



Dom Maklerski BDM S.A.

SYNTHAVERSE

ANALYTICAL REPORT - SUMMARY

We start our recommendation for Synthaverse with a BUY recommendation with a target price of PLN 6.7. The company is investing heavily in expanding production capacity of a globally shortage bladder cancer drug. Once the investment is completed in 2025, production volumes will increase sixfold while margins will increase by switching from existing ampoules to vials.

Synthaverse (formerly Biomed-Lublin) manufactures drugs in the areas of oncology, haematology and immunology. The company's products are sold in 35 countries, with the drugs unregistered in some markets, but given the high demand for scarce products, they are granted an import licence.

The company is the only domestic supplier of the anti-tuberculosis vaccine BCG 10. In Poland, this vaccination is mandatory in the first days of a child's life, so every year the National Health Fund organises a tender for the supply of vaccines, which Synthaverse wins. Increased orders from abroad have also been seen recently. In June'23, the product was registered in Hungary. At that time, the company also received a significant order for the supply of almost 1.7 million doses of vaccine to Ukraine (order spread over 2023 and 2024). The BCG segment also includes the production and sale of Onko BCG (a bladder cancer drug), which is key to the company's growth. In 2022, segment revenues accounted for 46% of the company's sales.

The other leg of the business is the traditional segment (54% of the company's sales in 2022), where Synthaverse produces Distreptase (a drug used in gynaecology), blood products used in maternal-fetal conflict and hepatitis B prophylaxis, and Lacid, a probiotic produced for ZF Polpharma. The company has an established position in the market. Export sales are mainly dominated by Distreptase, which is sold mainly in eastern markets.

The first revenues from the start-up of new production capacity in the Onko segment are expected in early 2025, when work at the Research and Development Centre will start. Products not used for research, due to their high therapeutic value and high market demand, will be sold as precious waste (we estimate sales of unused preparations of 60,000 vials in 2025). The new production facility is expected to be commissioned in 2H'25, its target capacity will allow the production of approximately 210k vials of Onko BCG per year, so we will see the full potential in the 2026 results.

The company is already locating planned capacity in new markets. Onko BCG has registrations in Poland, Germany, Switzerland, Ukraine and Malta. Registration processes are currently underway in France, Romania, the Netherlands, Turkey, Serbia and Bosnia and Herzegovina. In addition, the company also sells the drug in other countries, where the product is not registered, based on an import licence.

The expansion of production capacity will bring a leap in the company's results. We estimate that sales revenue will increase from PLN 59.5m in 2023 to PLN 179m in 2026, while net profit, in our view, has the potential to increase from about PLN 9m in 2023 to about PLN 58m in 2026.

	2020	2021	2022	2023P	2024P	2025P	2026P
Revenues [PLNm]	40,2	41,2	50,4	59,5	63,4	102,2	178,7
EBIT [PLNm]	5,9	7,2	9,8	13,1	15,2	35,4	80,7
EBITDA [PLNm]	11,8	13,7	16,1	19,9	24,3	50,5	94,2
Net income [PLNm]	4,4	4,2	6,1	9,0	8,6	23,0	57,8
P/E	73,2	80,2	60,3	41,1	43,2	16,2	6,5
P/BV	8,7	4,6	3,5	3,2	3,0	2,6	2,0
EV/EBIT	56,8	46,3	36,1	31,5	27,6	11,5	4,7
EV/EBITDA	28,6	24,2	22,1	20,7	17,2	8,1	4,0
DPS	0,0	0,0	0,0	0,0	0,0	0,0	0,2
DY	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	4,3%

BUY

(INITIAL REPORT)

TARGET PRICE 6.7 PLN

13 SEPTEMBER 2023, 11:30 CEST

Target price [PLN]	6,7
DCF valuation [PLN]	7,0
Peer valuation [PLN]	5,5
Price upside/downside	27,6%
Cost of capital	11,5%
Price [PLN]	5,2
Market cap [PLNm]	368,2
No. of shares [mn]	70,5*
Max. price 6M [PLN]	6,3
Min. price 6m [PLN]	5,1
Rate of return 3M	-2,8%
Rate of return 6M	-10,6%
Rate of return 9M	-9,6%
Shareholders (% of votes):	
Dariusz Kurowicz	12,0%
Wiktor Napióra	11,1%
Waldemar Sierocki	10,5%
Przemysław Sierocki	10,2%
OPDF	5,7%
Others	50,5%

* current number of shares (the incentive programme assumes the issuance of a maximum of 3.2 million shares)

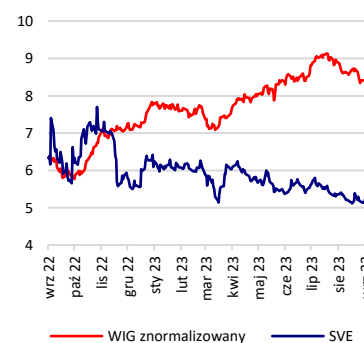
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Valuation summary

	Share	Valuation
DCF valuation	80%	7,0
Peer valuation	20%	5,5
Target price [PLN]		6,7

Source: BDM S.A.

DCF valuation

	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Revenues [PLNm]	59,5	63,4	102,2	178,7	196,4	203,4	207,3	211,3	215,4	219,5
EBIT [PLNm]	13,1	15,2	35,4	80,7	90,1	93,6	95,4	97,2	99,1	101,0
Incentive programme cost	0,8	1,5	1,5	1,5	1,5	1,5	0,0	0,0	0,0	0,0
EBIT Adj. [PLNm]	13,9	16,7	36,9	82,2	91,6	95,1	95,4	97,2	99,1	101,0
Tax rate	27,6%	26,0%	25,0%	24,0%	23,0%	22,0%	21,0%	21,0%	21,0%	21,0%
Tax on EBIT [PLNm]	3,8	4,3	9,2	19,7	21,1	20,9	20,0	20,4	20,8	21,2
NOPLAT [PLNm]	10,1	12,4	27,7	62,5	70,6	74,2	75,4	76,8	78,3	79,8
Amortization [PLNm]	6,8	9,1	15,1	13,5	13,4	13,2	13,1	13,0	13,0	13,0
CAPEX [PLNm]	-116,0	-32,1	-3,8	-11,2	-11,1	-12,1	-12,0	-12,4	-12,8	-13,0
Working capital movement [PLNm]	-4,4	1,8	-16,2	-5,5	-3,8	-1,5	-0,8	-0,9	-0,9	-0,9
FCF [PLNm]	-103,5	-8,8	22,8	59,3	69,0	73,9	75,7	76,6	77,6	78,9
DFCF [PLNm]	-100,4	-7,7	18,0	42,2	44,2	42,5	39,1	35,5	32,3	29,5
Total DCF [PLNm]										
Terminal value [PLNm]	867,9									
Discounted terminal value [PLNm]	324,1									
Enterprise value [PLNm]	499,3									
Net debt 2022 [PLNm]*	-11,9									
Equity value [PLNm]	511,2									
Number of shares [mn]	73,5									
Value per share [PLN]	7,0									

Terminal growth rate: 2,0%

WACC calculation

	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Risk-free rate	5,6%	5,6%	5,6%	5,6%	5,6%	5,6%	5,6%	5,6%	5,6%	5,6%
Risk premium	6,5%	6,5%	6,5%	6,5%	6,5%	6,5%	6,5%	6,5%	6,5%	6,5%
Beta	0,9	0,9	0,9	0,9	0,9	0,9	0,9	0,9	0,9	0,9
Credit premium	5,0%	5,0%	5,0%	5,0%	5,0%	5,0%	5,0%	5,0%	5,0%	5,0%
Cost of equity	11,5%	11,5%	11,5%	11,5%	11,5%	11,5%	11,5%	11,5%	11,5%	11,5%
Contribution of equity	81,6%	79,4%	81,9%	87,1%	91,4%	91,9%	99,9%	100,0%	100,0%	100,0%
Cost of debt after tax	7,7%	7,8%	8,0%	8,1%	8,2%	8,3%	8,4%	8,4%	8,4%	8,4%
Contribution of debt	18,4%	20,6%	18,1%	12,9%	8,6%	8,1%	0,1%	0,0%	0,0%	0,0%
WACC	10,8%	10,7%	10,8%	11,0%	11,2%	11,2%	11,4%	11,5%	11,5%	11,5%

Source: BDM S.A.

Sensitivity analysis

Beta	Terminal growth rate			Risk premium	Terminal growth rate			Risk premium	Beta		
	1,0%	2,0%	3,0%		1,0%	2,0%	3,0%		0,8	0,9	1,0
0,8	7,1	7,7	8,3	5,5%	7,4	7,9	8,7	5,5%	8,7	7,9	7,3
0,9	6,5	7,0	7,5	6,5%	6,5	7,0	7,5	6,5%	7,7	7,0	6,4
1,0	6,0	6,4	6,8	7,5%	5,8	6,2	6,6	7,5%	6,8	6,2	5,6

Source: BDM S.A.

Peer valuation

	P/E			EV/EBITDA		
	2024P	2025P	2026P	2024P	2025P	2026P
MERCK & CO. INC.	12,7	11,4	10,7	10,4	9,1	8,5
GENMAB A/S	29,7	21,0	16,4	19,1	13,4	9,6
GRIFOLS SA	11,8	9,4	9,3	9,2	7,9	6,9
IPSEN	14,1	13,2	11,8	8,1	7,3	5,9
H LUNDBECK A/S	7,9	7,1	6,7	4,8	3,9	3,2
RECORDATI INDUSTRIA CHIMICA	17,8	16,7	15,6	13,2	12,2	11,4
SWEDISH ORPHAN BIOVITRUM AB	17,2	12,8	11,7	10,1	7,8	6,0
UCB SA	17,1	11,7	10,0	11,8	8,3	6,6
Median	15,6	12,3	11,2	10,3	8,1	6,8
SYNTHAVERSE	43,5	16,3	6,6	17,3	8,1	4,0
Premium/discount	178%	33%	-42%	69%	1%	-41%
Valuation [PLN/share]	2,2	4,2	9,2	3,1	5,4	9,0
Year's contribution	33%	33%	33%	33%	33%	33%
Average valuation [PLN/share]		5,2			5,8	
Multiple's contribution		50%			50%	
Value per share [PLN]	5,5					

Source: BDM S.A., Bloomberg

Main risks: 1) Risk of delay in commissioning new capacity; 2) Risk of delayed registration processes; 3) Foreign exchange and interest rate risk; 4) Risk of rising energy and gas prices; 5) risk of new competitive products entering the market; 6) Product withdrawal risk; 7) Risk of side effects or interactions with new drugs

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rating	price target	previous rating	previous target price	report date	report date (hour)	price	WIG
Buy	6.7	---	---	13.09.2023	11:30 CEST	5.2	66 571.93

* The report was prepared by Dom Maklerski BDM at the request of the WSE as part of the Exchange's Analytical Coverage Support Programme

Explanations of terminology:

EBIT - earnings before interest and tax
 EBITDA — earnings before interest, taxes, depreciation, and amortization
 Net debt – interest bearing debt minus cash and equivalents
 WACC - weighted average cost of capital
 CAGR - cumulative average annual growth
 EPS - earnings per share
 DPS - dividend per share
 CEPS - net profit plus depreciation per share
 EV – market capitalization plus interest bearing debt minus cash and equivalents
 EV/S – market capitalization / sales
 EV/EBITDA – EV / sales
 P/EBIT – market capitalization / EBIT
 MC/S – market capitalization / sales
 P/E – market capitalization / net profit
 P/BV – market capitalization / book value
 P/CE - market capitalization / net profit plus depreciation
 ROE – net profit / equity
 ROA - net income / assets
 Gross margin - gross profit on sales / sales
 EBITDA margin – EBITDA / sales
 EBIT margin – EBIT / sales
 Net margin – net profit / sales

Explanation of ratings:

Buy – we believe that the security will reach the target price in the recommended period, which significantly exceeds the current market price (at least + 15%);
 Accumulate – we believe that the security will reach the target price in the recommended period, which exceeds the current market price (in the range of +5 to + 14.99%);
 Hold – we believe that a security in the recommended period will fluctuate around the target price, which is close to the current market price (in the range from -4.99% to + 4.99%);
 Reduce – we believe that the security will reach the target price in the recommended period, which is lower than the market price (range of decline from 5% to 14.99%);
 Sell – we believe that a security in the recommended period will reach the target price, which is significantly lower than the market price (suggested erosion of the value exceeds 15%).
 Target price – the theoretical price which, in our opinion, should reach a security in the recommended period; This price is the result of the company's value (eg based on DCF, comparative and other valuations), market conditions and the industry as well as other factors subjectively considered by the analyst.
 Recommendations made by BDM are binding for 12 months from the issue date or until the target level is reached, unless they are updated during this period of time.

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DCF – the most popular and the most effective of the valuation methods - it is based on the discounting of future cash flows generated by the company. The disadvantage is the high sensitivity to changes in the basic financial parameters forecast in the model (interest rates, exchange rates, profits, residual value).
 DDM – the method is based on discounting future cash flows from dividends. The advantage of the valuation is the inclusion of future financial results and cash flows from dividends. The main disadvantages are the high sensitivity to changes in the basic financial parameters forecasted in the model (capital cost, profits, residual value) and the risk of changing the dividend payment policy.
 Comparative – the method is based on current and forecasted market multipliers of companies from the industry or related industries, which better than DCF shows the current market situation. The main disadvantages are the difficulty in choosing the right companies for comparison, the risk of ineffective valuation of companies compared at a given moment, as well as high volatility (along with price fluctuations).

Distribution of BDM's recommendations in 3Q'23*:		, distribution of BDM's recommendations for the companies which BDM has supplied with investment banking services within the last 12 months		
	numbers	%	numbers	%
Buy	8	67%	0	0%
Accumulate	2	17%	0	0%
Hold	1	8%	0	0%
Reduce	1	8%	0	0%
Sell	0	0%	0	0%

* detailed list of all analytical reports (recommendations) published by BDM during the last 12 months is included at <https://www.bdm.pl/analizy-i-informacje/analizy/historia-rekomendacji>



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The report constitutes an investment research within the meaning of art. 36 §1 of Commission Delegated Regulation (EU) 2017/565.

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