

SynBiotic

Consumer
9 August 2022

Management update – on track

SynBiotic has extended its lead in the European hemp and cannabis sector and is continuing to build a cannabis ‘ecosystem’, encompassing cultivation, production and trade. Based on preliminary figures, SynBiotic has delivered pro forma sales of €15m for FY21, in line with management guidance. The company has now added a target of becoming profitable as of FY23. Full consolidated financial statements will be presented at the AGM, planned in Q4.

Operational projects bring more revenue

The existing legal market for cannabinoids remains SynBiotic’s core market while it prepares for the legalisation of recreational cannabis and it has recently launched CBPlus, an alternative CBD extract containing cannabinoids and terpenes, but not derived from hemp. Management reports that the first batches of CBPlus have sold out. SynBiotic plans to launch its own medical cannabis brand, Hempamed Rx, in the near future.

Ecosystem should help stability

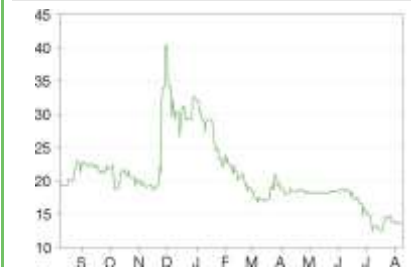
There is significant uncertainty around cannabis and cannabinoids, with substantial regulatory risks and the big unknown as to when and if recreational cannabis will be legalised in SynBiotic’s main markets. Management believes legalisation is now highly likely, given recent developments and progress on the political side. Management is continuing to build its infrastructure and acquiring companies to include in its ecosystem. SynBiotic now has capabilities in cultivation, production and trade, and by focusing more on B2B customers, it is less reliant on marketing directly to consumers and can therefore avoid the additional regulatory uncertainties linked to this.

Valuation: Trading at a discount to CBD peers

Due to the scale and nature of SynBiotic’s continuing evolution with reliance on early-stage unlisted investments, financial forecasts cannot be made with any certainty. This is compounded by strict and volatile regulatory risk (substantial ‘grey areas’). However, the market opportunity for SynBiotic appears clear. The shares are trading on c 1.9x management’s estimated FY22 sales of €26m, which gives the company little benefit of doubt, even ignoring more established cannabidiol (CBD) peers rated at over 3x revenue.

Price €13.46
Market cap €50m

Share price graph



Share details

Code	SBX
Listing	Xetra
Shares in issue	3,674m
Net cash at 31 December 2020	€5.9m

Business description

SynBiotic is an investment vehicle that pursues an EU-focused buy-and-build approach. The core business of the platform company is the R&D of new cannabinoid and terpene-based solutions for the health issues of pain, sleep and anxiety.

Bull

- Huge worldwide market for cannabinoid products in multiple applications.
- Planned investment to cover entire value chain and legal de-risking by diversifying from hemp in terms of cannabinoids and plants.
- Experienced leadership team and portfolio managers.

Bear

- Strict and constantly changing regulatory requirements for CBDs internationally.
- Execution risk in terms of planned expansion.
- Potential competition from larger players.

Analysts

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Historical financials

Year end	Revenue (€m)	PBT (€m)	EPS (c)	DPS (c)	P/E (x)	Yield (%)
12/19	0.0	(0.013)	(5.4)	0.0	N/A	N/A
12/20	5.446	(0.859)	(56.4)	0.0	N/A	N/A

Source: Company accounts

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