

Monday, 28 August 2023 | research report

Synektik: buy (new)

SNT PW; SNTP.WA | Healthcare, Poland

Healthy growth path

Synektik is a CEE distributor of medical equipment, including da Vinci surgical systems, and the largest producer of radiopharmaceuticals in Poland. Synektik is also developing a cardiotracer, and it plans to enter Phase 3 study in the US in the coming months.

Synektik has shown strong earnings momentum which, despite strong performance (+157% YTD), in our view is not yet fully priced into the share price. We initiate coverage of Synektik with a buy recommendation and a target price of PLN 87/share, implying 30% upside potential. Due to limited disclosure, we do not include the cardiotracer project into our valuation.

Strong sales of da Vinci systems drive earnings

Looking at the CEE robotic-assisted surgery market, with around one robot per million inhabitants (vs. two in Europe and a dozen in the US), the widening range of robotic procedures (most recently colorectal and endometrial cancers) eligible for cost reimbursement from Poland's National Health Fund, and funds from the National Recovery Plan (KPO) to be unlocked eventually, we assume Synektik will sell 31 da Vinci systems in the years 2023/24-2024/25. Moreover, looking at the low utilization of the systems in Poland, sales of instruments and accessories could double over the next two years.

We forecast that Synektik will sell 22 da Vinci systems in 2022/23E, more than twice the amount sold the previous year; and expect the Medical Equipment and IT segment will generate revenue of PLN 389m and EBITDA of PLN 94m. In 2023/24E, we assume Synektik will sell 17 da Vinci systems, bringing in segmental revenue of PLN 354m (-9% y/y) and EBITDA of PLN 89m (-6% y/y).

Assuming the da Vinci distribution contract with Intuitive is not renewed in 2026 (which we do not see as a base case scenario), and Intuitive opts to acquire the CEE distribution business, our TP would come in at PLN 71/share.

Rebound in radiopharmaceuticals

Synektik's Radiopharmaceuticals business has enjoyed positive trends in recent quarters that we expect to continue in the future, fueled by rising volumes, higher prices, and slower cost inflation. We expect EBITDA of the segment to reach PLN 11m in 2022/23E (+58% y/y) and PLN 14m in 2023/24E (+19% y/y).

Cardiotracer not included in our valuation due to limited disclosure

Synektik has been developing a tracer for PET myocardial perfusion imaging to detect coronary artery disease under a 2013 licensing agreement with Hadasit, and it has completed three clinical studies. Pre-IND scientific advice with the FDA was completed in July, with a positive outcome, according to the company. Synektik plans to start patient enrollment in a pivotal study in the US in the coming months. The company would like to partner the project, but seems likely to start the US study on its own.

The project's higher costs in the next two years are included in our model, but a corresponding sales projection is not as Synektik has yet to publish the results of the three clinical studies. Assuming the tracer meets the thresholds for diagnostic efficacy, and demonstrates higher diagnostic efficacy vs. SPECT, its annual sales could reach a few hundred million USD.

Undemanding multiples

Based on our forecasts, Synektik is trading at an undemanding 2022/23E and 2023/24E EV/EBITDA of 6x for both years. Our DCF-based TP comes in at PLN 87/share, implying 30% upside potential.

(PLN m)	2020/21*	21/22*	22/23E*	23/24E*	24/25E*
Revenues	128.6	166.9	424.4	393.7	408.9
Norm. EBITDA	24.1	32.2	95.6	89.8	92.2
Norm. Net income	12.4	12.3	64.0	58.2	60.0
Net Income	8.4	10.3	51.5	42.0	43.8
P/E (x)	46.3	46.3	8.9	9.8	9.5
EV/EBITDA (x)	23.7	18.6	6.0	5.9	5.5
Dividend yield	1%	1%	1%	2%	3%

*Fiscal year ending September 30
Source: Synektik, mBank, E - mBank estimates

current price*	PLN 67.00
target price	PLN 87.00
mCap	PLN 571.5m
free float	PLN 279.1m
ADTV (3M)	PLN 1.0m

*Price as of August 24, 2023, 5:00 PM

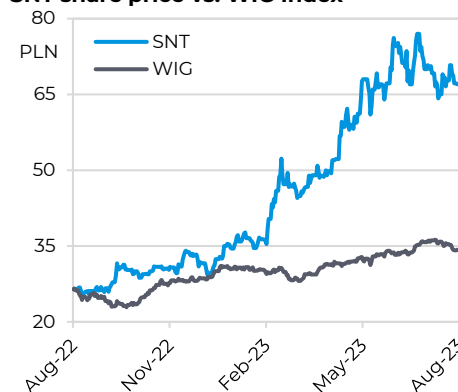
Shareholder structure

Książek Holding Sp. z o.o. (Mariusz Książek)	26.1%
Melhus Company Ltd (Cezary Kozanecki, CEO)	25.0%
Others	48.8%

About Synektik

Synektik is a Polish distributor of medical equipment, producer of IT solutions for hospitals and the largest producer of radiotracers for PET/CT scans in Poland. The company has also been developing its innovative cardiotracer that is currently in Phase 3 study.

SNT share price vs. WIG Index



company	target price		recommendation	
	new	old	new	old
Synektik	87.00	-	buy	-

company	current price	target price	upside
Synektik	67.00	87.00	+30%

Beata Szparaga-Waśniewska, CFA
Equity Analyst, expert
+48 510 929 021
beata.szparaga-wasniewska@mbank.pl



List of abbreviations and ratios used by mBank:

EV (Enterprise Value) – Equity Value + Net Debt; **EBIT** – Earnings Before Interest and Taxes; **EBITDA** – EBIT + Depreciation & Amortisation; **Net Debt** – Borrowings + Debt Securities + Interest-Bearing Loans - Cash and Cash Equivalents; **P/E** (Price/Earnings) – Price Per Share Divided by Earnings Per Share; **P/CE** (Price to Cash Earnings) – Price Per Share Divided by Earnings + Depreciation & Amortisation; **P/B** (Price to Book Value) – Price Per Share Divided by Book Value Per Share; **P/CF** (Price to Cash Flow) – Price Divided by Cash Flow from Operations; **ROE** (Return on Equity) – Earnings Divided by Shareholders' Equity; **ROCE** (Return on Capital Employed) – EBIT x (Average Assets - Current Liabilities); **ROIC** (Return on Invested Capital) – EBIT x (1-Tax Rate) / (Average Equity + Minority Interest + Net Debt); **FCFF** (Free Cash Flow to Firm) – Cash Flow from Operations - CAPEX - Lease Payments; **FCFE** (Free Cash Flow to Equity) – Free Cash Flow to Firm - Net Interest Expense (incl. Debt + Leases)
EBITDA margin - EBITDA/Sales

OVERWEIGHT (OW) – a rating which indicates that we expect a stock to outperform the broad market
NEUTRAL (N) – a rating which indicates that we expect the stock to perform in line with the broad market
UNDERWEIGHT (UW) – a rating which indicates that we expect the stock to underperform the broad market

Recommendations of Biuro maklerskie mBanku:

A recommendation is valid for a period of 12 months, unless a subsequent recommendation is issued in this period. Expected returns from individual recommendations are as follows:

BUY – we expect that the rate of return from an investment will be at least 10%
HOLD – we expect that the rate of return from an investment will range from 0% to +10%
SELL – we expect that an investment will bear a loss
 Recommendations are updated at least once every twelve months.

mBank S.A. with its registered office in Warsaw at Prosta 18 renders brokerage services via a dedicated organisational unit, the Brokerage Bureau, which uses the Polish name Biuro maklerskie mBanku.

mBank S.A. as part of the Exchange's Analytical Coverage Support Programme ("Programme", <https://www.gpw.pl/eacsp>) prepares analytical reports for the following companies: Sygnty. These documents are prepared at the request of Giełda Papierów Wartościowych w Warszawie S.A. ("WSE"), which is entitled to copyrights to these materials. mBank S.A. receives remuneration from the WSE for the preparation of the reports. All documents prepared for the Programme are available at: https://www.mdm.pl/ui-pub/site/market_and_analysis/analysis_and_recommendations/analytical_coverage_support_programme

This document has been created and published by Biuro maklerskie mBanku. This report expresses the knowledge as well as opinions of the authors on day the report was prepared. The opinions and estimates contained herein constitute our best judgment at this date and time, and are subject to change without notice. This report was prepared with due care and attention, observing principles of methodological correctness and objectivity, on the basis of sources available to the public, which Biuro maklerskie mBanku considers reliable, including information published by issuers, shares of which are subject to recommendations. However, Biuro maklerskie mBanku, in no case, guarantees the accuracy and completeness of the report, in particular should sources on the basis of which the report was prepared prove to be inaccurate, incomplete or not fully consistent with the facts. mBank S.A. bears no responsibility for investment decisions taken on the basis of this report or for any damages incurred as a result of investment decisions taken on the basis of this report.

This document does not constitute an offer or invitation to subscribe for or purchase any financial instruments and neither this document nor anything contained herein shall form the basis of any contract or commitment whatsoever. It is being furnished to you solely for your information and may not be reproduced or redistributed to any other person. This document does not constitute investment, legal, accounting or other advice, and mBank is not liable for damages resulting from or related to the use of data provided in the documents. This document may not be copied, duplicated and/or be directly or indirectly distributed in the United States, Canada, Australia or Japan, nor transferred to citizens or residents of a state where its distribution may be legally restricted, which does not limit the possibility of publishing materials prepared for the Programme on Sygnty, mBank or WSE websites. Persons who disseminate this document should be aware of the need to comply with such restrictions.

Recommendations are based on essential data from the entire history of a company being the subject of a recommendation, with particular emphasis on the period since the previous recommendation.

Investing in shares is connected with a number of risks including, but not limited to, the macroeconomic situation of the country, changes in legal regulations as well as changes on commodity markets. Full elimination of these risks is virtually impossible.

It is possible that mBank S.A. in its brokerage activity renders, will render or in the past has rendered services for companies and other entities mentioned in this report.

mBank S.A. does not rule out offering brokerage services to an issuer of securities being the subject of a recommendation. Information concerning a conflict of interest arising in connection with issuing a recommendation (should such a conflict exist) is located below.

The present report was not transferred to the issuer prior to its publication.

This document is an extract from a recommendation produced by Biuro maklerskie mBanku.

The production of this recommendation was completed on August 28, 2023, 8:20 AM.
 This recommendation was first disseminated on August 28, 2023, 8:35 AM.

mBank S.A., its shareholders and employees may hold long or short positions in the issuer's shares or other financial instruments related to the issuer's shares.

Copying or publishing this report, in full or in part, or disseminating in any way information contained in this report requires the prior written consent of mBank S.A.

Recommendations are addressed to all Clients of Biuro maklerskie mBanku.

All investment recommendations and strategies issued by mBank S.A. over the last 12 months are available at: <https://mdm.pl/bm/analizy>

The activity of mBank S.A. is subject to the supervision of the Polish Financial Supervision Commission.

Individuals who did not participate in the preparation of recommendations, but had or could have had access to recommendations prior to their publication, are employees of Biuro maklerskie mBanku authorised to access the premises in which recommendations are prepared and/or individuals having to access to recommendations based on their corporate roles, other than the analysts mentioned as the authors of this recommendations.

This publication constitutes investment research in the meaning of Art. 36.1 of Commission Delegated Regulation (EU) 2017/565.

The compensation of the research analysts responsible for preparing investment research is determined independently of and without regard to the compensation of or revenue generated by any other employee of the Bank, including but not limited to any employee whose business interests may reasonably be considered to conflict with the interests of the persons to whom the investment research prepared by the Research Department of Biuro maklerskie mBanku is disseminated. With that being said, since one of the factors taken into consideration when determining the compensation of research analysts is the degree of fulfillment of annual financial targets by customer service functions, there is a risk that the adequacy of compensation offered to persons preparing investment research will be questioned by a competent oversight body.

For U.S. persons only: This research report is a product of mBank SA which is the employer of the research analyst(s) who has prepared the research report. The research analyst(s) preparing the research report is/are resident outside the United States (U.S.) and are not associated persons of any U.S. regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer, and is/are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account. This report is intended for distribution by mBank SA only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by U.S. Securities and Exchange Commission (SEC) in reliance on Rule 15a 6(a)(2). If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any U.S. person, which is not the Major Institutional Investor. In reliance on the exemption from registration provided by Rule 15a-6 of the Exchange Act and interpretations thereof by the SEC in order to conduct certain business with Major Institutional Investors, mBank SA has entered into an agreement with a U.S. registered broker-dealer, Cabrera Capital Markets. ("Cabrera"). Transactions in securities discussed in this research report should be effected through Cabrera or another U.S. registered broker dealer.

Strong and weak points of valuation methods used in recommendations:

DCF - acknowledged as the most methodologically correct method of valuation; it consists in discounting financial flows generated by a company; its weak point is the significant susceptibility to a change of forecast assumptions in the model.

Relative – based on a comparison of valuation multipliers of companies from a given sector; simple in construction, reflects the current state of the market better than DCF; weak points include substantial variability (fluctuations together with market indices) as well as difficulty in the selection of the group of comparable companies.

Economic profits – discounting of future economic profits; the weak point is high sensitivity to changes in the assumptions made in the valuation model.

Discounted Dividends (DDM) – discounting of future dividends; the weak point is high sensitivity to changes in the assumptions as to future dividends made in the valuation model.

NAV - valuation based on equity value, one of the most frequently used method in case of developing companies; the weak point of the method is that it does not factor in future changes in revenue/profits of a company.

mBank did not issue any recommendations for Synektik in the 12 months prior to this publication.

mBank S.A.

Prosta 18
00-850 Warszawa
<http://www.mbank.pl/>

Research Department

Kamil Kliszcz
director
+48 667 770 837
kamil.klischcz@mbank.pl
energy, power generation

Michał Konarski
+48 515 025 640
michal.konarski@mbank.pl
banks, financials

Paweł Szpigiel
+48 509 603 258
pawel.szpigiel@mbank.pl
media, IT, telco, e-commerce

Piotr Poniatowski
+48 509 603 046
piotr.poniatowski@mbank.pl
gaming

Mikołaj Lemańczyk, CFA
+48 501 663 511
mikolaj.lemanczyk@mbank.pl
banks, financials

Janusz Pięta
+48 506 065 659
janusz.pieta@mbank.pl
retail, e-commerce

Mateusz Krupa, CFA
+48 571 608 973
mateusz.krupa@mbank.pl
strategy

Beata Szparaga-Waśniewska, CFA
+48 510 929 021
beata.szparaga-wasniewska@mbank.pl
biotechnology, healthcare

Konrad Anuszkiewicz, CFA
+48 510 478 019
konrad.anuszkiewicz@mbank.pl
industrials, mining

Sales and Trading

Traders

Piotr Gawron
director
+48 698 832 853
piotr.gawron@mbank.pl

Paweł Cylkowski
+48 503 684 130
pawel.cylkowski@mbank.pl

Piotr Brożyna
+48 512 756 702
piotr.brozyna@mbank.pl

Andrzej Kowalczyk
+48 601 053 470
andrzej.kowalczyk@mbank.pl

Andrzej Sychowski
+48 605 848 003
andrzej.sychowski@mbank.pl

Łukasz Płaska
+48 22 697 47 90
lukasz.plaska@mbank.pl

Karol Kułaj
+48 509 602 984
karol.kulaj@mbank.pl

Sales, Foreign Markets

Marzena Łempicka-Wilim
deputy director
+48 696 427 249
marzena.lempicka-wilim@mbank.pl

Private Client Sales

Maciej Sokołowski
director
maciej.sokolowski@mbank.pl

Jarosław Banasiak
deputy director
jaroslaw.banasiak@mbank.pl