary:

Oceanethix International Holdings was established in November 2012. Accordingly, there are no annual comparison figures and the financial reports largely reflect its status as an early stage business. The company was established to acquire the assets and IP of the original company.

During the six months ended 31 December 2013 there was further reconstruction of various shareholder interests associated with the original company from which Oceanethix International Holdings emerged. The capital base now stands at HK\$9.1 million (~A\$1.2 million) after start-up costs and initial losses.

The balance sheet is currently debt free and is expected to remain relatively lowly geared.

The company's business model, which is based on the regional and country licensees selling products and delivering services, is expected to be high margin and relatively light on capital requirements. The balance sheet is, therefore, likely to be weighted to investments and significant goodwill reflecting its planned equity holdings in its licensees.

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