

Stronger for longer

Fish Pool/Nasdaq Christmas Seminar
23 November 2016

Vidar Strat

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Stronger, **but only** for **a little** longer

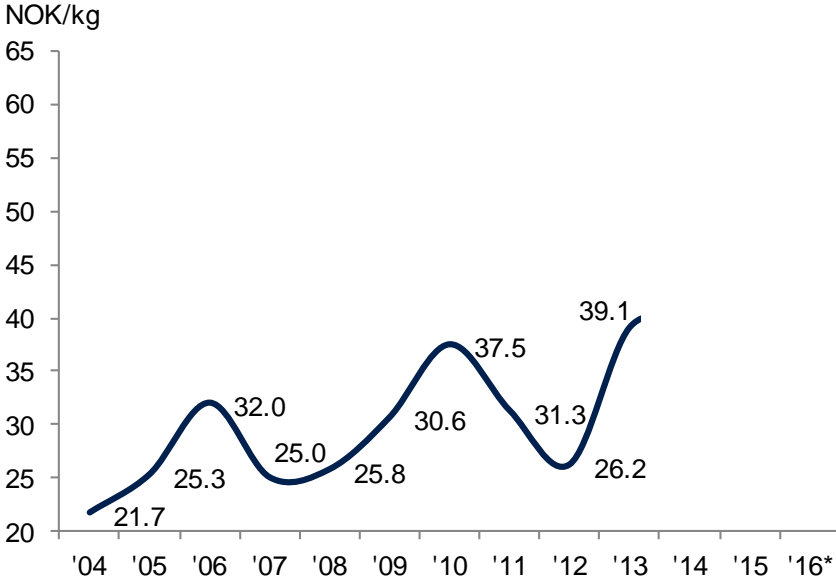
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We were used to a cyclical salmon price

Salmon price, Norway (NOK/gwe)

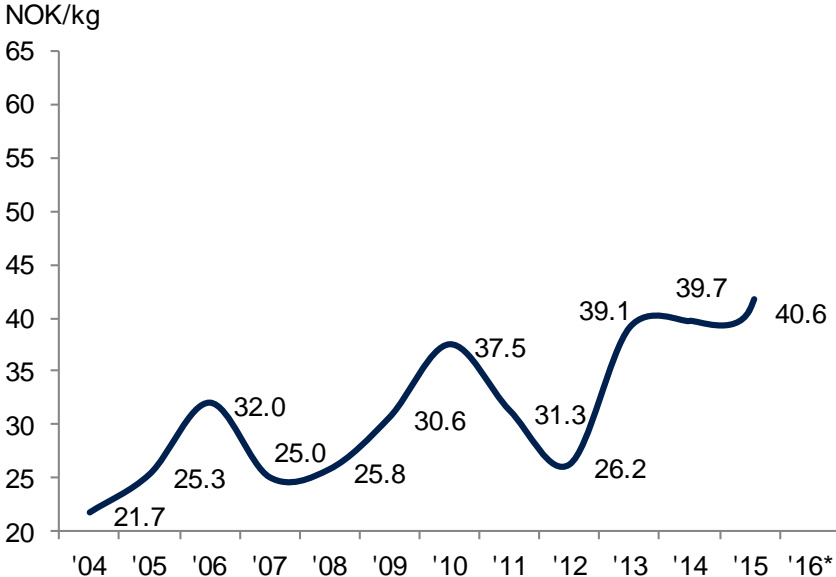


Salmon price, Norway (EUR/gwe)



Then followed three years with stable prices

Salmon price, Norway (NOK/gwe)

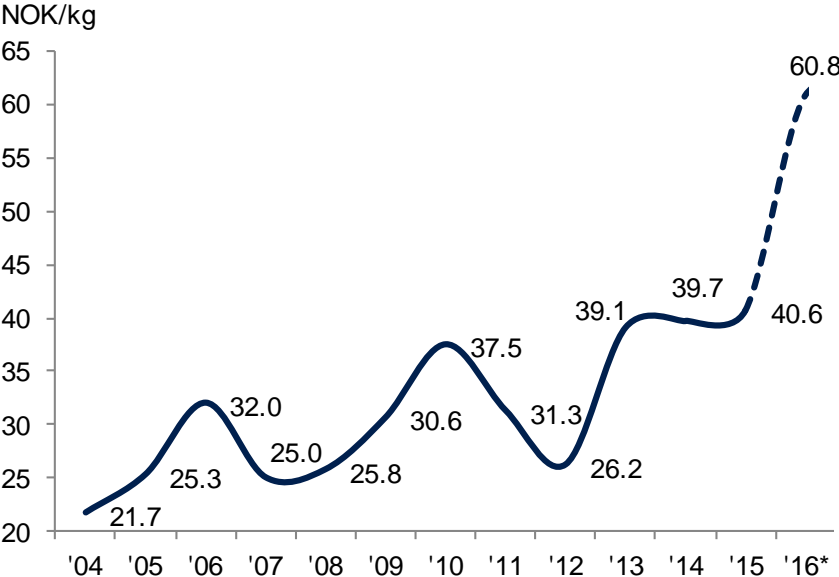


Salmon price, Norway (EUR/gwe)



Super strong salmon price in 2016

Salmon price, Norway (NOK/gwe)

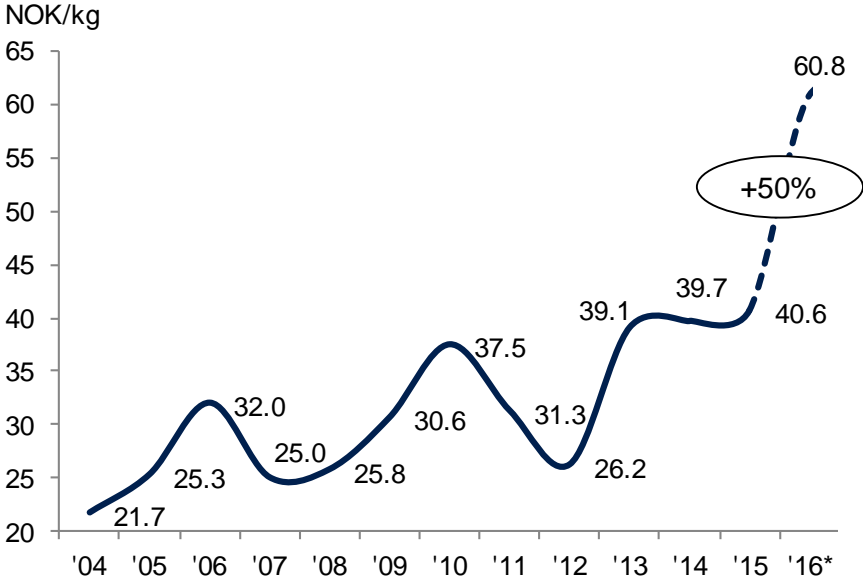


Salmon price, Norway (EUR/gwe)

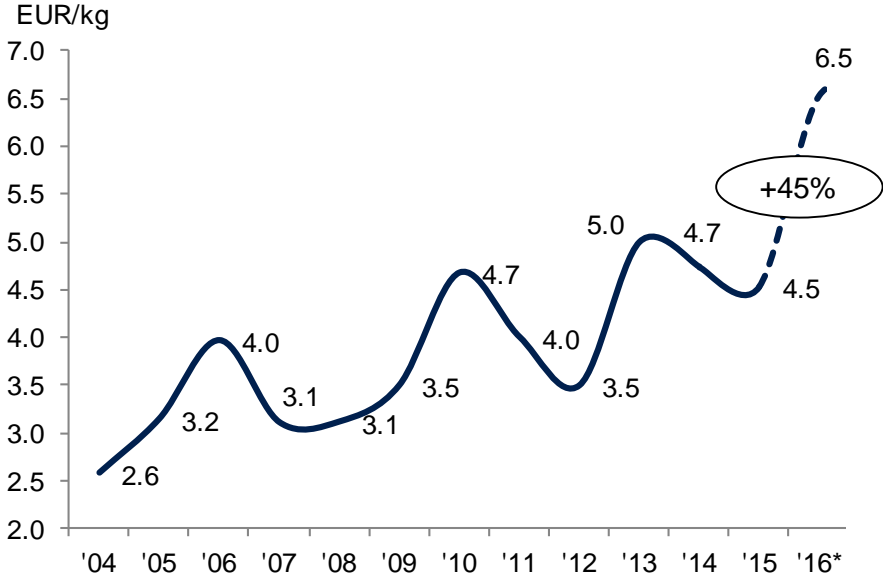


Super strong salmon price in 2016

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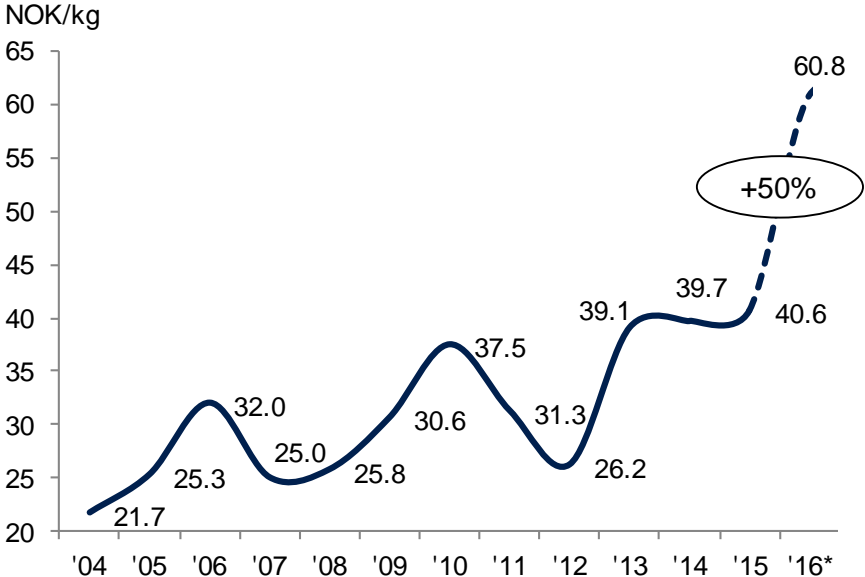


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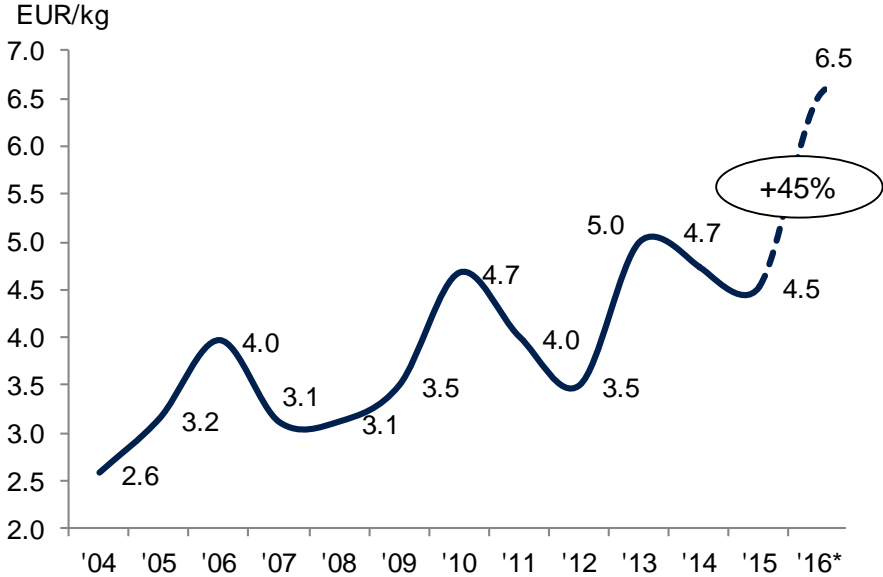


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Salmon price, Norway (EUR/gwe)

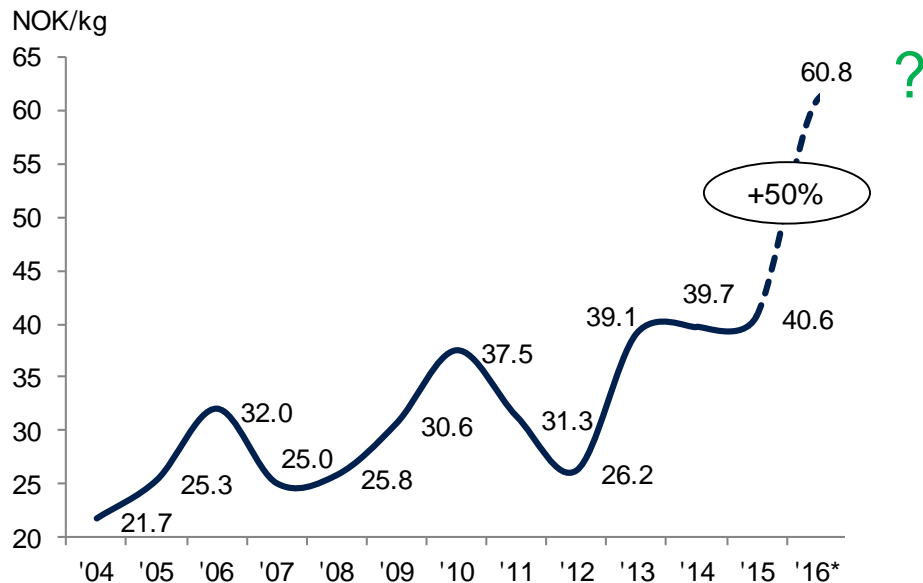


■ With «The salmon price», we mean NASDAQ salmon price (all sizes) minus NOK 0.75/kg = Old FHL price

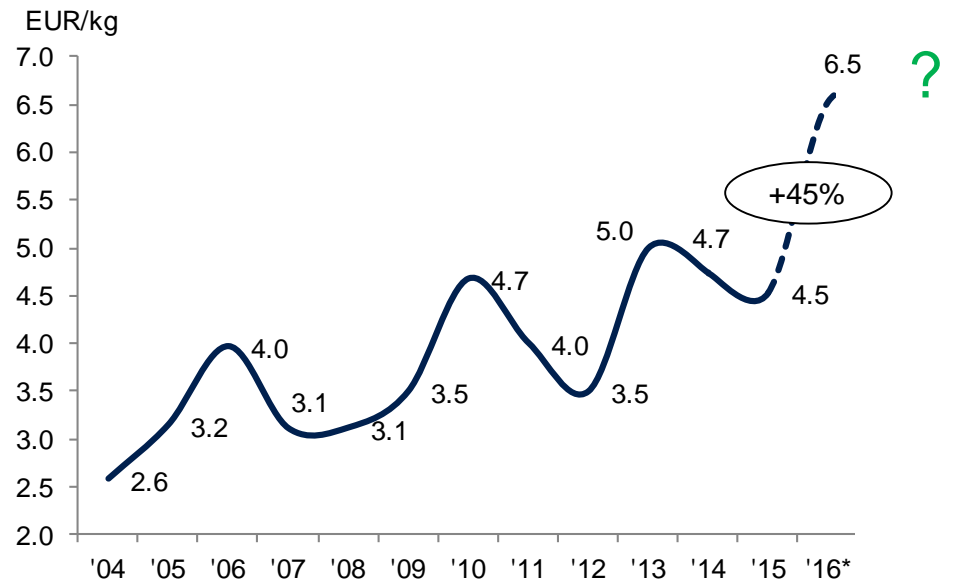
Super strong salmon price in 2016

What awaits in 2017?

Salmon price, Norway (NOK/gwe)



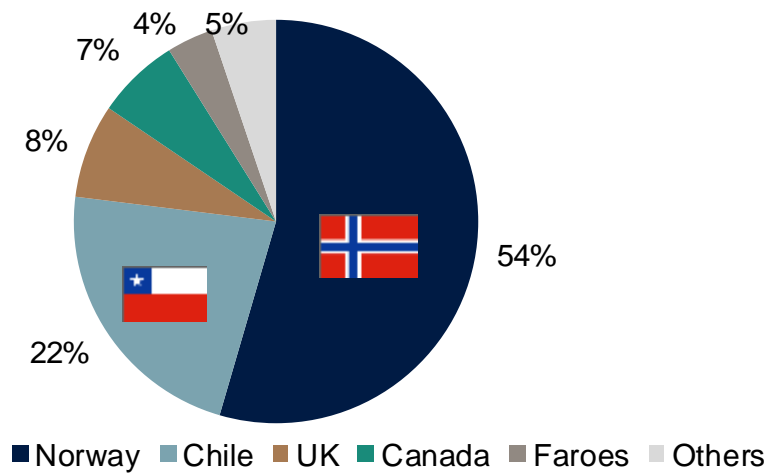
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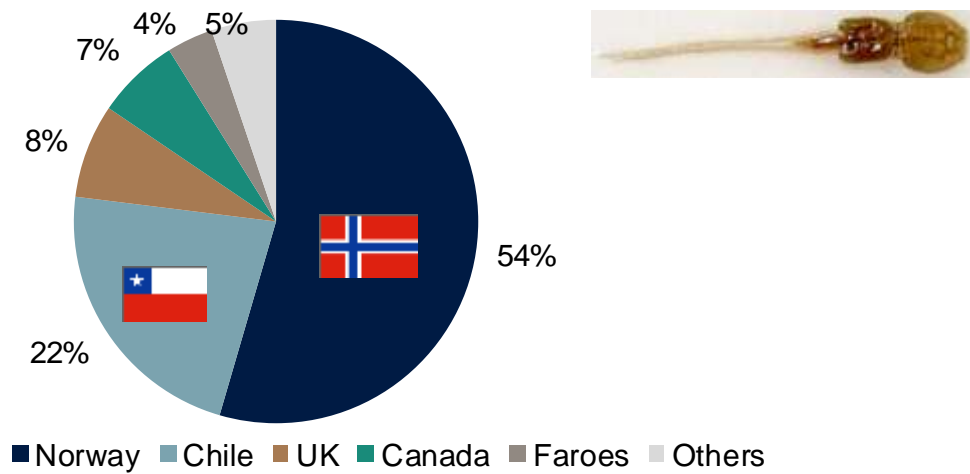
2016 was special

Global supply of Atlantic salmon, 2016e



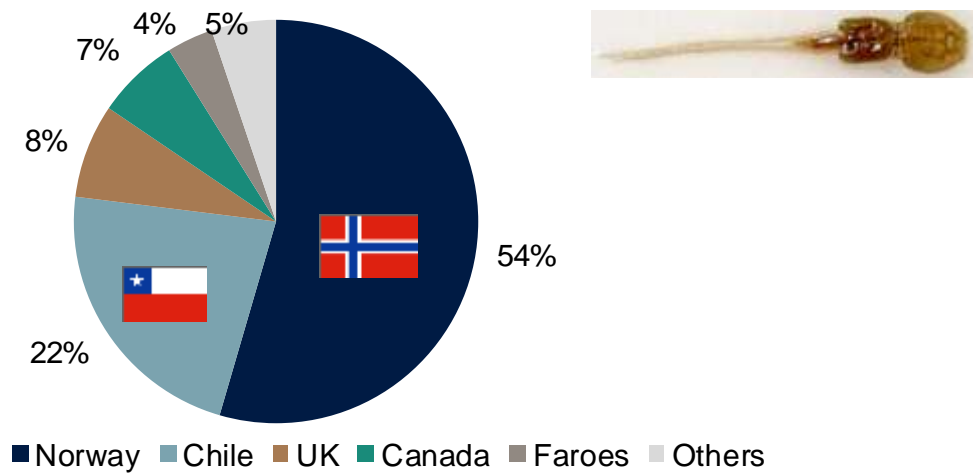
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Global supply of Atlantic salmon, 2016e

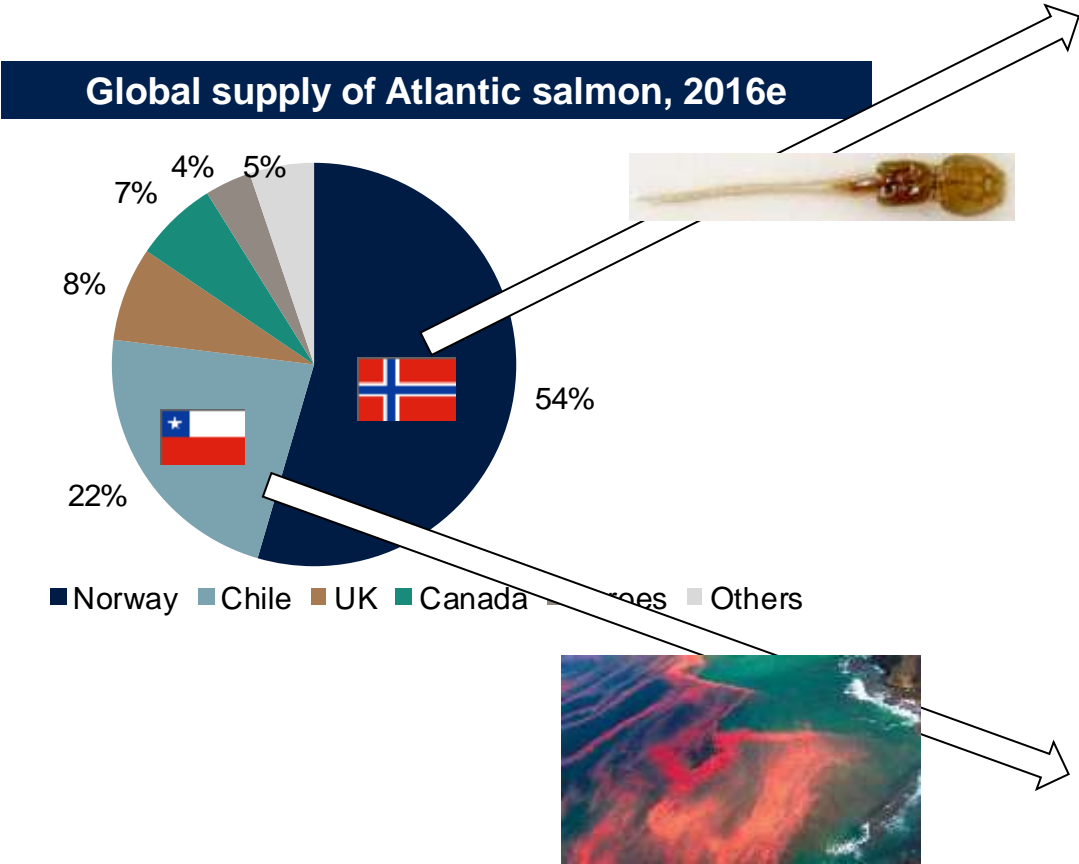


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Global supply of Atlantic salmon, 2016e

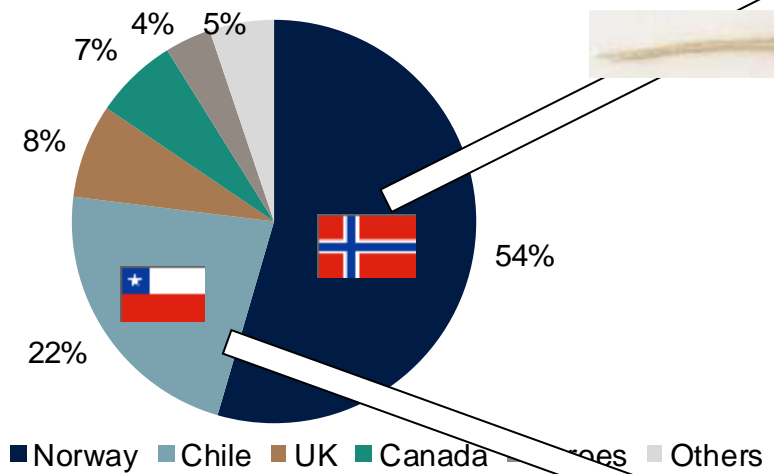


2016 was special

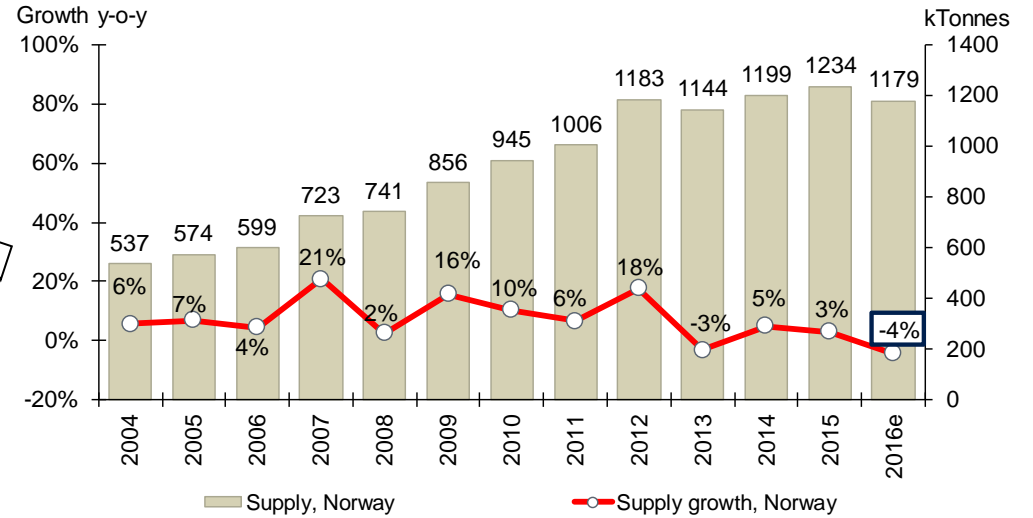


2016 was special – Low supply in main production regions

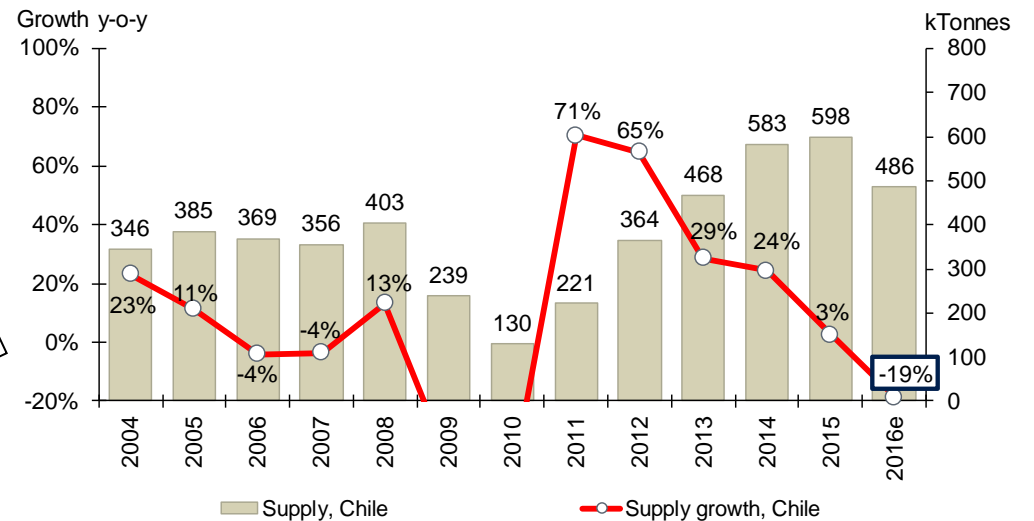
Global supply of Atlantic salmon, 2016e



Supply of Atlantic salmon, Norway

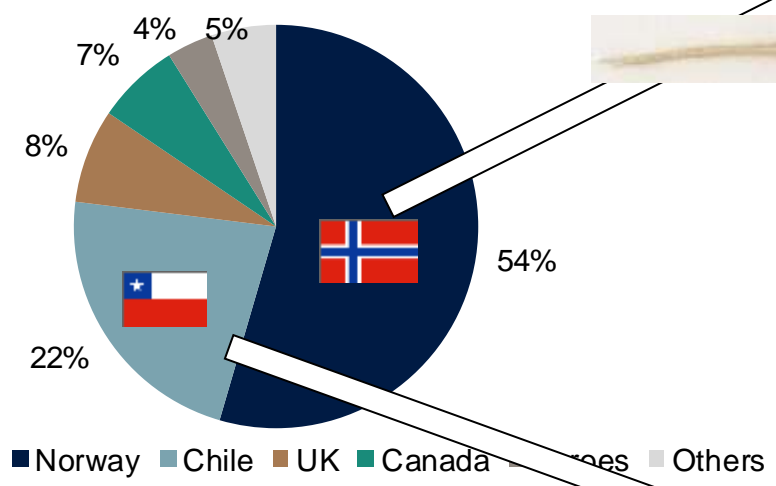


Supply of Atlantic salmon, Chile

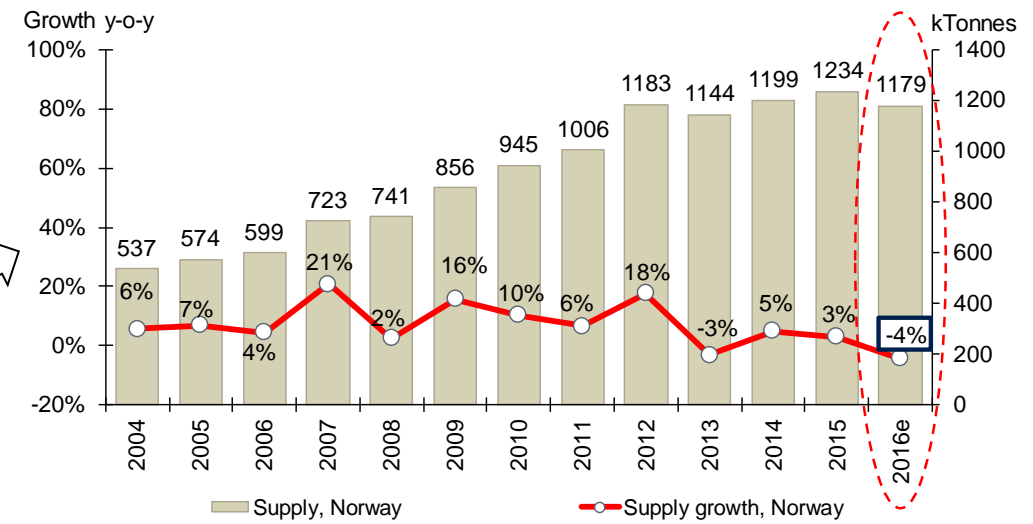


2016 was special – Low supply in main production regions

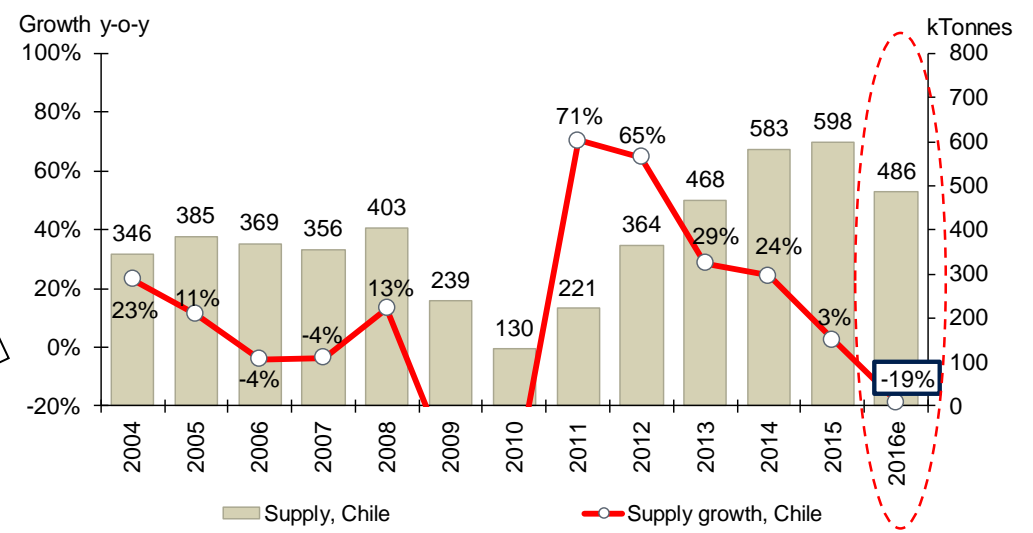
Global supply of Atlantic salmon, 2016e



Supply of Atlantic salmon, Norway

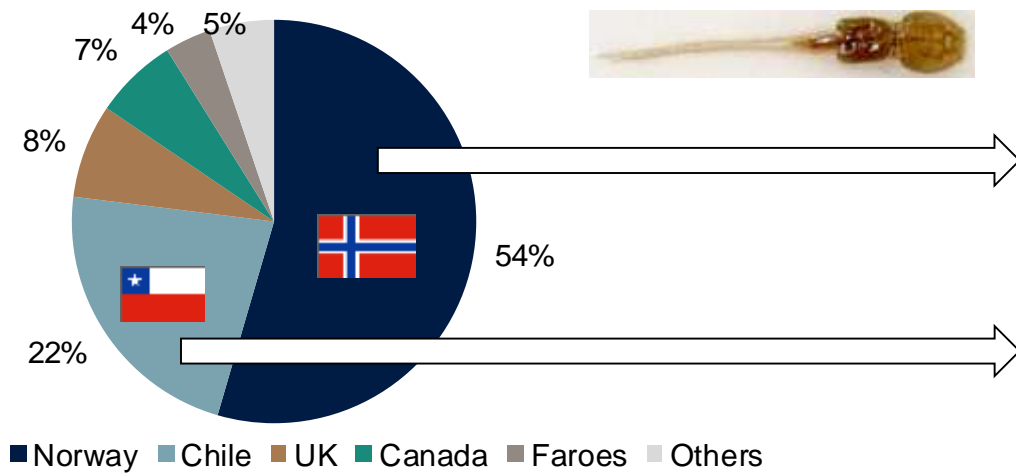


Supply of Atlantic salmon, Chile

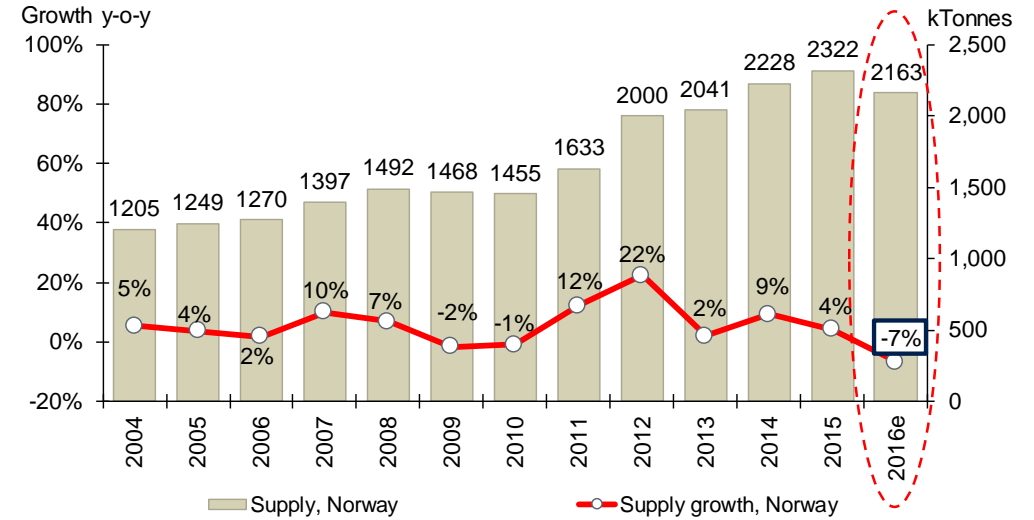


2016 was special – Low supply in main production regions

Global supply of Atlantic salmon, 2016e

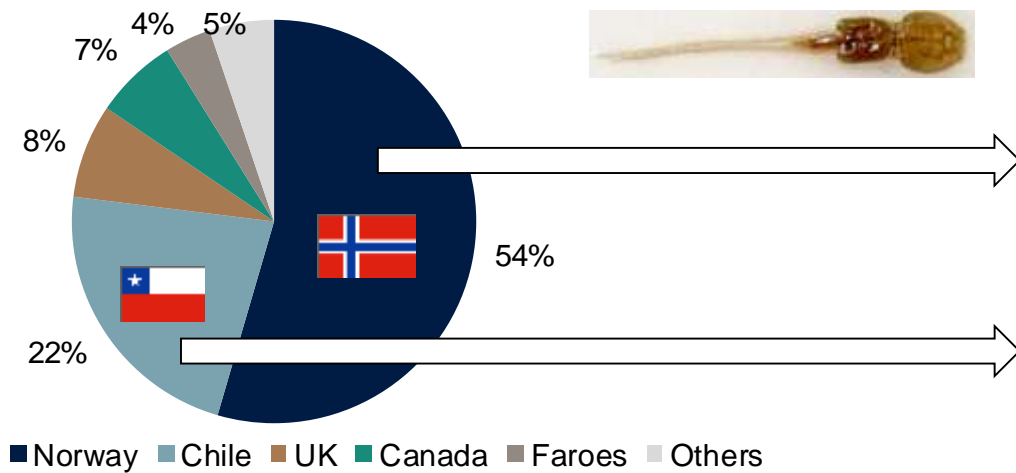


Supply of Atlantic salmon, Global

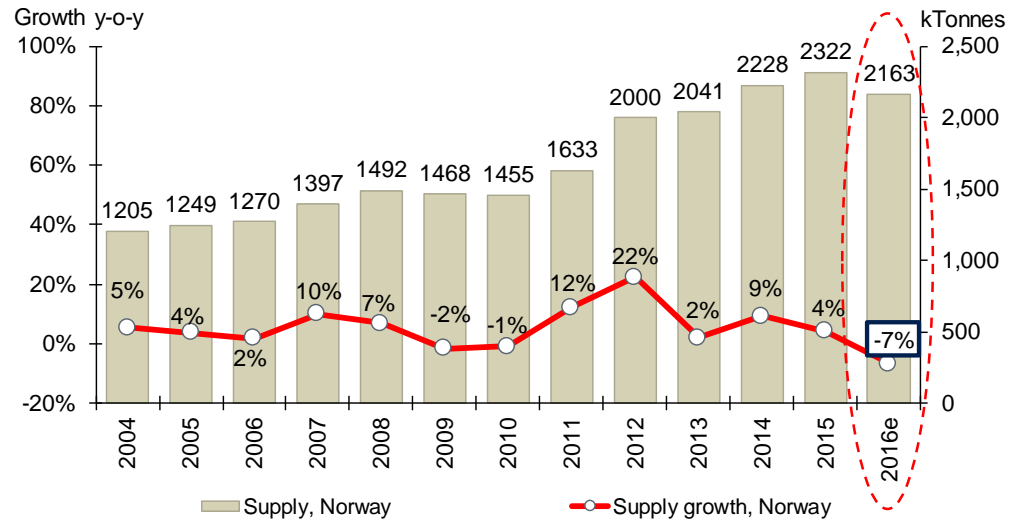


2016 was special – Low supply in main production regions

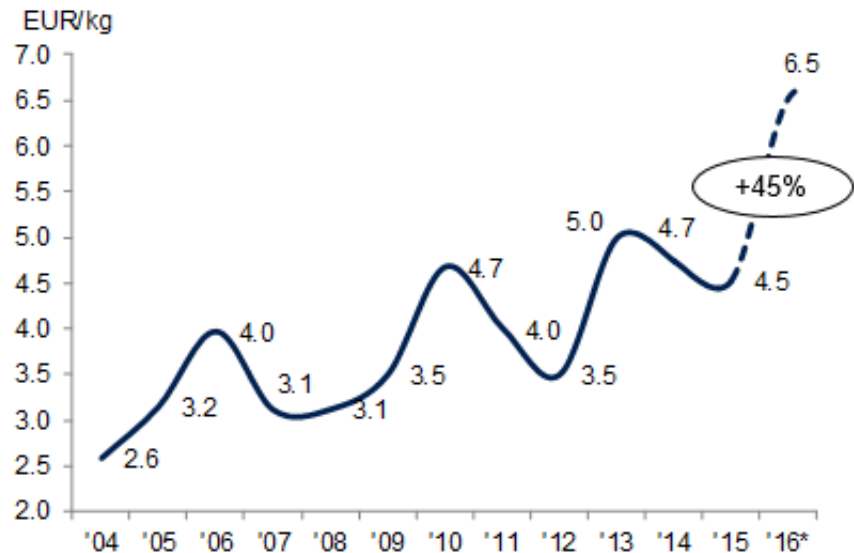
Global supply of Atlantic salmon, 2016e



Supply of Atlantic salmon, Global

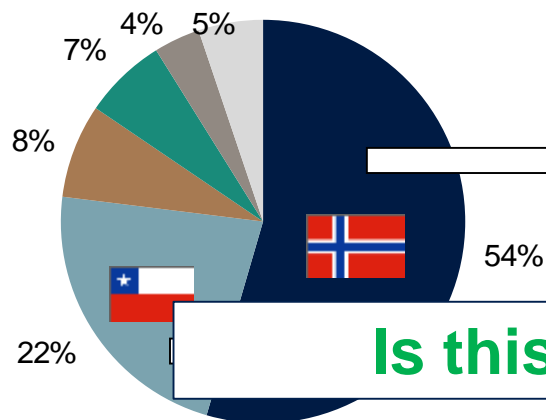


Salmon price, Norway (EUR/gwe)



2016 was special – Low supply in main production regions

Global supply of Atlantic salmon, 2016e

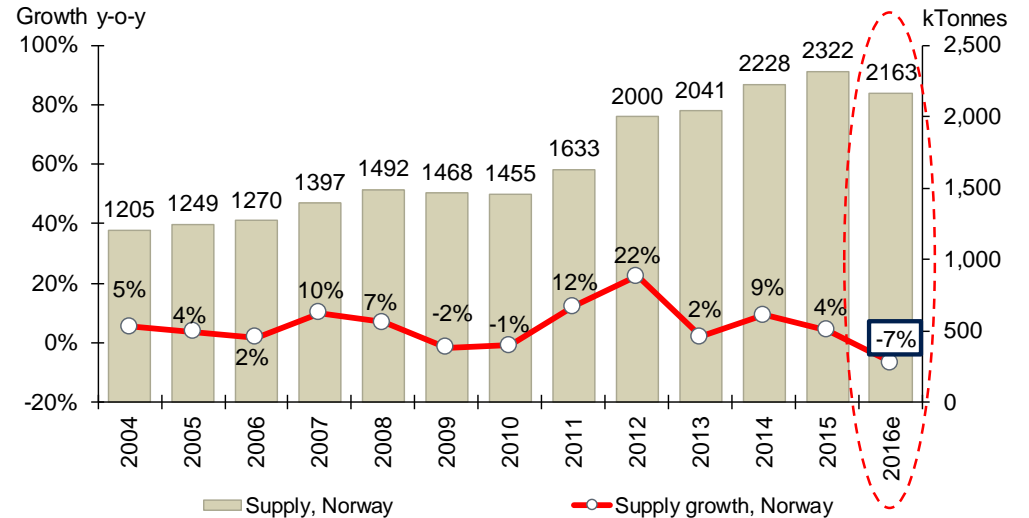


Is this really a strong price reaction?

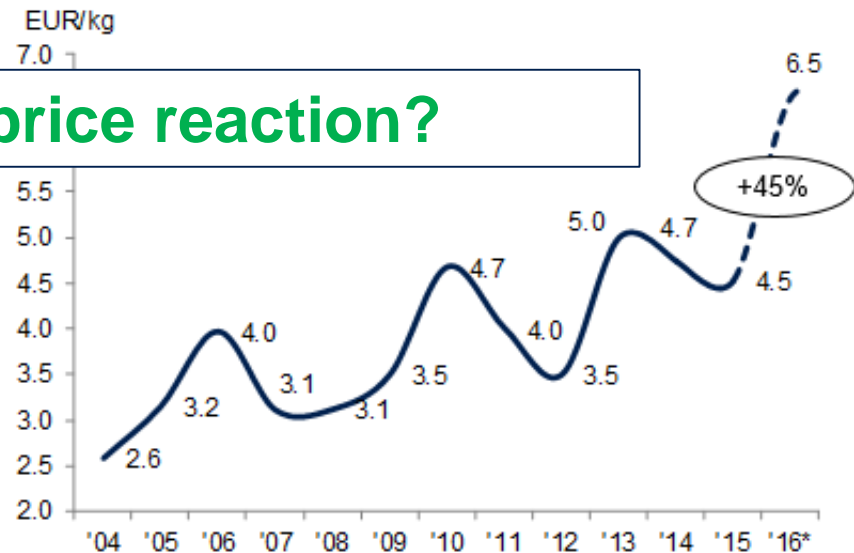
■ Norway ■ Chile ■ UK ■ Canada ■ Faroes ■ Others



Supply of Atlantic salmon, Global

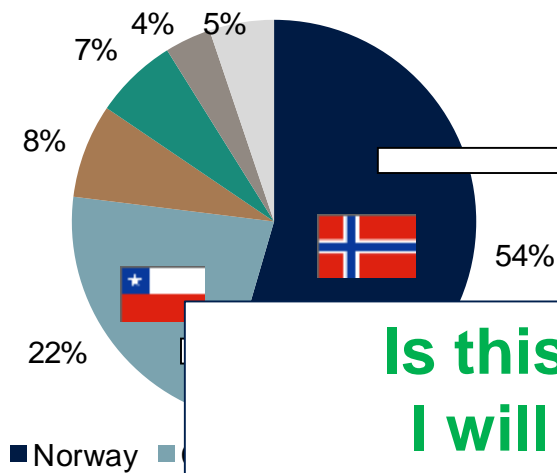


Salmon price, Norway (EUR/gwe)



2016 was special – Low supply in main production regions

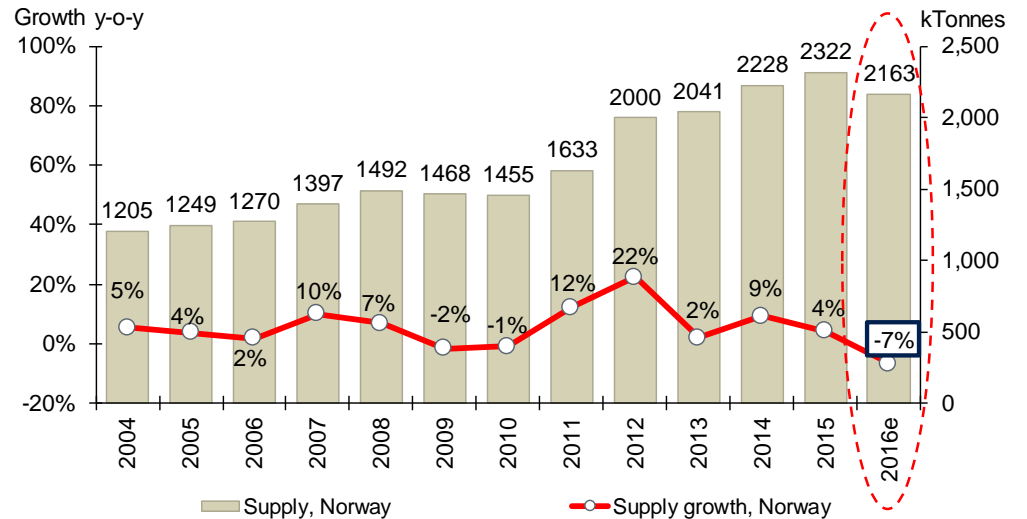
Global supply of Atlantic salmon, 2016e



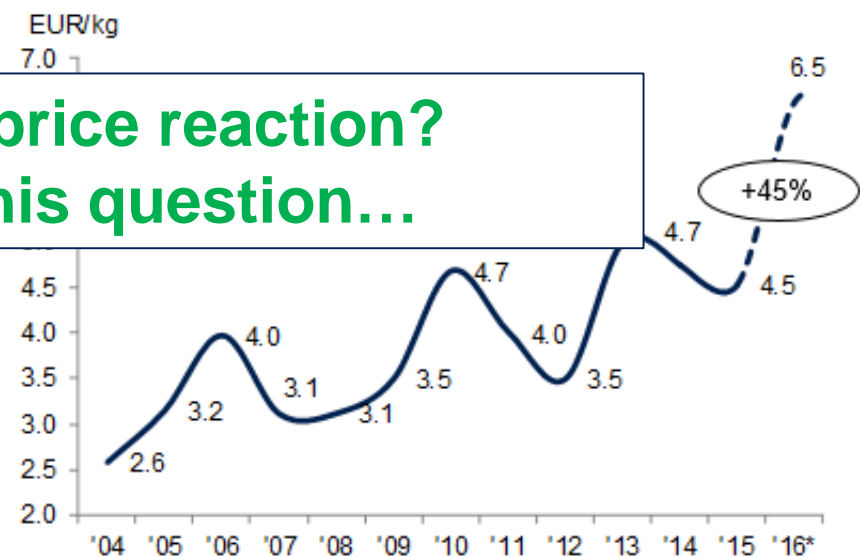
**Is this really a strong price reaction?
I will soon revert to this question...**



Supply of Atlantic salmon, Global

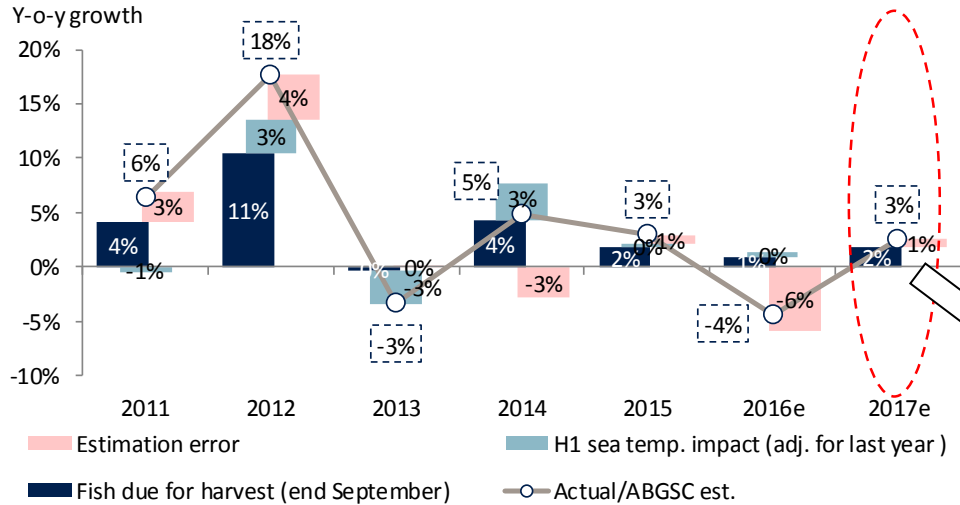


Salmon price, Norway (EUR/gwe)



What salmon supply to expect in 2017e?

Supply model - Norway



Supply model - Chile



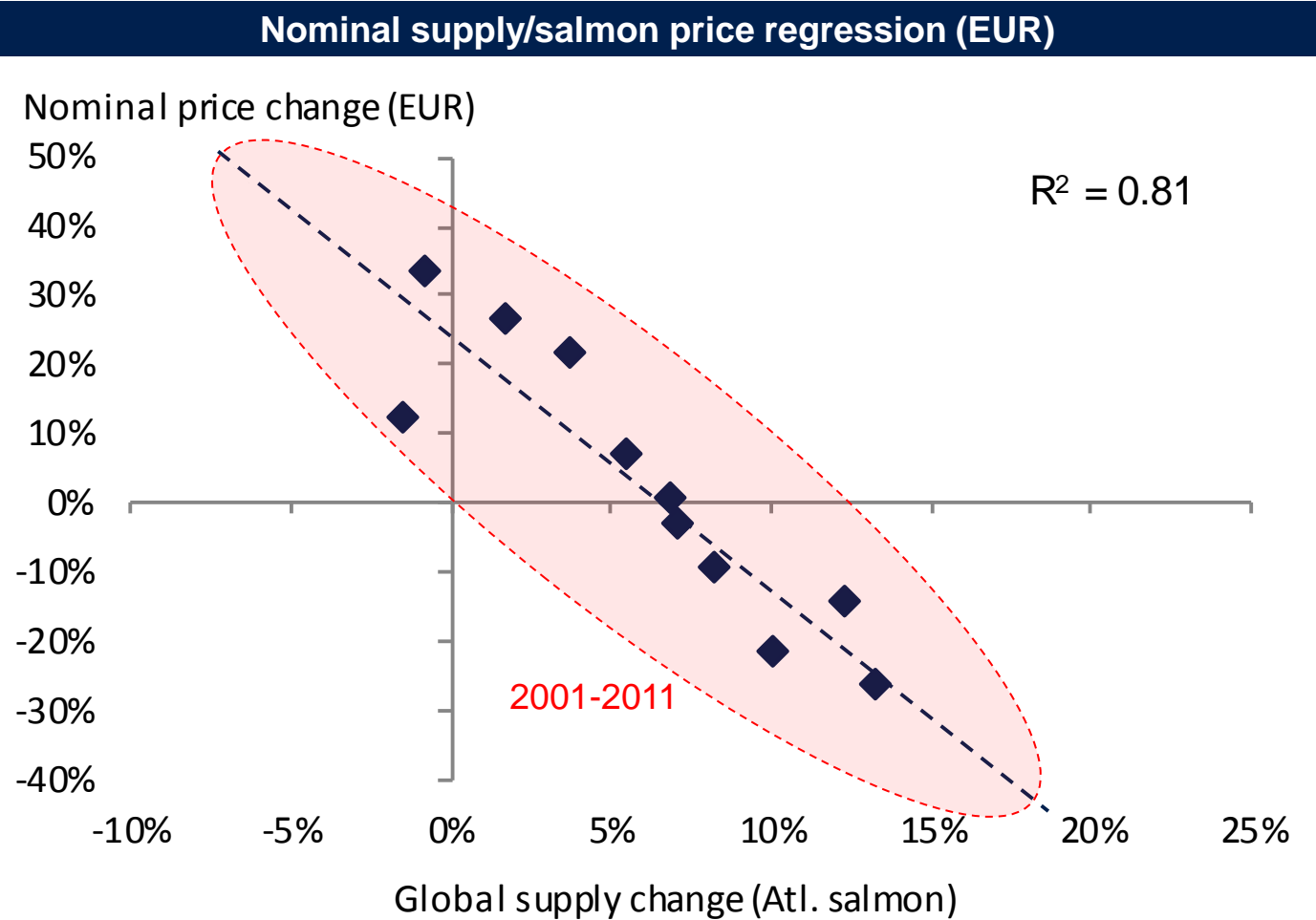
KPIs and annual summary

	2013	2014	2015	2016e	2017e
Average harvest weight (WFE kg)	4.3	4.8	4.8	4.8	4.9
Number of smolts expected to be harvested (m)	140	153	135	143	132
Actual number of harvested fish (m)	109	122	124	102	109
Mortality and losses/wastage	22%	20%	8%	29%	17%
Smolt yield, fish harvested (WFE kg)	3.3	3.8	4.4	3.4	4.0
Harvest (WFE ktonnes)	468	587	598	486	531
	29%	25%	2%	-19%	9%

Global supply, Atlantic Salmon

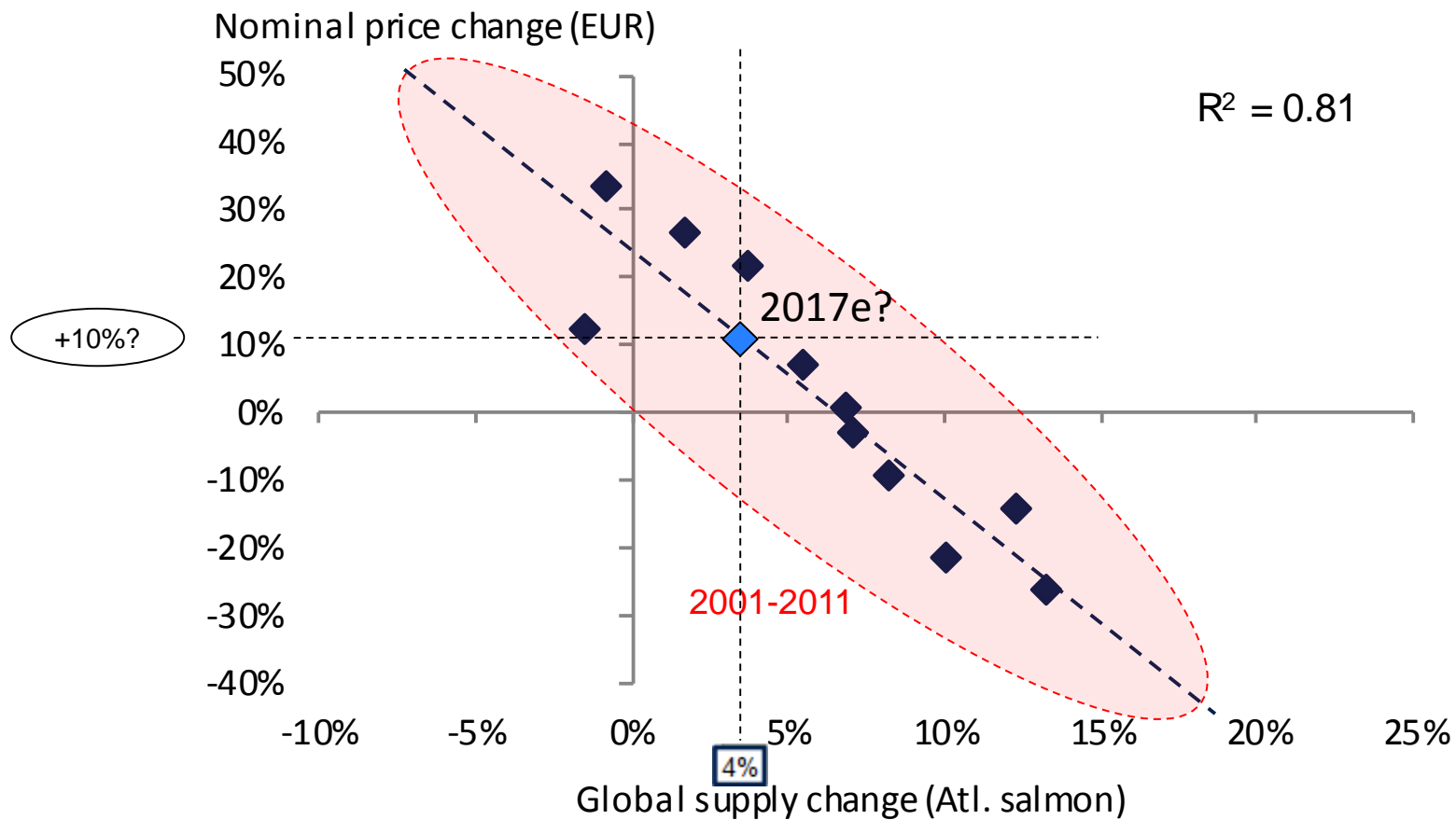


What is the implication for the salmon price?

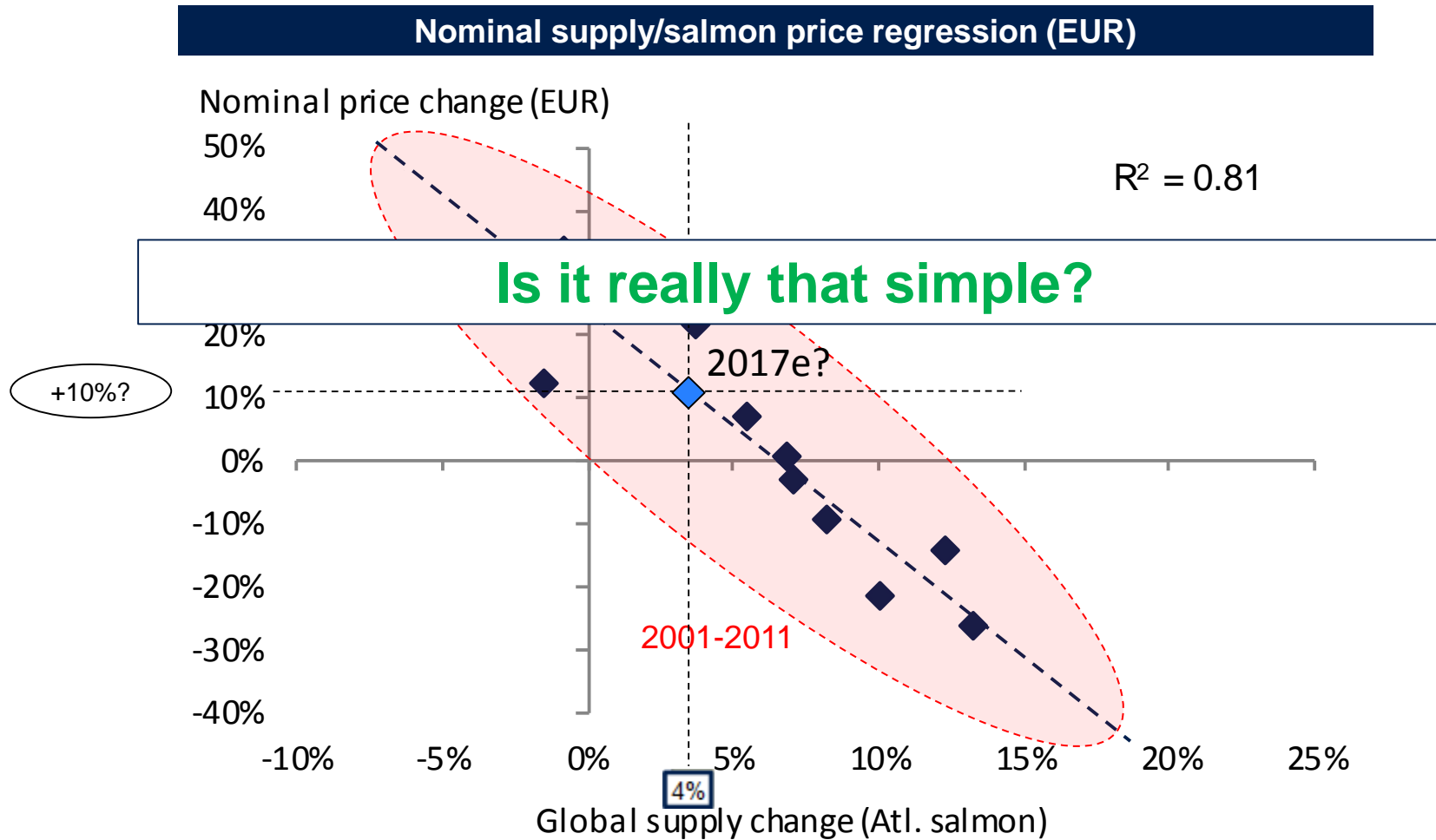


4% global supply growth = 10% price increase → NOK 67/kg

Nominal supply/salmon price regression (EUR)



4% global supply growth = 10% price increase → NOK 67/kg



4% global supply growth = 10% price increase → NOK 67/kg

Nominal supply/salmon price regression (EUR)

Nominal price change (EUR)

50%

40%

$R^2 = 0.81$

Is it really that simple?
Probably not

+10%?

10%

0%

-10%

-20%

-30%

-40%

-10%

-5%

0%

5%

10%

15%

20%

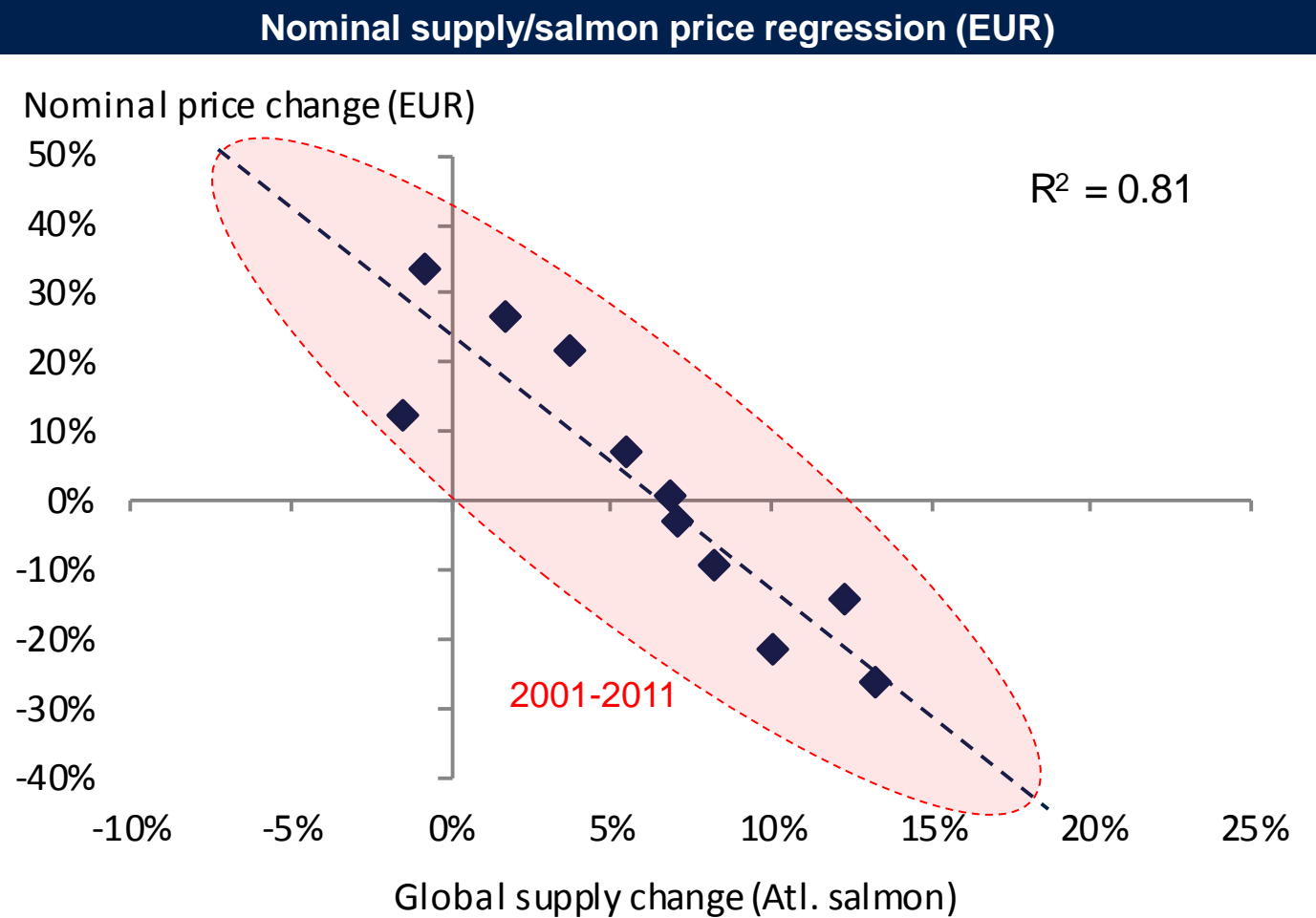
25%

2001-2011

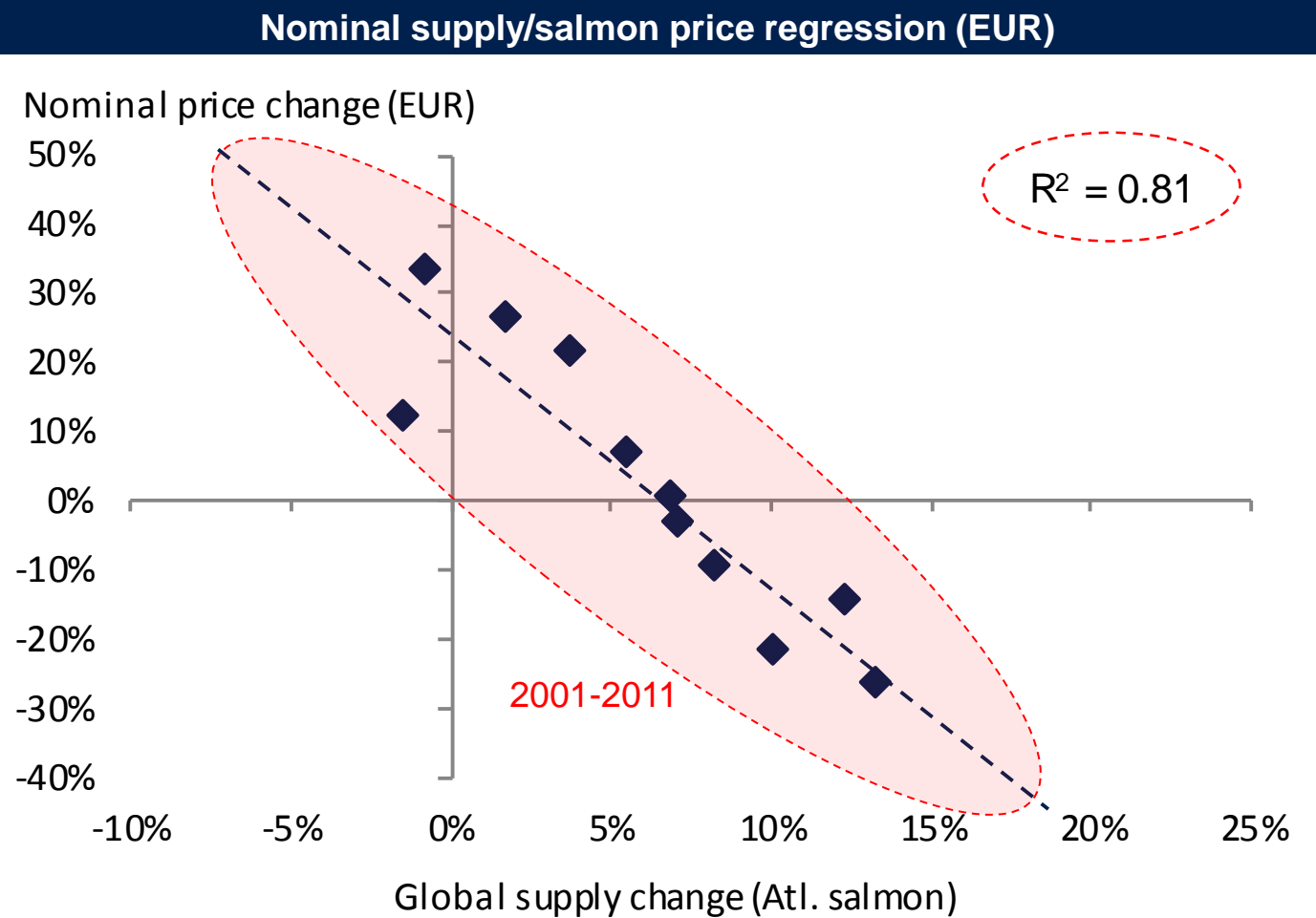
4%

Global supply change (Atl. salmon)

We are obsessed with supply forecasts



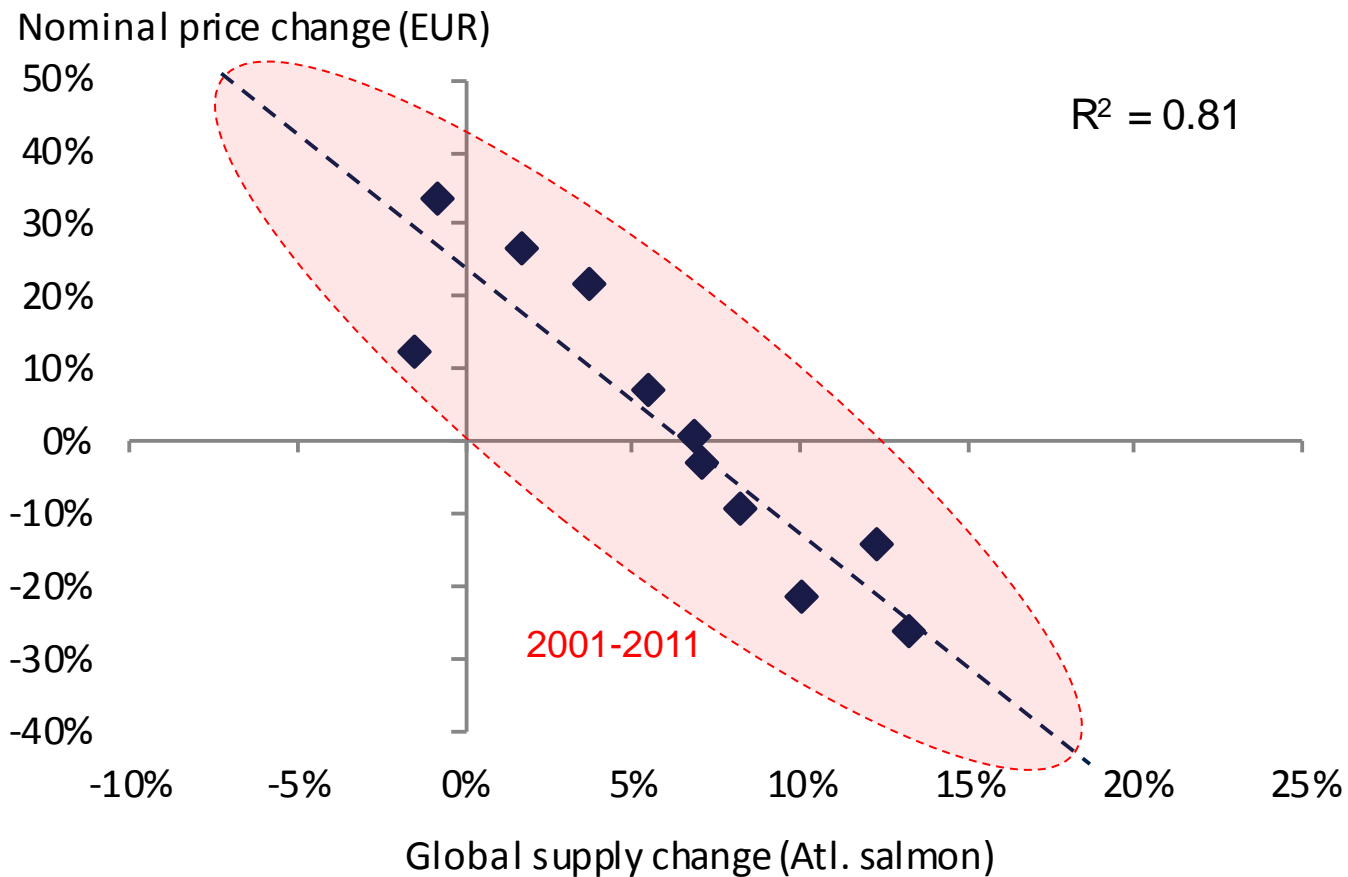
We are obsessed with supply forecasts, for good reasons



We are obsessed with supply forecasts, for good reasons

What about demand?

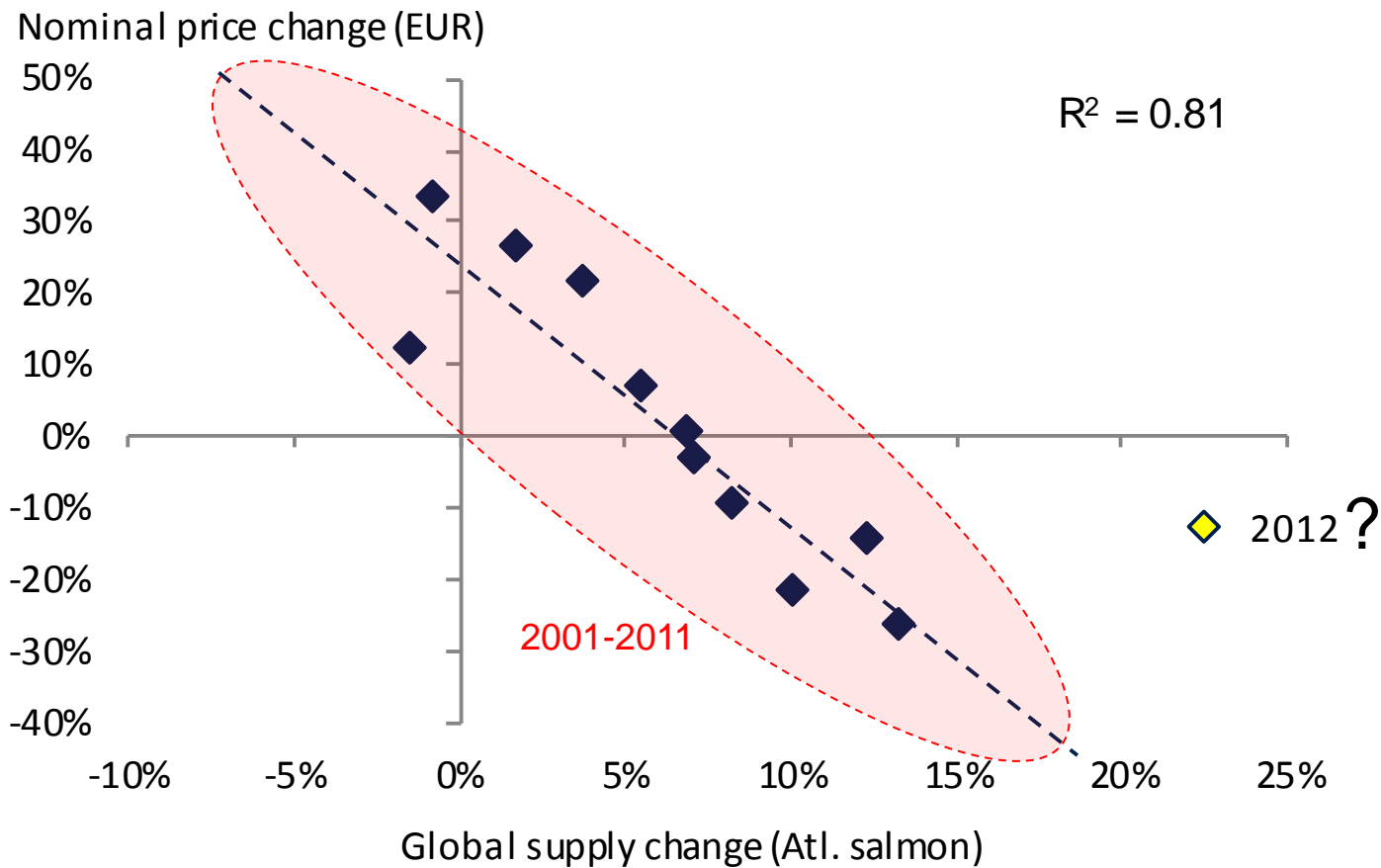
Nominal supply/salmon price regression (EUR)



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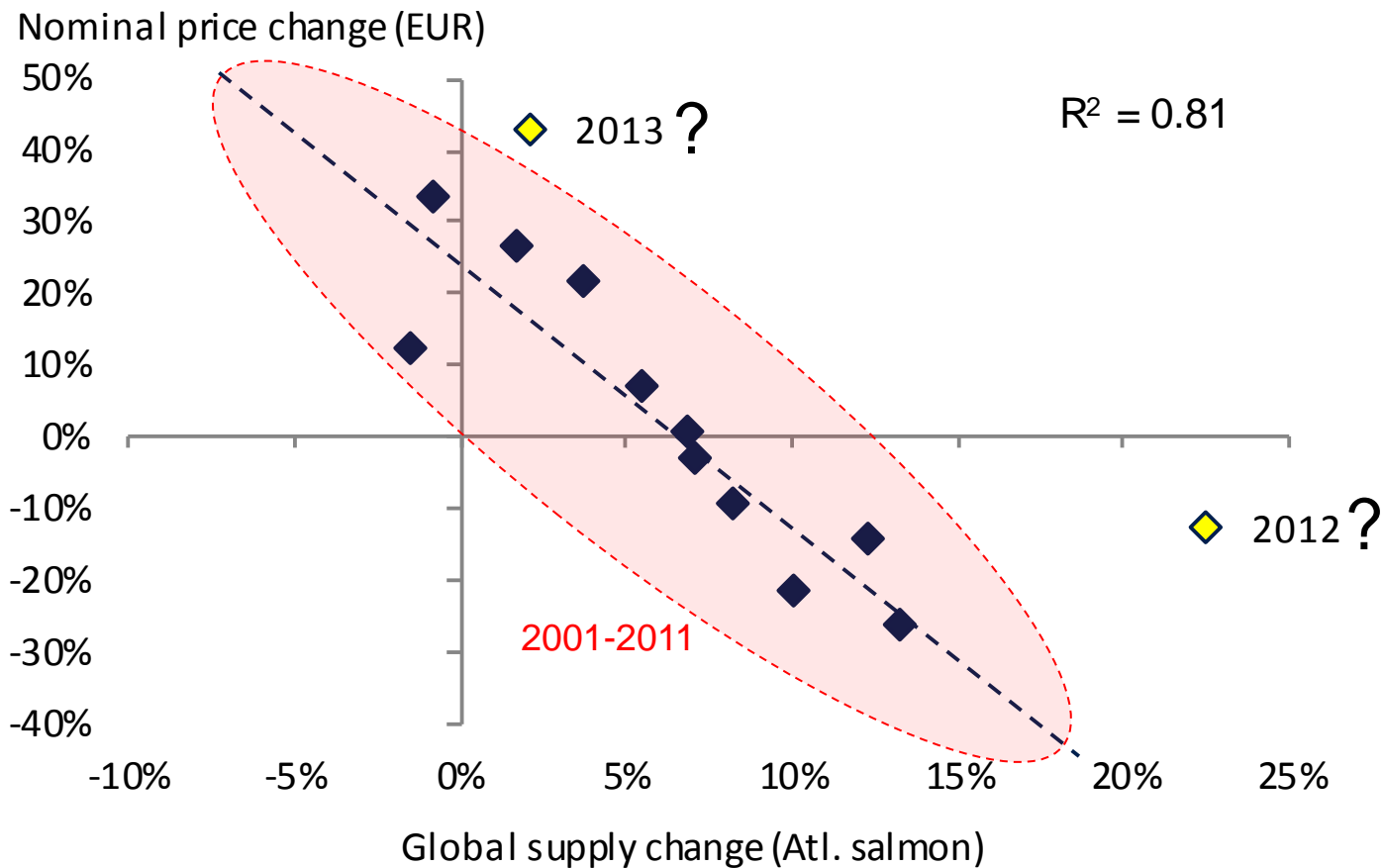
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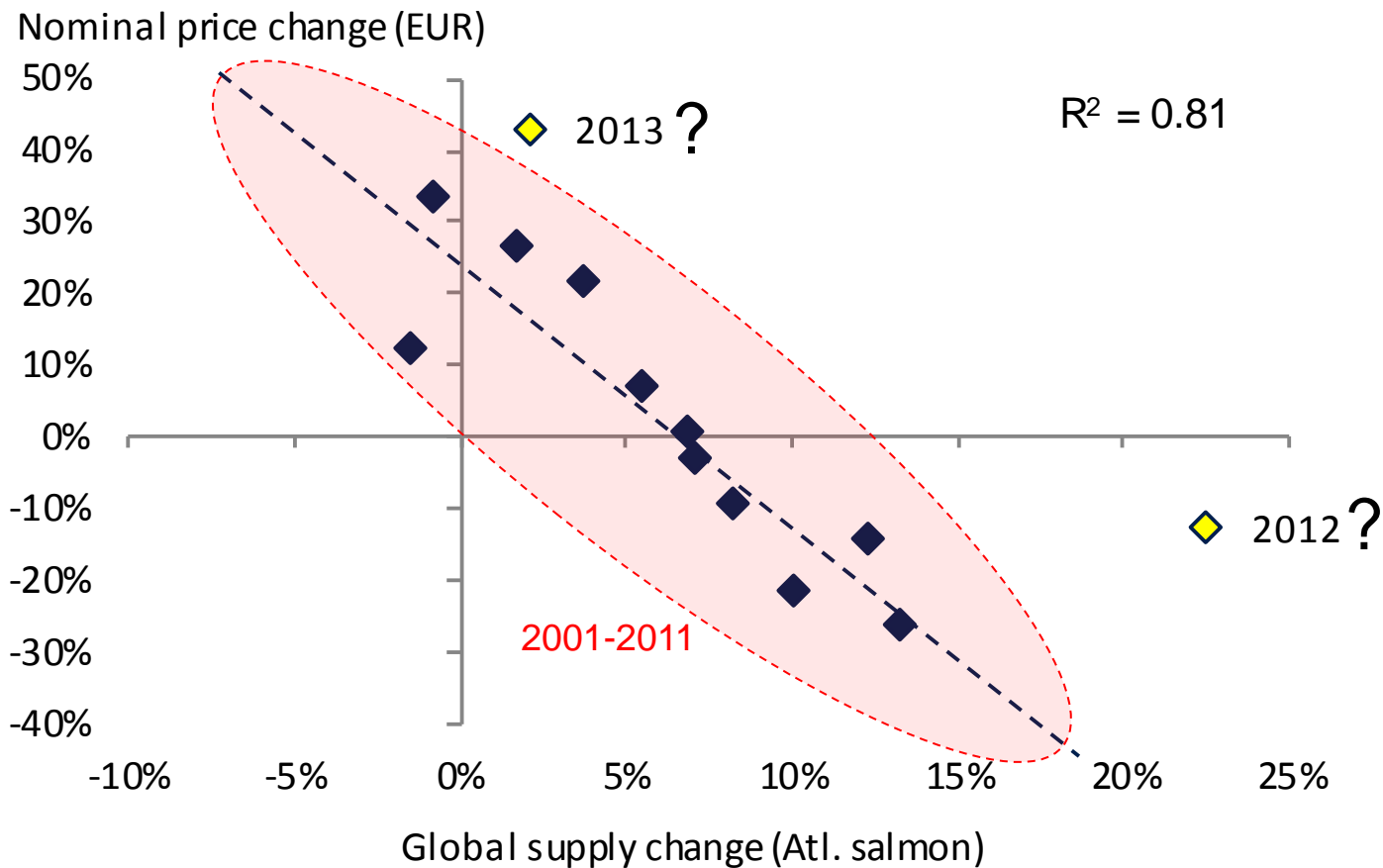
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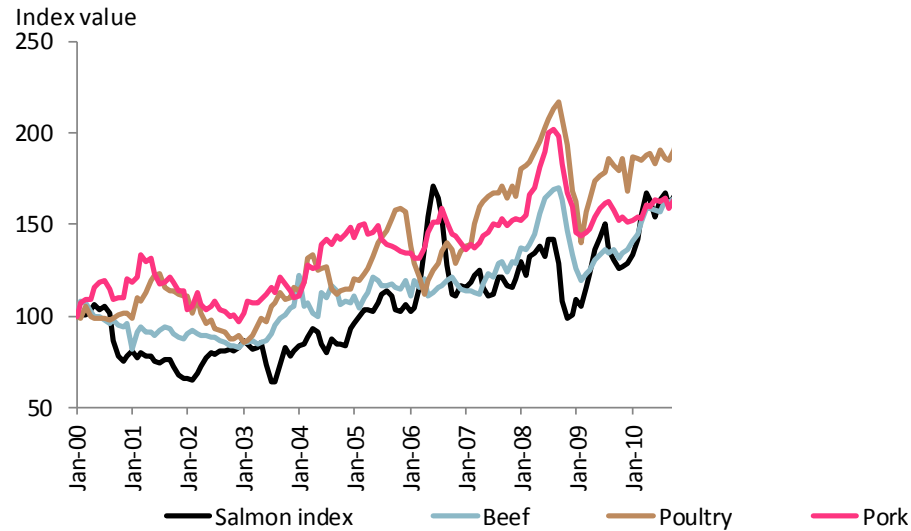
Nominal supply/salmon price regression (EUR)



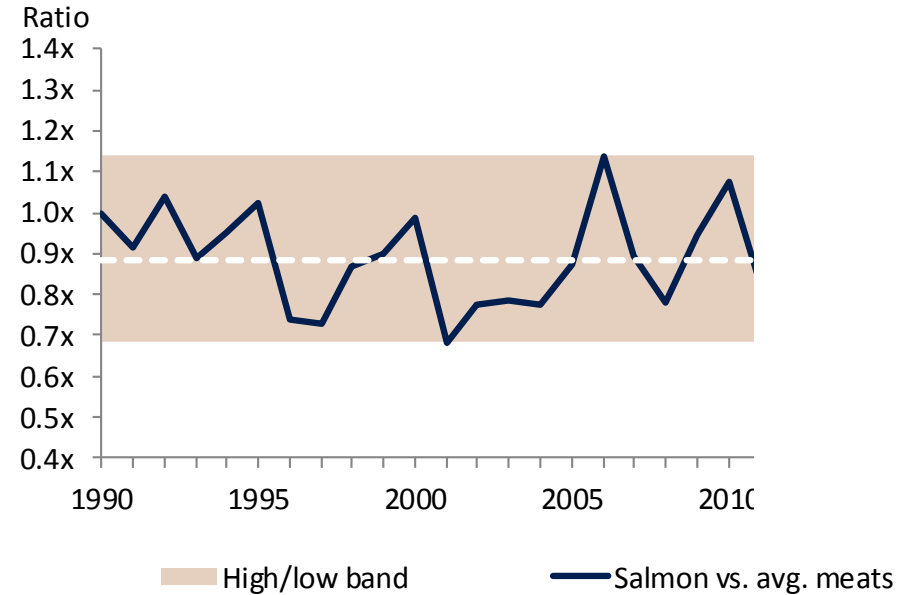
What happened in 2012 and in 2013?

We have to study the salmon price relative to other proteins

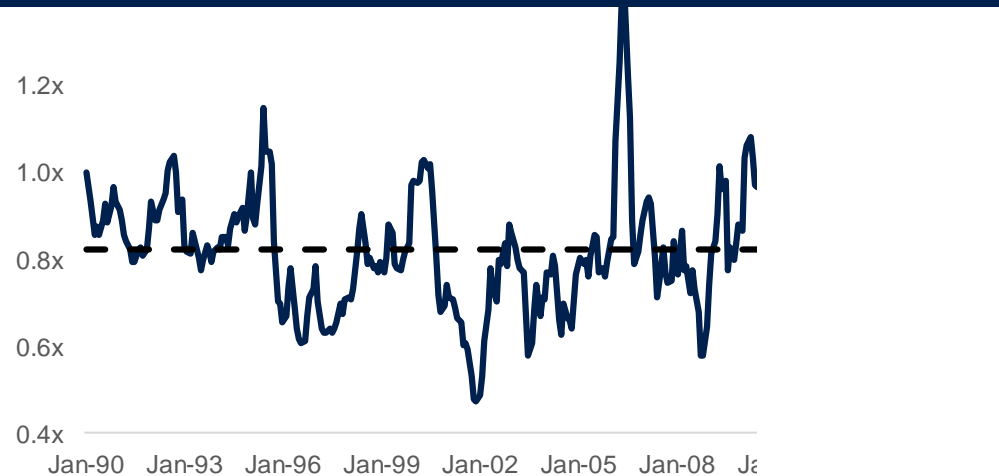
Salmon vs. other proteins (indexed since 2000)



Salmon price/meat price ratio since 1990

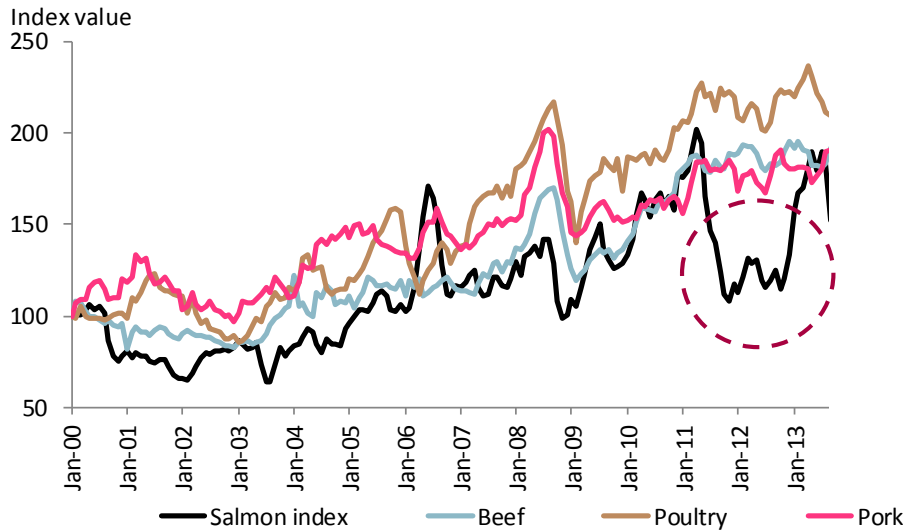


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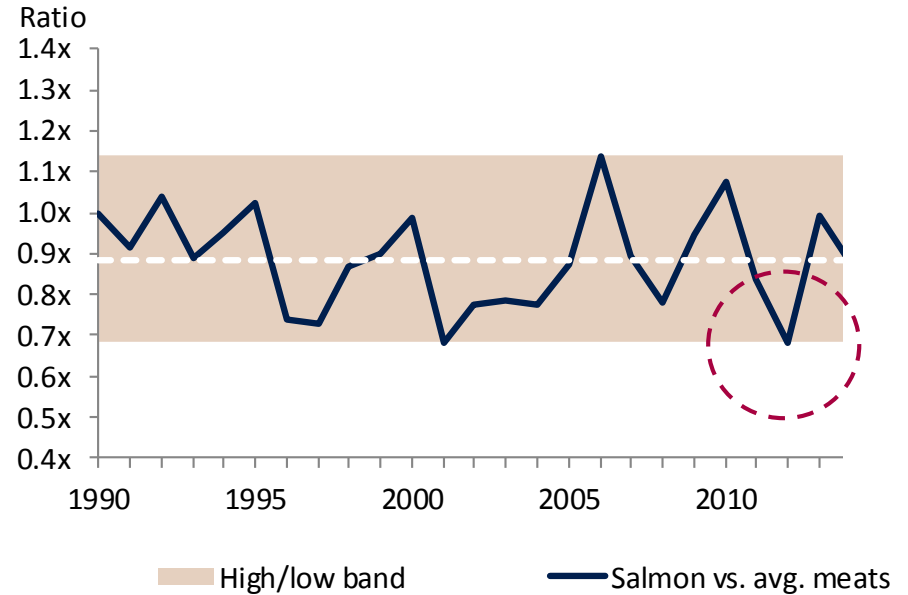


2012: Abnormal salmon price relative to other proteins

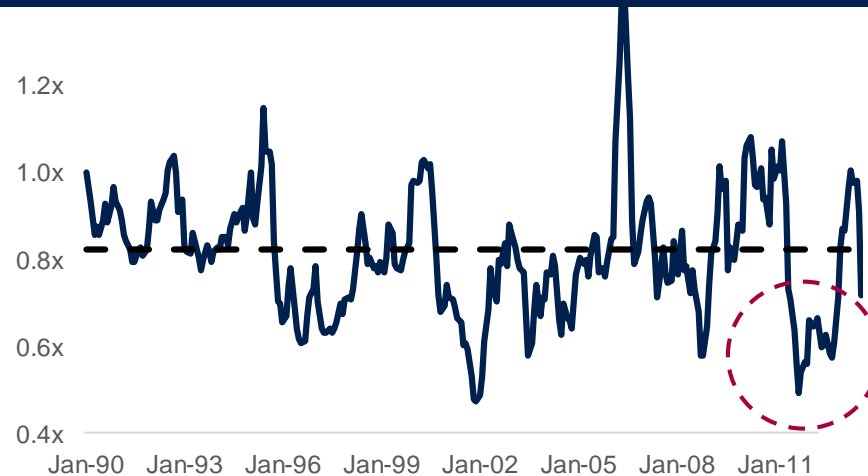
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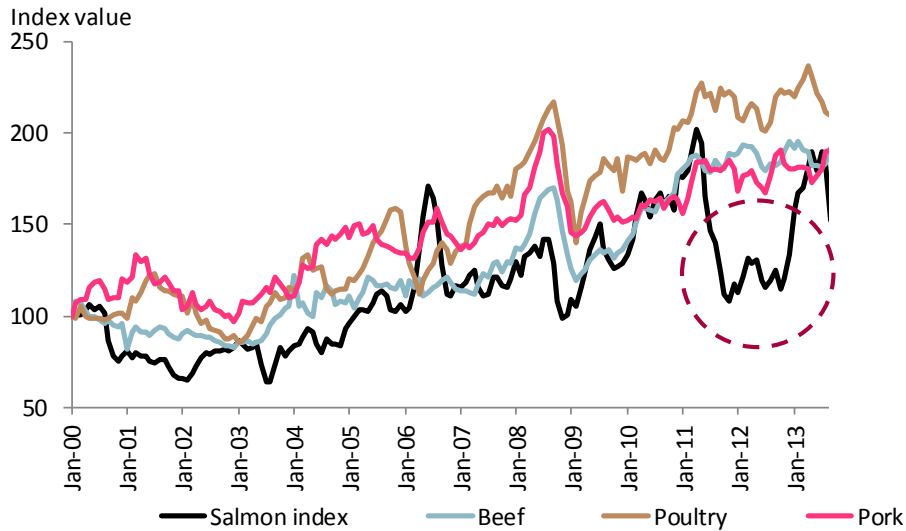
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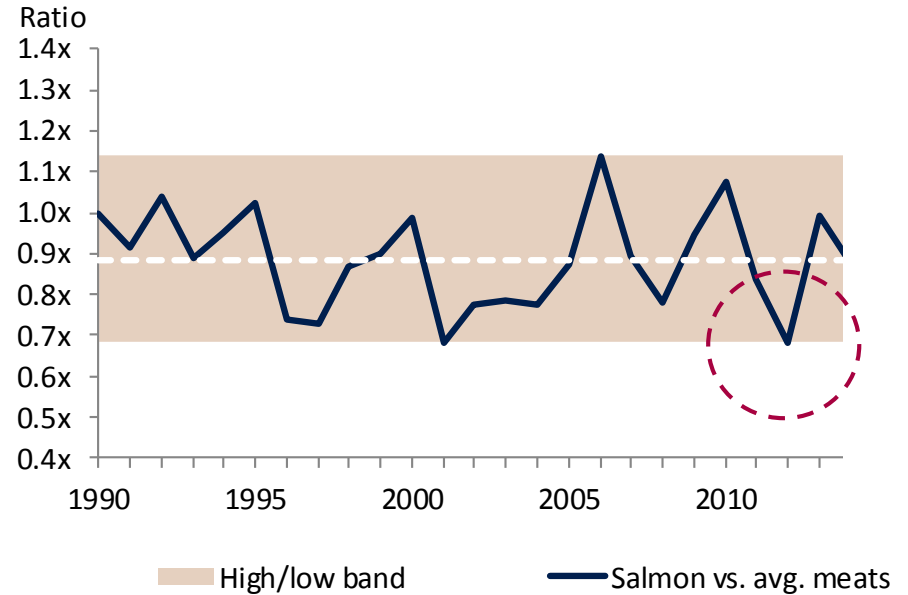
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Change in demand

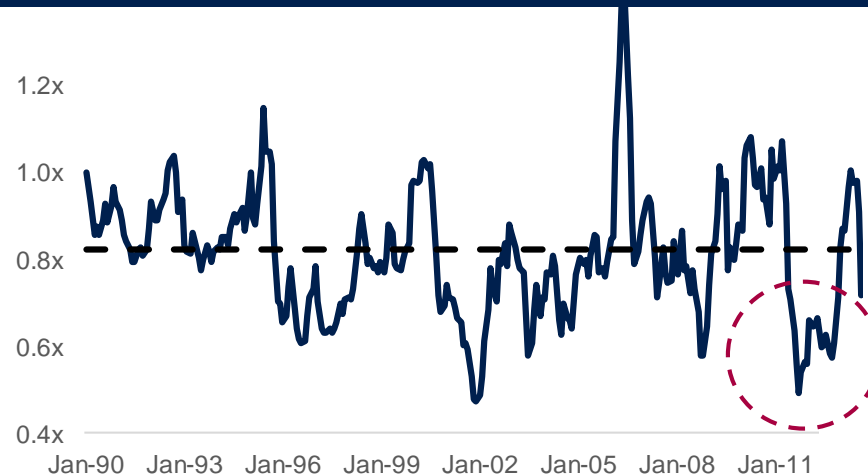
Salmon vs. other proteins (indexed since 2000)



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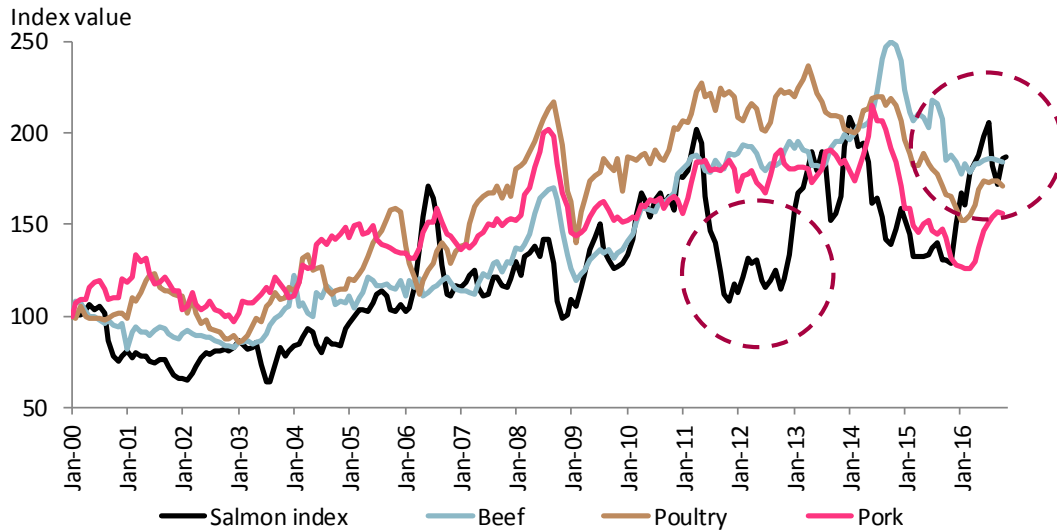


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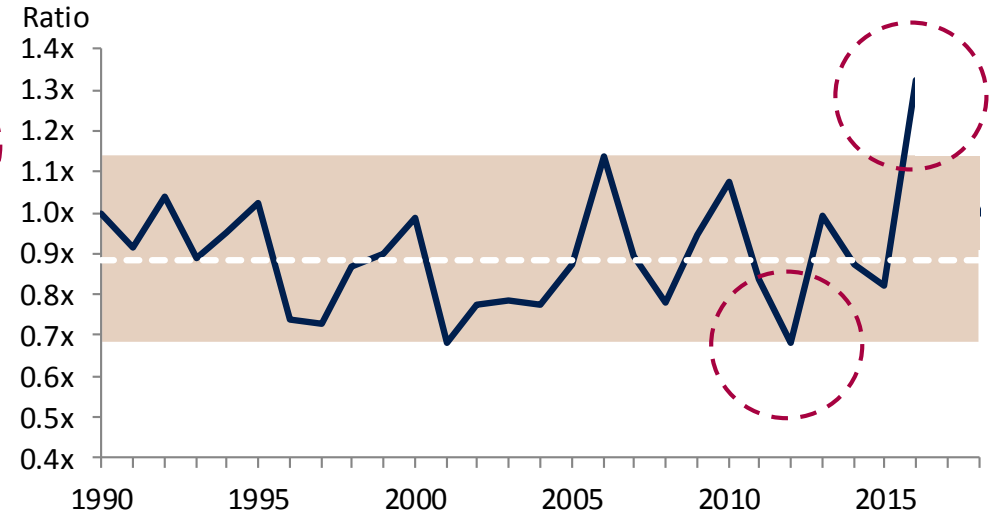


2016: Abnormal salmon price relative to other proteins

Salmon vs. other proteins (indexed since 2000)



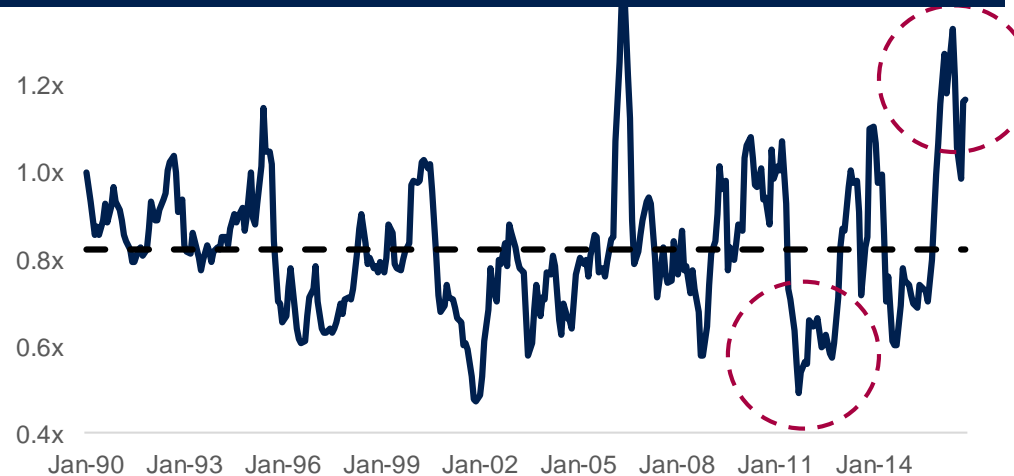
Salmon price/meat price ratio since 1990



High/low band

Salmon vs. avg. meats

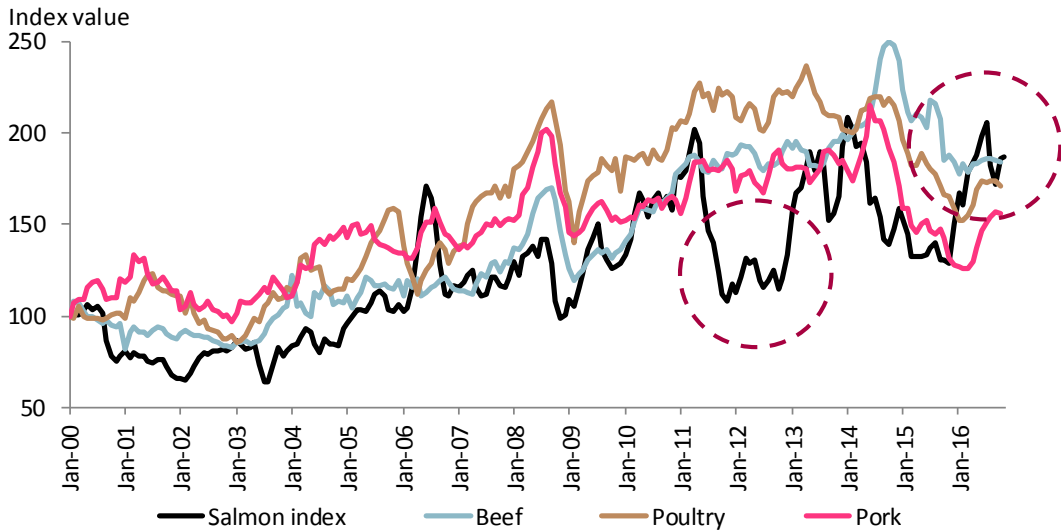
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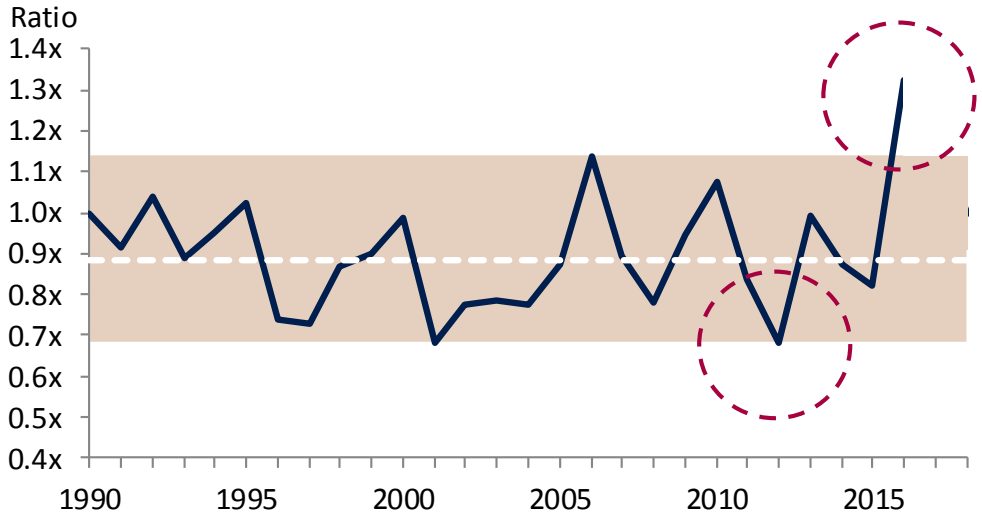
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Change in demand?

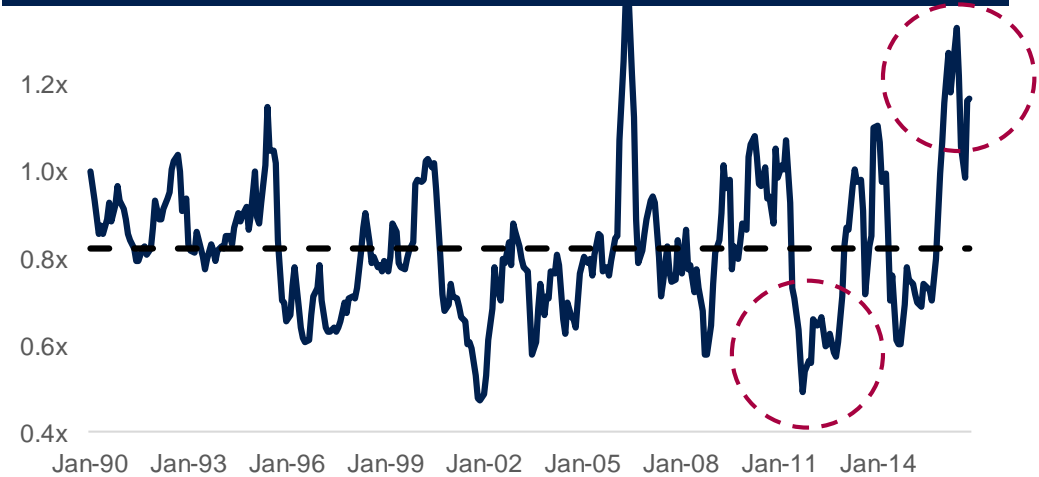
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Salmon price/meat price ratio since 1990



But demand is super strong, right?

- Selected quotes about demand from listed salmon farming companies' Q3'16 quarterly material

– «Notwithstanding the substantial decline in supply, **continued strong demand globally**»



But demand is super strong, right?

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- «Notwithstanding the substantial decline in supply, **continued strong demand globally**»
- «Strong salmon market driven by **good demand** and low supply growth»



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- «Notwithstanding the substantial decline in supply, **continued strong demand globally**»
- «Strong salmon market driven by **good demand** and low supply growth»
- «Together with a **strong demand for salmon in nearly all markets**, this has resulted in a significant increase in the salmon prices during 2016»



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- «Notwithstanding the substantial decline in supply, **continued strong demand globally**»
- «Strong salmon market driven by **good demand** and low supply growth»
- «Together with a **strong demand for salmon in nearly all markets**, this has resulted in a significant increase in the salmon prices during 2016»
- «Experiencing continued **good demand** in core markets»
- «There is **strong underlying demand** for salmon and good prices are therefore expected during the remaining months of 2016 and into 2017»
- «... **strong growth in demand** for seafood in general, and fresh seafood in a consumer-friendly format in particular, gives grounds for optimism ...»



But demand is super strong, right?

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– «Notwithstanding the substantial decline in supply, **continued strong demand globally**»

– «Strong salmon market driven by **good demand** and low supply growth»

– «Together with
a significant

Let's look at the facts!

– «Experiencing continued **good demand** in core markets»

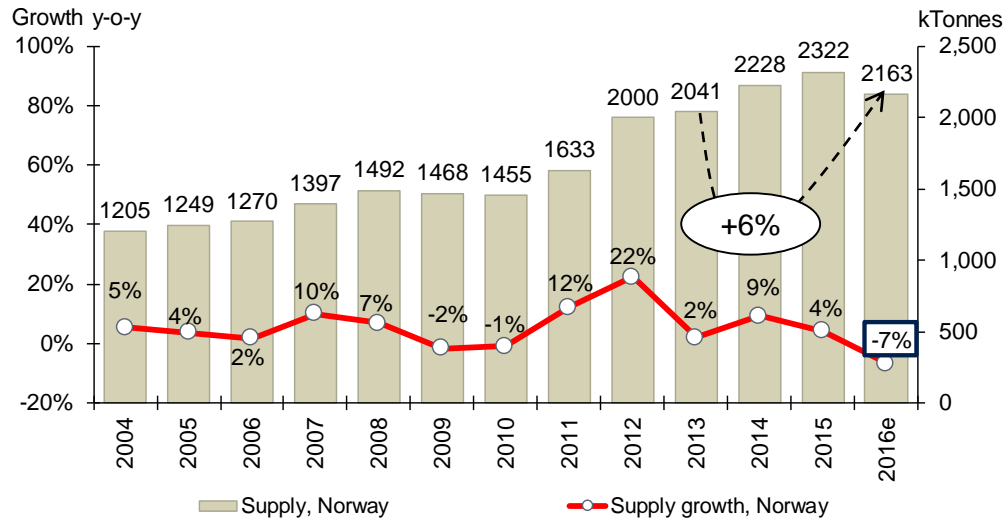
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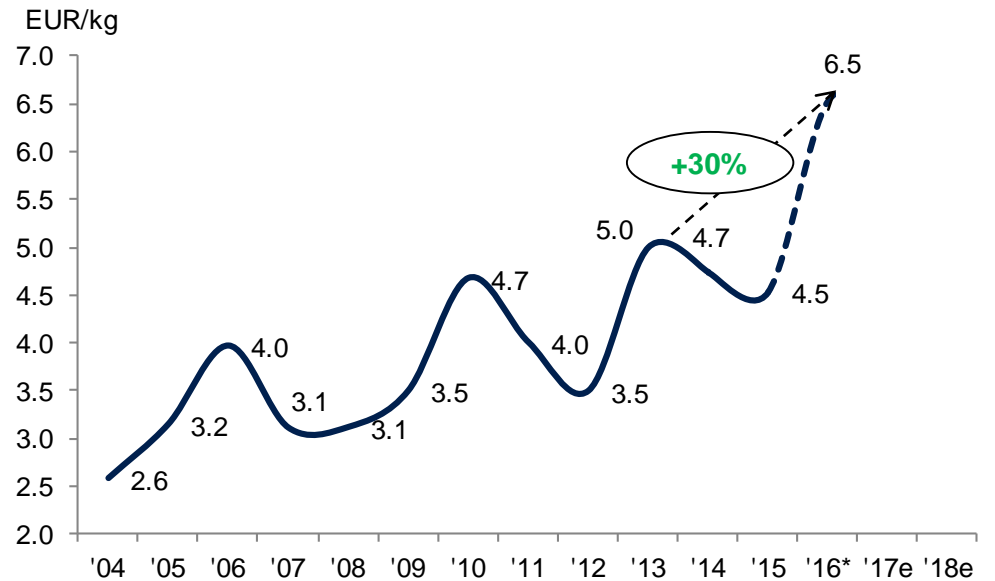


6% supply growth in three years is not much (~2% per year)

Supply of Atlantic salmon, Global

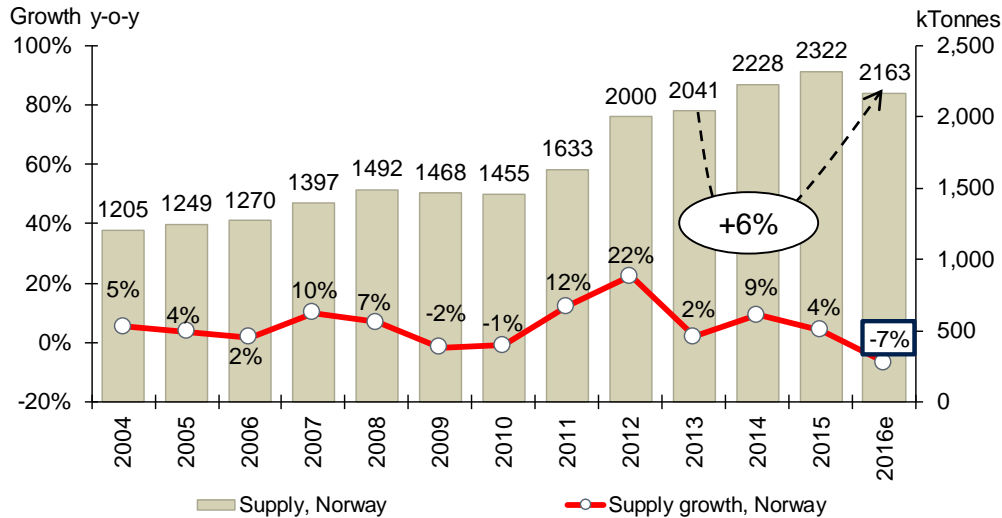


Salmon price, Norway (EUR/gwe)

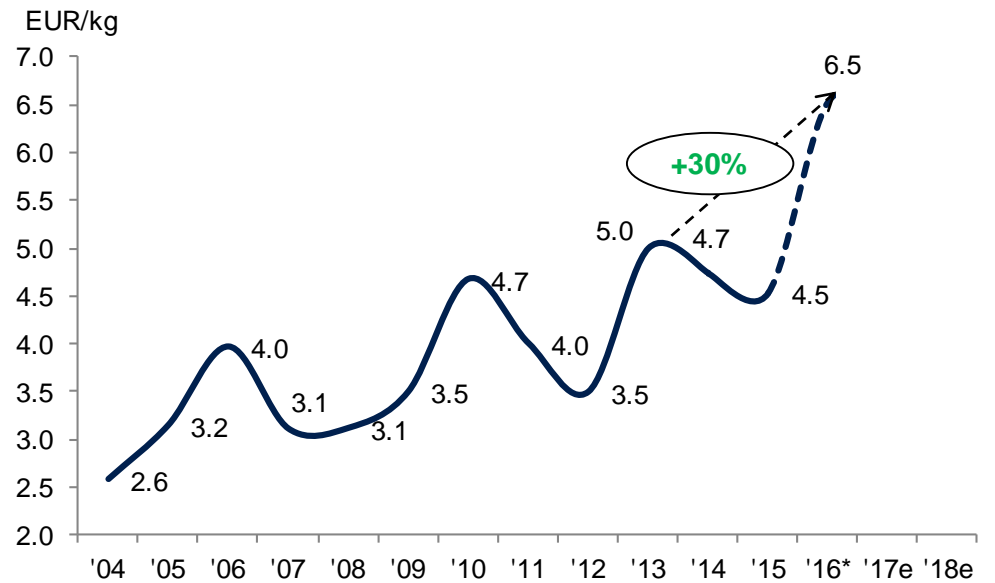


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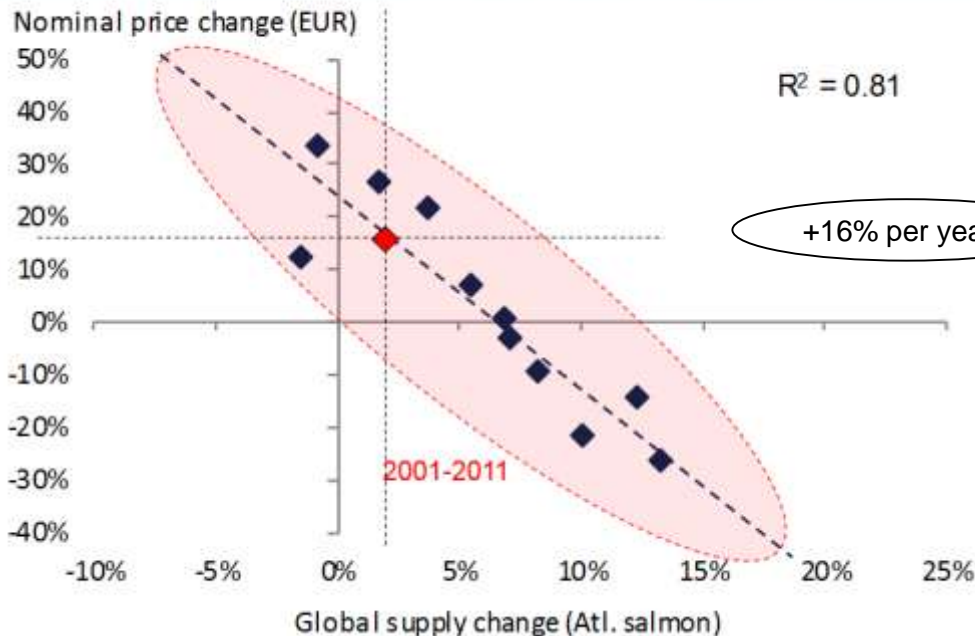
Supply of Atlantic salmon, Global



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Nominal supply/salmon price regression (EUR)

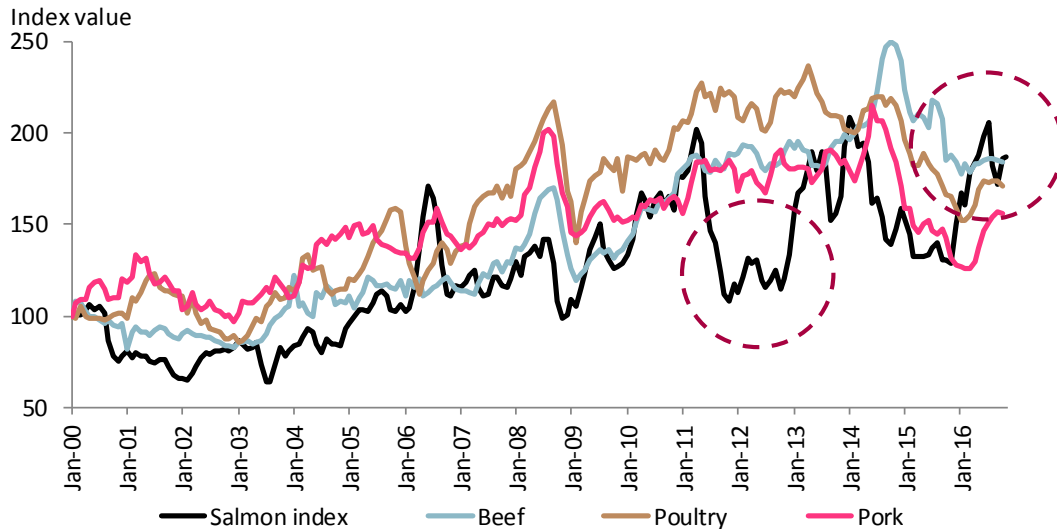


+16% per year

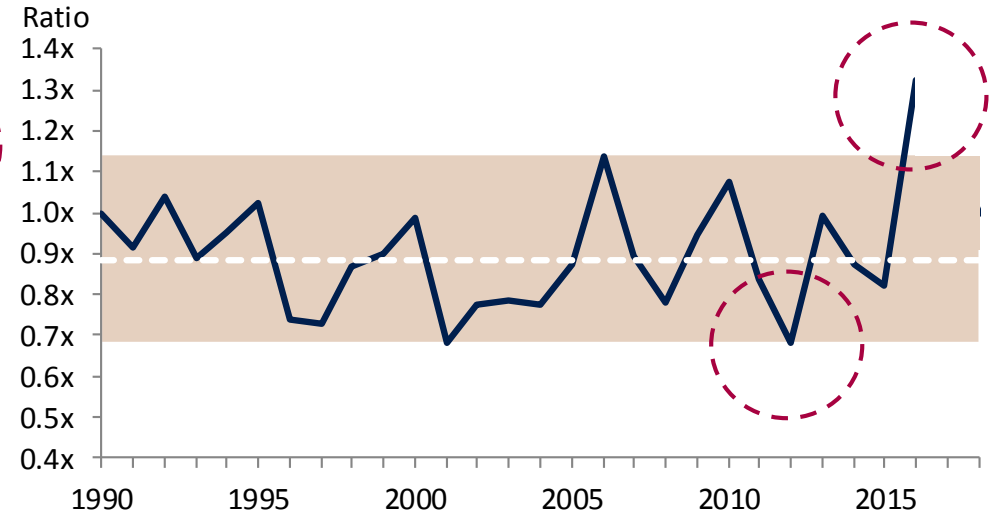
Fair price reaction = 55% increase

2016: Abnormal salmon price relative to other proteins

Salmon vs. other proteins (indexed since 2000)



Salmon price/meat price ratio since 1990



1.6x

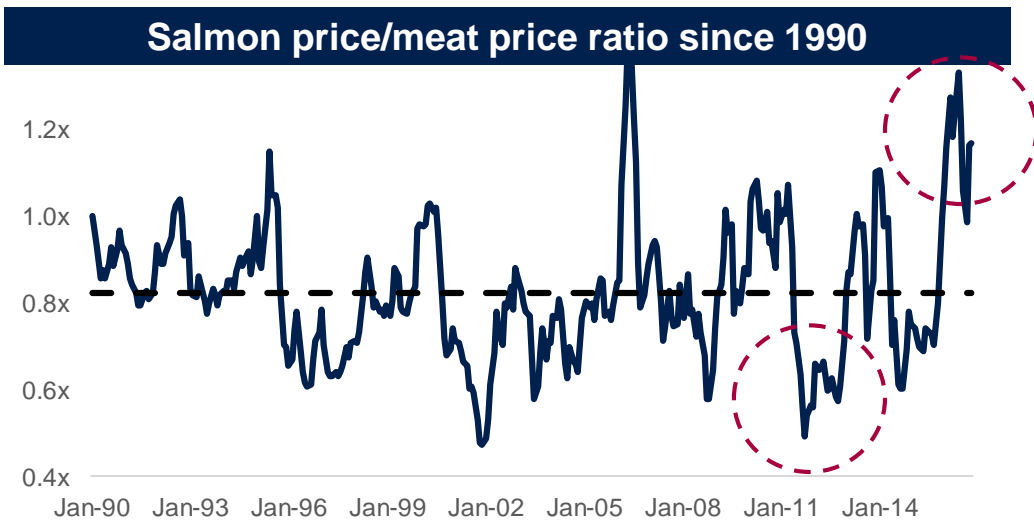
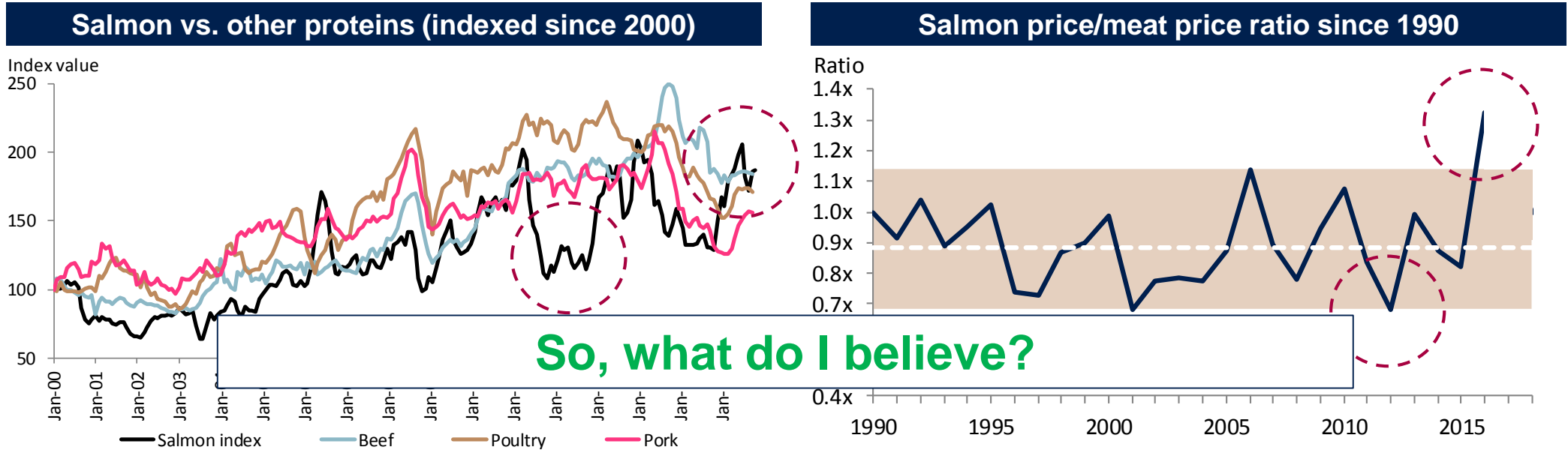
High/low band

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Salmon price/meat price ratio since 1990



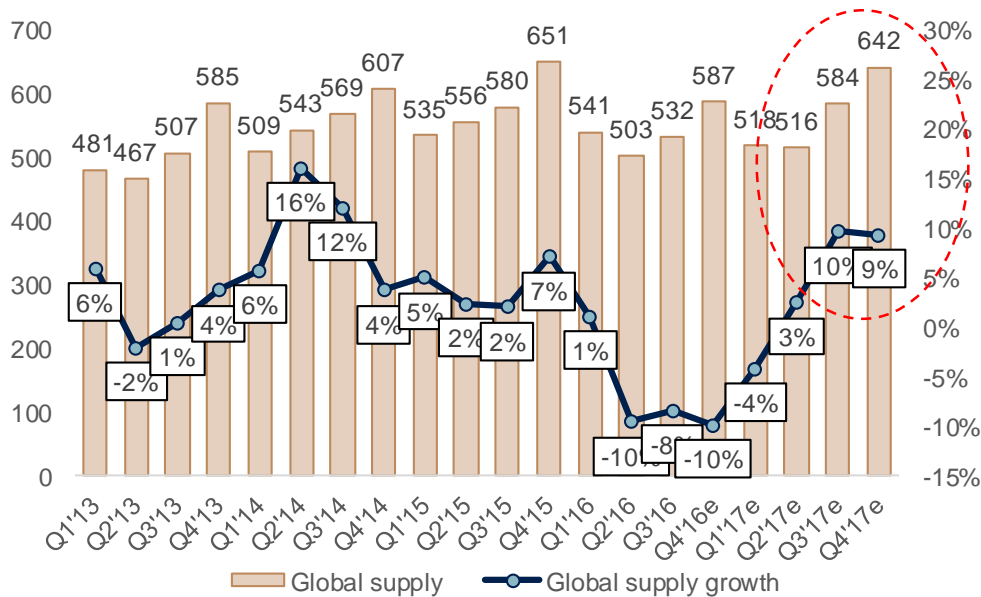
2016: Abnormal salmon price relative to other proteins



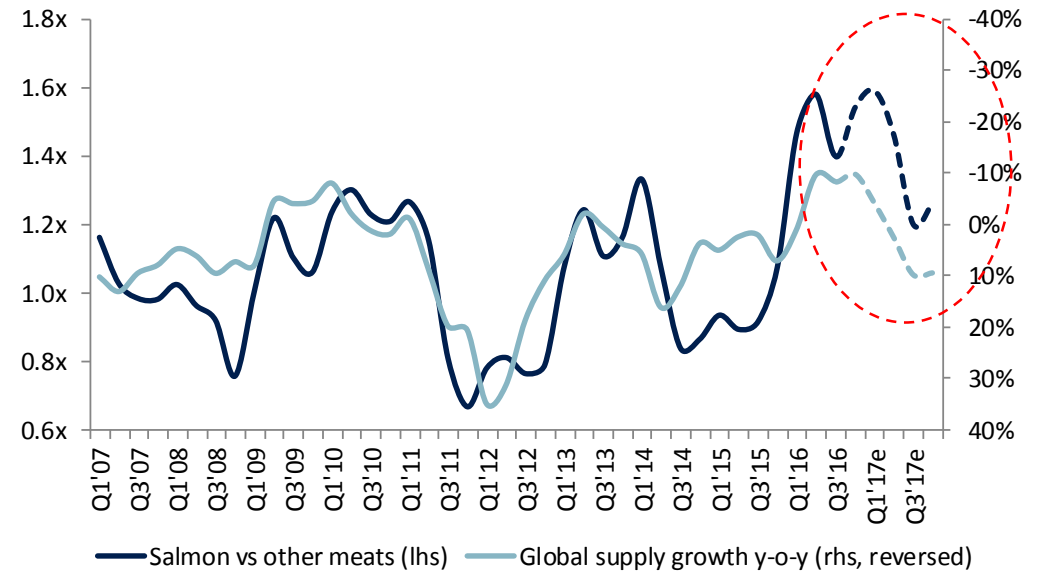
The salmon price will stay stronger, but only for a little longer

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Global supply of Atlantic Salmon (quarterly)

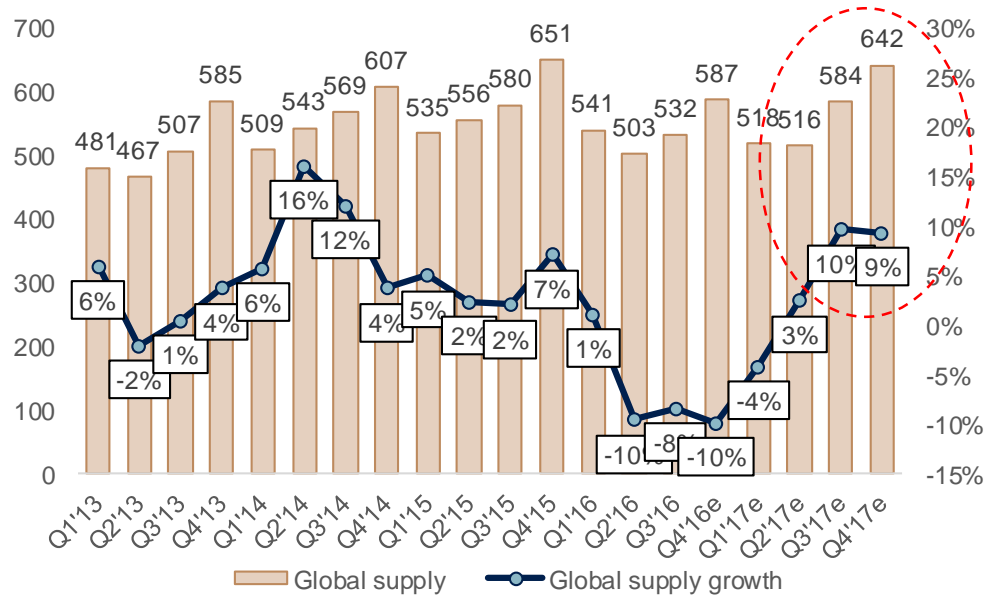


Salmon/meat price ratio vs change in global supply

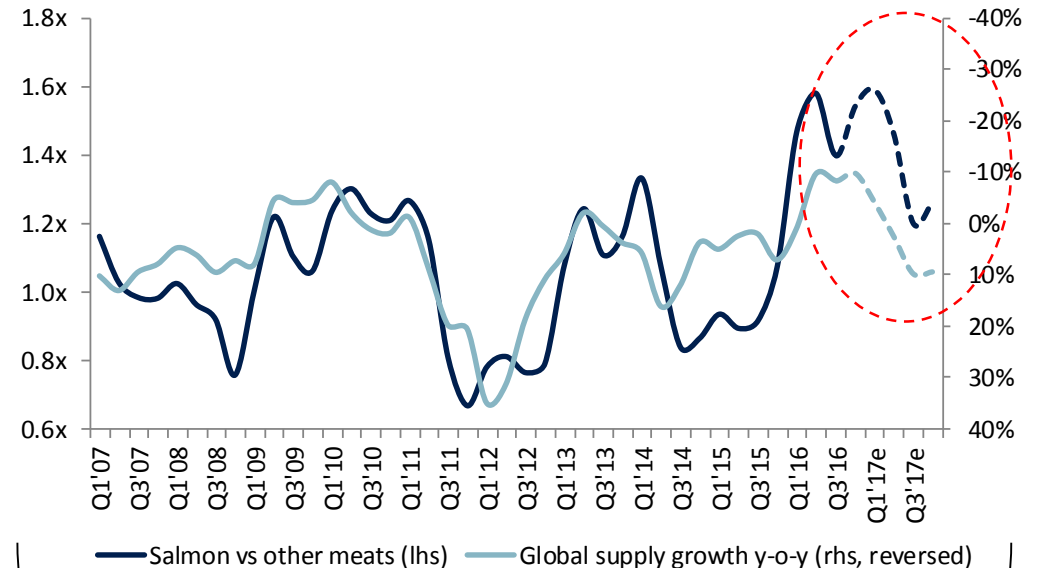


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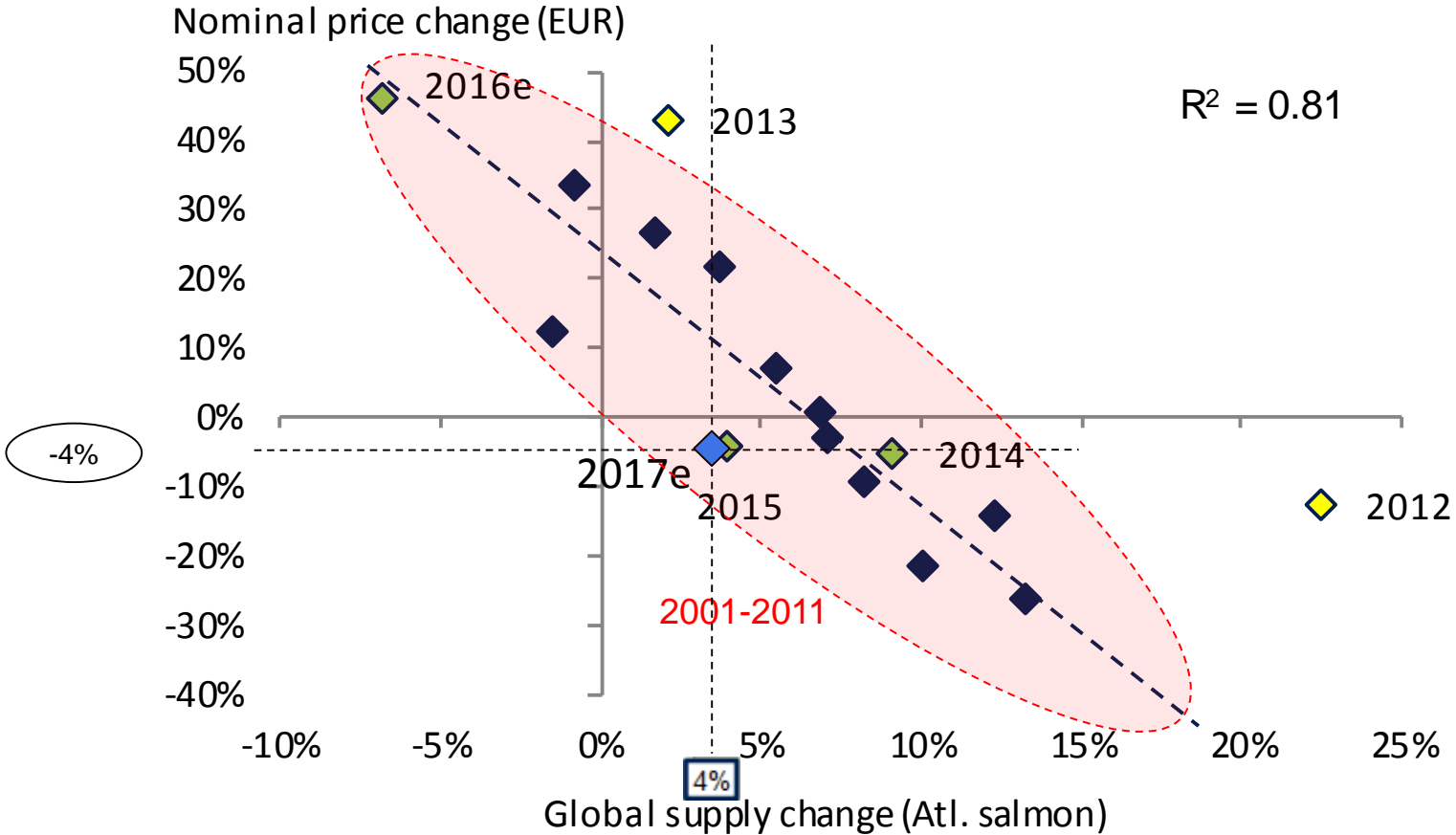
Salmon/meat price ratio vs change in global supply



2017 = NOK 58/kg

Our '17e salmon price estimate is in line with '15e reaction

Nominal supply/salmon price regression (EUR)

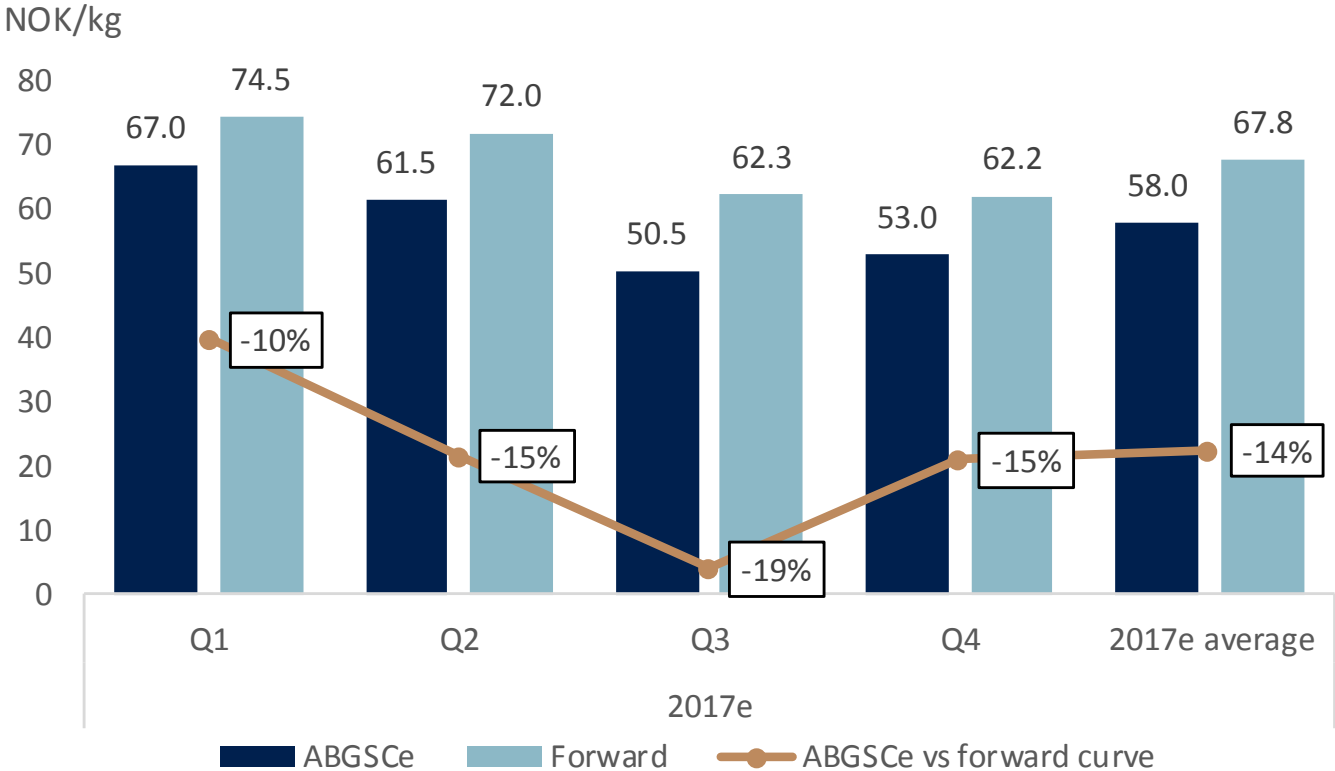


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Yes, but expectations are even higher

Nominal supply/salmon price regression (EUR)



Concluding remarks

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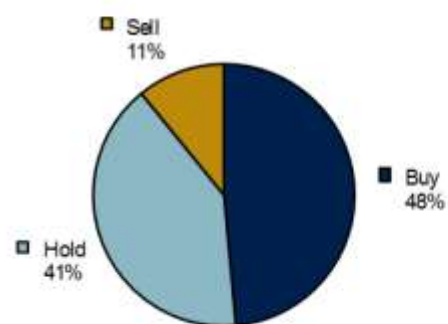
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