



Emerging Stocks Down Under

🗨️ *If women ran the world we wouldn't have wars, just intense negotiations every 28 days.* 🗨️

- Robin Williams (1951-2014), American comedian and actor



SCIDEV

Entering a new era

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Stocks Down Under rating: ★★☆☆

ASX: SDV
Market cap: A\$57M

52-week range: A\$0.165 / A\$0.64
Share price: A\$0.305

2022 has been a rollercoaster year for SciDev shareholders, but it looks set to finish on a high. This company has technology that allows for cost-effective treatment of wastewater from good manufacturing and mineral processing. The company's products are sold to several industries globally, including power generation, cosmetics manufacturing and paint manufacturing.

Share price chart



Source: Tradingview

Admirable mission, but not easy to execute

As we've noted before, with peer companies such as Fluence (ASX: FLC) and Phoslock (ASX: PET), helping the world's water shortages is an admirable mission. So many companies vaguely say their mission or vision is to 'create shareholder value' or 'become the market leader'. SciDev's mission is 'to improve the operational and environmental outcomes for our clients'. But just because a company has an admirable mission is not a guarantee that things will go right.

Look at SciDev's share price chart and you'll see it is up 15% in the last 6 months, but down 50% in the last 12 months. The bulk of the drop came in late April and it was for a pretty good reason. Then CEO Lewis Utting abruptly departed the company after 3 years in the top job. Let's recap his eventful tenure.

Three years of growth

From his appointment in late April 2019 to mid-February 2020, shares rose by more than 1,100%. The company went through a major period of organic and M&A-fueled growth. It made a particular effort to gain exposure to the US oil and gas industry buying field equipment supplier Highland Fluids Technology as well as the mineral sands industry – doing business with ASX-listed Iluka Resources for the latter's Jacinth-Amboria operation.

Shares took a hit during the Corona Crash as did the oil and gas sector. But the company was able to gain exposure to the infrastructure sector, fueled by government stimulus. In early May 2020, it sealed a deal to help the consortium building Melbourne's new Metro Tunnell by providing clay and water management services.

SciDev made \$2.9m in revenue in FY19 (up 32%), \$18m in FY20 (up 518%) and \$42.5m in FY21 (up 135%). And by FY21, it reached profitability on an NPAT basis recording \$3.5m, following a \$0.8m loss in FY20. The oil and gas sector as well as the resources sector bounced back.

Have the brakes been slammed?

FY22 saw a lot more turbulence for the company. Although recurring revenue was stable, there was far less one-off revenue with projects such as the Melbourne Metro coming to an end. And travel restrictions made it more difficult to seek new business. SciDev's cash flows turned negative in Q2 (by \$0.5m) and Q3 (by \$2.6m) due to planned inventory build to insulate from seasonal supply chain risks and it had to raise \$17.4m in capital.

The company was able to increase its revenues for FY22 by 30% to \$55.6m. It recorded positive EBITDA of \$2.1m (flat compared to FY21), but a net loss of \$0.6m. It did not provide full year guidance for FY23, but promised continued overseas expansion, particularly of its specialty chemistry in the US oil and gas industry. SciDev recently promoted interim CEO Sean Halpin as permanent CEO, with Halpin formerly being the co-founder of Haldon Industries – an environmental solutions company that SciDev bought in May 2021. The company also hired a new CFO in Anna Hooper who has a 25-year career in finance with stints at Qantas, Wesfarmers, Endeavour Energy and the ASX itself.

Looking at consensus estimates, there is only one analyst covering the company. For FY23, he expects \$83.7m in revenue and \$6.5m in EBITDA (up 50% and 201% respectively). For FY24, he projects \$124.5m in revenue and \$11.7m in EBITDA (up 49% and 80% respectively), with a target price of 52c, well above the level it closed at yesterday. At the current share price, the stock trades at 7.1x EV/EBITDA for FY23.

Entering a new stage

It is one process for a growing company to become profitable, but another for it to reach sustainable profitability. SciDev admitted it has not reach the latter stage yet, but that is what it is hoping to achieve in the long term. For investors the biggest risk with SciDev is failing to get to NPAT profitability, or revenue growth slowing down. Either will be very disappointing to investors if they eventuate. We also see the risk of losing big-name clients – even if it's just one, shareholders won't like that news either. We can't rule either out, but we think the risk of the former is less than 6 months ago with the worst of the pandemic behind us.

We note something else that SciDev has admitted in its discourse with shareholders. Chairman Vaughn Busby said he was aware investors would like greater news flow from the company. But as the company grows, so does the bar for what needs to be disclosed – what was significant two or three years ago may now just be in the ordinary course of business. But you can still expect updates from the company every quarter. In the most recent one it delivered record quarterly revenue of \$25.6m (up 40% from 12 months ago), EBITDA of \$1.7m and breakeven cash flow from operations. Assuming it can keep its bottom line in the black, and return to growth levels seen in previous years, we think SciDev is four stars.

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