

Oceania Natural

Consumer goods

31 March 2016

Tapping a sweet spot

Oceania Natural (ONL) is an early-stage New Zealand company involved in the production and distribution of natural food and diet supplements sourced from New Zealand and the Pacific Islands and sold both domestically and in the People's Republic of China. It is undertaking a compliance listing on the NXT market, with no new capital being raised. The implied market capitalisation of the company, based on the last capital raise in September 2015, is NZ\$16.5m.

New entrant in a growing market

Oceania Natural is a relatively new entrant into the market selling honey products, noni juice and natural food and diet supplements. The company has key relationships and distribution agreements in place that it believes will drive revenue growth in New Zealand and China and, eventually, in other markets. It is banking on global demand for "clean and green" products, in particular natural honey, which generates an estimated US\$2.3bn a year globally. Its particular focus on manuka honey puts it in a category limited by geography as the manuka tea tree is indigenous to New Zealand and Australia. Hence, ONL's main competitors are Australian and New Zealand listed and privately held companies with long-established positions in international markets, including China.

Key risks for ONL include its relative size, ability to secure consistent supply of manuka and multiflora honey and noni juice, reliance on third-party distributors for more than 80% of its sales in the near term, reliance on toll manufacturers to produce its products for market, and reliance on its executive chairman to develop its presence in China.

Key operating milestones

Oceania Natural has chosen total revenue, direct sales and distributor sales in absolute terms and gross margin in percentage terms as the key operating milestones on which it will report on a quarterly basis. The company is forecasting total revenue of NZ\$3.4m in FY16 and NZ\$5.4m in FY17 and gross margin of 41% and 40%, respectively.

Valuation: Market cap implies FY17e EV/sales of 3.0x

The implied EV/sales multiple based on the company's market capitalisation at listing is 3.0x its 12-month forward FY17 revenue target of NZ\$5.4m. We have identified four comparable listed peer companies to ONL – Blackmores, Capilano, Comvita and Vitaco. On a 12-month forward basis, the peer group is trading on an EV/sales multiple of 1.9x.

Historical performance

Year end	Revenue (NZ\$000)	EBITDA (NZ\$000)	EBIT (NZ\$000)	NPAT (NZ\$000)	Net cash (NZ\$000)	Net assets (NZ\$000)
03/15	1,512	45	20	1	4	(65)
09/15 (6 months)	1,391	222	217	155	455	949

Source: Oceania Natural

Price* NZ\$0.64
Market cap NZ\$16.5m

*Indicative pricing based on last share issue in September 2015

Share details

Code	ONL
Listing	NXT
Shares in issue	25.8m

Business description

Oceania Natural is a relatively new entrant into the market selling Manuka honey products, Noni juice products and natural supplements. Its focus so far has been on New Zealand and the People's Republic of China but it has ambitions to expand internationally.

Bull

- Tapping into demand for clean NZ products.
- Huge market potential in China.
- Board has strong experience in consumer products companies.

Bear

- Small player competing with large incumbents.
- Supply constraints on manuka honey production.
- Key person risk.

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Company description: Tapping a sweet spot

Oceania Natural (ONL) is an early stage production and distribution company tapping into global demand for health-related natural products such as manuka honey, noni juice and health supplements. Its focus to date has been on its domestic market in New Zealand and internationally in China, where demand for “clean and green” natural products and health supplements has grown rapidly. The company is undertaking a compliance listing on the NXT market, with no new capital being raised. As a listed entity, the company is seeking to grow both organically through developing new lines of honey-related, noni juice-related and natural products, and by acquisition with potential targets in honey production and processing. Listing gives ONL the option of funding acquisitions through share issues, capital raising and bank debt or a combination of these alternatives.

Company background

ONL was incorporated on 27 May 2015 and subsequently acquired 100% of the shares in issue in Camsing Trading Ltd from Wei (Walker) Zhong, executive chair of ONL, for a nominal price of NZ\$89,408. This was paid in 9.375m shares. Mr Zhong at that time was the sole shareholder of ONL. On 30 September 2015, ONL acquired 100% of the shares on issue in Rich Garden Ltd from Ms Lei (Regina) Ding, Mr Zhong's wife, for NZ\$450,509 in cash. At present, the purchase price is unpaid and recorded as an interest free shareholder loan repayable by 31 December 2017, provided ONL satisfies the solvency test following any such repayment. The company raised NZ\$1.59m in two equity rounds in 2015. The second raising, priced at NZ\$0.64/share after a two-for-one share split, raised ~NZ\$0.65m in September 2015, as Exhibit 1 details. Using the last price at which capital was raised, the implied market capitalisation of ONL at listing is NZ\$16.5m, after including the 150,000 shares the company will issue to its market maker on its compliance listing.

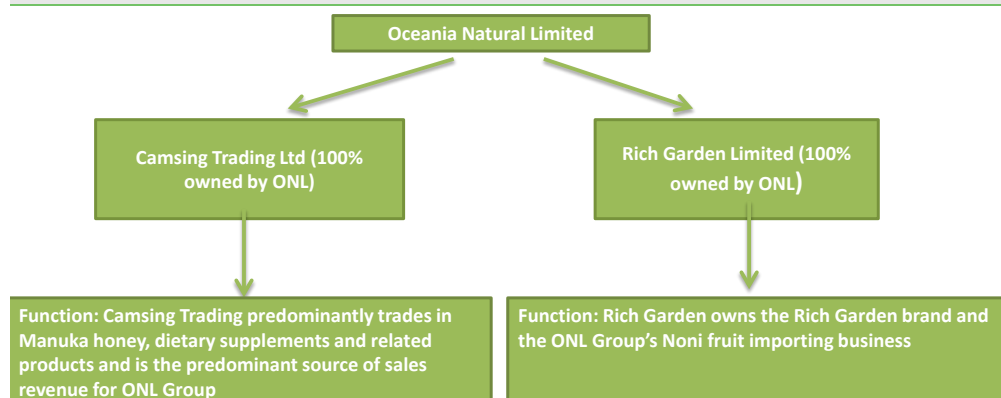
Exhibit 1: Capital raised to date

Date	Shares issued	Amount raised	Price per share	Shares on issue post raise	Comment
June 2015	2,962,275	NZ\$947,928	NZ\$0.32	12,337,275	
September 2015			NZ\$0.64	24,674,550	Two-for-one share split
September 2015	1,008,288	NZ\$645,304	NZ\$0.64	25,682,838	
March 2016	150,000		NZ\$0.64	25,832,838	Issue to market maker

Source: Oceania Natural

Since incorporation, ONL has remained a shell holding company, operating through its wholly owned subsidiaries, Camsing Trading Ltd and Rich Garden Ltd. The company is already profitable, generating NPAT of NZ\$0.16m in H116 (unaudited). In that period, Camsing generated approximately 90% of group revenues. Exhibit 2 lays out the corporate structure of the group and the functions each of the subsidiaries perform.

Exhibit 2: Oceania Natural corporate structure



Source: Oceania Natural March 2016 listing document

Current business

ONL generates revenues from the sale of manuka honey and other honey products, noni juice products and dietary health supplements and body care products in New Zealand and China. Its products are currently marketed under its Rich Garden brand, which is sold through ONL branded stores established by ONL distributors and third-party retail shops, via its online stores (www.richgarden.co.nz and www.onlgroup.co.nz) and through other major online trading platforms such as WeChat in China, and through distribution partners in China.

The company has established five-year exclusive distribution agreements with three companies: Jinan Quifan Trading Co Ltd for Shandong province, Guizhou Yuehesi Trading Co Ltd for Guizhou province and Wuxi Zhongxinhuifong Trading Co for Wuxi city. Under these agreements, the distributors place orders with ONL for its products, which are invoiced to and paid by the distributors post or pre-shipping. The distributors have been granted a licence to sell ONL products under the Rich Garden brand and are responsible for any retailing operations. Currently, the distributors establish Rich Garden stores, sell the products in other stores that they own or seek third-party retail stores to stock ONL's products. Exhibit 3 highlights the range of ways ONL's distributors display and sell its products in China.

Exhibit 3: Rich Garden's retail presence in China



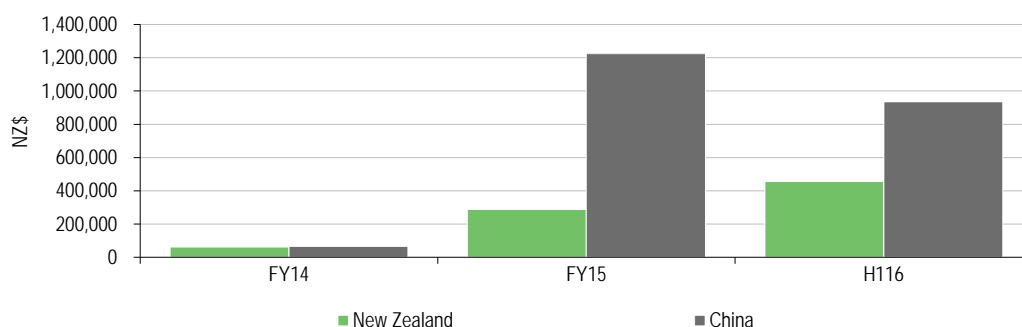
(From top left clockwise) Rich Garden retail shop in Wuxi City; Rich Garden product stand in Shanxi retail shop; Rich Garden products on display in Rich Garden retail shop in Zhejiang; and Rich Garden shop branding in Rich Garden retail shop in Wuxi City.

Source: Oceania Natural NXT listing document, March 2016

Geographic and product segmentation

In its short history, ONL has rapidly built a presence in China and in manuka honey sales. In the accounts produced for Camsing Trading in 2015, the company generated 81% of its revenues in China, as Exhibit 4 demonstrates. In H116, the split between New Zealand and Chinese sales shifted, with New Zealand contributing a third of revenues. This was due to increasing direct online sales from Rich Garden's website (www.richgarden.co.nz).

Exhibit 4: Historic geographic source of revenue



Source: Oceania Natural March 2016 listing document

Similarly, honey product sales, in particular manuka honey sales, were the main source of revenue in FY15. The balance shifted in H116, with 28% of sales generated by noni juice and dietary supplements, as Exhibit 5 details.

Exhibit 5: Historic revenue by product (NZ\$)

12 months ending 31 March	FY14	FY15	H116*
Manuka honey	36,000	920,000	650,000
Other honey	18,000	500,000	350,000
Noni juice	0	25,000	250,000
Other products	0	0	141,000
Discontinued services	73,000	67,000	0
Total	127,000	1,512,000	1,391,000

Source: Oceania Natural March 2016 listing document. Note: *Six months ending 30 September 2015.

Honey supply arrangements

ONL currently sources all its manuka and multiflora honey from third-party beehive growers located around New Zealand. In the 12-month period ended 30 September 2015, ONL secured ~22 tonnes of manuka honey of various grades and quality and ~18 tonnes of multiflora honey from its third-party growers.

ONL's honey suppliers are contracted on terms specifying quantity, price per kilogram and the required chemical markers that must be present to be graded manuka honey. These contracts are from season to season due to the variability of hive yields and market prices; however, ONL is seeking to mitigate supply risk by building long-term relationships with its honey suppliers and by building stock inventories of honey, which has a long shelf life, during high production seasons.

Manuka honey is defined by very specific markers. It predominantly comes from the nectar of the flower of the manuka tree (*Leptospermum Scoparium*) which is indigenous to New Zealand and southern Australia. It also comes from the jelly bush (*Leptospermum Polygalifolium*), which is found in Australia. It is the nectar and the bee that give this honey its unique antibacterial, medicinal properties. These markers are:

- Non Peroxide Activity (NPA), which is essentially the anti-bacterial properties within the honey. Only manuka honey from New Zealand that is tested with a Non Peroxide Activity can carry the UMF trade mark and it is based on an equivalent value strength, ie NPA 10 = UMF 10.
- Methylglyoxal (MGO) levels, used as an indicator of the strength of activity in manuka honey. For example, UMF 10 = MGO 263. MGO is measured in parts per million.

ONL believes these chemical markers in particular batches of manuka honey may increase over time, and therefore value, when stored for a 12-24 month period.

ONL has adopted its own grading systems based on the MGO level (milligrams per kilogram) found in the honey and separately verified by an independent laboratory. The test also monitors the dihydroxyacetone, 5-hydroxymethylfurfural (HMF), the NPA and c-4 sugar levels in the honey.

This ensures that the honey supplied has the requisite quality in its agreements with its suppliers and that the grade/quality of its honey as claimed on the packaging in which it is sold has been independently verified. The higher the UMF grade, the greater the retail price that can be commanded.

Noni juice supply arrangements

ONL sources noni fruit from a single supplier in the Cook Islands. Noni juice is indigenous to South-East Asia and the Pacific Island nations and has been used traditionally by the Polynesian culture to help treat a variety of health-related problems. ONL believes the noni fruit from the Cook Islands is the highest quality fruit commercially available.

The company has an informal and non-contractual arrangement to acquire noni fruit from a single supplier in the Cook Islands. The supplier is paid on a per kilogram price for the fruit. The fruit is harvested, stored and fermented in third-party facilities before being shipped to New Zealand for processing, bottling and labelling into 100% noni juice under the Rich Garden label or incorporated into other Rich Garden branded products such as noni capsules. Since it commenced noni juice production in May 2015, the company has imported ~12 tonnes of fruit from the Cook Islands. ONL also ensures the quality and safety of the fruit, and confirms accurate labelling by commissioning independent testing under procedures approved by International Accreditation New Zealand.

Dietary supplements

ONL sources, under contract, a range of honey-related dietary supplements including propolis, royal jelly and manuka honey lozenges, and general supplements including bilberry, ginkgo, grapeseed, cranberry and omega 3. These are produced by New Zealand-based manufacturing companies certified and licensed to manufacture pharmaceuticals and natural health products.

Growth strategy

The company has highlighted several strategies for growing its business. One of the most immediate strategies is to establish or acquire its own hives and manuka tree plantations to ensure security of supply. ONL's medium-term goal is to ensure that at least 50% of its manuka honey is produced in-house and sees investment in manuka tea tree lots and beehives as crucial to this goal. It is worth noting that competition for manuka plantations in New Zealand is high. ONL has the option of competing, and paying for these assets or acquiring land and establishing manuka tree stands and hives alongside, in the hope that the bees produce manuka honey.

ONL also intends to expand to new international markets and will engage with strategic partners to open retail outlets in Hong Kong, Taiwan, the United States, Canada and Australia.

The company plans to secure shelf space for Rich Garden's products in New Zealand supermarkets, tourism outlets, pharmacies and health food stores and expand Rich Garden's online presence with major e-commerce platforms. Longer term, ONL wants to establish a manufacturing facility to ensure in-house production of at least some of its noni juice, honey and other natural products. It also has ambitions for a research centre to develop its own products within five years. By listing, the company broadens its range of funding options to realise these ambitions.

The global honey industry

Honey exports globally generate an estimated US\$2.3bn a year, according to trade-following website World's Top Exports (www.worldstopexports.com), with the United States, Germany, France, Japan and the United Kingdom the biggest importers of product.

China is the biggest exporter, accounting for 11.4% of total honey exported, while New Zealand is the third largest exporter by value, as Exhibit 6 demonstrates.

Exhibit 6: Natural honey exports by country by value, 2014

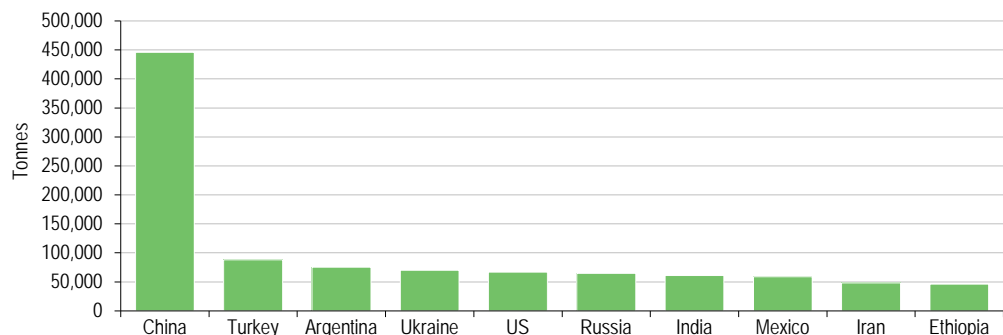
	US\$m	% of total honey exports
China	260.3	11.4%
Argentina	204.4	8.9%
New Zealand	168.2	7.3%
Germany	150.3	6.6%
Mexico	147	6.4%
Vietnam	127.8	5.6%
Spain	120.4	5.3%
Brazil	98.6	4.3%
Hungary	95.8	4.2%
Ukraine	93.2	4.1%
India	77.2	3.4%
Belgium	73.1	3.2%
Romania	53.9	2.4%
Italy	46.4	2.0%
Canada	46.0	2.0%

Source: www.worldstopexports.com

World's Top Exports estimates that between 2010 and 2014, New Zealand was one of the fastest growing natural honey exporters, increasing export dollars 140% in the period. In that time, New Zealand went from the fifth biggest exporter in dollar value to the third largest exporter. It currently exports just under half of its production.

But in terms of production, New Zealand does not make it into the top 10 (Exhibit 7). According to government agency Statistics New Zealand, NZ is ranked 16th on a volume basis. This reflects the premium price commanded by manuka honey, which accounts for as much as 80% of New Zealand's honey exports. The medicinal benefits of manuka honey have seen its price, both for apiarists and consumers, rise significantly above other honey products. Apiarists in New Zealand can earn around NZ\$5/kg for white clover honey; however, apiarists can sell manuka honey at an average price of around NZ\$25/kg and up to NZ\$500/kg for very active blends. For example, ONL's UMF 20+ manuka honey retails at NZ\$185 per 250 grams.

Exhibit 7: World honey production by top 10 countries and tonnage, 2014



Source: www.worldtradedaily.com

As Exhibit 8 shows, according to Statistics New Zealand, total New Zealand honey export tonnes are less than 10,000 per year, or less than half the honey it produces. Almost all New Zealand's manuka honey is exported.

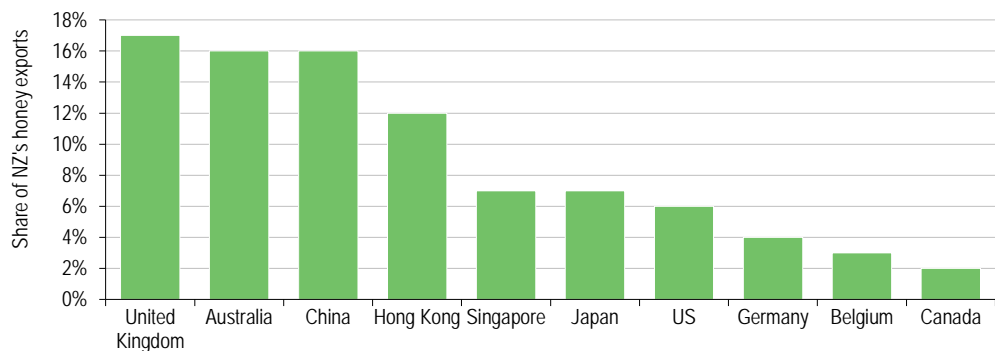
Exhibit 8: New Zealand honey production by total tonnes produced and exported

Year	Tonnes produced	Tonnes exported	% exported
2009	12,565	8,209	65%
2010	12,553	6,555	52%
2011	9,450	7,166	76%
2012	10,385	7,709	74%
2013	17,825	8,757	49%
2014	17,600	8,648	49%
2015	19,710	9,446	48%

Source: Statistics New Zealand

China is the third largest market for New Zealand honey exports, after the UK and Australia, according to Statistics New Zealand, as highlighted in Exhibit 9.

Exhibit 9: New Zealand's honey export destinations by country and share



Source: Statistics New Zealand

Competitors

Honey

The indigenous nature of manuka honey limits the competition to New Zealand and Australia honey producers. That said, Australia and New Zealand have the only listed honey corporations globally in Capilano Honey (CZZ.AX) and Comvita (CVT.NZ), and both have long-established positions in international markets including China.

[Comvita](#), which produces products across UMF manuka honey, olive leaf, omega-3 and propolis, is New Zealand's largest producer of manuka honey products and has ~50% of New Zealand's honey supply under direct ownership or control. It entered China in 2004 and by 2007 was generating NZ\$2m in sales from that market. In the financial year to March 2015, sales in Asia hit NZ\$47m with its 400 branded stores in China (via a distributor) cited as a key driver of growth. Comvita benefits from scale and control of supply. It owns more the 30,000 beehives around New Zealand and has contracts with more than 40 beekeeper suppliers with their own hives. The company has manufacturing facilities in several locations around New Zealand and this enables it to ensure quality control of its product. Comvita has also been able to take advantage of its size and scale up with acquisitions (New Zealand Honey Ltd in 2014) and strategic partnerships with New Zealand Honey Producers Co-Operative and Capilano Honey in Australia.

Capilano Honey owns the largest manuka beekeeping operations in Australia, and Comvita announced in March 2016 that they would form a new jointly owned *Leptospermum* apiary business, creating greater volumes of Australian manuka honey to meet growing global sales demand. In FY15, Capilano generated around 20% of its A\$120m in revenues in export sales to the US and Asia.

Unlisted New Zealand competitors include private equity owned Manuka Health New Zealand Ltd, which began 10 years ago and now has a distribution network into 45 countries, and Nuxten Health,

a privately owned company generating an estimated NZ\$100m in sales from milk powders, honey, fish products and beauty products. According to Nuxten Health's website, 55% of revenues are generated in Asia.

Noni juice

There are no listed companies that actively market noni juice. However, there are private companies that sell noni juice and related products, including The Natural Health Co, which sources its fruit from Fiji, and Brisbane, Australia-based Cook Islands Noni Marketing, which sources its supply from Rarotonga in the Cook Islands. ONL sells its noni juice for ¥368 (NZ\$85) for 750ml. Its competitors' prices range from NZ\$30-60 per 750ml, according to their websites.

Key operating milestones

ONL believes revenue and gross margin will be lead indicators of the success of the business and, as a consequence, has focused on metrics around these for the key operating milestones (KOMs) it will report each quarter. The four KOMs and the company's targets for the years ending 31 March 2016 and 2017 are set out in Exhibit 10.

Exhibit 10: Key operating milestones			
Year ending 31 March		FY16e	FY17e
1.	Total revenue (NZ\$000)	3,400	5,380
2.	Direct sales (NZ\$000)	650	1,380
3.	Distributor sales (NZ\$000)	2,750	4,000
4.	Gross margin (%)	41	40

Source: Oceania Natural March 2016 listing document

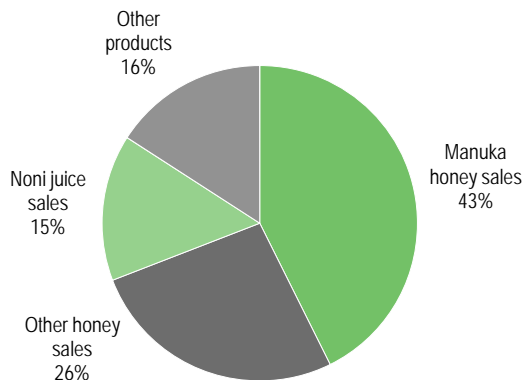
Revenue

Given its early stage, ONL believes total revenue should be a particular focus of the success of the business. The company is anticipating that it will generate a 125% increase in total revenue in FY16 over FY15, with NZ\$2m of that produced in H216. It has forecast that it will increase total revenues by almost 60% in FY17.

More than half its forecasted FY16 sales are expected to come from the sale of honey, with noni juice forecasted to contribute to 15% of revenues and diet and body product to generate 16% of sales, as Exhibit 11 highlights.

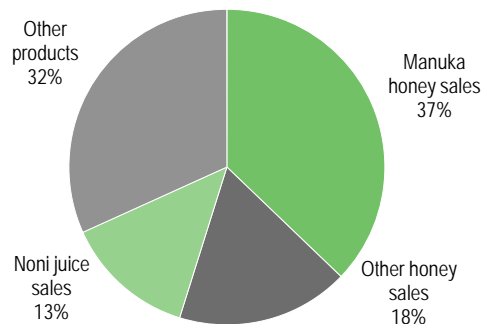
In FY17, ONL is expecting to reduce its reliance on honey and noni juice with "other" products, being higher-margin diet supplements and beauty products, forecasted to generate almost one-third of sales. This is shown in Exhibit 12.

Exhibit 11: FY16e expected revenue by product



Source: Oceania Natural management

Exhibit 12: FY17e expected revenue by product



Source: Oceania Natural management

Direct sales

Direct sales channels include local sales to New Zealand consumers through in-store display areas for Rich Garden within retail stores and online channels domestically and internationally. In the longer term, the company intends to develop company-owned stores for Rich Garden.

Distributor sales

Sales channels through distributors include those that have entered into agreements with ONL to market its product range and those working with China-based agent Wuxi Rich Garden Co Ltd (WXRG), a company registered in the People's Republic of China and of which Walker Zhong is a director. WXRG acts as an agent for ONL and assists with importing, marketing and selling its products in China. WXRG does not make any margin on the products sold but is reimbursed for any expenses incurred.

As a source of sales, ONL is expecting direct sales to contribute a larger proportion of overall sales in FY17, as Exhibit 13 and Exhibit 14 demonstrate.

Exhibit 13: FY16e revenue by sales source

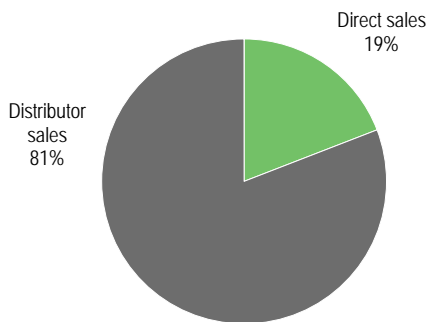
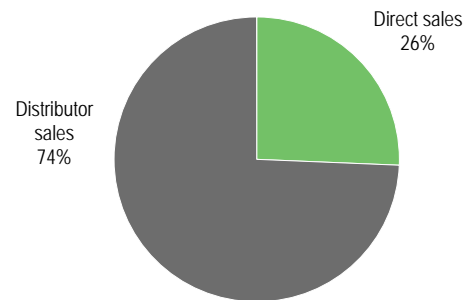


Exhibit 14: FY17e revenue by sales source



Source: Oceania Natural March 2016 listing document

Source: Oceania Natural March 2016 listing document

Gross margin

ONL is forecasting that it will generate gross margin (being total group revenue less costs of goods sold divided by total group revenue) of 41% in FY16. It is forecasting this will drop slightly to 40% in FY17 due to increased honey costs, although the company is anticipating increased noni juice sales and margins will help offset these. ONL is forecasting the gross margin to trend up again in FY18.

Some of ONL's strategies for increasing gross margin include focusing on higher-margin online direct sales and improving the quality and, therefore, price of manuka honey that it sells.

Management

Oceania Natural has put together a strong experienced board and senior management team, detailed as follows:

Executive Chairman **Wei (Walker) Zhong** is the founder and director of Camsing Trading and Oceania Natural. Prior to moving to New Zealand in 2013, Walker held senior management roles in China with several multinational corporations, including PepsiCo Inc and Tetra Pak. He has extensive experience in strategic planning, mergers and acquisitions and marketing, having more than 20 years' experience in Chinese national media and the fast moving consumer goods (FMCG) sector.

Non-executive Director **Zhongyang (Sean) Meng** is a director of accounting firm Meng & Associates, which were the former accountants of ONL and Camsing Trading. Sean has been a partner at Lowthers Chartered Accountants, chief financial officer of an Auckland City Council subsidiary, and corporate service manager with the Health and Disability Commissioner. He has significant experience in strategic planning, statutory reporting, financial management and cash flow forecasting.

Non-executive Director **Zhi Jun Shi** is the co-founder and was the first chairman of Credit China Holdings, a Hong Kong-listed company (8207.HK). Zhi Jun has strong experience in mergers and acquisitions, business financing, and strategic planning and development.

Non-executive Director **Ross Keeley** is the honorary president of SeaDragon Ltd (SEA.NZ), a company listed on the NZX, which has grown into the largest company in the omega 3 market in Australasia. Prior to his current role, Ross was CEO and executive director of SeaDragon, building it from a small private company and taking it to listing in 2012. He has extensive operations, procurement and sales experience. He previously has held senior management positions at Tegel Foods Ltd and Ngai Tahu Fisheries.

Chief Financial Officer **Malcolm Lindeque** has more than 23 years of accounting and corporate governance experience across both public and private sector companies. Through his consulting business, The Virtual CFO, he works with a range of listed and private companies. Current and former NZX clients include Snakk Media Ltd, Cooks Global Foods Ltd and SeaDragon Ltd.

Sales and Marketing Manager **Lei (Regina) Ding** brings more than 15 years' experience in sales and marketing roles in international corporations to her role at ONL. She previously was the chief representative in the Far East for German-listed company Gerry Weber International, leading the team responsible for supply chain management.

Sensitivities

Oceania Natural is an early stage company with a very short trading history, making it difficult to ascertain whether its business strategy is attainable. The company is competing in a sector with limited but large competitors with established market positions in its key target markets. In our view, there are several significant risk factors for the company that could have an impact on its future financial performance including:

- Availability and supply of manuka and multiflora honey. ONL's revenue forecasts depend on its ability to continue to source honey of a high quality. Manuka honey production in New Zealand is constrained by the unpredictability of seasonal yields and the quality that is generated by the different regions. Comvita's dominance in the New Zealand market also limits ONL's access to sources.
- Availability of noni juice supply. As previously highlighted, ONL sources noni juice from only one supplier because it believes the noni fruit it secures from this supplier has the highest quality. Any adverse change to this supplier could result in ONL deciding to cease production of noni juice.
- Three-quarters of the company's revenues are currently generated through three distributors. The loss of one or more of these distributors could adversely affect ONL's sales volumes and revenue forecasts.
- Three-quarters of the company's revenues are generated in Chinese renminbi, subjecting the company, which reports in NZ dollars, to currency exchange risk.
- At present, ONL contracts all its production to third parties. If it is unable to contract sufficient capacity, it may not be able to meet its forecasts.

- For investors, there is also liquidity risk as 70.1% of the company is held by interests associated with Chairman Walker Zhong and Director Sean Meng. These interests are subject to escrow conditions until February 2018.
- There is key man risk in that the company currently relies on Executive Chairman Walker Zhong for its sales and marketing into China.
- ONL may face competition in acquiring manuka plantations and assets, which potentially will affect the timing and cost of expansion in its business plan.

We have highlighted additional weaknesses in our SWOT analysis contained in Exhibit 15.

Exhibit 15: SWOT analysis	
Strengths	Weaknesses
Largest shareholder and CEO has strong relationships with distributors	Variability of supply of manuka honey
Small but growing source of sales directly controlled	Single uncontracted supply source for noni juice
Strong board with experience in both consumer goods and start ups	Liquidity risk – 70.1% of shares held by insiders
Exclusive distribution arrangements in place in China	Very small player in an established market with strong competitors
Limited competition for manuka honey due to indigenous nature	
Tapping into global demand for honey, nutritional supplements	
Opportunities	Threats
Actively looking acquiring beehives, manuka tree stands and honey processing assets in New Zealand	Potential supply constraints to manuka honey production
Potential to develop new lines of honey-related and noni-juice related products	No exclusivity on any supply contracts
Opportunities to expand its range of natural products	Exchange rate risk – 75% of sales from China
Seeking further distribution arrangements in the pan-Pacific region including North America, Taiwan, Canada and Australia	
Source: Edison Investment Research	

Financials

As previously noted, ONL's trading history has been short, with only one full year of historical financials available. Exhibit 16 sets out the financials as provided by the company in its listing document.

Exhibit 16: Historical financials		
NZ\$000s	FY15 (audited)	H116 (unaudited)
Revenue	1,512	1,391
EBITDA	45	222
EBITDA margin	3.0%	16.0%
EBIT	20	217
NPAT	1	155
Total assets	220	2,699
Cash and cash equivalents	4	1,177
Total liabilities	285	1,750
Total debt	0	722
Net cash (debt)	4	455
Net cash flows from operating activities	164	(729)

Source: Oceania Natural Listing document March 2016

Earnings

As the above exhibit demonstrates, ONL broke even in FY15 but generated NPAT of NZ\$0.16m in H116. The company's EBITDA margin for the half year was 16%, putting it slightly ahead of its peer group, which we discuss in the next section.

Balance sheet

At 30 September 2015, ONL had net cash of NZ\$0.46m comprising NZ\$1.18m cash and NZ\$0.72m debt. The debt includes the NZ\$0.46m owed to Ms Ding from the purchase of Rich Garden Ltd and a cash advance of NZ\$9,116. This debt is on an unsecured and interest free basis, maturing on 31 December 2017 but only repayable if ONL is able to satisfy the solvency test immediately after payment of the loan.

Cash flow

ONL reported net operating cashflow of NZ\$164,000 for FY15 but a deficit of NZ\$729,000 for H116. The company has not provided any guidance for FY16 operating cash flows.

Valuation

Implied EV/sales derived from last capital raise

ONL has provided revenue forecasts for FY16 and FY17 of NZ\$3.40m and NZ\$5.38m, respectively. From this we can derive EV/sales multiples using the last price at which capital was raised. The FY16e EV/sales multiple is 4.7x and the FY17e EV/sales multiple is 3.0x. Exhibit 17 demonstrates how we arrive at the implied FY7e EV/sales multiple of 3.0x.

Exhibit 17: Implied FY17e EV/sales multiple derived from last capital raise	
Last capital raise price (NZ\$)	0.64
Shares on issue at listing (m)	25.8
Oceania Natural's implied market capitalisation (NZ\$m)	16.5
Less net cash at 30 September 2015 (NZ\$m)	0.5
Implied enterprise value (NZ\$m)	16.1
FY17e revenue target by management (NZ\$m)	5.4
Implied EV/sales (x)	3.0

Source: Edison Investment Research

Peer comparison

While there are listed bioceutical companies in other jurisdictions, the only listed honey corporations are in Australia and New Zealand. We also believe the geographical limitations of manuka honey, which for the foreseeable future is ONL's largest product, makes it appropriate for us to focus on the Australian and New Zealand listed peer group. We have included Blackmores, a major exporter to China of natural supplements, and Vitaco, also a natural supplements producer and exporter, for the purpose of our comparison. Exhibit 18 sets out the peer group and their profit based multiples.

Exhibit 18: ONL peer comparison based on 12-month forward consensus forecasts

Company	Country	Currency	Price	Mkt cap (\$m)	P/E (x)	EV/sales (x)	EV/EBITDA (x)	EBITDA margin (%)	Operating margin (%)
Blackmores	Australia	A\$	171.72	2,958	25.2	3.6	16.5	21.9%	21.0%
Capilano Honey	Australia	A\$	18.70	161	13.0	1.1	7.7	14.4%	11.8%
Comvita	New Zealand	NZ\$	9.90	395	17.6	1.7	10.9	15.9%	14.1%
Vitaco Holdings	Australia	A\$	1.85	257	16.0	1.3	10.8	11.7%	10.2%
Natural and health products companies		Average		326	18.0	1.9	11.5	16.0%	14.3%

Source: Bloomberg, Edison Investment Research for Comvita. Note: Prices as at 18 March 2016.

Given the early stage of this company, it is not appropriate to compare ONL to its peers using profit-based multiples. As we noted above, ONL's 12 month forward EV/sales multiple (based on its FY17e sales target) is 3.0x, which is at a premium to the 1.9x 12-month average forward EV/sales multiple of its established peers shown in Exhibit 18.

Shareholders

ONL's share register is tightly held, with 70.1% of the register held by interests associated with the chairman, Walker Zhong, and non-executive director, Sean Meng. These interests will be subject to escrow arrangements until February 2018. The company will issue another 150,000 shares to its market maker on its listing, taking total shares on issue to 25.8m.

Exhibit 19: Shareholdings

Shareholders	No of shares	% holding
Wei Zhong, Lei Ding and Zhong Family Trustee Ltd	15,937,500	62.06
Zhongyang Meng	2,082,264	8.07
Other non-substantial shareholders	7,663,074	29.87
Total	25,682,838	100.00

Source: Oceania Natural March 2016 listing document

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