

Synertec Corporation

Positive outlook following strong FY18 second half

Synertec Corporation (SOP.ASX) is a multi-disciplined engineering and construction firm which delivers specialist engineering, construction and compliance services across complex and highly regulated industries. In FY18, around 40% of its revenues are generated from the oil and gas sector, specifically the Liquefied Natural Gas sector, while 20% was from water and 15% from pharmaceuticals. The remaining 25% of revenues are spread across infrastructure, petrochemicals, terminals, defence and food and beverage. Going forward, Synertec expects pharma and infrastructure to contribute a greater share of revenues. Synertec was reverse listed through SML Corporation in August 2017, after its shareholders were issued 107.15m shares and \$5m in cash. The company also at that time completed a small capital raising of \$0.75m at \$0.04/share. Synertec has reported FY18 revenues of \$11.4m and a net loss after adjusting for one-time items and discontinued businesses of \$0.3m. The result demonstrated strong second half revenue growth of 44%. SOP is currently trading on an EV/Sales multiple of 0.45x and at a 44% discount to its current order book.

Strategy

Synertec is seeking to diversify its specialist engineering and compliance services across several industries and, with the exception of water, is experiencing growth across all the sectors it services. Around 70% of the company's revenue is derived from fixed price contracts. In the first half of calendar 2018, the company secured several pivotal contracts including two contracts respectively worth \$5.1m and \$1.6m for the Terminal Stage 3 expansion at Port of Newcastle, a \$7.7m design and build contract for a state of the art bacterial fermentation manufacturing plant for animal vaccines in regional Victoria and a \$1.8m contract with Metro Trains to upgrade the control and monitoring systems for the Melbourne Underground Rail Loop Fire and Life System.

FY18 result

Synertec reported a net loss of \$8.5m which included \$4.7m in one-time costs associated with listing and a \$3.4m net loss from its discontinued mining operations which were sold in late 2017. The company reported a 44% increase in H2 revenues over H1 and noted that this was the result of the contracts secured in the second half which will continue into FY19. Working capital requirements increased in FY18 with \$1.95m work in progress on its books versus \$0.97m in FY17. Deferred income increased to \$2.74m from \$0.29m a year before. Synertec ended FY18 with \$3.5m cash and \$1.5m in a bank guarantee facility of which \$1.1m was utilised. It has no debt.

Trading at discount to order book

Synertec is trading at a 44% discount to its current order book of \$16.2m. Comparable sized peers, Primero and Logicamms, trade at similar discounts to book, while larger operators such as GR Engineering trade in line with their current order book.

Earnings history (A\$m)

Y/E	Revenue	EBITDA*	EBIT	NPAT adjusted	NPAT reported	EPS (c)	EV/Sales (x)
6/15	13.9	2.8	2.7	1.1	1.1	n.a	n.a
6/16	18.2	3.6	3.6	0.8	0.8	n.a	n.a
6/17	14.7	1.5	1.4	0.9	0.9	1.2	0.35
6/18	11.4	(0.4)	(0.5)	(0.3)	(8.5)	(2.5)	0.45

Source: Company data *EBITDA adjusted for transaction costs associated with IPO in August 2017 and for the sale of the discontinued operations Note FY15-FY17 are from Synertec's accounts as an unlisted entity

Share details

ASX Code	SOP
Share Price	\$0.041
Market Capitalisation	\$9.05M
Number of shares	220.7M
Enterprise Value	\$5.15M
Sector	Engineering/Construction services
Free Float	32%

Share price performance (12 months)



Upside Case

- IP in LNG Custody Transfer Technology positions Synertec to expand into global markets
- Diversified industry focus
- Has long-standing established relationships with international and Australian clients

Downside Case

- Competing against much larger consulting firms with greater ability to scale
- Engineer, procure and construct (EPC) contracts tie up working capital, capital in bonds to support contracts and carry execution risk
- Earnings performance can be lumpy

Board of Directors

Leeanne Bond	Independent Non-Exec Chair
Michael Carroll	Managing Director
Freddie Heng	Independent Non-Exec Director
Kiat Poh	Independent Non-Exec Director

Catalysts

- Demonstration of continued growth in contract wins
- Continued diversification into new industry sectors
- Diversification away from EPC contracts

Comparative companies (Australia & NZ)

GNG, LCM, PGX, RCR

Substantial Shareholders

New Concept Corporation (Michael Carroll) 44.766%,
Northwest Nonferrous Mining Australia 17.84%,
Inaya Ltd 6.31%

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