Equity Valuation of Grieg Seafood ASA

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Abstract

Through a combination of intrinsic valuation and relative valuation, this thesis estimates Grieg Seafood ASA's equity value as of May 6, 2024, and provides an estimated target price along with a final stock recommendation. By using a traditional DCF model and peer multiples, this thesis determines a target price of NOK 86.51 per share for Grieg Seafood, with a 50% weighting between the two approaches to capture both the company's business performance and the market's cyclicality.

Despite historical challenges, such as lower margins compared to peers and liquidity risks, strategic investments in post-smolt initiatives, and successful harvests in Newfoundland in 2023, total harvest volume and margins are expected to increase over the next five years. Based on the DCF valuation, a target price of NOK 66.05 is estimated. However, the relative valuation suggests an implied share price of NOK 106.98. With a 50% weighting between the two approaches and the current share price of NOK 70.45 (as of May 6, 2024), this analysis suggests that the stock is undervalued. Therefore, a buy recommendation is provided.

Keywords: Equity valuation, aquaculture, Atlantic salmon, fish farming.
Title: Equity Valuation of Grieg Seafood ASA
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Resumo

Através de uma combinação de avaliação intrínseca e avaliação relativa, esta tese estima o valor patrimonial e preço-alvo da Grieg Seafood ASA a 6 de maio de 2024, e elabora uma recomendação final de ações. Utilizando um modelo tradicional de DCF e múltiplos de pares, esta tese determina um preço-alvo de NOK 86,51 por ação para a Grieg Seafood, com um peso de 50% entre as duas abordagens para capturar tanto o desempenho da empresa quanto os ciclos do mercado.

Apesar dos desafios históricos, como margens mais baixas em comparação com os pares e riscos de liquidez, investimentos estratégicos em iniciativas de pós-smolt e colheitas bem-sucedidas nas operações de Newfoundland em 2023, o volume total de colheita e as margens devem aumentar nos próximos cinco anos. Com base na avaliação DCF, um preço-alvo de NOK 66,05 é estimado. No entanto, a avaliação relativa sugere um preço implícito de NOK 106,98 por ação. Com um peso de 50% entre as duas abordagens e o preço atual das ações de NOK 70,45 (em 6 de maio de 2024), esta análise sugere que as ações estão subvalorizadas. Portanto, é realizada uma recomendação final de compra.

Palavras-chave: Avaliação de Patrimônio, Aquacultura, Salmão Atlântico, Piscicultura.
Título: Avaliação de Patrimônio da Grieg Seafood ASA
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1. Introduction

The purpose of this thesis is to conduct a fair valuation of Grieg Seafood ASA. Using intrinsic and relative valuation techniques, this thesis aims to determine a target price for Grieg Seafood ASA's stock by estimating a fair target price. The estimated target price will then determine whether the stock is undervalued, overvalued, or correctly priced as of May 2025. The Discounted Cash Flow (DCF) valuation method is used to determine the firm's market value, supplemented by peers' multiples.

Grieg Seafood is one of Norway's largest producers of Atlantic salmon, accounting for 3% of the global supply, with a market cap of NOK 7,992 million. The Norwegian fish farming sector, the country's second-largest export industry, has witnessed significant investor activity in the past three years, marked by high margins, record-high prices of Atlantic salmon, and the introduction of the resource rent tax scheme on aquaculture in 2023. Considering these industry dynamics, this thesis aims to offer an independent recommendation for Grieg Seafood and establish a final target price as of May 2025.

This thesis is divided into 8 different chapters. Chapter 2 undertakes the literature review behind the valuation approaches used. Chapters 3 and 4 examine the company itself and provide an industry overview of the market. Chapter 5 conducts a financial analysis of the company's historical performance, while Chapter 6 consists of a strategy analysis using PESTEL and SWOT analyses. Chapter 7 involves the valuation of Grieg Seafood using a DCF model and peer multiples, whereas Chapter 8 includes a comparison of this valuation with an equity research report by DNB Markets.

2. Literature Review

2. 1 Introduction to Valuation

Aswath Damodaran wrote in 2006, “Valuation can be considered the heart of finance”. Understanding what determines the value of a firm and how to estimate its value is crucial for making good financial decisions. In corporate finance, we can determine how to increase firm value by changing investments, financing, and dividend decisions. In portfolio management, analysts look at firms that are mispriced and hope to generate profit from the gap between today's value and its “true” value (Damodaran, 2006).

This chapter presents the valuation models used in an investment decision and the theory behind each valuation approach. The valuation models calculate whether the price of an asset is undervalued or overvalued, assuming that "markets are inefficient and make mistakes in assessing value and how and when these inefficiencies will be corrected. In an efficient market, on the other hand, the market price of an asset is the best estimate of its value" (Damodaran, 2006). If this is so, the valuation model will justify this statement.

Different valuation methods are used to value an asset. Damodaran 2012 presents three valuation approaches. The first approach, intrinsic valuation, uses cash flows to determine a company's underlying value and focuses internally on the company. The second approach is known as relative valuation, where the firm value is determined by comparing the value of a company to "comparable" companies using financial ratios. The third approach is known as contingent claim valuation. This valuation method uses option pricing models to find the value of the company by using different companies that share option characteristics (Damodaran 2012). However, this thesis will focus on only intrinsic valuation and relative valuation models to determine the value of Grieg Seafood ASA.

2.2 Intrinsic Valuation

This thesis will use a discounted cash flow (DCF) model to calculate Grieg Seafood's intrinsic value, as the DCF model captures the underlying fundamental drivers of the company´s business. The DCF model is also the most commonly used approach in academia when estimating intrinsic value (Damodaran, 2006). For this reason, is the DCF model used when estimating the company´s intrinsic value. In a DCF, the value of a company today is based on how much it will generate in the future. This can be illustrated as:

$$DCF = \frac{CF_1}{(1+r)^1} + \frac{CF_2}{(1+r)^2} + \cdots + \frac{CF_n}{(1+r)^n}$$

Where: DCF = Discounted Cash Flow, CF_1 = Cash flow from year 1, CF_2 = Cash flow from year 2, CF_n = Cash flow for the additional years, r = interest rate, n = time in years before the future cash flow occurs.

This model illustrates the sum of cash flows the firm will generate each year in the future. But because of the time value of money (a dollar today is worth more than a dollar in one year (Berk & DeMarzo, 2017)), we need to discount all of these values back to today, based on the interest rate, r, to get the DCF value. This model can be used to either value a firm's equity, called free cash flow to equity (FCFE), or the entire value of the firm, called free cash flow to the firm (FCFF).

2.2.1 Free cash flow to the firm (FCFF)

The company's enterprise value is estimated by discounting the free cash flow to the firm (FCFF) at the weighted average cost of capital (WACC). This can be illustrated as:

$$Enterprice\ Value = \sum \frac{FCFF_t}{(1 + WACC)^t}$$

Where: FCFF = Free cash flow (after tax) to the firm in period t, WACC = Weighted average cost of capital.

The FCFF includes the cash flows available to both equity and debt holders and can be calculated as:

$$FCFF = EBIT\ (1 - tc) + Depreciation - Capital\ expenditures - \Delta\ in\ Net\ Working\ Capital$$

Where: EBIT = earnings before interest and taxes, t_c = the corporate tax rate.

Based on the enterprise value formula, the company will probably not stop generating cash flows after the forecasting period. However, forecasting cash flows for a longer period (above 10 years) can be difficult, and the company's growth rate will stabilize at some point. Adding a terminal value can solve this problem. The terminal value is the value of the business beyond the forecasted period. The enterprise value will now include a constant growth model to estimate the terminal value and discount at the WACC (Bodie et al., 2018). This can be illustrated as:

$$Enterprice\ Value = \sum \frac{FCFF_t}{(1 + WACC)^t} + \frac{V_T}{(1 + WACC)^T}, where\ V_T = \frac{FCFF_{T+1}}{WACC - g}$$

2.2.2 Free cash flow to equity (FCFE)

Another way to determine a company's value is to focus on the free cash flows available to equity holders (FCFE). This method is similar to the FCFF method. However, FCFE must be discounted directly at the cost of equity, and in addition, it will differ from FCFF due to after-tax interest expenditures and cash flows associated with changes in net debt (Bodie et al., 2018). The cash flow is conducted by calculating:

$$FCFE = FCFF - Interest\ expense \times (1 - t_c) + \Delta\ Net\ debt$$

To find the intrinsic value of equity, the FCFE must be discounted by the cost of equity, K_E. In addition to the enterprise value formula, we also have to add a terminal value to find the company´s value of equity. The calculation is illustrated as:

$$Intrinsic\ Value\ of\ Equity = \sum \frac{FCFE_t}{(1+K_E)^t} + \frac{E_T}{(1+K_E)^T}, where\ E_T = \frac{FCFE_{T+1}}{K_E - g}$$

2.2.3 Weighted Average Cost of Capital (WACC)

To find the value of a firm, we have to discount the FCFF by the weighted average cost of capital (WACC), which is the cost of capital that has to be paid to both equity- and debtholders. However, when calculating the value of a firm's equity, we only have to discount the FCFE on the cost of capital (r_E). When there is no debt in the firm, the WACC=r_E. The WACC is calculated as:

$$WACC = \left(\frac{E}{D+E}\right) \times r_E + \frac{D}{D+E} \times r_D \times (1 - T_C)$$

Where: E = Equity, D = Debt, r_E = Cost of equity, r_D = Cost of debt, T_C = Corporate tax rate

The WACC can be further divided into the cost of equity and the cost of debt. The cost of debt will be weighted according to the percentage of the company´s investments that are equity-financed and debt-financed.

2.2.3.1 Cost of Equity

There are different ways of calculating a company's cost of equity. However, this thesis will introduce the most used method, the Capital Asset Pricing Model (CAPM). This model states that the required rate of return is the same as the risk-free rate on the investment, r_f, plus a market risk premium. The cost of equity should be higher for riskier investments and lower for safer investments. The risk premium will, therefore, vary with the market risk of the investment, β (Berk & DeMarzo, 2017).

$$r_E = r_f + \beta\left[E(r_m) - r_f\right]$$

Where: r_E = Required return on equity, r_f = Risk-free rate, β= Stock beta, $E(r_m)$ = Expected market return

The risk-free interest rate in the model illustrates the guaranteed return on an investment. It is usually calculated by looking at a governmental bond rate, such as the US Treasury bond rate, with a longer maturity, e.g., 10 years. This is because buying a stock is a long-term investment. In addition, the risk-free investment must have no default risk and no reinvestment risk (Damodaran, 2014).

According to Damodaran (2014 b), the market risk premium is the premium that investors charge for investing in the average equity. One way to calculate the market risk premium is to calculate the historical market risk premium. This is calculated by taking the historical excess return in the chosen market minus the risk-free rate. However, the historical market risk premium does not give a forward-looking estimate, and it also changes over time. To solve this issue, Damodaran (2014 b) suggests using the implied market risk premium, which is based on the current market prices, but again, this way of calculating the risk premium creates difficulties. The implied market premium is, e.g., based on subjective estimates made by analysts. The implied marked premium can be calculated as:

$$Implied\ market\ risk\ premium = Expected\ stock\ return - Treasury\ bond\ rate$$

The beta, β, measures relative risk. Without including the beta, the return on equity is only based on the company's average risk. Thus, the r_E. should illustrate the required return for a specific company, not the average (Damodaran, 2014 c).

2.2.3.2 Cost of Debt

The interest rate on a company´s debt is known as the cost of debt (Palepu et al., 2019). This is the interest rate at which a company could borrow money today. The cost of debt should include a risk-free rate plus a default spread. The default spread is the credit risk you must pay on top of the risk-free rate in case of a default (Damodaran, 2014 d). According to Dr. Fani Kalogirou (2022), the cost of debt can be estimated by three different approaches. In the first approach, the cost of debt can be estimated by using the firm's yield to maturity on a straight bond outstanding. However, there are few firms that have traded long-term bonds outstanding. In the second approach, the cost of debt can be estimated by looking up the credit rating for a firm and estimating the default spread based on the credit rating. However, this approach requires that the company has a credit rating. If a company does not have a credit rating, the cost of debt can be estimated by using a synthetic credit rating. The simplest way of creating a synthetic credit rating is by estimating the interest coverage ratio. The spread can be estimated by looking up the interest coverage ratio and finding the matching spread.

2.3 Relative Valuation

Relative Valuation is a market-based approach that estimates the value of assets by looking at the market price of comparable assets relative to a common variable. This variable can be earnings, cashflows, book value, or sales. There are three criteria that must be fulfilled when doing a relative valuation. The peer group must consist of "comparable" companies, which means that the companies should be, e.g., in the same industry group, operating in the same geographical area, and having similar financials or size. If the assets are not perfectly comparable, variables must be controlled for the differences. In the end, the multiples should be a standardized measure of value (Damodaran, 2012).

Relative valuation methods often use multiples to estimate a company's value. The multiple can be calculated as:

$$Multiple = \frac{What\ you\ are\ paying\ for\ the\ asset}{What\ you\ are\ getting\ in\ return}$$

Where the numerator can include, e.g., the market value of equity or the enterprise value, and the denominator can include earnings, cash flow, or book value. The most used multiples are EV/EBITDA and PE ratios (Fernandez, 2001). The multiple can also be industry-specific, e.g., EBIT/kg, where the multiple gives you how much EBIT is generated per kg produced x.

2.4 The Trade-off Between DCF and Relative Valuation

According to Damodaran (2012), there are several advantages using a DCF valuation model. First, a DCF valuation is less exposed to market fluctuations since it focuses on the firm´s business itself. Second, a DCF valuation forces you to think about a firm's underlying characteristics and core business. On the other hand, a DCF can be time-consuming since it requires more information and inputs than a relative valuation. In addition, a DCF can be manipulated by the analyst to give biased valuations (Damodaran, 2012). A DCF is also heavily based on assumptions that might not give correct estimations of the future cash flow, and it is quite subjective.

A relative valuation is easy and fast to calculate because it requires less information than a DCF model. It is also more likely to reflect the current market view than a DCF model. On the other side, it can be hard to find comparable companies in some sectors. In addition, if all the comparable companies are overvalued, the company being analyzed can be less or more

overvalued than its peers (Damodaran, 2012). To conclude, combining different valuation methods together can create a better result when the valuation method is not perfect.

3. Industry Overview

Fish farming involves raising fish in captivity, often including the production of roe and fry to cultivate new generations of farmed fish. Most of the world's fish farming occurs in freshwater in Asia, with various species of carp accounting for the largest share of global production (Misund, 2023). Norway is the world's largest producer of Atlantic salmon and rainbow trout. Aquaculture is Norway's second-largest export industry, with an annual turnover of over 80 billion NOK. Through targeted investments in research and development and regulations of the industry through licenses, the industry has experienced significant growth since 1970. In 2020, just under 1.5 million tonnes of Norwegian-farmed fish were produced and sold, compared with 200,000 tons in 1994 (The Norwegian Government, 2021).

3.1 Production Process

Salmon is the common name for several species of fish in the family Salmonidae, while other species in the family are called trout (Mowi, 2023). The fish farming production of salmon consists of three phases in the fish's lifecycle. The first phase is *broodstock production*, where the fish are brought to sexual maturity. Roe from female fish and milt from male fish are collected from spawning-ready broodstock, and the roe grains are then fertilized. Phase 2, called smolt production or freshwater farming, occurs in freshwater. Here, the eggs hatch into fry until the fish reach a certain size and are resilient enough to tolerate salt water, also known as *smoltification*. The final phase, known as *the food production phase* or *seawater farming*, involves feeding the fish until they reach a size suitable for sale to customers. Salmon and rainbow trout spend the first two phases in freshwater, while other marine species, like cod, live their entire lives in seawater (Misund, 2023).

3.2 Environmental Concerns

Environmental and animal welfare organizations have strongly opposed the aquaculture industry, criticizing companies for high fish mortality rates and distress and the industry's environmental impact (Mislund, 2023).

In a risk report on Norwegian aquaculture in 2024, the Institute of Marine Research identifies farmed salmon escapees and salmon lice as the primary environmental challenges. Escaped

farmed salmon can interbreed with wild salmon, threatening genetic integrity. Salmon lice can attach to wild salmon passing by aquaculture facilities and cause massive damage to wildlife. Salmon lice cause huge harm to farmed salmon and incur substantial costs (at least 5–10 billion NOK annually) and mortality for the industry. Cleaner fish are used to combat salmon lice, but concerns about their survival and well-being persist among veterinarians (Mislund, 2023).

For recent generations of salmon, the mortality rate in Norway has been around 15% from stocking to slaughter. The Institute of Marine Research reported that a total of 65 (58 million in 2022) million farmed salmon died or were in such poor condition that they were discarded in 2023. Another contributing factor is the invasion of the colonial jellyfish species, which occurred from October to December 2023 (Institute of Marine Research, 2024), which may pose a greater risk to the aquaculture industry.

Unused fish feed and feces accumulating under aquaculture facilities are also environmental concerns. Fish feed waste and feces can cause biochemical changes in the seabed of aquaculture facilities. The use of antibiotics in aquaculture, even in small quantities, has also raised concerns about antibiotic resistance. Usage has decreased significantly since the 1980s, and today, relatively small amounts are used, mainly for cleaner fish (Mislund, 2023).

3.3 Industry Structure

The Norwegian fish farming industry has seen significant M&A activity over the past 30 years. Historically, there were almost 1,000 fish farming companies in Norway, but as of 2022, nearly 120 companies hold commercial licenses for salmon and trout production. Around 90 companies manage the total production, either directly or through subsidiaries. In 2022, the 16 largest producers of farmed salmon accounted for 80% of Norway's total salmon production (Mowi, 2023).

Mowi ASA represented the largest global production of Atlantic salmon in 2022, harvesting one-fifth of the salmon produced in Norway and almost one-third of total production in both the UK and North America. Norwegian companies such as SalMar, Lerøy Seafood, Bakkafrost, and Grieg Seafood were also among the top eight largest producers of Atlantic salmon in 2022 (Figure 1).

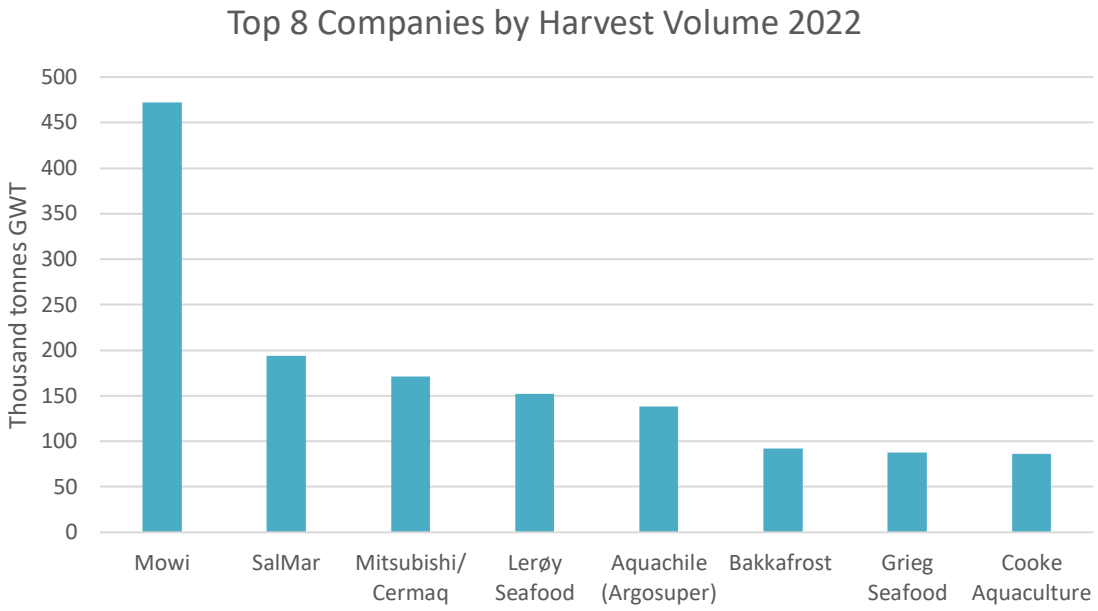

Figure 1: (Mowi, 2023)

3.4 Market conditions

As a commodity, the prices of Atlantic salmon are driven by supply and demand after the product. However, the salmon sector is highly cyclical, with fluctuating market prices.

3.4.1 Salmon Prices

The market for Atlantic salmon is extremely cyclical. This is mainly driven by high volatility in the market price of Atlantic salmon. Figure 2 shows the historical prices of Atlantic salmon between 2014 and 2024:

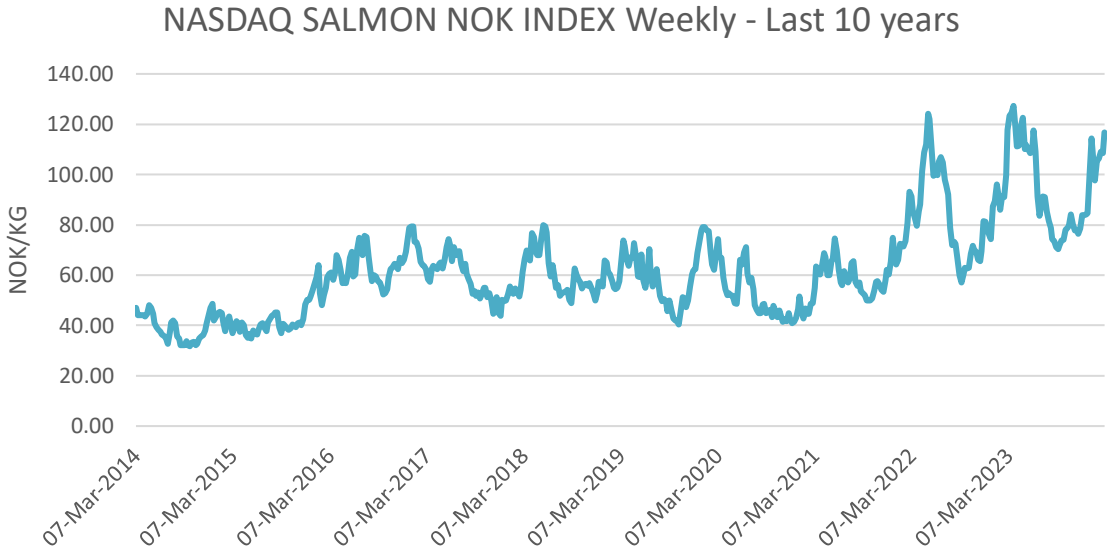

Figure 2: Nasdaq Salmon NOK Index, Weekly average from Refinitiv Eikon, 2014-2023.

The figure shows the NASDAQ SALMON NOK INDEX weekly over the past ten years. Variations in growth rates in global supply have been the primary factor influencing price fluctuations. However, in 2020, demand was impacted by COVID-19 restrictions, an exogenous shock in demand, leading to reduced food service activity. Demand started to recover in 2021 as the market conditions improved (Mowi, 2023). This positive trend continued into 2022 and 2023. Since 2014, prices have ranged between NOK 127.28 per kg (2023) and NOK 31.73 per kg (2014), with an average price of NOK 61,77 per kg. Prices in 2023 and 2024 have reached new record-high levels due to strong demand and limited supply from key producing regions.

3.4.2 Supply

In 2022, Norway had 53% of the total production of Atlantic salmon, with Chile and the UK as the second and third largest producers, with 26% and 6% of the total production (Figure 3). However, suitable coastlines for salmon farming are limited, affecting the overall salmon supply. First and foremost, to produce Atlantic salmon, the water temperature needs to range between zero and 20 ^{0}C. The farms also require a certain amount of current to allow water to flow through the farm. The current must be below a certain level to enable fish to move freely around the sites. Such conditions are typically found in waters protected by archipelagos and fjords, excluding many coastlines. However, offshore farming is now also an emerging approach. Certain biological parameters are also necessary to enable efficient production. Additionally, licensing systems are in place in all areas where salmon farming is conducted (Mowi, 2023), further regulating the global supply.

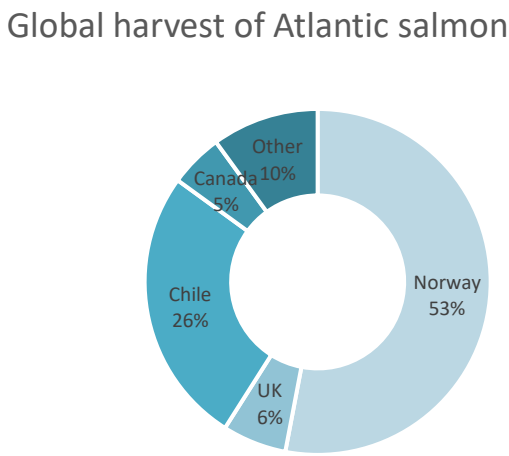

Figure 3: (Grieg Seafood, 2023).

The annual growth rate of the global supply of Atlantic salmon in 2002-2022 was 5%. From 2012 to 2022, the annual growth rate went down to 4% (from 6% to 3% in Norway). In Chile, the second largest market for Atlantic salmon, the annual growth rate went from 5% in 2002-2022 to 8% in 2012-2022. Mowi expects the annual growth rate to remain stable at 2 % globally (Mowi, 2023). The background for this trend is influenced by the industry pushing against biological boundaries in production, necessitating measures to reduce the biological footprint. This requires technological advancements, better regulations, and cooperation between companies. Rapid growth without these measures harms biological indicators, increases costs, and reduces output (Mowi, 2023).

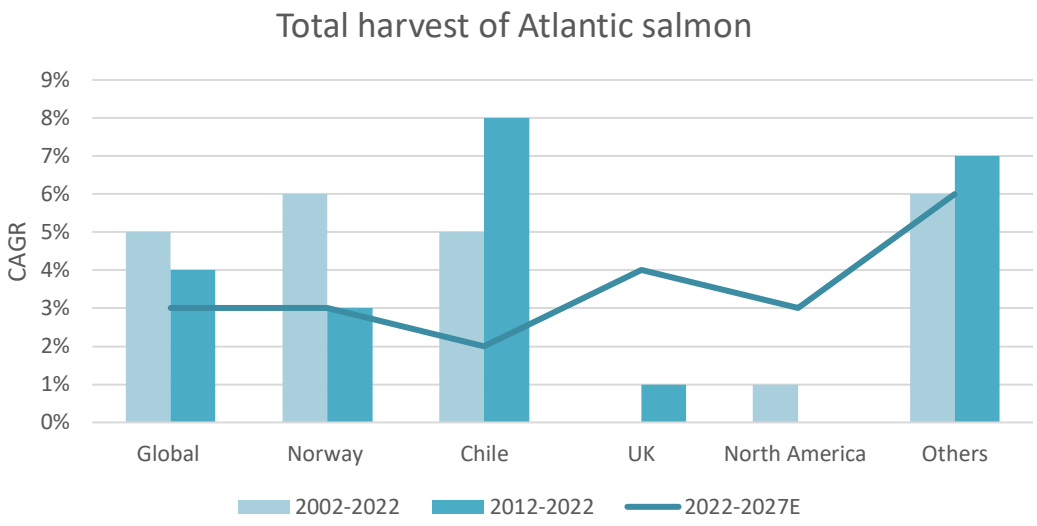

Figure 4: (Mowi, 2023)

3.4.3 Demand

The global demand for Atlantic salmon has increased by 4% annually over the last ten years, supported by growing demand for healthy food and an expanding middle class in developing countries. The most significant growth comes from the US, with an annual growth of 8%, and with a strong dollar, this growth seems to be particularly strong in the years to come. The EU, the UK, and the US are the largest consumers of Atlantic salmon. However, emerging markets such as Brazil and Asia have been growing at higher rates than traditional markets, with an annual growth of 5% (Mowi, 2023). Europe still remains the main market for Norwegian salmon (Nordic Credit Rating, 2024). The demand for salmon is expected to remain strong in 2024, with forward prices reflecting this, with an average price of around NOK 104 per kg (Grieg Seafood, 2024).

4. Introduction to Grieg Seafood ASA

Grieg Seafood ASA is a Norwegian salmon-farming company specializing in fresh Atlantic salmon. The company is headquartered in Bergen, Norway, and has over 750 full-time employees. Grieg Seafood has a fully integrated value chain that includes hatcheries, sea farms, and processing plants. In addition, Grieg Seafood operates its own sales organization, Grieg Seafood Sales, and markets some of its products under the Skuna Bay brand in the US market (Grieg Seafood, 2024).

The company was founded in the early 1990s by the entrepreneur Per Grieg Jr, and the Grieg family remains a significant stakeholder in Grieg Seafood. Grieg Seafood ASA was listed on the Oslo Stock Exchange in 2007 (Grieg Seafood, n.d.) and has today a market cap of NOK 7 992 million (Refinitiv Eikon). Grieg Seafood accounted for 3% of the global supply of Atlantic salmon in 2023 and had a total harvest volume of 72,000 tonnes (85,000 tonnes in 2022). Grieg's largest market in 2023 was Continental Europe (56% of sales revenue), followed by North America (31%), Asia (7%), and the UK (5%). Market distribution varies each year based on changes in harvested volumes across regions.

4.1 Operations

Grieg Seafood has subsidiaries and fish farms in Rogaland and Finnmark in Norway, as well as in British Columbia and Newfoundland in Canada. The company previously had fish farm operations in Shetland, Scotland, but these facilities were sold in 2020. Currently, the company is fully focused on being close to its most important markets, Europe and North America (Grieg Seafood, 2024). Their operations are divided into four subsidiaries: Grieg Seafood Finnmark, Grieg Seafood Rogaland, Grieg Seafood British Columbia, and Grieg Seafood Newfoundland.

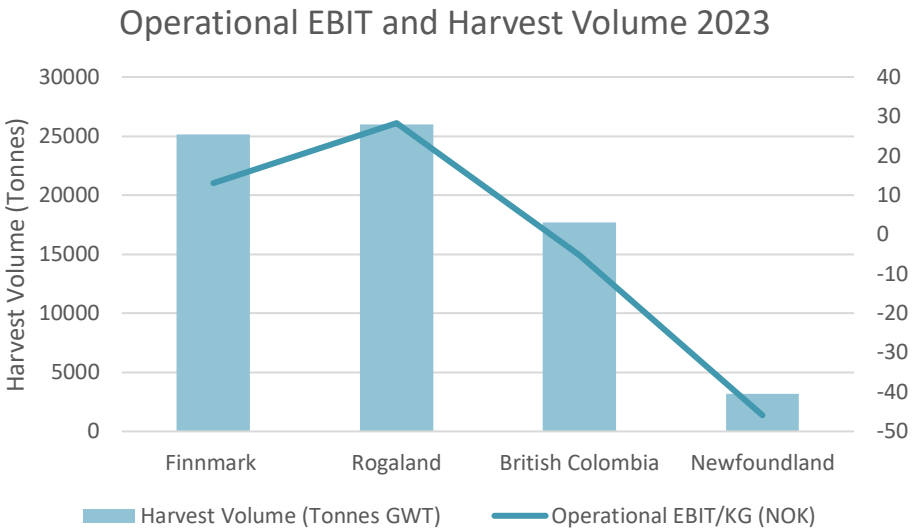

Figure 5: Operational EBIT excludes the effects of non-recurring costs to easier compare the Group's results from one period to another (Grieg Seafood, 2024).

Grieg Seafood Finnmark

Grieg Seafood Finnmark has a total annual production capacity of 38,000 tonnes of Atlantic salmon. Salmon harvested in Finnmark are further processed and packed at their local facility in Alta. They have 28 seawater licenses and one freshwater license (A normal license size in Finnmark is 945 tonnes). In 2023, Grieg Seafood Finnmark harvested 25,170 tonnes of Atlantic Salmon, 8,000 tonnes less than expected, and a decrease of 30% compared to 2022 (Figure 5). Their facilities suffered significant losses due to the Spiro parasite, as well as winter ulcers and string jellyfish. These biological challenges had a major impact on their seawater production, causing their operational EBIT/kg to decrease from 25.7 in 2022 to 13.0 in 2023 (Grieg Seafood, 2024).

Grieg Seafood Rogaland

Grieg Seafood Rogaland harvested 25,980 tonnes of Atlantic salmon in 2023. Because of a strong market and good price achievement, they ended up with an operational EBIT/kg of NOK 28.3 (Figure 5). The company expects to harvest 28,000 tonnes in 2024 and wants to increase the total harvest volume to 35,000-40,000 tonnes by improving the utilization of seawater capacity. They currently have 19 seawater licenses and two hatchery fish licenses (Grieg Seafood, 2024).

Grieg Seafood British Columbia

Grieg Seafood BC Ltd is located north of Vancouver and operates 22 fish farms along with a hatchery. The company is licensed to produce 23,400 tonnes annually and supplies to the North American and Asian markets. However, in 2023, their total harvested volume decreased by 13% to 17,682 tonnes, with a negative operational EBIT/kg of NOK -5.3. This was due to low spot prices in the North American market and increased farming costs. Looking ahead to 2024, the company anticipates a total harvest of 15,000 tonnes but is aiming to increase its volume to 30,000 – 35,000 tonnes. This expansion plan involves utilizing more of its current seawater capacity and targeting new areas (Grieg Seafood, 2024).

Greig Seafood Newfoundland

Grieg Seafood Newfoundland is a greenfield project in Canada with 14 marine licenses. It produces salmon for the North American market, and they successfully conducted its first harvest in 2023, with a total volume of 3,184 tonnes. However, due to the high operational costs associated with still being in a development phase with low production, they delivered a negative operational EBIT/kg of NOK -45.9 in 2023. Grieg Seafood Newfoundland aims to develop production gradually and meet the increased demand for salmon in the North American market (Grieg Seafood, 2024).

4.2 Business Strategy

Grieg Seafoods' business strategy consists of three focus areas: global growth, cost improvements, and value chain repositioning.

Global Growth

Grieg Seafood aims to increase total harvest volumes to 120,000-135,000 tonnes. The growth will be driven by increased utilization of their seawater licenses by mowing more growth to land through their post-smolt program. The aim of the post-smolt program is to keep the fish longer on land or in closed facilities in the sea. This will reduce the time spent growing in the open sea so that the fish would be less exposed to biological risks and increase the survival rate. Grieg Seafood will also focus on developing the Newfoundland region, targeting new licenses, and participating in new growth incentives and M&A activity. However, due to the introduction of the resource tax on salmon, the company has put all investments on hold until they know how the new tax scheme would impact funds available for investments. Until then, they would focus on post-smolt expansion in Finnmark and building a unit that will add 3,000

tonnes of post-smolt capacity by 2026. This would reduce the biological risks in this farming area (Grieg Seafood, 2024).

Cost Development

Grieg Seafoods' farming costs have increased over the past two years due to increased inflation and biological challenges. For this reason, the company started an improvement program in 2023 to increase profitability and reduce costs by NOK 150 million over the next two years. In addition, the company expects its post-smolt program to reduce operational costs by increasing the survival rate (Grieg Seafood, 2024).

Value Chain Repositioning

Grieg Seafood aims to go from a raw material supplier to increase its value chain to also include more value-added products. They are currently investing in a new secondary facility in Oslo Airport Gardermoen with a capacity of 10,000-12,000 tonnes, which would be up and running from 2025. In addition, the company is targeting 20%-30% of their total production volume to be value-added products by 2026. They would also be focusing on developing B2B brands (Grieg Seafood, 2024).

5. Financial Analysis

This chapter aims to provide an overview and insight into Grieg Seafood's historical performance by examining accounting figures, financial ratios, and historical trends.

5.1 Standardized Financial Statements for Grieg Seafood

Table 1 presents the standardized income statement, and Table 2 presents the standardized balance sheet from the last ten fiscal years (2014-2023) for Grieg Seafood ASA. The data is based on annual reports (reported after the International Financial Reporting Standards (IFRS)) and data from Refinitiv Eikon. Companies operating in cyclical industries need a long-term analysis horizon to account for fluctuations in the business cycle. To achieve this, a period of 10 years is used for the analysis, which includes the large variations in salmon prices. However, the company has, since 2020, experienced higher M&A activity, with the establishment of a new business area in Newfoundland, Canada, and the sale of operations in Shetland. This suggests the need for a shorter analysis period. On the other hand, the core business of Grieg Seafood remains the same, suggesting the need for a longer analysis period.

In the standardized income statement (Table 1), accounting items are categorized as related to the company´s operations or financing. Items related to the company´s operations provide important operating metrics such as Gross Profit, EBITDA, and EBIT. These metrics are important when measuring the company´s value creation generated through its operations.

Income Statement Grieg Seafood ASA (NOKm)	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Sales revenues	4 099,50	4 608,70	6 545,20	7 017,50	7 500,30	8 273,60	4 384,40	4 598,60	7 164,00	7 019,60
Cost of goods sold	2 293,30	2 738,90	3 287,20	3 724,20	3 852,90	4 182,00	1 717,30	1 738,30	2 233,70	2 747,90
Gross Profit	**1 806,20**	**1 869,80**	**3 258,00**	**3 293,30**	**3 647,40**	**4 091,60**	**2 667,10**	**2 860,30**	**4 930,30**	**4 271,70**
Selling/General/Admin. Expenses	954,90	1 101,60	1 878,30	2 080,30	2 257,90	2 513,70	1 991,20	2 040,40	2 663,60	2 799,20
Other Operating Expenses (Income)	371,20	513,70	38,70	106,80	52,60	80,10	77,20	25,00	100,80	166,20
Other Operating Expenses (Income) - Non Recurring	120,10	- 40,20	- 516,30	92,10	- 253,80	220,50	286,30	- 521,50	77,00	- 228,80
EBITDA	**360,00**	**294,70**	**1 857,30**	**1 014,10**	**1 590,70**	**1 277,30**	**312,40**	**1 316,40**	**2 088,90**	**1 535,10**
Depreciation	135,50	162,20	175,40	196,20	230,30	404,90	360,20	368,50	434,60	532,90
Amortization/Impairment	5,20	51,40	- 1,50	4,90	5,40	5,70	8,70	7,20	156,80	21,70
EBIT	**219,30**	**81,10**	**1 683,40**	**813,00**	**1 355,00**	**866,70**	**- 56,50**	**940,70**	**1 497,50**	**980,50**
Net Interest Expenses (Income)	47,30	90,30	122,60	14,40	78,00	26,20	247,80	87,30	50,00	136,40
Profit Before Tax	**172,00**	**- 9,20**	**1 560,80**	**798,60**	**1 277,00**	**840,50**	**- 304,30**	**853,40**	**1 447,50**	**844,10**
Income Taxes	27,60	- 13,60	338,50	197,60	279,80	195,70	11,60	249,30	293,90	284,40
Total Net Income	**144,40**	**4,40**	**1 222,30**	**601,00**	**997,20**	**644,80**	**- 315,90**	**604,10**	**1 153,60**	**559,70**
Minority Interest	5,60	11,00	36,30	30,40	24,60	25,40	26,20	-	-	-
Discontinued Operations	-	-	-	-	-	-	198,80	- 600,30	-	-
Net Income To Shareholders	**138,80**	**- 6,60**	**1 186,00**	**570,60**	**972,60**	**619,40**	**- 540,90**	**1 204,40**	**1 153,60**	**559,70**
Dividends previous year	0,0	(55,2)	(178,5)	(474,3)	(466,5)	(462,0)	0,0	0,0	(336,9)	(504,1)
Retained Earnings	**138,80**	**48,60**	**1 364,50**	**1 044,90**	**1 439,10**	**1 081,40**	**- 540,90**	**1 204,40**	**1 490,50**	**1 063,80**

Table 1: Standardized Income Statement Grieg Seafood ASA, 2014-2023.

Value creation in the company occurs through operating activities rather than financial activities. For this reason, the standardized balance sheet splits between operating-related items and financial-related items (Table 2). Additionally, the balance sheet is divided into current assets and non-current assets, current liabilities and non-current liabilities, and equity. Several accounting items are grouped under each category to simplify further analysis and more easily identify the main drivers in the balance sheet.

Balance Sheet Grieg Seafood ASA (NOKm)	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Operating items										
Total Cash and Equivalents	173	382	334	258	126	200	248	903	1 655	216
Trade Receivables	565	697	940	910	1 045	717	275	256	372	440
Inventories	1 935	2 020	2 549	2 790	3 321	3 616	2 624	3 577	4 286	5 296
Other Current Operating Assets	33	30	24	51	46	77	37	43	44	59
Financial items										
Derivatives – Asset	-	1	50	49	4	8	84	38	38	35
Other Current Non-Operating Assets	9	10	170	13	12	15	27	25	1	-
Total Current Assets	**2 715**	**3 140**	**4 067**	**4 071**	**4 554**	**4 633**	**3 295**	**4 842**	**6 396**	**6 046**
Operating items										
Non-Current Tangible Assets	1 425	1 535	1 509	1 872	2 292	2 957	3 033	3 403	4 036	5 095
Non-Current Intangible Assets	1 185	1 220	1 187	1 195	1 256	1 259	2 185	2 234	2 170	2 230
Goodwill	108	110	108	109	109	109	638	660	691	727
Other Intangibles Assets	1 077	1 110	1 079	1 086	1 147	1 150	1 547	1 574	1 479	1 503
Deferred Tax Assets	2	10	-	4	2	1	29	-	-	-
Other Non-Current Assets	2	3	4	-	-	2	49	131	58	82
Financial items										
Minority Equity Investments	22	26	-	9	37	81	84	105	217	210
Assets Held for Sale	-	-	-	-	-	-	1 973	-	-	-
Total Non-Current Assets	**2 636**	**2 794**	**2 700**	**3 080**	**3 587**	**4 300**	**7 353**	**5 873**	**6 481**	**7 617**
Total Assets	**5 351**	**5 934**	**6 767**	**7 151**	**8 141**	**8 933**	**10 648**	**10 715**	**12 877**	**13 663**
Operating items										
Trade Payables	360	653	494	585	649	855	563	523	717	761
Other Current Liabilities	202	160	443	386	308	443	132	333	697	269
Financial items										
Current debt	737	501	668	658	795	383	257	232	369	508
Derivatives- Liability	29	28	24	35	15	20	16	22	66	2
Total Current Liabilities	**1 328**	**1 342**	**1 629**	**1 664**	**1 767**	**1 701**	**968**	**1 110**	**1 849**	**1 540**
Financial items										
Non-Current Debt	1 219	1 812	1 246	1 409	1 605	2 210	3 908	2 959	3 493	4 603
Deferred Tax Liabilities	560	539	675	722	878	875	909	1 070	1 041	843
Minority Interest	19	30	56	44	49	57	-	-	-	-
Other Non-Current Liabilities	3	4	11	9	8	8	493	11	7	8
Total Non-Current Liabilities	**1 802**	**2 385**	**1 988**	**2 184**	**2 540**	**3 150**	**5 310**	**4 040**	**4 541**	**5 454**
Minority Interest	19	30	56	44	49	57	-	-	-	-
Common Stock	447	447	447	447	447	447	454	454	454	454
Retained Earnings (Accumulated)	1 780	1 626	2 646	2 775	3 308	3 488	3 136	4 344	5 139	5 201
Treasury Stock	- 5	- 5	- 5	- 5	- 5	- 5	- 5	- 5	- 5	- 5
Other Equity	-	140	63	88	84	155	786	770	899	1 019
Total Equity	**2 222**	**2 208**	**3 151**	**3 305**	**3 834**	**4 085**	**4 371**	**5 563**	**6 487**	**6 669**
Total Equity And Liabilities	**5 352**	**5 935**	**6 768**	**7 153**	**8 141**	**8 936**	**10 649**	**10 713**	**12 877**	**13 663**

Table 2: Standardized Balance Sheet Grieg Seafood ASA, 2014-2023.

5.2 Financial Analysis

Financial statements provide information about a company's financial health. They are important for tracking a company's performance and understanding its progress towards its goals (Palepu, K. G., et al., 2019). A financial statement analysis helps evaluate a firm´s past performance and explains how the firm´s strategy is reflected in the past. It is also useful when projecting a firm´s future financial performance and developing forecasts for firm valuations. However, ratios must be compared to peers´ or a firm´s historical values (Fontes, S7, slide 3). This section will present the company's historical trends of profitability, investments, and financing through a common-size income statement and balance sheet. In addition, this section will present the company´s historical and current liquidity and solvency, as well as the company´s profitability.

5.2.1 Common-size Financial Statements

A common-size financial statement shows each line item as a percentage of a selected or common figure. The common-size financial statements make it easier to analyze a company over a period and spot trends that a raw financial statement may not uncover (Furhmann, 2024).

Common-Size Income Statement	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Sales revenues	100 %	100 %	100 %	100 %	100 %	100 %	100 %	100 %	100 %	100 %
Cost of goods sold	56 %	59 %	50 %	53 %	51 %	51 %	39 %	38 %	31 %	39 %
Gross Profit	**44 %**	**41 %**	**50 %**	**47 %**	**49 %**	**49 %**	**61 %**	**62 %**	**69 %**	**61 %**
Selling/General/Admin. Expenses	23 %	24 %	29 %	30 %	30 %	30 %	45 %	44 %	37 %	40 %
Other Operating Expenses (Income)	9 %	11 %	1 %	2 %	1 %	1 %	2 %	1 %	1 %	2 %
Other Operating Expenses (Income) - Non Recurring	3 %	-1 %	-8 %	1 %	-3 %	3 %	7 %	-11 %	1 %	-3 %
EBITDA	**9 %**	**6 %**	**28 %**	**14 %**	**21 %**	**15 %**	**7 %**	**29 %**	**29 %**	**22 %**
Depreciation	3 %	4 %	3 %	3 %	3 %	5 %	8 %	8 %	6 %	8 %
Amortization/Impairment	0 %	1 %	0 %	0 %	0 %	0 %	0 %	0 %	2 %	0 %
EBIT	**5 %**	**2 %**	**26 %**	**12 %**	**18 %**	**10 %**	**-1 %**	**20 %**	**21 %**	**14 %**
Net Interest Expenses (Income)	1 %	2 %	2 %	0 %	1 %	0 %	6 %	2 %	1 %	2 %
Profit Before Tax	**4 %**	**0 %**	**24 %**	**11 %**	**17 %**	**10 %**	**-7 %**	**19 %**	**20 %**	**12 %**
Income Taxes	1 %	0 %	5 %	3 %	4 %	2 %	0 %	5 %	4 %	4 %
Total Net Income	**4 %**	**0 %**	**19 %**	**9 %**	**13 %**	**8 %**	**-7 %**	**13 %**	**16 %**	**8 %**
Minority Interest	0 %	0 %	1 %	0 %	0 %	0 %	1 %	0 %	0 %	0 %
Discontinued Operations	0 %	0 %	0 %	0 %	0 %	0 %	5 %	-13 %	0 %	0 %
Net Income To Shareholders	**3 %**	**0 %**	**18 %**	**8 %**	**13 %**	**7 %**	**-12 %**	**26 %**	**16 %**	**8 %**

Table 3: Common-size income statement, 2014-2023.

According to Grieg Seafood's common-size income statement (Table 3), the company's margins have increased significantly since 2020. Since 2020, the company has excluded operations in Shetland and shifted its focus to operations in Norway and Canada, leading to higher margins for the firm. This explains the significant changes in COGS, SG&A expenses, and D&A in 2020. In 2022, the company experienced an all-time high gross profit margin of 69%, mainly driven by a high harvest volume and higher prices of Atlantic salmon. In 2023, Grieg Seafood struggled with lower harvest volume and higher feed costs, leading to a reduced gross profit margin. The operating margin, calculated as earnings before interest and tax over revenue, has fluctuated significantly in recent years. It was low in 2014 and 2015 and decreased again from 2017 to 2020, indicating greater business risks. Despite this, the company has managed to earn profits from its operations in 9 out of the last 10 years. Additionally, the net profit margin (net income over revenue) shows that it generated profits for its shareholders in 8 out of the last 10 years.

Common-Size Balance Sheet	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Operating items										
Total Cash and Equivalents	3 %	6 %	5 %	4 %	2 %	2 %	2 %	8 %	13 %	2 %
Trade Receivables	11 %	12 %	14 %	13 %	13 %	8 %	3 %	2 %	3 %	3 %
Inventories	36 %	34 %	38 %	39 %	41 %	40 %	25 %	33 %	33 %	39 %
Other Current Operating Assets	1 %	1 %	0 %	1 %	1 %	1 %	0 %	0 %	0 %	0 %
Financial items										
Derivatives – Asset	0 %	0 %	1 %	1 %	0 %	0 %	1 %	0 %	0 %	0 %
Other Current Non-Operating Assets	0 %	0 %	3 %	0 %	0 %	0 %	0 %	0 %	0 %	0 %
Total Current Assets	**51 %**	**53 %**	**60 %**	**57 %**	**56 %**	**52 %**	**31 %**	**45 %**	**50 %**	**44 %**
Operating items										
Non-Current Tangible Assets	27 %	26 %	22 %	26 %	28 %	33 %	28 %	32 %	31 %	37 %
Non-Current Intangible Assets	22 %	21 %	18 %	17 %	15 %	14 %	21 %	21 %	17 %	16 %
Goodwill	2 %	2 %	2 %	2 %	1 %	1 %	6 %	6 %	5 %	5 %
Other Intangibles Assets	20 %	19 %	16 %	15 %	14 %	13 %	15 %	15 %	11 %	11 %
Deferred Tax Assets	0 %	0 %	0 %	0 %	0 %	0 %	0 %	0 %	0 %	0 %
Other Non-Current Assets	0 %	0 %	0 %	0 %	0 %	0 %	0 %	1 %	0 %	1 %
Financial items										
Minority Equity Investments	0 %	0 %	0 %	0 %	0 %	1 %	1 %	1 %	2 %	2 %
Assets Held for Sale	0 %	0 %	0 %	0 %	0 %	0 %	19 %	0 %	0 %	0 %
Total Non-Current Assets	**49 %**	**47 %**	**40 %**	**43 %**	**44 %**	**48 %**	**69 %**	**55 %**	**50 %**	**56 %**
Total Assets	**100 %**	**100 %**	**100 %**	**100 %**	**100 %**	**100 %**	**100 %**	**100 %**	**100 %**	**100 %**
Operating items										
Trade Payables	7 %	11 %	7 %	8 %	8 %	10 %	5 %	5 %	6 %	6 %
Other Current Liabilities	4 %	3 %	7 %	5 %	4 %	5 %	1 %	3 %	5 %	2 %
Financial items										
Current debt	14 %	8 %	10 %	9 %	10 %	4 %	2 %	2 %	3 %	4 %
Derivatives- Liability	1 %	0 %	0 %	0 %	0 %	0 %	0 %	0 %	1 %	0 %
Total Current Liabilities	**25 %**	**23 %**	**24 %**	**23 %**	**22 %**	**19 %**	**9 %**	**10 %**	**14 %**	**11 %**
Financial items										
Non-Current Debt	23 %	31 %	18 %	20 %	20 %	25 %	37 %	28 %	27 %	34 %
Deferred Tax Liabilities	10 %	9 %	10 %	10 %	11 %	10 %	9 %	10 %	8 %	6 %
Minority Interest	0 %	1 %	1 %	1 %	1 %	1 %	0 %	0 %	0 %	0 %
Other Non-Current Liabilities	0 %	0 %	0 %	0 %	0 %	0 %	5 %	0 %	0 %	0 %
Total Non-Current Liabilities	**34 %**	**40 %**	**29 %**	**31 %**	**31 %**	**35 %**	**50 %**	**38 %**	**35 %**	**40 %**
Minority Interest	0 %	1 %	1 %	1 %	1 %	1 %	0 %	0 %	0 %	0 %
Common Stock	8 %	8 %	7 %	6 %	5 %	5 %	4 %	4 %	4 %	3 %
Retained Earnings (Accumulated)	33 %	27 %	39 %	39 %	41 %	39 %	29 %	41 %	40 %	38 %
Treasury Stock	0 %	0 %	0 %	0 %	0 %	0 %	0 %	0 %	0 %	0 %
Other Equity	0 %	2 %	1 %	1 %	1 %	2 %	7 %	7 %	7 %	7 %
Total Equity	**42 %**	**37 %**	**47 %**	**46 %**	**47 %**	**46 %**	**41 %**	**52 %**	**50 %**	**49 %**
Total Equity And Liabilities	**100 %**	**100 %**	**100 %**	**100 %**	**100 %**	**100 %**	**100 %**	**100 %**	**100 %**	**100 %**

Table 4: Common-size balance sheet, 2014-2023.

According to Grieg Seafood's common-size balance sheet (Table 4), inventories stand for a large share of the company's assets, accounting for 39% of the total assets in 2023, which includes all the biological assets. Additionally, non-current tangible assets, such as property, plant, and equipment, stand for the second-largest part of total assets, contributing 37% of the total assets in 2023. Non-current assets have been growing at a CAGR of 14% over the past 10 years, indicating that the company has been actively investing in expanding its operations. Grieg Seafood has also invested in non-current tangible assets, including licenses required for fish farming. Non-current tangible assets stood for 16% of total assets in 2023. Grieg Seafoods' investments have been around 50% equity financed over the past 3 years, and around 40% of their investment has been financed by long-term debt. They have decreased their financing of short-term debt from 25% in 2014 to 11% in 2023. This indicates a positive trend of a stronger and more solid balance sheet over the past 10 years.

5.2.2 Profitability Ratios

This section will look into Grieg Seafood's historical profitability by examining profitability ratios. Profitability ratios can indicate how efficiently a firm generates profits for its shareholders (Hayes, 2024).

5.2.2.1 Operating Margin

The operating margin, also known as the EBIT margin, indicates how efficiently a company can generate profit through its core operation (Hayes, 2022). The profit generated from a company´s operations is used to pay taxes, debt, and equity holders.

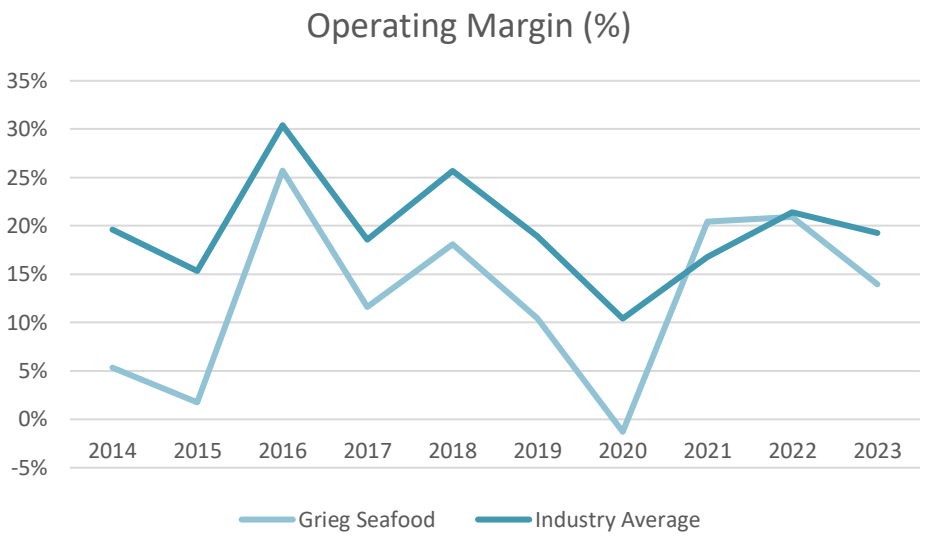

Figure 6: Operating Margin in %, 2014-2023.

According to the industry average, the operating margin has laid between 10% - and 30% over the past 10 years. Grieg Seafood has, on the other side, performed under its peers (industry average, which is based on a simple average) every year except in 2021 and 2022 (Figure 6). An explanation for this is that Grieg Seafood had to deal with more biological events than its peers (DNB, 2024) and high operational costs. However, over the past three years, Grieg Seafood's operating margin has increased and is on a higher level compared to the years between 2014 and 2020, indicating a positive trend for the company. This trend is mainly driven by the sale of the company´s operations in Shetland and higher salmon prices.

Operating Margin %	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Grieg Seafood	5 %	2 %	26 %	12 %	18 %	10 %	-1 %	20 %	21 %	14 %
Lerøy Seafood Group	22 %	11 %	12 %	25 %	11 %	22 %	12 %	6 %	16 %	16 %
Mowi	14 %	11 %	28 %	13 %	24 %	15 %	5 %	14 %	21 %	18 %
SalMar	23 %	20 %	34 %	26 %	38 %	25 %	22 %	23 %	24 %	30 %
Bakkafrost	33 %	33 %	52 %	17 %	37 %	23 %	15 %	21 %	26 %	18 %
Industry Average	20 %	15 %	30 %	19 %	26 %	19 %	10 %	17 %	21 %	19 %

Table 5: Operating margin, 2014-2023. The data is gathered from Grieg Seafoods and the peers' annual reports.

5.2.2.2 Revenue/Harvest Volume

Table 6 illustrates the development of revenue over total harvest volume for Grieg Seafood and the industry average between 2014 and 2023. In addition, the ratio is compared to the development of salmon prices, which is based on the Nasdaq Salmon NOK index. The Salmon NOK Index is based on the average weekly prices of salmon each year. From Table 6 and Figure 7, we can see that Grieg Seafood delivered better revenue over harvest volume compared to its peers between 2014 and 2019 and took better advantage of the increasing prices of salmon. This can be explained by Grieg Seafood obtaining better prices from customers for their salmon compared to its peers. If the quality of the company's products is superior, customers are willing to pay more for the same product. Another reason could be that the company had better forward contracts on salmon prices. From 2020, the ratio decreased significantly, explaining that the company´s revenue was very affected by COVID-19. From 2021, Grieg Seafood has increased its revenue over harvest volume, similar to the increase in salmon prices. However, the company is still below the industry average and needs to either increase the quality of its products or delay harvesting in time when the prices of salmon are low.

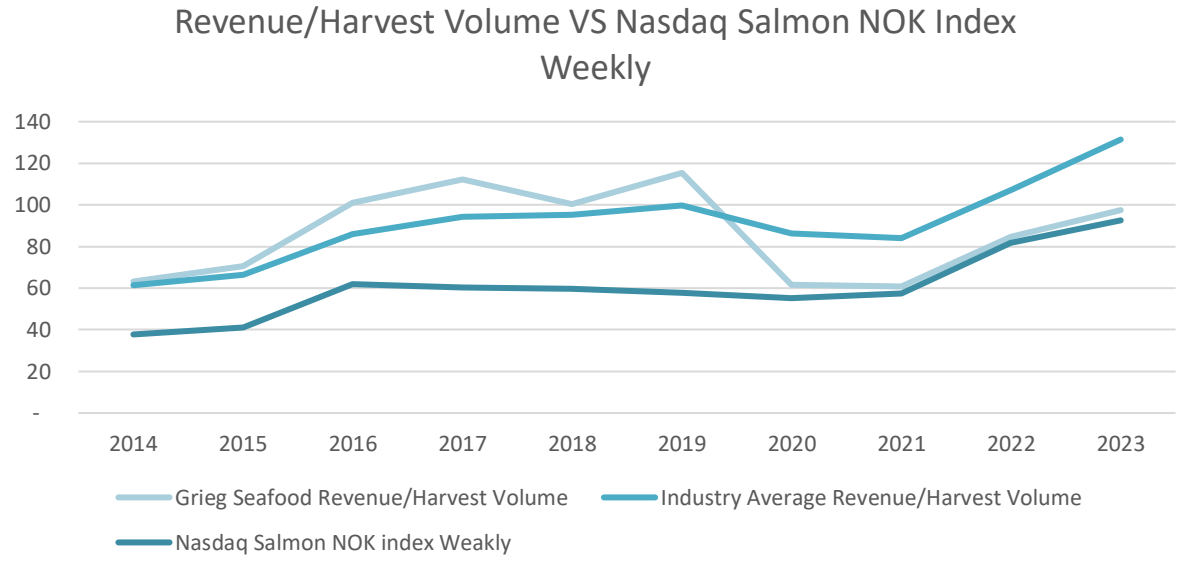

Figure 7: The harvest volume data is gathered from Grieg Seafood and its peers' annual reports. The Nasdaq Salmon NOK index and revenue are collected from Refinitiv Eikon.

Revenue/Harvest Volume VS Prices on Salmon	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Grieg Seafood Revenue/Harvest Volume	63,33	70,47	101,12	112,10	100,51	115,39	61,63	60,83	84,60	97,47
Industry Average Revenue/Harvest Volume	61,41	66,58	86,03	94,35	95,22	99,85	86,18	84,09	107,03	131,44
Nasdaq Salmon NOK index Weakly	37,76	40,96	62,08	60,44	59,71	57,83	55,11	57,55	81,90	92,58

Table 6: Revenue/Harvest Volume for Grieg Seafood and its peers, 2014-2023.

5.2.2.3 Decomposing ROE

The return on equity (ROE) is an indicator of a company's profitability. A company with a higher ROE than the industry ROE reflects that the company is better at converting its equity financing into profits. ROE is generated by three main drivers: profit margin, asset turnover, and financial leverage, where the profit margin reflects the firm´s operating management, asset turnover reflects its investment management, and financial leverage reflects its liability management. (Palepu, K. G., et al., 2019). Table 7 illustrates Grieg Seafoods' ROE and its main drivers from 2015-2023.

Decomposing ROE	2015	2016	2017	2018	2019	2020	2021	2022	2023
Net profit margin (ROR)	-0,1 %	18,1 %	8,1 %	13,0 %	7,5 %	-12,3 %	26,2 %	16,1 %	8,0 %
x Asset turnover	0,82	1,03	1,01	0,98	0,97	0,45	0,43	0,61	0,53
= Return on assets (ROA)	-0,1 %	18,7 %	8,2 %	12,7 %	7,3 %	-5,5 %	11,3 %	9,8 %	4,2 %
x equity multiplier	2,69	2,15	2,16	2,12	2,19	2,44	1,93	1,99	2,05
= Return on equity	-0,3 %	40,1 %	17,7 %	27,0 %	15,9 %	-13,5 %	21,7 %	19,4 %	8,6 %

Table 7: Grieg Seafood Decomposing Profitability, 2015-2023.

Grieg Seafood, as well as the industry, has experienced significant fluctuations in its return on equity from -13.5% to over 40% (Figure 8). These fluctuations are mainly driven by changes in the return on assets, which is generated as net income over average total assets. Grieg Seafood has witnessed significant changes in its net profit margin, which is mainly driven by fluctuations in salmon prices. This can also explain the industry variations. Furthermore, Grieg Seafood has experienced a negative trend in asset turnover since 2020, indicating that it is becoming less efficient in using its assets to generate sales. This can be explained by the company´s sale of Shetland and the new investment in the Greenfield project in Newfoundland, which increased their total assets significantly. The company´s equity multiplier has been relatively stable over the past eight years, and its investments have been around 50% equity financed.

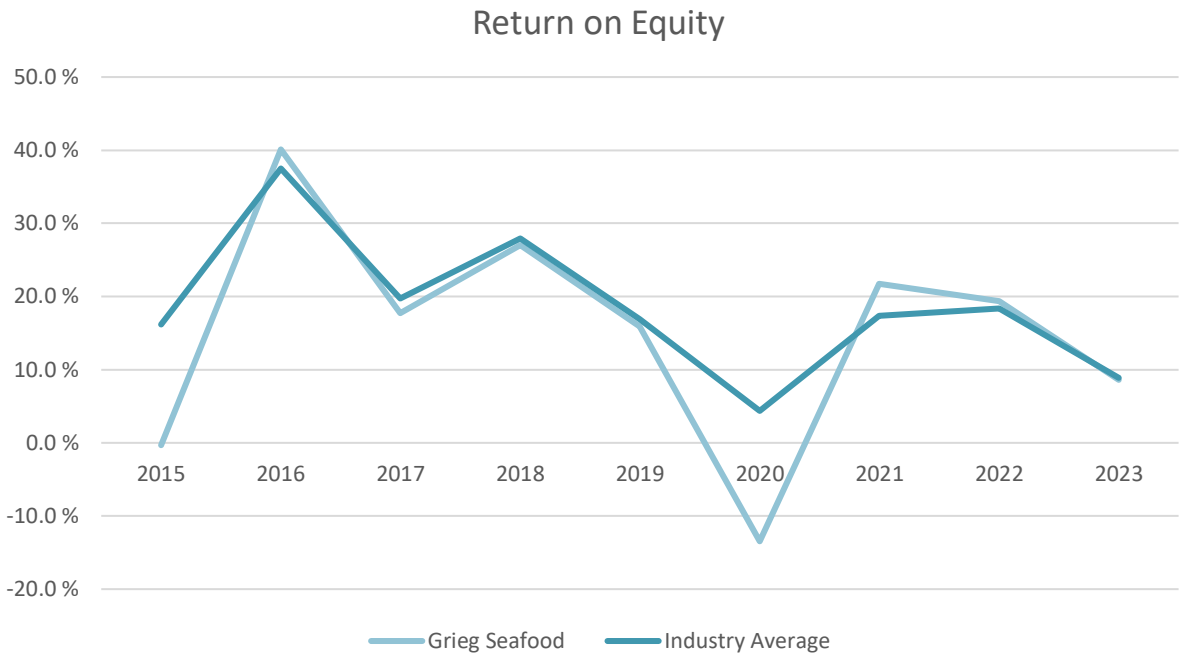

Figure 8: The development of ROE, 2015-2023.

5.2.3 Liquidity and Solvency ratios

This section will examine Grieg Seafood´s financial health by determining solvency and liquidity ratios to assess the company´s ability to cover its short-term and long-term obligations.

5.2.3.1 Current Ratio and Quick Ratio

The quick and current ratios both measure a company´s short-term liquidity. If the current ratio is less than one, the company has fewer current assets than current liabilities, and it would be considered a financial risk since it might not be able to pay its short-term obligations (Folger, 2023). Grieg Seafood has, according to Figure 9, been able to meet its short-term financial obligations with a current ratio above 2 between 2015 and 2023.

On the other hand, the current ratio includes inventories, and as a fish farm company, inventories might be difficult to liquidate quickly. This is because it takes approximately 2-3 years from a salmon roe hatch until a finished grown and harvest-ready salmon is produced (Lerøy Seafood Group, n.d.). For this reason, the quick ratio can give a better estimate of the company´s financial health since it includes only assets that can be converted into cash within 90 days. This ratio gives another picture of Grieg Seafoods' financial health since the quick

ratio has laid mostly under 1 between 2015 and 2023. The industry average has, on the other side, been above 1. This indicates that the company has a greater financial risk than its peers.

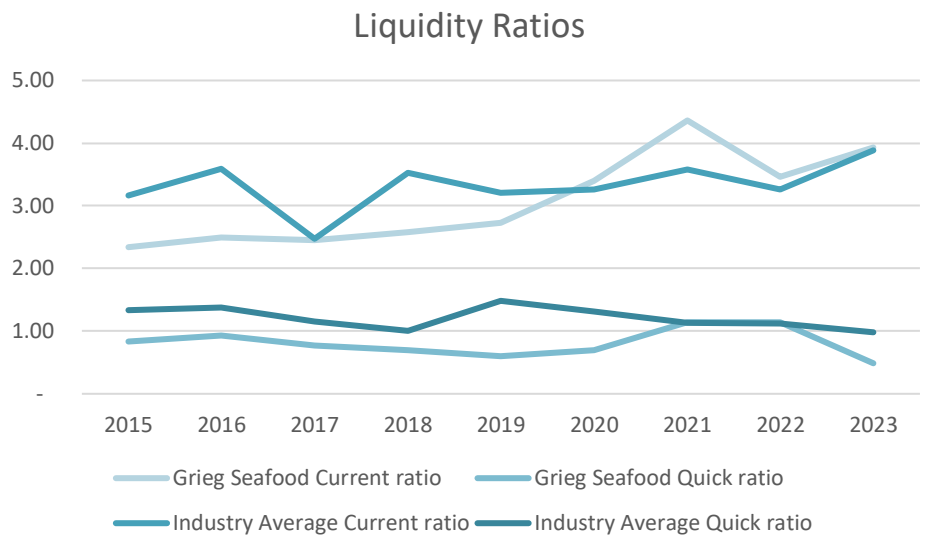

Figure 9: Current Ratios and Quick Ratios, 2015-2023.

5.2.3.2 Long-Term Debt to Capital

A measurement of solvency is the long-term debt-to-capital ratio, which measures the degree of financial leverage a company takes on (Hayes, 2021). This is calculated as the book value of long-term debt over total capital (total equity, total debt, and minority interest). According to Figure 10, Grieg Seafood had a higher long-term debt-to-capital ratio over the past nine years compared to its peers, meaning that the company is more leveraged than its peers and, therefore, carries a higher risk of insolvency.

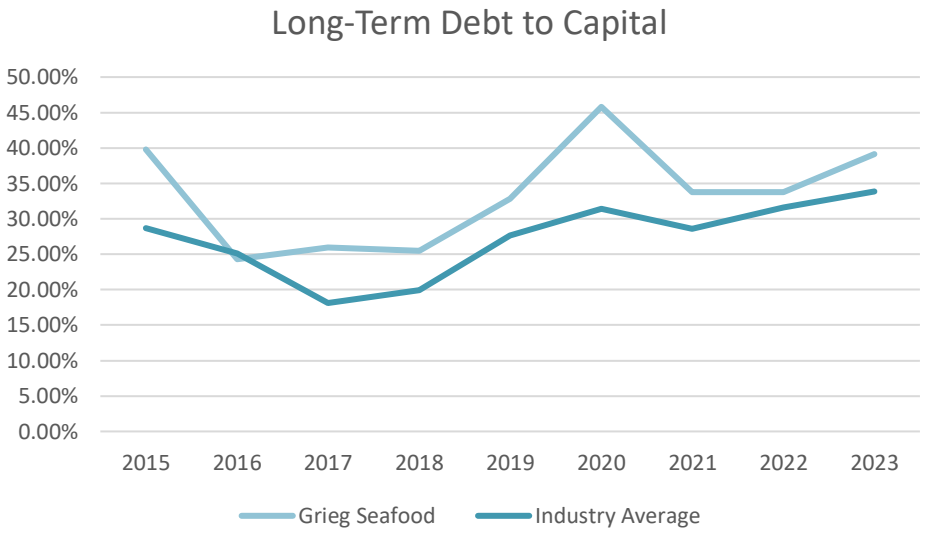

Figure 10: Long-Term Debt to Capital, 2015-2023.

6. Strategy Analysis

To understand how Grieg Seafood's financial performance may be impacted in the future, it's important to analyze macroeconomic factors and the company's internal strengths and weaknesses. This involves examining external factors using a PESTEL framework and then evaluating internal factors, strengths, and weaknesses. Finally, a SWOT analysis will summarize Grieg Seafood's internal and external factors affecting future operations.

6.1 External Factors

A PESTEL analysis is a framework for analyzing a firm's business environment. It considers six main factors: political, economic, Social, Technological, Environmental, and Legal (Peterdy, 2023).

6.1.1 Political Factors

According to the Norwegian Directorate of Fisheries, they are working to facilitate offshore aquaculture in Norway, involving fish farming further out at sea. Aquaculture operates on a permission-based system, with limited commercial permits regulated by the Traffic Light System, introduced in 2017. This system classifies the coastline into areas marked green, yellow, or red based on sea lice impact, dictating whether fish farmers can expand, maintain, or reduce capacity (Directorate of Fisheries, n.d.). The introduction of offshore aquaculture could lead to increased production and supply of Atlantic Salmon in Norway (Directorate of Fisheries, n.d.).

Furthermore, an escalation of the war in Ukraine could negatively affect the production of Atlantic salmon, leading to decreased demand and increased production costs. The Russian invasion of Ukraine moderately impacted the demand for Atlantic salmon and led to higher feed costs for fish farmers (Nordic Credit Rating, 2023).

6.1.2 Economic Factors

6.1.2.1 Inflation

According to the Monetary Policy Report for March 2024, the inflation rate in Norway remains high. The Consumer Price Index (CPI) in February 2024 was at 4.5%, which is higher than the central bank's inflation rate target of 2%. However, the inflation of goods has slowed, and according to Statistics Norway, the overall inflation rate is expected to reach 2%

by 2027 (Figure 7). Since the end of 2022, the international inflation rate has also decreased. In the Eurozone, the CPI has declined since its peak in 2022 and was at 2.6% in February. In the USA, the CPI was at 3.2%. According to the Central Bank of Norway, the underlying inflation rate will continue to decrease, and they expect the overall CPI to reach 2% by 2026 (Norges Bank, 2024).

6.1.2.2 Currency

The Norwegian currency (NOK) has been weaker in recent years, contributing to increased activity in the Norwegian export industry (Figure 11). On the other hand, the Norwegian Central Bank expects a stronger exchange rate this year and in upcoming years, which would lead to lower growth in the export industry. The NOK is expected to appreciate and stabilize at a higher level towards 2026, as Norway's inflation rate is projected to be higher than that of its trading partners (Norges Bank, 2024).

6.1.2.3 GDP and Interest Rates

The growth in the Norwegian economy in 2023 was low, with a GDP growth of 1.4%. According to Statistics Norway, the GDP is expected to grow at 3.1% in 2024, 4.2% in 2025, 1.3% in 2026 and 1% in 2027 (Figure 11). The inflation rate is slowing down but still above the target rate. Norwegian businesses have experienced a strong increase in operating costs over the past years with a high growth in wages, and the Norwegian currency is still depreciating. For this reason, the Norwegian policy rate is on its highest level since 2008 and was in February 2024 at 4.5%. The policy rate is not expected to decrease before the autumn of 2024 and will gradually move down (Norges Bank, 2024). Statistics Norway expects the NIBOR (Norwegian Interbank Offered Rate, an interest rate that the banks charge each other for loans) to decrease from 4.6% in 2024 to 3.2% in 2027 (Figure 11).

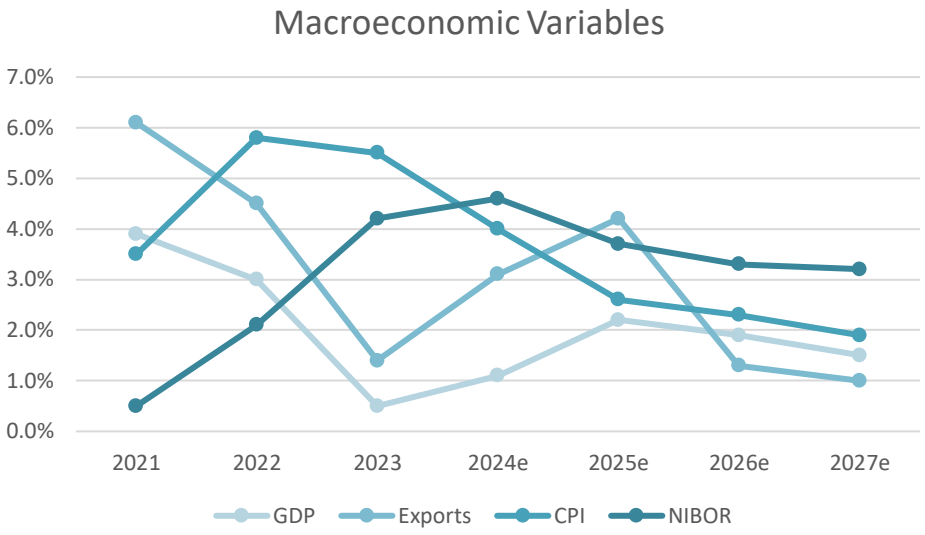

Figure 11: (Statistics Norway, 2024). Accounting and forecasts.

6.1.3 Sociological Factors

According to the United Nations, the world's population reached 8 billion in 2022 and is estimated to grow to 9.7 billion in 2050. This means that the demand for food and proteins will increase in years to come. Fish accounts for 7% of all protein sources produced for human consumption, which indicates that there will be a 24% increase in demand for fish proteins; in addition, there is also a growing demand for healthy and nutritious food (Mowi, 2024). According to the health benefits of eating fish and seafood, The Norwegian Directorate of Health wishes to increase national consumption by 20% by 2030 (The Norwegian Directorate of Health, 2023).

6.1.4 Technological Factors

Technological developments could increase the global harvest volume and lower prices of Atlantic salmon. Solutions for handling the problem of salmon lice include land-based and closed aquaculture facilities, where fish are kept in a closed environment to prevent disease. However, this can affect fish welfare due to a more monotonous life. These facilities require high technical expertise and contingency plans for crises, large areas, and generate biological waste.

Offshore closed containment facilities, placed at sea with barriers, take in water from depths without sea lice but face challenging weather conditions. Some companies invest in lice

removal systems despite high mortality rates, while others focus on reducing sea time and increasing land time for salmon (Institute of Marine Research, 2023).

6.1.5 Legal Factors

In 2023, the Norwegian Parliament introduced a resource rent tax scheme on aquaculture in Norway. This is an additional taxation with a tax rate of 25%, which will apply to net profits from commercial sea-phase salmon aquaculture in Norway. In 2023 and 2024, the corporate income tax is 22%, but the recourse rent tax will bring the marginal tax on aquaculture activity rate to 47%. The tax scheme was implemented retrospectively with effect from 1 January 2023 (Grieg Seafood, 2024). In addition to the resource rent tax scheme, the parliament has proposed new actions to strengthen technological development and address environmental concerns. These actions include incorporating more environmental indicators into the traffic light system and expanding opportunities for production using closed technology (KPMG, n.d.).

The new tax scheme has led to huge uncertainty in the industry, and the work on the resource rent tax until its adoption in the Parliament on May 31, 2023, was met with intense discussions. The uncertainty around the consequences for seafood production in Norway led to investments of more than NOK 40 billion being put on hold in 2023. In 2024, aquaculture companies will start reporting the resource rent tax for the first time, but there are still many issues related to the framework and the reporting. For the aquaculture industry, there is still uncertainty about how this "salmon tax" will affect the industry and its future operations. (IntraFish, 2024).

6.1.6 Environmental Factors

The aquaculture industry is facing huge challenges regarding animal welfare and high mortality rates. The high mortality rate can be explained by frequent disease outbreaks in fish farms, and according to the Norwegian Food Safety Authority, 62.8 million salmon died in Norwegian aquaculture facilities in 2023. 14.9% of the total harvested volume of fish in 2023 was downgraded to "production fish" (farmed fish with wounds and injuries that are not to be sold for human consumption until they have been reconditioned domestically). This represents an increase of 9.7 percentage points since 2018. For this reason, the Norwegian Food Safety Authority will revise some of the largest aquaculture companies in Norway in

2024, with the aim of improving animal welfare in the aquaculture industry (The Norwegian Food Safety Authority, 2024).

The Institute of Marine Research has identified farmed salmon escapees and salmon lice as major environmental challenges. Efforts to address these issues include investments in land-based aquaculture facilities and closed containment systems (Institute of Marine Research, 2023). In addition, regulations in British Columbia are also becoming stricter, with plans to convert the industry to closed systems to safeguard wild salmon (Grieg Seafood, 2024).

6.2 Internal Factors

6.2.1 Strengths

Only a few coastlines are suitable for salmon farming, and Grieg Seafood operates in two countries with historically good farming conditions (Mowi, 2023). In addition, by operating in four different regions, they diversify the risk of biological events.

Grieg Seafood is well positioned with its large smolt initiatives. The company is investing heavily in its post-smolt program to reduce the time fish spend in the sea, which will reduce the risk of biological events.

Grieg Seafood is currently focusing on increasing sales to the North American market, as well as being well-positioned with its operations in British Columbia and the new fish farm region in Newfoundland.

6.2.2 Weaknesses

Compared to its peers, Mowi, SalMar, Lerøy Seafood Group, and Bakkafrost, Grieg Seafood has been a slow mover in developing its own sales organization.

Grieg Seafood has experienced lower operating margins than its peers due to more frequent biological events.

According to the financial analysis, Grieg Seafood generates less revenue per kg of Atlantic salmon produced than its peers, signaling that it is struggling to take advantage of the prices of Atlantic salmon.

Compared to its peers, Grieg Seafood carries a higher liquidity risk and a higher risk of insolvency due to a lower quick ratio and a higher long-term debt-to-capital ratio.

Grieg Seafood's business plan is capital-intensive, and it requires additional funding. The cash generated from its operations in the long run is not enough to cover the capital expenditures needed to pursue its growth strategy and finance capital expenditures (Grieg Seafood, 2024).

6.3 SWOT analysis

This section presents a SWOT analysis to provide a quick overview of Grieg Seafoods' internal and external factors, including threats, opportunities, strengths, and weaknesses.

7. Valuation Grieg Seafood Group

7.1 Forecast Assumptions

Several assumptions must be made to calculate and forecast Grieg Seafoods' free cash flow to the firm. These assumptions are summarized in Table 8 and further discussed in Chapter 7.1.

Assumptions	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024e	2025e	2026e	2027e	2028e
Revenue	12 %	42 %	7 %	7 %	10 %	-47 %	5 %	56 %	-2 %	14 %	6 %	14 %	14 %	8 %
COGS % of Revenue	59 %	50 %	53 %	51 %	51 %	39 %	38 %	31 %	39 %	36 %	36 %	35 %	35 %	35 %
SG&A % of Revenue	24 %	29 %	30 %	30 %	30 %	45 %	44 %	37 %	40 %	40 %	40 %	40 %	40 %	40 %
Other Operating Expenses (Income) % of Revenue	11 %	1 %	2 %	1 %	1 %	2 %	1 %	1 %	2 %	1,4 %	1 %	1 %	1 %	1 %
Other Operating Expenses (Income)- Non Recurring % of Revenue	-1 %	-8 %	1 %	-3 %	3 %	7 %	-11 %	1 %	-3 %	-1,2 %	-1,2 %	-1,2 %	-1,2 %	-1,2 %
Tax % of EBIT	-17 %	20 %	24 %	21 %	23 %	-21 %	27 %	20 %	29 %	29 %	29 %	29 %	29 %	29 %

Table 8: Assumptions FCFF, 2015-208e.

7.1.1 Sales Revenue

Grieg Seafood's sales revenue can be split into income generated from the company´s product categories: fresh whole salmon, which accounts for 93% of total revenue; value-added fresh and frozen salmon, which accounts for 6% of total revenue; and other products and services, such as sales of smolt, roe, and third-party harvesting, which account for 1% of total revenue (Grieg Seafood, 2024).

Grieg Seafoods' revenue from fresh whole salmon is mainly driven by the market prices of salmon and the total harvest volume. The delivery of salmon is based on both spot sales and fixed prices. Over the past three years, the Group has experienced a huge increase in revenue with a CAGR of 15%, mainly driven by increased market prices of salmon. The increase in prices comes from increasing demand and limited supply of Atlantic salmon. The forecasted growth rate in revenue from fresh whole salmon is, therefore, based on assumptions of future growth rates in salmon prices and harvest volume. The assumptions are calculated in Table 9.

Assumptions growth rate fresh whole salmon	2024e	2025e	2026e	2027e	2028e
Fish Pool Index (NOK/kg)	104,56	91,23	91,23	91,23	91,23
Growth in fresh salmon prices	13,3 %	-12,7 %	0,0 %	0,0 %	0,0 %
Harvest volume	12,0 %	10,0 %	10,0 %	8,0 %	8,0 %
Average	**12,6 %**	**-1,4 %**	**5,0 %**	**4,0 %**	**4,0 %**

Table 9: Assumptions of fresh whole salmon growth rate, 2024e-2028e.

The global supply of Atlantic salmon is expected to increase steadily by a 2 % annual growth rate. In addition, the forward prices of salmon indicate a strong demand after salmon in 2024, with increased forward prices between NOK 86-126 per kg (Fish Pool, 2024b). For this reason, the prices of salmon are expected to remain high in 2024, with an average price of NOK 104.56 per kg, a 13.3% increase compared to 2023 (NOK 94.10 per kg (Fish Pool, 2024c). Furthermore, based on the Fish Pool Index, the forward price of salmon in Q4 is at NOK 91.23 per kg. It is assumed that the prices of salmon will remain at this high level in

2025. Additionally, due to the expectation of a longer period of limited supply and high demand, it is assumed that the prices of salmon will remain stable at this level until 2028 (Table 9).

Grieg Seafood aims to increase its total harvest volume to 120,000-135,000 tonnes. However, with a CAGR of 1.07% in total harvest volume over the last 10 years, this goal seems far out of reach for the company. On the other side, in 2022 the company experienced a 12% growth in total harvest volume from the year before, with a total harvest volume of 84 670 tonnes of Atlantic salmon (Figure 13). However, the volume decreased by 15% in 2023.

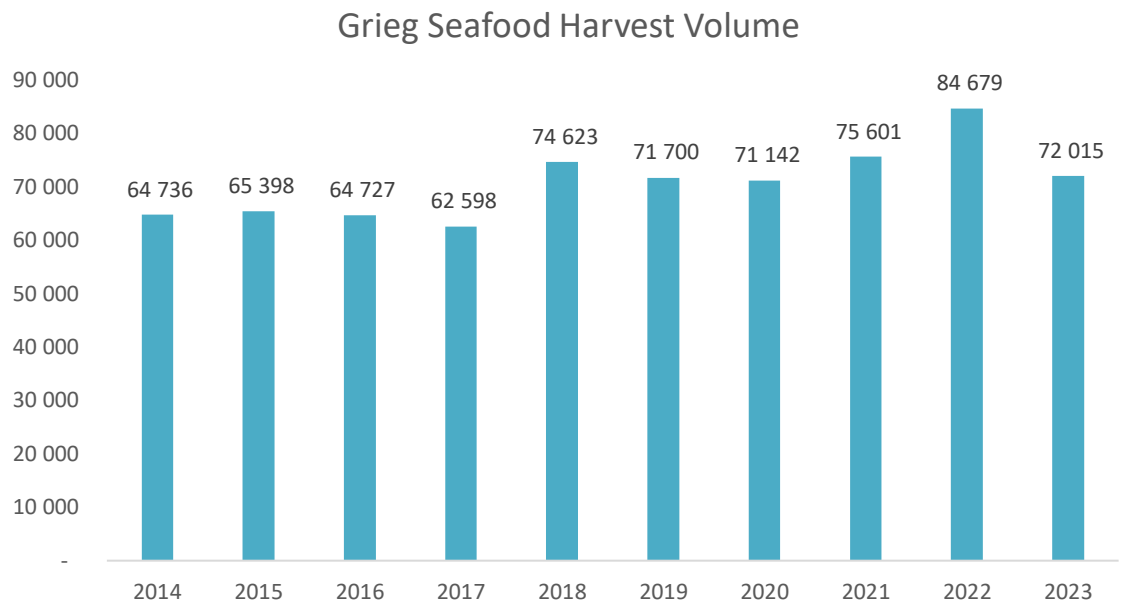

Figure 13: Total harvest volume Grieg Seafood ASA, 2014-2023.

Grieg Seafood has invested heavily in expanding its operations since 2020, and its capital expenditures increased by a CAGR of 36% from 2020 to 2023. The increased investments are expected to result in a higher total harvest volume for the company over the next five years. Additionally, the company aims for a 12% increase in total harvest volume in 2024, bringing the total harvest volume to 81,000 tonnes. This growth is mainly driven by increased harvest volume in Rogaland, Finnmark, and Newfoundland (Table 10). Assuming there are no unexpected biological events causing a decrease, this target seems reasonable.

Harvest Volume (tonnes)	2020	2021	2022	2023	2024e
Grieg Seafood Rogaland	23 043	26 670	28 387	25 980	28 000
Grieg Seafood Finnmark	26 919	34 484	36 024	25 170	27 000
Grieg Seafood British Columbia	21 181	14 448	20 286	17 682	15 000
Grieg Seafood Newfoundland	-	-	-	3 183	11 000
Total	**71 143**	**75 602**	**84 697**	**72 015**	**81 000**

Table 10: Total harvest volume by production area, 2020-2024e.

Due to the introduction of the resource rent tax, the company has put all its further investments on hold, and the growth in harvest volume will come from its current operations. For this reason, a lower growth rate of 10% in 2025 and 2026, and 8 % in 2027 and 2028 will be assumed (Table 9). The decrease in the growth rate comes from reduced investments in expanding production capacity, related to the uncertainty regarding the resource tax rent.

In 2023, value-added products (VAP) of fresh and frozen salmon accounted for almost 6 % of Grieg Seafoods' total revenue. The company plans to increase this share to 7-8% of total revenue in 2024. With a new investment in a secondary processing facility at Oslo airport, with a capacity of 10,000-12,000 tonnes, the company aims to raise its VAP share to 20-30% of total revenue by 2026. The facility is set to start operating in 2025, so it's projected that 13% of total revenue will come from VAP in 2025, 20% in 2026, and 27% in 2027. However, due to postponed future investments, it's unlikely that the VAP share will reach 30% before 2028 (Table 10). Additionally, other products and services are not part of the company's core operations or future growth strategies, so a 0% growth rate is assumed for 2024-2028 (Table 11). Finally, Table 12 summarizes the forecasted growth rate in total revenue based on the three main product categories.

Revenue Assumptions	2024e	2025e	2026e	2027e	2028e
Growth fresh whole fish	12,6 %	-1,4 %	5,0 %	4,0 %	4,0 %
VAP as a % of total revenue	7 %	13 %	20 %	27 %	30 %
Growth other products and services	0 %	0 %	0 %	0 %	0 %

Table 11: Revenue Assumptions split between product categories, 2024e-2028e.

Sales revenue from products (NOKm)	2024e	2025e	2026e	2027e	2028e
Revenue from fresh whole fish	7 378,60	7 277,19	7 641,05	7 946,69	8 264,56
Revenue from VAP	561,00	1 110,00	1 910,00	2 910,00	3 472,00
Revenue from other products and services	73,65	73,65	73,65	73,65	73,65
Total Revenue	**8 013,24**	**8 460,84**	**9 624,70**	**10 930,34**	**11 810,21**

Table 12: Total sales revenue forecast, 2024e-2028e.

7.1.2 COGS, SG&A and Other Operating Expenses

Cost of Goods Sold

The cost of goods sold consists of raw Materials & consumables, which include the cost of feed, roe, recognition of extraordinary mortality, and external purchases of fish by their sales organization (Grieg Seafood, 2023).

In 2023, Grieg Seafood experienced an increase in COGS from 31% to 39% of total revenue. This increase is driven by a 40% increase in feed prices in Norway and 20% in British Columbia (Grieg Seafood, 2024). Due to the war in Ukraine, feed prices have increased over the past three years, mainly due to increased prices for vegetable-based ingredients, which stand for 70% of raw material input (Nordic Credit Rating, 2024). In addition, a weaker currency against the Euro and US dollar has also led to higher feed costs for Grieg Seafood. Furthermore, the company experienced more biological events in 2023, leading to a higher cost of goods sold as a % of total revenue.

According to the company´s post-smolt program, Grieg Seafood expects to reduce its operational expenditures and the costs related to mortality, disease outbreaks, sea lice treatments, and fish handling. Additionally, due to an anticipated decrease in inflation rates between 2024 and 2028, the cost of goods sold (COGS) is expected to be below the 2023 level of 39% of total revenue. Therefore, the forecasted COGS for 2024 and 2025 is 36% of total revenue, which is based on the average COGS over the last three years. Currently, the operational cost of the Greenfield project in Newfoundland is high, but as the project becomes more efficient and production scales up, the COGS is expected to decrease. Therefore, the COGS is forecasted to decrease to 35% of total revenue from 2026 to 2028 (Table 8).

Selling, General and Administrative expenses

For Grieg Seafood, SG&A expenses consist mainly of salaries and personnel expenses, transportation, maintenance, electricity and fuel, lease, and other production-related costs. As this cost has been relatively stable over the past three years, and with investments put on hold in 2024, we can assume a further cost of 40% of total revenue between 2024 and 2028, which means that SG&A expense will grow at the same proportion over the forecasted period of 40% of total revenue. This is based on the average SG&A expense from 2021 to 2023; see Table 8.

Other Operating Expenses

Other operating expenses and income have been stable since 2016 at between 1% to 2% of total revenue with an average of 1.4%. There is no indication that this will change in the forecasted period, and therefore, a further 1.4% cost of total revenue will be assumed between 2024 and 2028. Furthermore, other non-recurring operating expenses and income are forecasted as the average over the past ten years at -1.2% of total revenue. Since the cost and income are non-recurring, it can be hard to predict, and therefore a 10-year average is used, see Table 8.

7.1.3 Corporate Tax and Resource Rent Tax

The effective tax rate has ranged between 20% to 29% over the past 10 years, depending on the production level between Norway, British Columbia, and Newfoundland. British Columbia operates with a corporate tax rate of 27%, and Newfoundland operates with a corporate tax rate of 30%. Norway, on the other hand, operates with a 22% corporate tax rate; however, in 2023, an additional 25% resource rent tax was implemented. The effective tax rate will vary from farmer to farmer; however, Grieg Seafood operated with an effective tax rate of 29% in 2023 (the first year of the implementation of the resource tax rate). Due to uncertainty in the industry regarding how to incorporate the new tax scheme, there will be assumed an effective tax rate of 29% from 2024-2028, which is based on the effective tax rate for the last fiscal year (Table 8).

7.1.4 Depreciation & Amortization

The forecasted D&A is based on the historical D&A as a percent of last year's non-current intangible and non-current tangible assets, excluding goodwill. Goodwill is excluded as it does not amortize or depreciate as it would for a normal asset (Tarver, 2021). D&A has ranged between 7% to 12% since 2015. However, since the company has increased its investments in non-current tangible and intangible assets over the last 10 years, this thesis will use the latest D&A percentage as an average from 2021-2023 at 10% in the forecast period (Table 13). In addition, due to lower growth in future investments, the D&A rate will, therefore, stay constant as the company is using the straight-lined depreciation method (Grieg Seafood, 2024).

Non-current Tangible and Intangible Assets (NOKm)	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024e	2025e	2026e	2027e	2028e
Beginning Tangible and Intangible Assets	2 502	2 645	2 588	2 958	3 439	4 107	4 580	4 977	5 515	6 598	7 256	7 761	8 067	8 386
D&A	214	174	201	236	411	369	376	591	555	663	729	780	811	843
CAPEX	357	117	571	717	1 079	842	773	1 129	1 638	1 321	1 234	1 086	1 129	1 174
Ending Tangible and Intangible Assets	2 645	2 588	2 958	3 439	4 107	4 580	4 977	5 515	6 598	7 256	7 761	8 067	8 386	8 718

Assumptions	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024e	2025e	2026e	2027e	2028e
D&A as a % of beginning tangible and intangible assets	9 %	7 %	8 %	8 %	12 %	9 %	8 %	12 %	10 %	10 %	10 %	10 %	10 %	10 %
CAPEX as a % of tangible and intangible assets	14 %	4 %	22 %	24 %	31 %	20 %	17 %	23 %	30 %	20 %	17 %	14 %	14 %	14 %
CAPEX as a % of Revenue	8 %	2 %	8 %	10 %	13 %	19 %	17 %	16 %	23 %	16 %	15 %	11 %	10 %	10 %

Table 13: Forecast assumptions D&A and capex, 2015-2028e.

7.1.5 Capex

Capital expenditures (Capex) are funds used by the company to acquire, upgrade, and maintain physical assets such as property, plants, buildings, technology, or equipment. Capex is calculated by subtracting the current period PP&E from the prior PP&E and then adding back the depreciation (Fernando, 2024). However, 11% of Grieg Seafood's total assets are related to the company's licenses, which also can qualify as capex. For this reason, intangible assets (excluding goodwill) will be included in the capex forecast.

The company's capital expenditures have increased by a CAGR of 21% from 2021 to 2023, with capex being 30% of total non-current tangible and intangible assets in 2023. The increase comes from investments in the Newfoundland region and increasing investments in the company's post-smolt program. However, due to uncertainty around the new resource tax rate in Norway, the company has put its future investment plans on hold from 2024. In addition, the fish farming industry is capital intensive, and if the company wants to maintain its growth strategy and capex level, additional funding needs to be raised. The company's business plan is capital-intensive, and cash generated from its operations in the long run is not sufficient to cover the capital expenditures needed to pursue the company's growth strategy and finance capital expenditures (Grieg Seafood, 2024).

Due to the post-smolt expansion in Finnmark and the secondary facility in Oslo, capex is forecasted to stay at 20% in 2024 (which is lower than the 30% level in 2023 but still high historically). Furthermore, capex is expected to decrease to 17% in 2025 and 14% from 2026 to 2028 due to the capex burden. However, with additional funding, this percentage might increase.

7.1.6 Net Working Capital

Net working capital (NWC) is calculated as the difference between a company´s current operating assets and current operating liabilities. In the fish farming industry, the long production cycle of salmon (three years from roe to harvest) requires significant working

capital in the form of biological assets. In addition, WC investments are required for organic growth as a larger pipeline of fish is needed to facilitate higher harvest volumes. The working capital requirement has increased over time and is affected by currency exchange rates and production costs, and since 2022, NWC has increased significantly due to inflation on input costs (Mowi, 2023).

Biological assets are part of the company´s inventories, explaining the high days inventory outstanding (DIO). Until harvest, the production cost of salmon is capitalized to inventories, creating greater WC than in other industries. The forecast of net working capital is based on assumptions related to the growth in current assets and current liabilities, see Table 14. As the industry has experienced an increase in WC and with inflation rates peaking in 2023, the forecast in NWC is based on the historical average over the past three years for each assumption (Table 14).

Net Working Capital (NOKm)	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024e	2025e	2026e	2027e	2028e
Trade Receivables	565	697	940	910	1 045	717	275	256	372	440	426	450	511	581	628
Inventories	1 935	2 020	2 549	2 790	3 321	3 616	2 624	3 577	4 286	5 296	5 219	5 510	6 087	6 913	7 469
Other Current Operating Assets	33	30	24	51	46	77	37	43	44	59	64	67	77	87	94
Total Current Operating Assets	**2 533**	**2 747**	**3 513**	**3 751**	**4 412**	**4 410**	**2 936**	**3 876**	**4 702**	**5 795**	**5 708**	**6 027**	**6 675**	**7 581**	**8 191**
Trade Payables	360	653	494	585	649	855	563	523	717	761	827	873	964	1 095	1 183
Other Current Operating Liabilities	202	160	443	386	308	443	132	333	697	269	556	587	667	758	819
Total Current Operating Liabilities	**562**	**813**	**937**	**971**	**957**	**1 298**	**695**	**856**	**1 414**	**1 030**	**1 383**	**1 460**	**1 632**	**1 853**	**2 002**

Assumptions	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024e	2025e	2026e	2027e	2028e
Revenue	4 100	4 609	6 545	7 018	7 500	8 274	4 384	4 599	7 164	7 020	8 013	8 461	9 625	10 930	11 810
COGS	2 293	2 739	3 287	3 724	3 853	4 182	1 717	1 738	2 234	2 748	2 888	3 049	3 369	3 826	4 134
Days Sales Outstanding (DSO)		50	46	48	48	39	41	21	16	21	19	19	19	19	19
Days Inventory Outstanding (DIO)		264	254	262	289	303	663	651	642	636	643	643	643	643	643
Days Payable Outstanding (DPO)		67	64	53	58	66	151	114	101	98	104	104	104	104	104
Other Current Operating Assets as a % of Revenue	0,8 %	0,7 %	0,4 %	0,7 %	0,6 %	0,9 %	0,8 %	0,9 %	0,6 %	0,8 %	0,8 %	0,8 %	0,8 %	0,8 %	0,8 %
Other Current Liabilities as a % of Revenue	4,9 %	3,5 %	6,8 %	5,5 %	4,1 %	5,4 %	3,0 %	7,2 %	9,7 %	3,8 %	6,9 %	6,9 %	6,9 %	6,9 %	6,9 %

Table 14: Assumptions NWC, 2015-2028e.

7.1.7 FCFF Summarized

The forecasted unlevered free cash flow from the firm is calculated, based on the assumptions in chapter 7.1 and presented in Table 15:

Fiscal Year (NOKm)	2024e	2025e	2026e	2027e	2028e
Revenue	8 013	8 461	9 625	10 930	11 810
COGS	2 888	3 049	3 369	3 826	4 134
Gross Profit	**5 125,10**	**5 411,38**	**6 256,05**	**7 104,72**	**7 676,63**
SG&A	3 243	3 425	3 896	4 424	4 780
Other Operating Expenses (Income)	115	122	139	157	170
Other Operating Expenses (Income) - Non Recurring	- 98	- 103	- 118	- 134	- 144
EBITDA	**1 864**	**1 968**	**2 340**	**2 657**	**2 871**
Depreciation & Amortization	717	746	787	845	930
EBIT	**1 147**	**1 223**	**1 552**	**1 812**	**1 941**
Operating Margin	*14 %*	*14 %*	*16 %*	*17 %*	*16 %*
Operating Taxes	333	355	450	526	563
NOPAT	**814**	**868**	**1 102**	**1 287**	**1 378**
(+) Depreciation & Amortization	663	729	780	811	843
(-) Capital Expenditures	1 321	1 234	1 086	1 129	1 174
(-) Change in NWC	- 439	242	476	684	461
NWC	4 326	4 568	5 043	5 727	6 188
Current Operating Assets	5 708	6 027	6 675	7 581	8 191
Current Operating Liabilities	1 383	1 460	1 632	1 853	2 002
Unlevered Free Cash Flow	**595**	**122**	**320**	**284**	**585,29**

Table 15: Unlevered FCF, 2024e-2028e.

7.2 Weighted Average Cost of Capital (WACC)

7.2.1 Cost of Capital

The Capital Asset Pricing Model (CAPM) is used to estimate the cost of capital. The cost of capital is the result of a risk-free rate plus a market risk premium multiplied by the systematic risk of the investment, beta. Since Grieg Seafood is a Norwegian-based company, the Norway 10Y bond yield is used as the risk-free rate, as it holds a AAA rating according to Standards & Poor's (Trading Economics, n.d.). Investing in the Norway 10Y government bond yield can be considered risk-free as it is highly unlikely that the Norwegian government would default on its obligations. The yield rate used in the valuation is 3.79%, retrieved from May 2 (Trading Economics, 2024).

As mentioned in Chapter 2, the market risk premium is the premium that investors charge for investing in the average equity. Since the historical market risk premium does not give a forward-looking estimate, this valuation uses the implied market risk premium. Aswath Damodaran calculates each country's implied market risk premium for each year, which gives a better estimate of what investors would demand as a premium on their future investments than a historical risk premium. The implied market risk premium from January 2024 at 4.60% is further used to estimate the cost of capital (Damodaran, 2024).

As Grieg Seafood is a publicly traded company, its levered beta can be retrieved from Refinitiv Eikon. In this valuation, the last 3-year weekly beta for the company, which was 1.07, has been used. A beta value greater than 1 indicates that the stock is expected to have greater fluctuations than the market. This means the stock is likely to increase more than the market in a bull market and decrease more than the market in a bearish market.

7.2.2 Cost of Debt

The pre-tax cost of debt is estimated by the sum of the risk-free rate plus a default spread. The risk-free rate is the same rate as estimated in the cost of equity. The default spread has been estimated by looking up the rating for Grieg Seafood and estimating a default spread based on that rating. Refinitiv Eikon´s StarMine combined credit risk model gives an implied rating for Grieg Seafood of BB. This indicates a 0.33% probability of default and a default spread of 2.21% (Table 16). The StarMine Implied Rating is based on the Probability of Default

(technical or bankruptcy) over a 12-month horizon, which can be compared to traditional rating agency ratings (Dhillon, 2023). The cost of debt is calculated in Table 17.

For larger firms (market cap > $5 billion)			
If interest coverage ratio is			
>	*≤ to*	*Rating is*	*Spread is*
-100000	0.199999	D2/D	20.00%
0.2	0.649999	C2/C	17.00%
0.65	0.799999	Ca2/CC	11.78%
0.8	1.249999	Caa/CCC	8.51%
1.25	1.499999	B3/B-	5.24%
1.5	1.749999	B2/B	3.61%
1.75	1.999999	B1/B+	3.14%
2	2.2499999	Ba2/BB	2.21%
2.25	2.49999	Ba1/BB+	1.74%
2.5	2.999999	Baa2/BBB	1.47%
3	4.249999	A3/A-	1.21%
4.25	5.499999	A2/A	1.07%
5.5	6.499999	A1/A+	0.92%
6.5	8.499999	Aa2/AA	0.70%
8.50	100000	Aaa/AAA	0.59%

Table 16: Ratings, Interest Coverage Ratios, and Default Spread retrieved from Aswath Damodaran. Data from January 2024.

7.2.3 Estimating WACC

Table 17 presents the final estimations of the WACC. The capital structure is based on the market value of debt and equity (retrieved from Refinitiv Eikon on May 2), as the market value of debt and equity reflects the current capital structure, in contrast to the book value. Furthermore, the tax rate used to capture the benefit of the tax shield is 29%, which is based on the forecasted and current tax rate for Grieg Seafood. The cost of equity plus the cost of debt gives a final WACC of 6.97%.

Weighted Average Cost of Capital (WACC)	
Equity (NOKm)	7 981,00
Debt (NOKm)	5 111,00
Tax Rate	29 %
Credit spread	2,21 %
Risk Free Rate (10 years treasury yield)	3,79 %
Cost of Debt	6,00 %
D/(D+E)	39 %
After Tax Cost of Debt	**4,26 %**
Risk Free Rate (10 years treasury yield)	3,79 %
Market Risk Premium	4,60 %
Levered Beta	1,07
E/(D+E)	61 %
Cost of Equity	**8,71 %**
WACC	**6,97 %**

Table 17: WACC calculations Grieg Seafood ASA.

7.3 Terminal Growth Rate

The terminal value is estimated by assuming a constant rate in the long run. This rate is typically based on the expected long-run growth rate of the firm's revenue (Berk & DeMarzo, 2017). Based on Mowi's projections of a stable 3% growth rate in supply, the terminal growth rate is estimated to be 3%. As the growth in harvest volume is regulated by strict regulations and licenses, the growth rate will be driven by the long-term growth rate in supply.

7.4 Target Price DCF

The present value of the FCFF is calculated by discounting the forecasted FCFF by the WACC at 6.97% back to today's value. The terminal value is based on the unlevered FCFF in year 5, which is multiplied by the terminal growth rate of 3% and further divided by the difference between the WACC and the growth rate. The enterprise value of NOK 12,388 million is calculated by adding the present value of the FCFF to the present value of the terminal value. To determine the equity value, cash is added back, and the market value of debt is subtracted, resulting in an Equity Value of NOK 7,492.89 million and an implied share price of NOK 66.05 (Table 18).

Unlevered FCFF (NOKm)		2023	2024e	2025e	2026e	2027e	2028e
Unlevered FCFF	-	1 863,90	595,43	122,08	319,66	283,63	585,29
Year			1	2	3	4	5
PV FCFF			556,61	106,68	261,13	216,59	417,81

Sum PV FCFF	1 558,82
WACC	6,97 %
Growth Rate	3 %
Terminal Value	15 169,88
PV Terminal Value	10 829,07
Enterprise Value	12 387,89
(+) Cash	216,00
(-) Debt	5 111,00
(-) Preferred Stock	
(-) Minority Interest	
Equity Value	7 492 889 764,18
Diluted Shares Outstanding	113 447 042,00
Implied Shares Price	**66,05**

Table 18:Target Price DCF model Grieg Seafood.

7.5 Sensitivity Analysis

Table 19 illustrates how sensitive the implied share price from the DCF model is to changes in the terminal growth rate and the cost of capital. As observed in Table 12, there is a significant difference between the estimated target price of NOK 66.05 per share and the lowest value, NOK 30.25 per share, and the most extreme value, NOK 174.34 per share. For, a 1% increase in the terminal growth rate gives an implied share price of NOK 99.38 per share. In addition, a 1% increase in the cost of capital gives an implied share price of NOK 43.03. This implies that the share price is extremely sensitive to small changes in the growth rate and the average cost of capital.

Sensitivity Table						
		Growth Rate				
		2,00 %	2,50 %	3,00 %	3,50 %	4,00 %
WACC	5,97 %	70,05	84,86	104,66	132,46	174,34
	6,47 %	56,73	68,02	82,56	101,99	129,27
	6,97 %	46,12	54,97	66,05	80,32	99,38
	7,47 %	37,45	44,55	53,24	64,12	78,12
	7,97 %	30,25	36,06	43,03	51,56	62,23

Table 19: Sensitivity Analysis of the DCF Implied Share Price.

7.6 Relative Valuation

As mentioned in Chapter 2.3, relative valuation is a market-based approach that estimates the value of assets by looking at the market price of comparable assets relative to a common variable.

To reduce the risk of the final price recommendation, a relative valuation is included in addition to the DCF valuation. The relative valuation provides additional insight into valuing the company by looking at the business relative to its peers rather than just analyzing the company on its own. The multiples used in the relative valuation are price-to-book, price-to-earnings, EV/EBITDA, and EV/KG. This valuation has further used the simple average multiples of the peer group from Chapter 7.6.1 to estimate the implied share price. The calculations are based on values retrieved from Refinitiv Eikon on May 6, 2024 (Table 20).

Company		Share Price	#Shares Outstanding		Equity Value
Mowi ASA	kr	191,90	517 111 091	kr	99 233 618 362,90
SalMar ASA	kr	661,50	132 038 920	kr	87 343 745 580,00
Leroy Seafood Group ASA	kr	48,52	595 773 680	kr	28 906 938 953,60
Grieg Seafood ASA	kr	70,45	113 447 042	kr	7 992 344 108,90

Table 20: Data gathered from Refinitiv Eikon May 6, 2024.

7.6.1 The Selection of Peer Group

To conduct a relative valuation analysis for Grieg Seafood, we can consider three Norwegian fish farming companies as comparable. These companies have been publicly traded for many years, which enables us to access many years of historical information through their annual reports.

Mowi ASA

Mowi ASA, which was founded in Norway in 1964, is the world's largest fish farming company and the biggest producer of farm-raised salmon based on volume and turnover (Mowi, 2024). Like Grieg Seafood, Mowi is involved in the entire process of salmon farming, from raising smolt to harvesting, and also has its own sales and marketing organization. Mowi produces its own feed for salmon, while Grieg Seafood buys it from an external supplier. Mowi operates salmon farms along the Norwegian coast, as well as in Newfoundland and British Columbia - the same areas as Grieg Seafood (Mowi ASA, 2024). Therefore, Grieg Seafood and Mowi can be considered comparable companies.

SalMar ASA

SalMar is a Norwegian company founded in 1991. It is the second largest salmon farmer in the world and has aquaculture facilities in Finnmark, like Grieg Seafood, and central Norway, Iceland, and Scotland. SalMar's main business is marine aquaculture, and like Grieg Seafood, it is involved in all aspects of salmon production, from fry production to sales and distribution (SalMar, 2024). Therefore, SalMar can be considered a comparable company.

Lerøy Seafood Group

Lerøy Seafood Group is a world-leading Norwegian aquaculture company founded in 1899. Although the company's core business includes the production of salmon and trout, whitefish harvesting, further processing, product development, marketing, sales, and distribution of seafood, the main revenue stream comes from the production of Atlantic salmon. The company operates in three regions in Norway, and like Grieg Seafood, it also operates on the west coast of Norway and Northern Norway (Lerøy Seafood Group, 2023). Based on this, Lerøy Seafood can be considered a comparable company.

7.6.2 Price-to-Book

The price-to-book multiple (P/B) compares a company's current market price of equity to its book value of equity. As shown in Table 21, the entire peer group has a P/B ratio that's greater than one, indicating that the stock prices are trading at a premium to the company's book value (McClure, 2023). Grieg Seafood has the lowest P/B value. This could indicate that the market has less confidence in Grieg Seafoods' ability to create value from its assets compared to its peers. It could also indicate that the stock is undervalued compared to its peers. The P/B multiple gives an implied value per share at NOK 141.77.

Price-to-Book, NOK	Equity Value	Book Value of Equity	P/B
Mowi ASA	99 233 618 363	40 191 205 000	2,47
SalMar ASA	87 343 745 580	19 355 969 000	4,51
Leroy Seafood Group ASA	28 906 938 954	19 708 710 000	1,47
Grieg Seafood ASA	7 992 344 109	6 669 170 000	1,20
Median P/B	1,97		
Average P/B	2,41		
Implied market value	16 083 779 290,57		
#shares	113 447 042		
Implied value per share	141,77		

Table 21: Implied share price with the use of P/B multiple.

7.6.3 Price-to-Earnings

The price-to-earnings (P/E) multiple is the most common valuation multiple and is used to assess whether the share price is over or undervalued. The ratio is calculated by dividing the firm´s equity by its earnings (net income) (Berk & DeMarzo, 2017). A high P/E (above average) tells us that investors expect high earnings in the future and that the stock value has increased faster than the earnings of the company due to higher expectations for the future. According to Table 22, Grieg Seafood's P/E multiple is lower than the industry average of 20.61. This can indicate that the stock price is undervalued. Based on the P/E multiple, it gives an implied value per share at NOK 101.70.

Price-to-Earnings, NOK	Equity Value	Net Income	P/E
Mowi ASA	99 233 618 363	3 204 583 000	30,97
SalMar ASA	87 343 745 580	3 204 583 000	27,26
Leroy Seafood Group ASA	28 906 938 954	2 906 781 000	9,94
Grieg Seafood ASA	7 992 344 109	559 750 000	14,28
Median P/E	20,77		
Average P/E	20,61		
Implied market value	11 537 163 326,61		
#shares	113 447 042		
Implied value per share	101,70		

Table 22: Implied share price with the use of P/E multiple.

7.6.4 EV/EBITDA

Enterprise value multiples are used to determine the value of a company as they represent the total value of the company´s underlying business rather than just the equity, allowing for comparing companies with different capital structures (Berk & DeMarzo, 2017). EV/EBITDA is calculated as EV, the total value of the firm, over EBITDA, a measurement of a firm's performance. As shown in Table 23, Grieg Seafood has a higher enterprise multiple compared to the average of the peer group, indicating that the company is overvalued.

EV/EBITDA, NOK	Net Debt	Enterprice Value	EBITDA	EV/EBITDA
Mowi ASA	25 443 728 251	124 677 346 614	15 071 840 961	8,27
SalMar ASA	14 952 191 000	102 295 936 580	9 961 000 000	10,27
Leroy Seafood Group ASA	6 515 143 000	35 422 081 954	4 666 759 000	7,59
Grieg Seafood ASA	4 894 672 000	12 887 016 109	1 271 800 000	10,13
Median EV/EBITDA	9,20			
Average EV/EBITDA	9,07			
Implied market value	6 635 797 676,93			
#shares	113 447 042			
Implied value per share	58,49			

Table 23: Implied share price with the use of EV/EBITDA multiple.

7.6.5 EV/KG

EV/KG is an industry-specific multiple that is often used to value fish farming companies. The multiple calculates the value of the firm over its total harvest volume. The harvest volumes are based on each company´s harvest volume from 2023, which is gathered from their own annual reports from 2023. From Table 24, the EV/KG multiple gives an implied share price of 126.09 for Grieg Seafood. Compared to its peers, Grieg Seafood has a lower multiple than its peers, indicating that the share price is undervalued.

EV/KG, NOK	Enterprice Value	KG	EV/KG
Mowi ASA	124 677 346 614	474 664 000	262,66
SalMar ASA	102 296 745 580	254 100 000	402,58
Leroy Seafood Group ASA	35 548 679 954	160 000 000	222,18
Grieg Seafood ASA	12 887 016 109	72 015 000	178,95
Median P/E	242,42		
Average P/E	266,59		
Implied market value	14 304 118 736,80		
#shares	113 447 042		
Implied value per share	126,09		

Table 24: Implied share price with the use of EV/KG multiple.

7.6.6 Results Relative Valuation

The result of the relative valuation is summarized in Table 25. The final share price from the relative valuation is based on the simple average of the implied value per share of the calculated multiples. This gives Grieg Seafood an estimated share price of NOK 106.98. This estimate is higher than the implied share price from the DCF model, indicating that the relative valuation gives a more positive view of the value of the company compared to its intrinsic value.

Estimated Target Price, NOK	
P/B	141,77
P/E	101,70
EV/EBITDA	58,49
EV/KG	125,96
Average	106,98

Table 25: Target price Grieg Seafood based on the relative valuation.

7.7 Final Target Price

According to the DCF model, the implied share price of NOK 66.05 per share was calculated. On the other hand, the relative valuation method gave a more optimistic view of the company, with a share price of NOK 106.98. However, it should be kept in mind that when valuing a

cyclical firm, there is a significant risk that the DCF model may give inaccurate results. Relative valuation can solve the problem of cyclicality (Mirzayev, 2022), and therefore, this valuation combines the two valuation methods together. By combining both methods and weighing the DCF valuation at 50% and the relative valuation at 50%, the final target price for Grieg Seafood is NOK 86.51 per share.

$$Estimated\ Share\ Price = 66.05 * 0{,}5 + 106.98 * 0{,}5 = 86.51$$

8. Investment Bank Report Comparison

This chapter will compare the valuation of this master thesis with an equity research report from DNB Markets dated April 10, 2024. DNB Markets has a buy recommendation for Grieg Seafood with a target price of NOK 80 per share (April 2025), which is NOK 6.51 per share lower than this valuation. Their target price is also based on a DCF and peer multiples. However, the weighting of the different approaches is not clarified. For this reason, only the DCF valuation of this thesis will be compared.

DNB Markets' investment thesis focuses on Grieg Seafood's capacity pricing and potential future partnership in Canada to reduce the capex burden, facilitating continued infrastructure development in Norway. They believe international operations and investment requirements overshadow the earnings potential of its Norway operations. A partnership in Canada could refocus investor attention on Grieg Seafood's EV/kg discount compared to other Norwegian operators. They assume a 2025 estimated EV/kg in line with Mowi and suggest a fair value of NOK 100 per share.

DNB Markets' investment case is in line with the forecast assumptions made in this valuation, where this thesis states that without any additional funding, the company will not be able to pursue its growth strategy and finance capital expenditures. Based solely on the DCF valuation in this thesis, DNB Markets has estimated a target price of NOK 13.95 per share higher. Based on Table 26, DNB Markets operates with a higher growth rate in revenue in 2025 compared to this thesis, resulting in higher forecasted EBIT and revenue from 2025. They expect lower salmon prices and lower growth in harvest volume between 2024 and 2026. Additionally, they expect a higher effective tax rate, which creates a higher tax shield for the company. Furthermore, they operate with a lower depreciation rate and a higher capex,

resulting in a lower expected target price. On the other hand, they forecast the working capital to be significantly lower than this thesis, which creates a higher value for the firm.

Although DNB Markets has set a higher target price of NOK 80 compared to the DCF valuation of NOK 66.05 in this thesis, this thesis relies more on the company's performance relative to the market and its peers. As a result, it concludes with a higher final target price of NOK 86.51.

DNB Markets (NOKm)	2024e	2025e	2026e
Revenue	7 608,00	8 586,00	8 928,00
Growth	8,40 %	12,90 %	4 %
Growth harvest volume	11 %	11 %	4 %
prices of salmon NOK/kg	90,00	90,00	91,00
EBIT	990,00	1 496,00	1 575,00
Taxes	232,00	377,00	396,00
Effective tax rate (%)	32 %	32 %	33 %
Depreciation	490,00	490,00	490,00
Capex	1 200,00	1 600,00	1 600,00
WC	3 504,00	3 514,00	3 547,00

Own DCF forecast (NOKm)	2024e	2025e	2026e
Revenue	8 013,24	8 460,84	9 624,70
Growth	14 %	6 %	14 %
Growth harvest volume	12 %	10 %	10 %
prices of salmon NOK/kg	104,56	91,23	91,23
EBIT	1 147,00	1 222,81	1 552,38
Taxes	332,63	354,62	450,19
Effective tax rate (%)	29 %	29 %	29 %
Depreciation	662,92	729,04	779,73
Capex	1 320,98	1 233,53	1 086,48
NWC	4 325,88	4 567,51	5 043,29

Table 26: Key financials from DNB markets and own DCF forecast, 2024e-2026e.

Conclusion and Final Recommendation

Based on a combination of a DCF model and relative valuation, this thesis has a target price of NOK 86.51 per share and a buy recommendation for Grieg Seafood. This price is based on a 50% weight of each of the two valuation approaches, capturing the company's own business situation and the market's cyclicality.

Grieg Seafood has experienced increased margins since 2020, driven by higher salmon prices, increased total harvest volume, and a strategic focus on operations in Norway and Canada. The company achieved a record year in 2022, and with heavy investments in a new post-smolt program and expanding operations in the Newfoundland region, the company is expected to increase its harvest volume, value-added products, and survival rates over the next five years. Leading to an increase in operating margins to 16% by 2028, up from 14% in 2023. However, historically, Grieg Seafood has faced challenges with lower operating margins compared to its peers, in addition to more frequent biological events. Additionally, the company carries higher liquidity and insolvency risks. Furthermore, the company´s future business plan is capital-intensive, and the cash generated from its operations, in the long run, is not sufficient to cover the capital expenditures needed to pursue the company´s growth strategy and finance capital expenditures. This could lead to a further capex burden for the company.

Based on the DCF valuation, Grieg Seafood's estimated target price is NOK 66.05 per share. However, the DCF model is sensitive to minor fluctuations in the growth rate and cost of capital. To account for industry cyclicality, an implied target price of NOK 106.98 per share was derived from the relative valuation. This suggests that Grieg Seafood might be undervalued in the market, leading to an adjusted estimated target price of NOK 86.51 per share and a final buy recommendation. The recommendation is based on the current share price of NOK 70.45 as of May 6, 2024. Table 27 summarizes the two valuation approaches related to the 52-week trading range and the equity research estimates based on target prices gathered from Refinitiv Eikon.

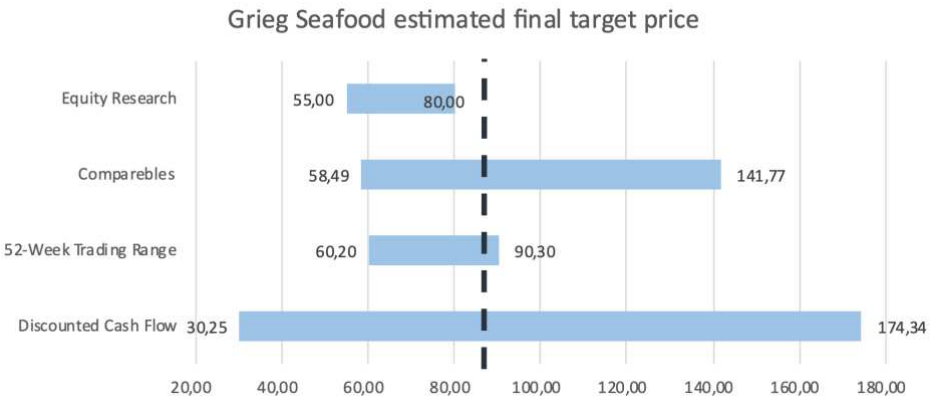

Table 27: Final target price Grieg Seafood.

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The use of Artificial intelligence:

Note: To enhance the quality of this thesis, Grammarly and ChatGPT, developed by OpenAI, were used as aids for grammar and style improvement

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