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CHILE'S

# SALMON 2.0

*As AquaChile and Salmenes Camanchaca list in Oslo, learn how complex new legislation in Chile altered company valuations.*



Spheric Research





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## Report Author



### Matt Craze

is the founder of Spheric Research, and a regular contributor of articles on global seafood trends for Undercurrent News. Previously, Matt was part of a team that founded Bloomberg LP's commodities news desks in Europe, the Middle East Africa (EMEA) and Latin America between 2004 and 2015. Matt has a MBA from Cornell University.

### Spheric Research

The value proposition in the briefest terms is to provide key insights into the food industry, especially in the areas of seafood and aquaculture. Spheric Research works closely with Undercurrent News, the world's most read seafood industry website. Matt Craze frequently writes news columns for UCN. Spheric Research provides reports that are sold by UCN and offers tailor-made research to the food industry.

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CHILE'S SALMON 2.0

# Executive summary

*An outlook for the world's no. 2 producer  
How new farming rules, and access to Oslo finance, are  
set to ignite another wave of M&A*

**T**he February initial public offering (IPO) of Chile's Salmenes Camanchaca on Norway's Oslo stock exchange is the equivalent of an investment banker's dream ticket.

A best-in-class company in a profitable industry and undervalued back home, Camanchaca's equity valuation rose by more than \$100 million through the IPO. Better still for Norwegian lender DNB, which arranged the IPO, Camanchaca is the tip of the iceberg. Many other Chilean salmon farmers are set to follow.

This could be a watershed moment for the Chilean salmon industry. After years of rollercoaster growth and spectacular failures topped by the 2007 infectious salmon anemia (ISA) crisis, the industry has had two highly profitable years. Rabobank and DNB predict high prices are here to stay, with huge growth in demand in key markets such as the US and China. But Chilean salmon companies are still poorly perceived back home, and as such, have limited access to finance to expand.

Since the outbreak of algal bloom in the main production regions of Los Lagos and Aysen in March 2016, prices rose to record levels and costs fell as reduced biomass apparently led to improved sanitary standards, reducing antibiotic usage and thereby costs.

Most importantly, the government rolled out

new regulations to limit the repeated cycle of breakneck growth when prices go up. Several companies have praised the new rules, for their overriding purpose of curbing excessive growth. However, other companies, including Norway's Marine Harvest, have been far less complementary -- highlighting that the new rules have done little to eliminate an excessive amount of farming licenses. A new initiative by the incoming government of Sebastian Pinera could put that right. The government has dusted off an initiative to allow companies to combine outdated concessions into new production areas, allowing Chile to finally achieve a Norway-like dispersion of larger and more distanced sea-pen production zones.

What's more, the industry is buoyant and is in plain mergers and acquisitions (M&A) mode, after half of billion dollars of transactions were announced in early June. Empresas AquaChile bought Salmenes Magallanes for \$255m, and Chilean agricultural giant Agrosuper swooped for Salmenes Friosur in a \$225m deal.

Chile is on the wave of more M&A deals, as better-financed companies buy out smaller rivals restricted by the new rules, said Andres Lyon, CEO of Multiexport Foods. Companies who list in Oslo will also be able to access much better credit terms than local peers.

That said, not all Chilean companies have the



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management structures in place to stand up to the scrutiny of an Oslo listing -- much greater attention from Norwegian equity analysts and savvy investors.

Norway's corporate culture is vastly different to Chile, with Norwegian companies required to reserve at least 40% of their director seats for women. In Chile, most of the major producers have none. That's just one example of how some Chilean companies differ from their Norwegian counterparts. There are many others.

Australis Seafoods and AquaChile have announced their intentions to follow Camanchaca

onto the Norwegian bourse. Besides financing projects, listing in Norway might be a way out for owners who want to retire, selling out at a high point in the market, said Per Even Hauge, a managing director of DNB Markets.

In writing this report, we have interviewed most of the major CEOs in the industry, senior government officials who designed the new regulatory framework and key executives in the finance industry.

Chile's time to thrive, or is this merely a good year before another bad spell?

SAMPLE



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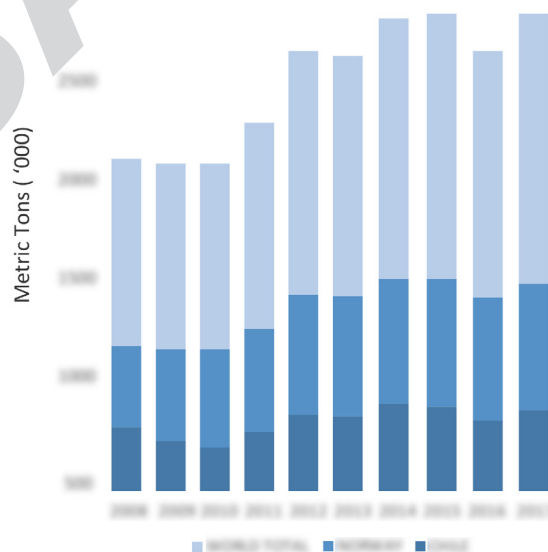
# Chile's salmon industry now world class

For newcomers to the city of Puerto Montt in southern Chile, it is immediately apparent that they have landed in an important city for the global salmon farming industry. The first road signs leading out of the airport advertise the Icelandic Atlantic salmon eggs of Stofnfiskur and pen netting sold by Italian firm Badinotti.

Puerto Montt is the operational hub of the world's second-largest salmon-exporting nation after Norway, and as a city probably rivals only Bergen as a cluster to serve the industry. It's a radically different prospect to what the first Norwegian aquaculture engineers discovered upon setting foot in Chile in the 1980s and 1990s.

The growth of Chile's salmon industry has been remarkable in recent years. The sector grew from virtually nothing in the 1980s to 2.5 million metric tons in 2017. With other types of seafood, that amount rose to 5.5 billion, from a little over 1 billion, according to government data. The industry has transformed the coastal regions of the country, often referred to geographically as Patagonia.

Chile vs Global Output



Source: Invermar