

## SciDev Ltd (SDV)

<i>Listed shares:</i>	<i>153.220 mill ord fp shares</i>
<i>Perf rights</i>	<i>1.408 mill</i>
<i>10¢ and 12¢ options</i>	<i>2.800 mill, expiry 23 July 2022</i>
<i>Share price:</i>	<i>71.5¢ as at 1pm 8 February 2021</i>
<i>Diluted market cap:</i>	<i>\$112m fully diluted</i>

### HY profit was better than I expected

- The company issued its report for the Dec HY today. Sales revenue was released few weeks ago with the quarterly so that was no surprise. But the gross profit margin of 27% was higher than the 22% I was aiming for, plus the R&D tax rebate within other income was higher too. So pretax profit of \$0.6m was considerably better than the \$0.5m loss I had estimated.
  - At this point I have left my revenue projections unchanged but have increased my profit margin projections to 25% from 22%. I have also increased my projections of labour and other costs.
  - The result is that my profit projections are marginally lower for the next several years. My valuation, for what it is worth, has decreased by just 3¢, to \$1.54.
  - Accompanying the interim report was a presentation which provided a good picture of the industry in which SDV operates and the company's strategic position and potential within that industry. It is clear that very high growth should continue for some years as the company gains market share from a small base.
  - Business risk due to Covid19 restrictions will reduce in coming months as the vaccine rollout accelerates.
  - At some point the shares should move up out of their 12-month trading range of 50¢ to \$1.00 but timing depends on further contract and revenue milestones being achieved.
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Share price 71.5c, issued shares 153.2m, mkt cap \$112.4m fully diluted

June years	19a	20a	21e	22e	23e	24e
<b>Profitability (\$m)</b>						
Sales revenue	2.9	18.1	45.0	77.0	102.0	120.0
Cost of sales	2.0	14.8	33.8	57.8	76.5	90.0
Gross profit	0.9	3.3	11.3	19.3	25.5	30.0
Margin	31%	18%	25%	25%	25%	25%
Interest income	0.0	0.0	0.1	0.1	0.2	0.3
Other income	0.3	0.5	0.4	0.4	0.3	0.2
General expenses	3.0	5.7	9.5	11.0	12.8	13.9
EBITDA	-1.8	-1.9	2.2	8.7	13.2	16.6
Cost of finance/oj	0.0	0.0	0.0	0.0	0.0	0.0
Depn/Impair/etc	-0.2	-0.3	-0.6	-0.6	-0.6	-0.7
Pretax profit	-2.0	-2.3	1.7	8.2	12.7	16.2
Income tax	0.0	1.4	-0.1	-0.7	-1.1	-1.3
Net profit	-2.0	-0.9	1.6	7.6	11.7	14.8
EPS (c)	-2.7	-0.7	1.0	4.9	7.5	9.4
EPS (c) fully dilute	-1.2	-0.5	1.0	4.9	7.4	9.4
DPS(c) declared fc	0.0	0.0	0.0	0.0	0.0	0.0

<b>Cash flow (\$m)</b>						
<b>From operating activities</b>						
Sales receipts	2.8	20.5	42.6	70.8	98.6	117.5
Paymtns to supplie	-4.6	-20.6	-39.5	-69.2	-90.9	-103.0
Other	0.3	0.0	0.0	-0.3	-0.7	-0.9
Total	-1.6	-0.2	3.1	1.2	7.0	13.6
<b>From investing activities</b>						
Capex	-0.2	-0.8	-0.6	-0.6	-0.7	-0.7
Other	0.2	-1.0	-0.1	-0.1	-0.1	-0.1
Total	0.0	-1.8	-0.7	-0.7	-0.7	-0.8
<b>From funding activities</b>						
Debt	0.0	0.3	0.0	0.0	0.0	0.0
Equity	2.8	5.0	6.8	0.0	0.4	0.0
Divs, capital retu	0.0	-0.6	0.0	0.0	0.0	0.0
Total	2.7	4.7	6.8	0.0	0.4	0.0

<b>Cash position</b>						
Change from abov	1.2	2.7	9.3	0.5	6.7	12.8
Forex movements	0.0	0.0	0.0	0.0	0.0	0.0
Closing	1.7	4.5	13.7	14.3	20.9	33.8

<b>Balance sheet (\$m)</b>						
<b>Current assets</b>						
Cash	1.8	4.5	13.7	14.3	20.9	33.8
Receivables	0.8	2.2	5.0	11.6	15.3	18.0
Inventories	0.3	4.8	6.1	10.4	13.8	16.2
Other	0.0	0.2	0.2	0.2	0.2	0.2
Total	2.8	11.6	25.0	36.4	50.2	68.2
<b>Non-current assets</b>						
Property, plant &	0.3	1.2	1.2	1.2	1.3	1.3
Other	2.7	14.3	14.3	14.4	14.4	14.5
Total	3.1	15.5	15.5	15.6	15.7	15.8
<b>Current liabilities</b>						
Payables	1.0	8.5	13.5	17.3	19.1	22.5
Debt & lease liabi	0.0	0.2	0.2	0.2	0.2	0.2
Other	0.2	0.4	0.9	0.7	0.8	0.8
Total	1.2	9.1	14.5	18.2	20.1	23.5
<b>Non-current liabilities</b>						
Debt & lease liabi	0.0	0.3	0.3	0.3	0.2	0.2
Other	0.0	0.4	0.1	0.1	0.1	0.1
Total	0.0	0.7	0.3	0.3	0.3	0.3
<b>Equity</b>						
Issued capital	76.9	89.9	96.7	96.7	97.1	97.1
Reserves	2.2	0.1	0.1	0.1	0.1	0.1
Retained earnings	-74.4	-73.2	-71.6	-64.0	-52.4	-37.5
Shareholder equit	4.7	17.4	25.8	33.4	45.5	60.3

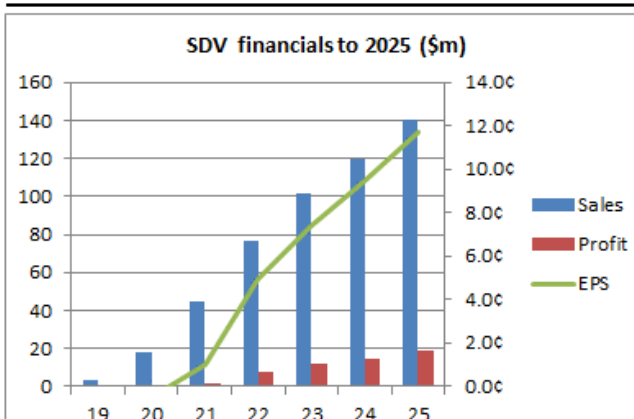
<b>Valuation (\$m) as at 30 June 2020</b>			
Discount rate	6%	9%	12%
Operations	356	231	160
Equity raisings post 30 June 2020	7	7	7
Cash 30 June 2020	4	4	4
Debt 30 June 2020	0	0	0
Total	367	242	171
\$ per share fully diluted	2.34	1.54	1.09
<b>Valuation as at 31 December 2020 1.60</b>			
<i>Valuation based on DCF of future cash flows</i>			
<i>Sales revenue and costs grow 5% pa beyond 2026.</i>			

### Increase in valuation over time at a discount rate of 10% pa and revenue growth of 5% pa beyond 2026

	As at 30 June 2020	2021	2022	2023
Operations	231	247	269	287
Future net equity raisings	7	0	0	0
Cash	4	14	14	21
Debt	0	0	0	0
Total	242	262	284	308
\$ per share fully diluted	1.54	1.66	1.81	1.96

### Valuation (\$/share) as at 30 June 2020 at a range of discount rates and of growth rates beyond 2026

	Discount rates		
	6%	9%	12%
Growth rate 2.5% pa	2.5%	1.88	1.29
Growth rate 5% pa	5.0%	2.34	1.54
Growth rate 7.5% pa	7.5%	3.00	1.89



### Company description

SciDev is an emerging leader in the development and application of chemistry and process control for solid-liquid separation. This is critical for reduced water use and better environmental outcomes in the mining and petroleum industries, each with annual demand of US\$2b for these services, and in other industries.

The chemicals are primarily flocculants and coagulants supplied by Chinese manufacturer Nuocer, which is also a SciDev shareholder. Process control is achieved through SciDev's OptiFlox system which gives the company a competitive advantage; it continuously measures parameters such as clay content in industrial process streams and adjusts dosage rates accordingly.

## Interim report

Comparative data for the profit statement is presented below.

	DecH 19a	Jun H 20a	Dec H 20a	Change pcp %	Dec H 20e	Diff
<b>Gross profit</b>						
Sales revenue	6,118	11,943	18,333	+200%	18,260	+73
Cost of goods sold	4,265	10,501	13,364	+213%	14,243	-879
Profit margin	1,853	1,442	4,969	+168%	4,017	+951
Profit margin %	30.3%	12.1%	27.1%	-11%	22.0%	
<b>Other revenue</b>						
R&D tax rebates	0	502	503		150	+353
Other income		3				
Total other revenue	0	505	503		150	+353
<b>General expenses</b>						
Employees	740	2,052	2,466	+233%	2,462	+4
Other costs	1,162	1,788	1,880	+62%	2,099	-219
Total	1,902	3,841	4,346	+129%	4,561	-215
<b>Pretax profit</b>						
EBITDAF	-49	-1,894	1,125		-394	+1,519
Interest income	2	0	1		5	-4
Financing cost	-35	-1	-90		0	-90
Foex gains/(losses)	31	52	-161			-161
Impairments and writeoffs	-3		-25			
Depn and amortisation	-138	-240	-269	+95%	-150	-119
Pretax profit	-191	-2,086	581		-539	+1,120
<b>Net profit</b>						
Income tax expense	0	1,400	-153		-80	-73
NPAT	-191	-686	428		-459	+887

### Disclaimer

*This analysis is cursory in nature and is not intended to be relied upon by third parties, who should make their own enquiries. The report does not contain investment advice.*

*Any views expressed in this report are purely my own unless otherwise indicated.*

### Disclosure

*I have not received any remuneration from any person for this report.*

*Associated entities own 900,000 shares in SDV at the time of writing.*

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