

## INITIATING COVERAGE

## Equity | Packaged Food/ Seafood

## Nocera Inc. (OTCPK:NCRA; Target Price: \$1.00)

Nocera, Inc operates in the domain of Recirculating Aquaculture Systems (RAS) and aquaculture consulting. The company has a favorable macro as it has become critical to find a reliable and affordable protein source to serve the needs of the global population (expected to be 9.5 billion people by 2050). The limitations on the amount of arable land that can be used for food production make RAS systems a good alternative food source. The model can be considered a kind of a food-tech in the seafood industry and is one of the fastest evolving technologies in this sector. Nocera's solution has the potential to eventually provide a long-term solution to the world's food shortage. The company is known to offer advice, technology transfer, and project management services for new and ongoing aquaculture initiatives and appears to be a very interesting investment prospect.

## INVESTMENT THESIS

This is our first report on Nocera and we look to provide a detailed account of the various industries that the company operates in and the key macro-economic factors. Nocera's RAS-based business model and tie-ups and acquisitions (discussed below) are fundamentally strong and it has an experienced management team. Given the fact that the company's entire back-end operations being located in Taiwan, the indirect, fixed cost burden is very low, hovering around the \$1 million mark. This is not expected to increase significantly even after the U.S. expansion. While Nocera did report a net loss and incurred one-time costs related to its listing last year, things ought to be entirely different in 2022. The company's gross margin is also increasing. The stock is currently trading at a 4x enterprise-value-to-revenue multiple, which seems fair. However, given how quickly the company's revenues are increasing, the stock price should also rise quickly. We think the company's RAS technology is remarkably reliable and broadly scalable. Thus, we are highly optimistic about Nocera's future growth and we believe that the company presents a remarkable investment opportunity for small-cap investors. Overall, we believe that Nocera has phenomenal growth prospects and is an excellent investment prospect. Baptista Research looks to evaluate the different factors that could influence Nocera's price in the near future and attempts to carry out an independent valuation of the company using a Discounted Cash Flow (DCF) methodology to determine a suitable price for the company's stock.

## COMPANY OVERVIEW

Nocera operates within the seafood industry and it is known for designing, developing, and manufacturing land-based recirculation aquaculture systems (RAS) for fish farming in Taiwan. It also constructs, oversees, and operates aquaculture facilities. Besides, the company provides consulting, technology transfer, and project management services for both established and start-up aquaculture management companies. Its recirculating aquaculture systems aid in the preservation of the environment by lowering pollution caused by an overabundance of fish, which frequently happens in fish farms constructed in inland natural waterways. The Nocera RAS tanks can manufacture 20,000 to 30,000 lbs. of fish annually. The company was established in 2014 and its headquarters are in New Taipei City, Taiwan.

### Key Report Highlights

Industry View:	Attractive
Stock Rating:	Buy
Price Target:	\$14.51
Current Price:	\$4.20
52-Week-Range:	\$1.99 - \$8.00

Annual Income Statement	2021	2022E	2023E
Revenues	9.95	17.80	42.40
Cost of Goods Sold	-9.00	-15.20	-32.50
Gross Income (excl. D&A)	18.95	33.00	74.90
EBITDA	-9.47	1.60	8.30
EBIT (incl. extraordinary exp)	-9.48	1.50	8.20
Net Income	-9.62	0.90	7.30
Cash from Operations	0.25	-0.04	7.63
Free Cash Flows	0.22	-0.04	7.25

Growth & Margins	2021	2022E	2023E
Sales Growth	750.4%	78.9%	138.2%
EBITDA Margin	-95.2%	9.0%	19.6%
EBIT Margin	-95.3%	8.4%	19.3%
Net Profit Margin	-96.7%	5.1%	17.2%

Valuation Ratios	2021	2022E	2023E
EV/ Sales	4.5	8.7	4.3
EV/ EBITDA	NA	97.1	22.0
EV/ EBIT	NA	103.6	28.0
Price/Earnings	NA	172.7	31.5

## KEY FACTORS DRIVING THE COMPANY'S PERFORMANCE

<b>1.</b>	<b>THE RAS MODEL</b>
<b>2.</b>	<b>THE PROCARE AGREEMENT</b>
<b>3.</b>	<b>ACQUISITION-LED GROWTH</b>
<b>4.</b>	<b>STRONG MACROECONOMIC ENVIRONMENT</b>
<b>5.</b>	<b>EXPERIENCED MANAGEMENT TEAM</b>

### The RAS Model

- In order to increase productivity and sustainability in commercial aquaculture, Nocera has gone ahead and launched their next-generation Recirculating Aquaculture Systems, which are currently operating commercially.
- Its land-based RAS is a sizable, financially feasible, and eco-responsible way to get clean fish on the table and clean water back to the people.
- The next-generation tank design also has a better oxygenation system, enabling about 50% more fish to be raised in the tanks and more practical fish transport.
- With the help of the company's RAS, less land is needed for the fish farm and 90% of the water is recycled. Therefore, it is a highly practicable solution to the food crisis because one can harvest up to 72 times the production using the same hectares of land.

## What We Make: Recirculating Aquaculture Systems (RAS)

Can raise up to 22,000 lbs. of Tilapia or Catfish per year yield approximately \$25,000 to \$50,000 gross revenue in USA (process or live)

- RAS Technology & Design
- Cost-efficient solution
- Utilize pure oxygen

Energy efficient  
Recycles  
90% water

Protect  
Ecology  
System

80 times of  
production  
than  
traditional  
fish farm

**NOCERA**

Source: Company Presentation

- We can see an accurate and to-the-point summary of the key features of Nocera's RAS systems in the above snapshot. The company manufactures RAS for numerous freshwater and saltwater fish, such as tilapia, bass, crayfish, perch, crab, and abalone.
- Since they are reasonably priced, reduce water pollution, recycle fish waste, and are cost-competitive, the management thinks that their services will help create a better world in the future.
- Besides, it is worth highlighting that the governments of the Asia Pacific region strictly regulated the fishing and aquaculture industries by allowing fish farmers to set up fishnets in public bodies of water like dammed rivers, lakes, and other bodies of water.
- It is the leading freshwater fish supplier for domestic consumption and exports. But the industry's netting and harvesting practises are costly and have an impact on supply stability.
- In order to address the issue of sustainability, the company believes it is a great time to promote land-based RAS. Furthermore, Nocera's RAS systems are well within reach of relatively small aquaculture players who produce a diverse range of species.
- They also don't have to be used for high-value species or exclusively by large corporations. Nocera's newest tank can produce up to 22,000 lbs. of catfish or tilapia annually for small investors, which would fetch between \$25,000 and \$50,000 in the United States.
- While Nocera's current aquaculture equipment is located in Xing Yi, China, it plans to set up its most recent tanks in Taiwan. Lastly, the company has plans to grow in the United States, where it would be a great entry-level competitor.

## The Procure Agreement

- Nocera has been working on advising and building RAS fish farms for a wide variety of clientele of all sizes. As a matter of fact, the company has the ability to build fish farms for businessmen who have absolutely no knowledge of aquaculture and help them monetize from the same.
- One of the more significant contracts that were just finalized is with Procure International to produce 6,500 Recirculating Aquaculture Systems for the development of a RAS fish farm in Ru Hu, in the Guang Dong region close to Hong Kong.
- The 6,500 RAS tanks are expected to be manufactured and installed over three years. According to the current exchange rates, each tank's contract value is roughly \$18,000, with a total estimated contract value of about \$117 million over three years.
- The company will also generate a sizeable amount of future revenue from this. Procure International Co., which has its headquarters in Hong Kong, primarily sells and manufactures audio speakers and related parts for companies like Walmart, Radio Shack, and Amazon.
- After visiting Nocera's presentation site in China and learning about the demand for freshwater fish, it entered into a major agreement with the Ru Hu community to invest in and build a fish farm with 6,500 tanks over the ensuing three years.
- This contract with Nocera is a part of that larger agreement.



Source: Company Presentation

- The Procure agreement is another major milestone in Nocera's journey with has been accurately depicted in the above snapshot. The company has accomplished a number of key milestones over the past 2 years and has a long way ahead.

## Acquisition-Led Growth

- Nocera has been on the constant lookout for potential acquisition targets to increase its top-line revenue. In exchange for a total of 1 million shares of restricted stock, the company recently acquired the Taiwanese construction firms Xin Feng Construction Co. and Shunda Feed Co., acquiring a 100% controlling interest in each of them.
- The company has made a significant turn with these agreements with Xin Feng Construction and Shunda Feed. These acquisitions give the business a competitive advantage in terms of strategic integration as a supplier of aquaculture food to the Taiwanese market and enhance the development of their land-based recirculating aquaculture systems.
- According to the management, by doing this, it has enhanced its capacity to support both the expansion of fish farms owned and operated by the company as well as the building projects of its clients.
- They also believe Nocera will be better positioned to become a significant supplier to other fish farm operators. Furthermore, the company intends to supply both companies with technical consulting services as well as related products.
- It can also use management suggestions to direct the actions that will have the biggest influence on the financial stability of both acquisitions.



Source: Company Presentation

- We see a very solid expansion plan of Nocera in the U.S. market after its up-listing. The company begins to start off with a major fish farm in Alabama, the first of its kind, and follow it up by acquiring more fish farms and expanding its presence in North America.

## Strong Macroeconomic Environment

- Nocera's management has accurately summarized the positive macro for the company in the slide shown in the above snapshot. Research indicates that the global population is on track to reach 9.5 billion people by 2050, and protein consumption should more than double by that time.
- It is a well-known fact that seafood has been proven to be the most efficient source of animal protein despite the increasing craze for plant-based proteins.
- Limitations of land for cultivating crops that can provide this plant-based protein are bound to result in consumers going back to seafood as a key source.
- Technologies within aquaculture are able to increase seafood production significantly. It is worth highlighting that that aquaculture alone has supplied close to 80 million tonnes i.e., more than half of all fish consumed in recent years, making it one of the world's fastest-growing animal food-producing sectors.
- Regulations on fishing within the seas and limitations imposed by various Governments on fishermen in order to preserve aquatic life make aquaculture even more relevant in these times as fishing as an activity has stagnated or decreased over the years.
- All future increases in global fish consumption are expected come from aquaculture and this is where companies like Nocera have the edge.
- Not only does Nocera have an efficient technology for catering to the rising sea food demand but they are able to implement it for people with hardly any know-how and help them set up fish farms. Thus, the company is bound to benefit from a strong macro.

## Experienced Management Team

- Nocera has a highly experienced management team at its helm. The company is spearheaded by Yin-Chieh Cheng, the CEO, CFO and Treasurer of Nocera.
- Before joining Nocera, he served as the Head of Tax at BT Global Service. Yin-Chieh Cheng completed his BA in Accounting from George Mason University.
- He also has a degree in MBA Finance which he completed from the University of South Carolina – The Moore School of Business. He is ably supported by David Yu-Lung Kou, Director, who handles the strategy and planning functions.
- Before joining Nocera, he was the Vice President of Branded Business Operations at TPV, where he served for 3 years. David also worked as the Business Advisor or Consultant of HokangTek. Moreover, he was a member of Global Sales of HTC Corp.

- Another member of the company's Board with extensive experience in business operations, Gerald H. Lindberg, is playing a key role helping the company to grow.
- He was a Business Consultant and Board member at Handover International. Besides, Gerald has served as the CFO of publicly traded companies, capital acquisition director, business adviser, and operations officer to the real world and internet start-ups.
- Gerald also helped raise capital for start-ups, micro-cap, small-cap, and nano-cap businesses in the public and private sectors. He is playing a key role in Nocera's fundraising plans.
- Thomas A. Steele, another Director in Nocera, is an ex-Foreign Service Officer at the U.S. Department of State, Washington, DC. He also has experience in serving as a corporate secretary for World's Fair.
- Overall, it is safe to say that Nocera has an expert crew who is working hard to deliver on the value creation front.

## HISTORICAL FINANCIAL STATEMENTS & PROJECTIONS

Income Statement	12/31/18	12/31/19	12/31/20	12/31/21	LTM
<b>Total Revenues</b>	<b>4.81</b>	<b>0.46</b>	<b>1.17</b>	<b>9.95</b>	<b>11.28</b>
Cost of Goods Sold	-1.97	-0.10	-0.53	-9	-10.63
<b>Gross Profit</b>	<b>6.78</b>	<b>0.56</b>	<b>1.70</b>	<b>18.95</b>	<b>21.91</b>
Selling General & Admin Expenses	-0.34	-1.73	-1.33	-10.42	-11.05
Other Expenses/ Adjustments	-3.93	-0.18	-0.98	-18.00	-21.25
<b>EBITDA</b>	<b>2.51</b>	<b>-1.35</b>	<b>-0.61</b>	<b>-9.47</b>	<b>-10.39</b>
Depreciation & Amortization	-0.01	-0.03	-0.07	-0.01	-0.01
Other Operating Expenses/ Income	0.00	0.00	0.00	0.00	0.00
<b>Operating Income</b>	<b>2.50</b>	<b>-1.38</b>	<b>-0.68</b>	<b>-9.48</b>	<b>-10.39</b>
Interest & Other Expenses	0.05	-0.04	0.00	0.00	-0.01
<b>EBT Incl. Unusual Items</b>	<b>2.55</b>	<b>-1.42</b>	<b>-0.68</b>	<b>-9.48</b>	<b>-10.4</b>
<b>Net Income</b>	<b>1.79</b>	<b>-1.26</b>	<b>-0.63</b>	<b>-9.62</b>	<b>-10.47</b>
<b>Net Income to Common Incl Extra Items</b>	<b>1.79</b>	<b>-1.26</b>	<b>-0.63</b>	<b>-9.62</b>	<b>-10.47</b>
Diluted EPS Excl Extra Items	0.18	-0.1	-0.05	-1.05	-1.1
% Change YoY	153090.60%	-156.80%	47.10%	1851.50%	
	10.01	12.35	11.75	9.16	9.55
Weighted Average Diluted Shares Outstanding	0.001	0.235	-0.049	-0.221	-0.221
% Change YoY		23400.00%	-120.85%	351.02%	

- Let us start off with analyzing the most recent and historical data reported by the company. When we analyze the company's annualized historical income statement, we see that the top-line was \$9.95 million for the previous financial year ending in 2021.
- The revenue growth was more than 8 times from the 2020 numbers which is truly phenomenal. The company's growth continued in 2022 and its TTM revenue is already \$11.28 million.
- Nocera's cost of goods sold has also been decreasing as a percentage of the top-line resulting in an increase in the gross margins.
- The company's overall annual EBITDA is negative mainly because it had to bear a huge listing expense close to around \$10 million.
- Non-cash expenses in the form of depreciation and amortization are expected to go up as compared to the earlier results.
- In terms of the bottom-line, Nocera reported an operating income (EBIT) of \$-9.48 million and a net income of \$-9.62 million but it is largely a function of the listing expenses.

Balance Sheet	12/31/18	12/31/19	12/31/20	12/31/21	LTM
Cash And Equivalents	0.01	0.03	1.02	2.44	1.96
Accounts Receivable	3.55	1.48	0.43	0.70	0.53
Other Receivables	0.48	0.70	0.90	1.72	2.10
Notes Receivable	0.00	0.00	0.00	0.00	0.00
<b>Total Receivables</b>	<b>4.03</b>	<b>2.18</b>	<b>1.33</b>	<b>2.42</b>	<b>2.63</b>
Inventory	0.14	0.29	1.73	1.53	1.64
Prepaid Expenses	0.00	0.00	0.00	0.00	0.00
<b>Total Current Assets</b>	<b>4.18</b>	<b>2.50</b>	<b>4.08</b>	<b>6.40</b>	<b>6.23</b>
Gross Property Plant And Equipment	0.07	0.35	0.05	0.08	0.08
Accumulated Depreciation	-0.01	-0.04	0.00	-0.01	-0.01
<b>Net Property Plant And Equipment</b>	<b>1.45</b>	<b>0.06</b>	<b>1.19</b>	<b>1.12</b>	<b>2.97</b>
Goodwill	0.06	0.31	0.05	0.07	0.07
Other Intangibles	0.00	0.00	0.33	0.33	0.33
Deferred Tax Assets Long-Term	0.00	0.47	0.00	0.00	0.00
Other Long-Term Assets	0.00	0.07	0.00	0.00	0.00
<b>Total Assets</b>	<b>4.24</b>	<b>3.36</b>	<b>4.92</b>	<b>6.87</b>	<b>6.67</b>
Accounts Payable	0.48	0.65	0.02	0.02	0.00
Accrued Expenses	0.40	0.25	0.01	0.13	0.04
Short-term Borrowings	0.00	0.02	0.72	0.14	0.05
Current Portion of Long-Term Debt	0.00	0.00	0.00	0.00	0.00
Current Portion of Capital Lease Obligations	0.00	0.01	0.00	0.00	0.00
Other Current Liabilities	0.71	0.44	1.34	1.42	1.77
<b>Total Current Liabilities</b>	<b>2.21</b>	<b>2.60</b>	<b>2.37</b>	<b>2.10</b>	<b>1.97</b>
Long-Term Debt	0.00	0.00	0.00	0.00	0.00
Capital Leases	0.00	0.00	0.00	0.00	0.00
Other Non Current Liabilities	0.00	0.00	0.00	0.00	0.00

<b>Total Liabilities</b>	<b>2.29</b>	<b>2.60</b>	<b>2.37</b>	<b>2.10</b>	<b>1.97</b>
Preferred Stock Convertible	0.00	0.00	0.00	0.00	0.00
<b>Total Preferred Equity</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>
Common Stock	0.01	0.01	0.01	0.01	0.01
Additional Paid In Capital	0.12	0.27	2.69	14.47	15.08
Retained Earnings	1.79	0.53	-0.10	-9.73	-10.53
Comprehensive Income and Other	-0.06	-0.08	-0.05	0.01	0.14
<b>Total Common Equity</b>	<b>1.85</b>	<b>0.73</b>	<b>2.55</b>	<b>4.77</b>	<b>4.70</b>
<b>Total Equity</b>	<b>1.95</b>	<b>0.76</b>	<b>2.55</b>	<b>4.77</b>	<b>4.70</b>
<b>Total Liabilities And Equity</b>	<b>4.24</b>	<b>3.36</b>	<b>4.92</b>	<b>6.87</b>	<b>6.67</b>
<b>Total Shares Out. on Filing Date</b>	<b>12.35</b>	<b>12.35</b>	<b>9.13</b>	<b>10.71</b>	<b>10.71</b>

- Moving on to the company's historical annualized balance sheet, when we analyze the fixed assets versus the revenues, we see that the fixed asset base has grown but in lower proportion as compared to the revenues.
- Its receivables of \$0.53 million are a very small percentage of the top-line implying a low credit period. Nocera has close to \$1.96 million in terms of liquidity i.e., cash and short-term investments.
- On the other hand, its payables for 2021 was 0 which is a positive sign.

<b>Cash Flow Statement</b>	<b>12/31/18</b>	<b>12/31/19</b>	<b>12/31/20</b>	<b>12/31/21</b>	<b>LTM</b>
<b>Net Income</b>	<b>1.79</b>	<b>-1.26</b>	<b>-0.63</b>	<b>-9.62</b>	<b>-10.47</b>
Depreciation & Amortization	0.01	0.03	0.07	0.01	0.01
Amortization of Goodwill and Intangible Assets	0.00	0.00	0.00	0.00	0.00
<b>Total Depreciation &amp; Amortization</b>	<b>0.01</b>	<b>0.03</b>	<b>0.07</b>	<b>0.01</b>	<b>0.01</b>
Amortization of Deferred Charges	0.00	0.06	0.05	0.00	0.00
Stock-Based Compensation	0.00	0.07	0.27	9.68	10.19
Provision and Write-off of Bad Debts	0.08	1.08	0.00	0.00	0.00
Other Operating Activities	0.11	-0.15	0.59	0.03	0.02
Change In Accounts Receivable	-3.66	0.94	1.41	-0.25	0.23
Change In Inventories	-0.04	-0.16	0.27	0.24	0.32
Change In Accounts Payable	0.24	0.02	-0.24	0.01	-0.03
Change in Unearned Revenues	0.18	0.85	-0.99	0.00	-0.26
Change In Income Taxes	0.64	-0.01	-0.63	0.09	-0.25
Change in Other Net Operating Assets	-0.15	-1.23	-0.30	0.07	0.21
<b>Cash from Operations</b>	<b>-0.79</b>	<b>0.27</b>	<b>-0.13</b>	<b>0.25</b>	<b>-0.04</b>
Memo: Change in Net Working Capital	-2.79	0.42	-0.48	0.15	0.21
Capital Expenditure	-0.07	-0.17	-0.06	-0.03	0.00
Cash Acquisitions	0.00	0.00	0.86	0.00	0.00
Divestitures	0.00	0.00	0.00	0.00	0.00
Sale (Purchase) of Intangible assets	0.00	-0.54	-0.03	0.00	0.00
<b>Cash from Investing</b>	<b>-0.07</b>	<b>-0.71</b>	<b>0.77</b>	<b>-0.03</b>	<b>0.00</b>

Total Debt Issued	0.88	0.54	0.66	0.00	0.00
Total Debt Repaid	-0.19	-0.07	-0.45	-1.21	-1.07
Issuance of Common Stock	0.15	0.00	0.00	2.21	2.21
Issuance of Preferred Stock	0.00	0.00	0.00	0.20	0.20
<b>Cash from Financing</b>	<b>0.84</b>	<b>0.47</b>	<b>0.22</b>	<b>1.20</b>	<b>1.34</b>
<b>Net Change in Cash</b>	<b>0.01</b>	<b>0.02</b>	<b>0.99</b>	<b>1.42</b>	<b>1.35</b>

- Moving on to the company's historical annualized cash flow statement, when we analyze the operating cash flows, we see that it is at operating cash break even.
- Its cash flow from investment activities is expected to go up as the management might look to deploy capital to add more fish farms.
- The company might require additional rounds of financing in order to add more fish farms particularly to fuel the expansion in the U.S. market.

Ratios	8/31/16	8/31/17	12/31/18	12/31/19	LTM
<b>Return Ratios:</b>					
Return on Assets %	71.90%	-22.70%	-10.30%	-100.40%	-109.00%
Return on Capital %	127.00%	-175.60%	-20.80%	-192.80%	-218.80%
Return On Equity %	194.10%	-97.70%	-38.60%	-262.80%	-283.10%
Return on Common Equity %	193.70%	-97.20%	-38.50%	-262.80%	-283.10%
<b>Margin Analysis:</b>					
Gross Profit Margin %	59.00%	77.20%	55.00%	9.50%	5.80%
SG&A Margin %	7.00%	379.30%	113.30%	104.80%	97.90%
EBITDA Margin %	52.20%	-295.00%	-51.90%	-95.20%	-92.10%
EBITA Margin %	52.00%	-302.20%	-58.30%	-95.30%	-92.10%
EBIT Margin %	52.00%	-302.20%	-58.30%	-95.30%	-92.10%
Income From Continuing Operations Margin %	39.30%	-290.10%	-54.60%	-96.70%	-92.80%
Net Income Margin %	37.20%	-275.10%	-54.00%	-96.70%	-92.80%
Normalized Net Income Margin %	31.10%	-178.60%	-35.80%	-59.60%	-57.60%
Net Avail. For Common Margin %	37.20%	-275.10%	-54.00%	-96.70%	-92.80%
Levered Free Cash Flow Margin %	-9.80%	144.40%	-138.20%	31.60%	27.60%
Unlevered Free Cash Flow Margin %	-9.80%	144.40%	-138.20%	31.70%	27.70%
<b>Asset Turnover:</b>					
Asset Turnover	113.00%	14.00%	0.24	1.45	1.69
Fixed Assets Turnover	NA	249.00%	6.52	162.81	158.92
Receivables Turnover	NA	18.00%	1.22	17.57	17.87
Inventory Turnover	1618.00%	49.00%	0.52	5.53	6.08

Working Capital Turnover	244.00%	-485.00%	0.69	2.31	2.65
<b>Short Term Liquidity:</b>					
Current Ratio	1.89	0.96	1.72	3.05	3.15
Quick Ratio	1.83	0.85	0.99	2.32	2.32
Op Cash Flow to Current Liab	-0.36	0.1	-0.05	0.12	-0.02
Avg. Cash Conversion Cycle	NA	1956.35	937.84	86.06	NA
Avg. Days Sales Outstanding	NA	2010.19	299.63	20.77	20.42
Avg. Days Outstanding Inventory	22.56	746.31	700.67	66.04	60.01
Avg. Days Payable Outstanding	53.61	800.14	62.45	0.75	NA
<b>Long-Term Solvency:</b>					
Total Debt / Equity	0.20%	3.10%	28.20%	3.00%	1.10%
Total Debt / Capital	0.20%	3.00%	22.00%	2.90%	1.10%
Total Liabilities / Total Assets	54.00%	77.30%	48.20%	30.60%	29.60%
EBIT / Interest Expense	NA	NA	NA	-2336.64	-2563.31
EBITDA / Interest Expense	NA	NA	NA	-2335.13	-2561.9
(EBITDA - Capex) / Interest Expense	NA	NA	NA	-2341.31	-2562.17
FFO Interest Coverage	NA	NA	NA	62.08	-10.6
FFO to Total Debt (x)	-22809.00%	11.19	-0.18	1.74	-0.85
Total Debt / EBITDA	0.00%	-0.02	-1.19	-0.02	0
Net Debt / EBITDA	0	0	0.5	0.24	0.18
Net Debt / (EBITDA - Capex)	0	0	0.46	0.24	0.18

- The company does not pay any dividend.
- The receivables turnover helps quantify a company's effectiveness in collecting the money owed by clients and demonstrates how well it uses and manages the credit it extends to customers.
- This ratio has been increasing for the company which means that the credit period is actually going down.
- The inventory turnover shows the number of times a given company has sold and replaced inventory during the year and is an indicator of how many days of working capital is blocked in inventory.
- As per the inventory days ratio, the company's inventory levels are also going down.
- The accounts payable turnover is a short-term liquidity measure used to quantify the rate at which a company pays off its suppliers. It shows how many days of credit a company gets from its suppliers.
- The company has a very low level of payables and very low current liabilities.
- The fixed asset turnover ratio measures how well a company generates sales from its tangible as well as intangible fixed assets. The higher the ratio, the greater the company's efficiency to its assets to generate revenues.
- Nocera's fixed assets turnover ratio of around 158 is phenomenally high and it implies that the company is generating excellent revenues from its fixed assets.
- The total asset turnover ratio measures the value of a company's sales or revenues relative to the value of its assets. The higher the asset turnover ratio, the more efficient a company is, with respect to using its assets to generate revenues.
- Nocera's total assets turnover has increased to 1.69 in 2022.
- Return on assets is an excellent indicator of how efficient a company's management is in generating earnings from their economic resources or assets on their balance sheet.
- On the other hand, the return on equity of a company measures the value creation of the management and profitability in relation to stockholders' equity.
- Both these ratios are negative for now but this is largely because of the one-time listing expenses.

Financial Forecasts	2021	2022E	2023E	2023E
Total Revenues	9.95	17.80	42.40	70.50
% Change YoY		78.89%	138.20%	66.27%

Cost of Goods Sold	-9	-15.2	-32.50	-52.90
% Margin	-90.45%	-85.39%	-76.65%	-75.04%
Gross Profit	0.95	2.60	9.90	17.60
% Margin	9.55%	14.61%	23.35%	24.96%
EBITDA	-9.47	1.60	8.30	15.90
% Margin	-95.18%	8.99%	19.58%	22.55%
Operating Income	-9.48	1.50	8.20	15.80
% Margin	-95.28%	8.43%	19.34%	22.41%
Net Income	-9.62	0.90	7.30	14.70
% Margin	-96.68%	5.06%	17.22%	20.85%
Cash from Operations	0.25	-0.04	7.63	14.61
% Margin	2.51%	-0.22%	17.99%	20.73%
Free Cash Flows	0.22	-0.04	7.25	13.88
% Margin	2.21%	-0.22%	17.09%	19.69%

- Now let us move on to Baptista Research's forecasts for Nocera's income statement and cash flows.
- We forecast a top-line growth of 78.89% for 2022, around 138% for 2023.
- This growth is expected to translate into an EBITDA of \$-2.15 million in 2022 with a margin of -52.44%.
- Nocera's EBIT margin is expected close in on the 25% mark over the coming 3-4 years.
- We estimate the company's Net Income (GAAP) to turn positive in 2022 itself given its low fixed cost base and keep growing with the top-line. We expect the growth to follow a similar trend in 2023 and 2024.
- In terms of the cash flows, we expect Nocera to generate a positive operating cash flow from 2023 onwards.
- The company should be free cash flow positive from 2023 itself. Also, its Net Debt is expected to increase as there is a chance that the company might use debt to expand its fish farms.
- The Net Debt-to-EBITDA ratio is a measure of leverage, calculated as a company's interest-bearing liabilities minus cash or cash equivalents, divided by its EBITDA. It shows how many years it would take for a company to pay back its debt if net debt and EBITDA are held constant.
- The company's profitability and currently low net debt levels give it significant leeway to expand using debt.

## DISCOUNTED CASH FLOW (DCF) VALUATION

### Key DCF Assumptions

WACC	19.3%
CoD	0.0%
CoE	19.3%
Market Rate	6.0%
Risk Free Rate	1.3%
Beta	3.0
Terminal Value	211.50
Tax Rate	0.0%

- For the purpose of carrying out the discounted cash flow valuation of Nocera, we have used the standard capital asset pricing model (CAPM).
- We have used a 6.0% equity market risk premium based on the S&P 500 returns for the past 5 years.
- The risk-free rate has been assumed as the 10-year Treasury Constant Maturity Rate of the U.S. at 1.60%.
- The company's stock is more volatile than the market as a whole and has a beta of 3 which we shall use without leveraging the same as we are going for the enterprise value approach.
- This is used in order to arrive at the cost of equity (CoE) of 19.3 which appears reasonable for a company like Nocera.
- Based on the company's long term debt and interest payments, the cost of debt is 0%.
- After incorporating the CoE and the CoD and average tax rate of 0.0%, we arrive at a Weighted Average Cost of Capital (WACC) of 19.3%.
- The terminal value is a key component of any DCF valuation as it accounts for the largest chunk of the total projected value of the company. There are a number of methodologies used to determine the same such as the perpetual growth rate method or the multiples method.
- In this case, we have gone ahead and determined the terminal value by applying the current EV/Sales ratio of 3x to our forecasted revenues of 2024.

EV and Market Cap	Current	2022E	2023E	2024E
Price (\$)	4.20	14.51	21.44	41.31
Outstanding Number of shares (million)	10.71	11.78	11.78	11.78

Total Market Cap (millions)	44.98	170.99	252.56	486.64
Net Debt	-1.96	-0.10	-0.90	-1.70
Enterprise Value (millions)	44.98	155.34	182.86	211.50

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- After applying the discount rate (WACC) of 8.6%, we arrive at a price target of \$14.51 for 2022.
- Our target price at the end of 2023 is \$21.44 and for 2024 is \$41.31 which implies a total appreciation of nearly 10x in the coming 3 years in the stock price.
- During this phase, we see the EV/ EBITDA to be around 13.30
- The EV/ EBIT will be falling to a level of 28.0 over the coming 3 years.

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Valuation Ratios	Current	2022E	2023E	2024E
EV/ Sales	4.52	8.73	4.31	3.00
EV/ EBITDA	NA	97.09	22.03	13.30
EV/ EBIT	NA	103.56	28.00	28.00
Price/Earnings	NA	172.71	31.45	30.10

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## KEY RISKS

- It is important to highlight the key risks associated with an investment in Nocera as well as the inherent risks associated with the financial projections and price forecasts presented in this report.
- Nocera may be having a unique and highly efficient, low-cost technology with respect to its RAS systems but it operates in a highly competitive aquaculture domain with many large incumbents from Norway with huge buying power who could penetrate their space.
- There are also smaller and fast-growing players like Blue Star Foods that are scaling rapidly. To accommodate growth and compete effectively, the management will need working capital to add more fish farms, develop additional procedures and controls and increase, train, motivate and manage its work force.
- Nocera is serving the global market since less than a decade which means it has a very limited operating history. As a result, many potential investors find it difficult to evaluate its business prospects and management.
- Nocera's management may struggle to successfully implement and execute their business tactics, operating strategies and growth initiatives. If the management fails to accomplish their growth and organizational modification effectively, it may destroy their business and operational results.
- Nocera relies on the low indirect cost structure given its base in Taiwan in order to reach profitability. It also relies on third parties for sourcing of raw material. Therefore, any change in pledged relationships or disruption of service with third parties may badly affect them and subject them to liability.
- There is also the risk of the company's IP i.e., its efficient RAS structure being infringed. Last but not the least, one of the most significant risks that the company is currently facing is the ongoing global impact of Covid-19 as well as the geopolitical situation between Russia and Ukraine which could have a material impact on Nocera' research and operations.
- A negative news associated with the trade ties between U.S. and China could also affect the company.
- It is worth highlighting that the extent to which Covid-19 impacts the financial results of the company is highly uncertain and could significantly disrupt the operations including sales, manufacturing and supply chain-related activities. It could also result in social, economic, and labor instability in the countries where the customers and suppliers operate.
- With respect to our price projection, we would like to clarify that the valuation of Nocera in this report is specific to the date of the analysis i.e., 23-07-2022.
- Another one of the biggest risks to Nocera' model is the fact that the company's top-line growth is assumed to be consistently growing by a certain rate in the model. There is a possibility that this assumption might not hold true if the COVID-19 situation persists for too long. With respect to our price projection, we would like to clarify that the valuation of Nocera in this report is specific to the date of the analysis i.e., 23<sup>rd</sup> July 2022.

- We must emphasize that the projected valuation and the share price of Nocera are dependent on the realization of the revenue growth, free cash flows and the other assumptions taken into account. Our analysis cannot be directed to providing any assurance about the achievability of these financial forecasts. There is a possibility that the actual results of the company are different from the projected results as a result of unexpected events and circumstances such as the realization of the threats mentioned in the paragraph above. Lastly, we would like to clarify that we had no interaction with the management of the company and they did not comment on the achievability or the reasonableness of the assumptions underlying the financial forecasts. Please check out our detailed disclosures at the end for further details.

## ANALYST RATINGS

- Buy: Expected to outperform market over next 6 to 12 months. Minimal risk to fundamentals and valuation. Good long-term investment.
- Outperform: Expected to outperform the market over next 6 to 12 months but there is a moderate risk to fundamentals and valuation.
- Sell: Expected to significantly underperform the market over next 6 to 12 months. There is a strong likelihood of the security delivering negative returns and a very high risk to fundamentals and valuation.
- Underperform: Expected to underperform the market over next 6 to 12. There is a moderate to high risk to fundamentals and valuation.
- Hold: Expected to perform in line with the market over next 6 to 12 months. However, there is a moderate to high risk to fundamentals and valuation.

## ANALYST INDUSTRY VIEWS

- Attractive: The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be attractive vs. the relevant broad market benchmark, as indicated below.
- In-Line: The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be in line with the relevant broad market benchmark, as indicated below.
- Cautious: The analyst views the performance of his or her industry coverage universe over the next 12-18 months with caution vs. the relevant broad market benchmark, as indicated below.
- Benchmarks for each region are as follows: North America - S&P 500; Latin America – MSCI EM Latin America Index; Europe – MSCI Europe; Japan - TOPIX; Asia - relevant country index or sub-regional index. Please contact us to know the relevant index in case it is not specified in the report.

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