

Horse mackerel division expected to be robust in FY14E

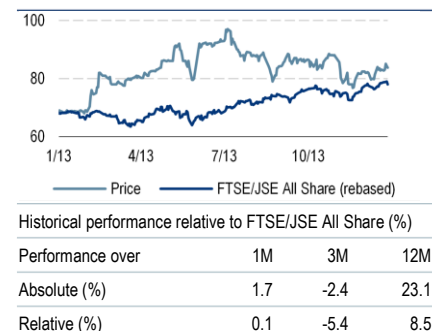
30 January 2014

- **Action/Event: We maintain our 12-month target price of ZAR 90.00 and HOLD recommendation.** We continue to forecast earnings of 521 SAc (+17%, FY14E) and 562 SAc (+8%, FY15E).
- **Investors will be monitoring the growth in Lucky Star volumes in FY14E.** The Lucky star division (38% of FY14E EBIT) is expected to deliver moderate revenue growth of 10% (FY14E). This comprises an estimated 4% volume growth and 6% price growth. The Lucky Star division reported volume growth of -1.1% to 8.6m cartons in FY13A due to retail stocking in 1H13A. Furthermore our Inshore Fishing division forecasts incorporate the Fishmeal division reporting a R20m EBIT in FY14E after reporting c. -R50m EBIT in FY13A due to poor catch rates.
- **The Mid-Water division is expected to continue performing well in FY14E, assisted by rand weakness against the US dollar.** We believe that the Horse Mackerel division (37% of FY14E EBIT) may experience further Namibian quota declines and FY14E and forecast a 15% y-o-y decline in volumes. However we forecast flat revenue growth for the division due to the strong dollar pricing that is being achieved in African markets. We estimate that the hake business will continue to perform well in FY14E with an EBIT contribution of c. ZAR 45m (5% of FY14E EBIT).
- Our investment thesis reflects our expectation for robust demand regarding canned pilchards and the African demand for horse mackerel due to low levels of per capita consumption and attractive price points.
- **Catalysts: We await news flow regarding the ZAR 445m FoodCorp acquisition before 31 January 2014.** Oceana is currently challenging the Competition Commission conditions imposed on the sale of the small pelagic quota.
- **Valuation:** Oceana is trading on a 12-month forward PE multiple of c.15.4x with 15% earnings growth. According to Bloomberg forecasts, the Industrial Index is trading on a 12-month forward PE of 16.7x with expected earnings growth of 29%. Oceana has a 12 month dividend yield of 4.7% when compared to the Industrial Index with a yield of c. 2.7%.

Share data

RIC	OCEJ.J
Sub industry	ICB Farming & Fishing
Price (24 Jan 2014)	R 83.72
Market cap. (R m)	9,243
Enterprise value (R m)	9,587
Market cap. (USD m)	832
Enterprise value (USD m)	863
Avg. daily trade value (USD m)	0.53
Free float (%)	50

Price relative to FTSE/JSE All Share



Source: FTSE/JSE All Share, SBG Research

The price relative chart measures performance against the South Africa FTSE/JSE All Share which closed at 46462 on 28 Jan 2014

Key forecasts	Sep 11A	Sep 12A	Sep 13A	Sep 14E	Sep 15E	Sep 16E
Revenue (R m)	3,657	4,648	4,997	5,408	5,883	6,446
EBITDA (R m)	590	750	852	994	1,072	1,142
Net Income (R m)	346	464	524	619	668	708
Adj. EPS (R)	3.13	4.52	4.43	5.21	5.62	5.96
Prev. Adj. EPS (R)	3.13	4.52	4.43	5.21	5.62	5.96
Adj. EPS (US\$, at spot)	0.281	0.407	0.399	0.469	0.506	0.536
DPS (R)	2.2	3.0	3.2	3.8	4.1	4.3
Dividend Yield (%)	5.9	5.6	3.8	4.5	4.9	5.2
PE (adjusted)	12.0	12.0	19.0	16.1	14.9	14.1
EV/EBITDA (adjusted)	5.9	7.1	10.5	9.2	8.5	8.0

Source: Company financials, SBG Securities estimates

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