

Synektyk

Keeping up strong upside

In 2023, Synektik has significantly increased the number of delivered medical systems and maintenance services. In our opinion, the upcoming month should also present strong revenues with 3-5 da Vinci robots installed quarterly. Furthermore, due to the growing base of installed da Vinci systems and higher systems utilization, the share or recurring revenues (sale of instruments, service agreements) will rapidly grow in the coming years, outpacing revenues from sales of the systems in the long term. Additional upside remains on deliveries of other high-margin systems (ZAP-X, Intrabeam, Insightec, hospital pharmacy), as well as geographical expansions of system distribution agreements. We support our thesis, that a significant trigger for the SNT business is the cardiotracer project with potential partnering transaction in 2024/2025 translating to upfront value at USD 45-65m and royalty rate at 8.5%. Taking together, we maintain our view on strong business momentum, and we reiterate our recommendation for Synektik with "Buy" and 12M TP 180.6 PLN/share (+37% upside).

Time of record business development. In 2023, SNT secured contracts for the delivery of medical equipment totalling PLN 172.5m, compared to PLN 90.8m in the corresponding period of the 2022 financial year. As the market of robotically-associated surgery in Poland, Czech and Slovakia is growing rapidly, we assume that calendar 2024 year may be another period of strong SNT's sales in the segment of medical equipment shipment. We assume 15-20 new da Vinci systems sold annually (sale performed with current geographical markets of Poland, Czech and Slovakia). We also assume the sales dynamics of the disposable tools and services provided at the annual level of 20-30% y/y.

2024- strong sales results outlook. In upcoming 12 months, SNT expects to continue sales results in the medical equipment and IT solutions segment during the 1Q24. However, in the subsequent quarters, sales momentum is anticipated to decrease due to the high base from 2023. We assume that this decrease will hover around an average of 15-20% year-on-year. Currently, SNT has 69 centres with installed systems. The company anticipates selling a minimum of 20 da Vinci systems in the calendar year 2024. As of December 31, 2023, the value of orders awaiting fulfillment was PLN 28.3m, compared to PLN 38.1m at the end of 4Q22. The value of active offers at the end of the period was PLN 99.5m, up from PLN 94.4m at the end of 4Q22. In radiopharmacy segment, SNT expects increased sales in the basic assortment (as a consequence of increased funding for medical imaging research by NFZ) and stable sales of radiopharmaceuticals.

Growing number of da Vinci procedures with positive impact on recurring EBIT and EBITDA levels. Synektik's revenues from the sale of medical equipment and the maintenance services in 12 months ended by 31.12.2023 reached PLN 133.6m, increasing by almost PL 58.2 in comparison to 2022 (+78% y/y). Together with organic sales growth driven by da Vinci system sales, dynamic growth of services and disposable tools sales resulted in a nearly 98% increase EBITDA'23 up to PLN 104.9m (with maintaining EBITDA margin level at 22%). In our opinion, the systematic increase in the number of installed systems, as well as the further favourable dynamics of the number of operations with growing degree of system utilization, will be a factor positively influencing the level of operating margins. Therefore, in the forecast period of 2024-20230 we estimate the growth of EBIT and EBITDA margins of 2-6 percentage points.

Cardiotracer – the gamechanger in SNT business. SNT, as a first Polish company, is finalizing preparations to commence a Phase III clinical trial in the USA, with the first patient studies planned for 2Q24. The costs for Phase A of the study (involving approximately 120-160 patients) in the USA during 2024-2025 are estimated at around PLN 40-50m. From a global commercialization perspective, the project's key element will be demonstrating the diagnostic effectiveness during Phase III trials in the US market. The US market is crucial due to its scale of sales, potential partnerships, and other solutions, given the high number of cardiac muscle perfusion studies conducted there. We estimate that project commercialization could occur around 2024/2025, with an upfront payment of USD 45-65m.

Valuation. In comparison to our last recommendation, we raise our forecasts of the Group's top line and recurring EBITDA due to favourable sales mix of da Vinci systems, disposable materials and other medical systems. With the results of calendar 2023, SNT's sales performance strongly surpassed the strategy assumptions with the business growth by the strong support for the modernization of medical facilities from public funds, the expansion of da Vinci procedure reimbursements in the Polish market, as well as the ZAP-X initiations and geographical extension of existing cooperation agreements (Insightec) The current valuation implies favourable multiples with EV/EBITDA'24-'26 at 4.6-5.7x and P/E'24-'26 8.7-9.0x (data adjusted by cardiotracer project). The SOTP approach implies the 12M target price of Synektik shares at PLN 180.6 with 1) medical devices and radiopharmaceuticals sale segment – 163 PLN/share (DCF) and 2) cardiotracer project – 17.6 PLN/share (rNPV method).

Risk factors. The most important risk factors include: risk of lowered sales dynamics, risk of exclusive supply agreements termination, competition impact, risk of cardiotracer project failure. The description of risks factors is presented on page 18.

PLNm	2021	2022	2023	2024E	2025E	2026E
Revenues	130	275	574	598	619	657
EBITDA	16	53	105	105	126	151
EBIT	8	40	90	88	109	134
Net profit	6	28	70	73	90	110
EPS (PLN)	0.7	3.3	8.2	8.6	10.6	12.9
P/E (x)	75.2	40.2	16.1	15.4	12.5	10.2
P/E (x) adj. *	53.2	25.3	11.1	9.0	8.9	8.7
EV/EBITDA (x)	42.2	21.0	9.2	9.0	7.2	5.6
EV/EBITDA (x) adj. *	39.9	17.5	6.7	5.7	5.2	4.6
P/BV (x)	13.7	10.6	6.7	5.1	4.0	3.2
DY (%)	0.3%	0.3%	0.5%	2.0%	2.7%	3.6%

Source: Company, Trigon DM; * data adjusted by cardiotracer project

Buy

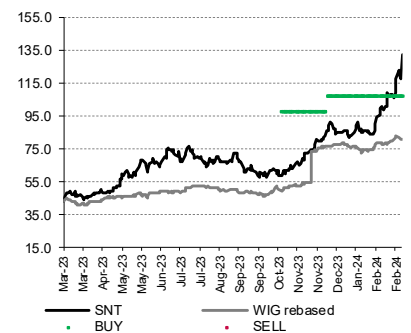
(Recent: Buy)

Target price: 180.6 PLN
upside potential: +37%

FACT SHEET

Ticker	SNT		
Sector	Biotech & MedTech		
Price (PLN)	132.00		
52wk Range (PLN)	41.55 / 126		
Number of share (m)	8.5		
Market Cap (mPLN)	1,126		
Free-float	50%		
Avg Vol 3M (mPLN)	2.7		
Price performance	1M	3M	1Y
	39.9%	45.8%	175.5%

RELATIVE SHARE PRICE PERFORMANCE



RECOMMENDATION HISTORY

	Date	Price
Buy	11.12.2023	108
Buy	23.10.2023	99
Buy	24.07.2023	89
Buy	20.04.2023	75
Buy	17.04.2023	75
Suspended	07.12.2022	
Suspended	20.10.2022	

SHAREHOLDERS

	Share %
Mariusz Książek	26.1%
Melhus Company Ltd	24.0%
Other	49.8%

IMPORT AND DATES

Raport 1Q24	11.06.2024
Raport 1H24	06.08.2024

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NAGRODY
PSIK
2023

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Glossary of professional terms:

capitalisation – market price multiplied by the number of a company's shares

free float (%) – percentage of a company's shares held by shareholders with less than 5% of total voting rights attached to the shares, reduced by treasury shares held by the company

min/max 52 wks – lowest/highest share price over the previous 52 weeks

average turnover – average volume of share trading over the previous month

EBIT – operating profit

EBITDA – operating profit before depreciation and amortisation

adjusted profit – net profit adjusted for one-off items

CF – cash flow

CAPEX – sum of investment expenditures on fixed assets

OCF – cash generated through a company's operating activities

FCF – cash generated by a company after accounting for cash outflows to support its operations and maintain capital assets

ROA – rate of return on assets

ROE – rate of return on equity

ROIC – rate of return on invested capital

NWC – net working capital

cash conversion cycle – length of time it takes for a company to convert its cash investments in production inputs into cash revenue from sale of its products or services

gross profit margin – ratio of gross profit to net revenue

EBITDA margin – ratio of the sum of operating profit and depreciation/amortisation to net revenue

EBIT margin – ratio of operating profit to net revenue

net margin – ratio of net profit to net revenue

EPS – earnings per share

DPS – dividend per share

P/E – ratio of market price to earnings per share

P/BV – ratio of market price to book value per share

EV/EBITDA – ratio of a company's EV to EBITDA

EV – sum of a company's current capitalisation and net debt

DY – dividend yield, ratio of dividends paid to share price

RFR – risk free rate

WACC – weighted average cost of capital

Recommendations of the Brokerage House

Issuer – Synektik S.A.

BUY – we expect the total return on an investment to reach at least 10%

HOLD – we expect the price of an investment to be largely stable, with potential upside of up to 10%

SELL – we expect negative total return on an investment of more than -0%

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Document prepared by: Katarzyna Kosiorek

Valuation methods used

SOTP – sum-of-the-parts method, which consists in valuing a company by valuing its individual business lines separately and then summing them up.

Advantages: different valuation methods can be applied to diverse business lines; the approach is useful for assessing the value of a company e.g. in the case of planned acquisition or restructuring.

Disadvantages: the peer group for individual business lines is usually limited, the method does not adequately account for synergies between business segments.

Risk-adjusted net present value method (rNPV)

Advantages: accounting for probabilities assigned to future cash flows, providing a more realistic assessment of the present value of future cash flows and reflecting business-specific factors, especially in the case of innovative companies.

Disadvantages: subjectivity involved in the adoption of a discount rate, significant reliance on a number of assumptions, high level of complexity in the calculations and exclusion of qualitative factors from the valuation.

Discounted residual income method (DRI)

Advantages: valuation based on the excess of income over risk-adjusted opportunity cost to owners of capital, the method can be applied to companies that do not pay dividends or generate positive FCF.

Disadvantages: significant reliance on subjective judgements and assumptions, as well as sensitivity of the valuation to any changes in those variables.

Discounted dividend model (DDM)

Advantages: accounting for real cash flows to equity owners, the model works best for companies with a long history of dividend distribution.

Disadvantages: the method can be applied to dividend-paying companies only, it is not suitable for companies with a short history of dividend distribution.

Net asset value method (NAV)

Advantages: the approach is particularly relevant to holding companies with significant property, plant and equipment assets, the calculation of NAV is relatively straightforward.

Disadvantages: the method neglects future revenue or earnings potential and may not properly reflect the value of intangible assets.

Target multiple method

Advantages: the method can be applied to any company.

Disadvantages: it involves a high degree of subjectivity.

Replacement value method – it assesses the value of a company based on the costs of replacing its assets.

Advantages: the method is particularly relevant to companies with significant property, plant and equipment assets.

Disadvantages: it may be hard to capture the value of a company's intangible assets, reputation and market potential.

Liquidation value method – the sum of prices that the business would receive upon selling its individual assets on the open market.

Advantages: the method can capture the lowest threshold of a company's value.

Disadvantages: it may be hard to capture the value of a company's intangibles.

Basis of the valuation or methodology and the underlying assumptions used to evaluate the financial instrument or the issuer, or to set a price target for the financial instrument:

Risk-adjusted net present value method (rNPV).

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Risk-adjusted net present value method (rNPV)

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