



ASX Small Caps Stocks Down Under

📖 *A smile is a curve that sets everything straight.* 📖

- Phyllis Diller (1917-2012), Stand-up comedian, actress, author



SDI

Is it still making us smile?

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Stocks Down Under rating: ★★☆☆

ASX: SDI
Market cap: A\$98.7M

52-week range: A\$0.73 / A\$1.14
Share price: A\$0.83

The ASX dentistry sector has been an intriguing one to say the least. During the pandemic, the sector halved from four to two companies with Smiles Inclusive exiting the bourse and 1300 Smiles getting taken over. COVID-19 restricted dentists' clients coming in for a check-up, not to mention supply chains – something particularly relevant for SDI being a manufacturer and distributor of dental equipment. A recent trading update from the company depicted that it hasn't been impacted thus far, but how confident should shareholders be that it won't be impacted going forward?

Share price chart



Source: Tradingview

Meet a global Australian success story

SDI (which stands for Southern Dental Industries) was founded in 1972 and listed on the ASX in 1985. It is still run by the Cheetham family with the company's founder Jeffrey still on the board as Chairman, while his daughter Samantha has been with the company for roughly 20 years and CEO for six. The family still owns over 40% of the business. SDI sells to more than 100 countries worldwide, but has a particular focus on Brazil, Europe, North America and Australia. It manufactures products in Australia then exports to key warehouses in those markets, in preparation for distribution to customers.

SDI has four major product categories: aesthetics, whitening, equipment and amalgam. The former two are the most important categories, accounting for over 75% of group sales. However, amalgam (which is essentially cavity fillings required as a result of tooth decay) has been the fastest growing of late, rising to 15.5% of total sales and recording the strongest growth (41%) in 1HY22. Ironically, amalgam was the business' only product until 1980 and there were no other Australian manufacturers. But it has gradually expanded into other products over time as dentistry has evolved. And going forward, the company believes aesthetics and whitening will drive its future, with several new products launched recently or planned to launch soon, particularly the Pola and Riva ranges for whitening and fillings respectively.

Battered and bruised by COVID, but recovering

As we mentioned when we last covered SDI, [on 15 June 2021](#), COVID-19 wreaked havoc on the dental industry and even SDI was not immune. The most direct challenge facing the company were logistics difficulties. Being an Australian company that exports 88% of its products far from its core markets is difficult enough, but the limited flights and ships in and out of Australia made it difficult to ship goods to distributors. And once shipped, seaports and airports were congested or shipments rerouted with freight costs materially higher than before.

On top of this, the shunning of dentists by would-be patients during the pandemic acted as a disincentive for would-be buyers of SDI's equipment. Bear in mind, that dental products take several years to develop and obtain regulatory approval. It takes even more years to see true results and, consequently, for dentists to be confident in those products. Dentists did not get this chance amidst the worst of the pandemic.

These impacts have been manifest in SDI's results. In FY20, the company generated sales of \$67.4m, EBITDA of \$9.8m and an NPAT of \$4.2m - down 15%, 31% and 42% respectively. The last quarter of FY20 marked the onset of the pandemic and was mostly responsible for these declines.

Although all of SDI's product categories declined, products used for non-aerosol generating procedures did better than those using aerosols. FY21, however, saw a vast improvement, not just from FY20, but from FY19 as well. The company generated \$81.6m in sales, \$16.8m EBITDA and a \$8.9m NPAT, up 21%, 32% and 111% from FY20 respectively, as well as up 3%, 19% and 22% from FY19. SDI more than doubled its net cash position, from \$4.7m to \$10.6m, and raised its dividend by 70% to 3.2c per share. The company credited pent-up demand being unleashed in its key markets.

Some concerns, but bullish overall

SDI expects to release its FY22 results on 26 August. A few weeks ago, it provided guidance of \$95m in revenue (up 16% from FY21) and a profit of \$7m-\$7.5m, down 16-22% from FY21. The company mentioned that it had incurred additional freight costs to ensure supply, but that demand was strong. No consensus estimates exist for FY23 and beyond but if we assume ~\$12m EBITDA for the full year (double what it achieved in 1HY22), it is trading at 7.8x EV/EBITDA.

One thing we note about its result is its sales in the Middle East & Africa that are up 180% year-on-year due to a number of large tenders being won in recent times.

Beyond freight costs, we think SDI also has potential to be impacted by movements in foreign exchange levels and the cost of silver, because the latter is used in its amalgam products. These impacts were a gut punch to the company in the late 2000s, although SDI has significantly more product diversification these days. We also have some concerns over SDI's operations in Brazil as it has been hit by a significantly weakened Brazilian real and had to undertake a restructure. However, this has not been implemented yet and sales in the most recent half year grew by 66.9% in local currency terms. Ultimately, we are giving this company four stars based on its past track record and future outlook.



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