SYNNOVIA PLC
(LON:SYN)

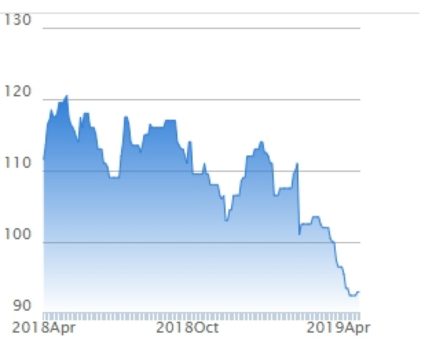
26 April 2019

Capital Network
a proactive company

Industrial goods

52-WEEK HIGH	116.00p
52-WEEK LOW	84.40p
PRICE	84.40p
MARKET CAP MLN	£32.21

Share Price



Major Shareholders

Camelot Capital Partners 29.9%
Gresham House Asset Mgt 10.6%
Octopus Investments 7.7%

Shares in issue	38,995,151
Avg Three-month trading volume	6,514
Primary Index	AIM

Company Information

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Synnovia playing catch-up

Trading update

Synnnovia PLC (LON:SYN) has released a trading update for the year to 31 March. The company continues to expect significant growth in revenue and profits, with progress remaining strong in the higher margin Industrial division.

However, profitability for the group as a whole will now be below previous expectations. Previously reported delays in new projects in the Films division were resolved as expected, but the catch-up during January-March has not been strong enough to offset the impacts on profits. Also within Films, there have been some cost escalations affecting profitability for the division.

The company has also announced that it will publish some revisions to previously reported revenues, with the adjustments being described as "non-material".

Changes to our forecasts

We are now forecasting revenue growth of 7% and earnings per share (EPS) growth of 2% for the full year (FY) to March 2019. Our new forecasts are below our previous forecasts by 2.4% at the revenue level and 7% at the EPS level.

For FY March 2020 we are lowering our EPS forecast by 12% but are still forecasting 18.6% EPS growth versus FY March 2019. Our new forecast assumes 1) delays in Films are resolved, 2) growth in both divisions, 3) growth will be partially offset by the cost escalations in Films.

Valuation

We are forecasting revenue growth of 9.7% and EPS growth of 18.6% for FY March 2020. This reflects the benefit of growth investments in recent years and improving underlying earnings (EBITDA) margins. We outline the drivers of EBITDA margins on p2 of this report.

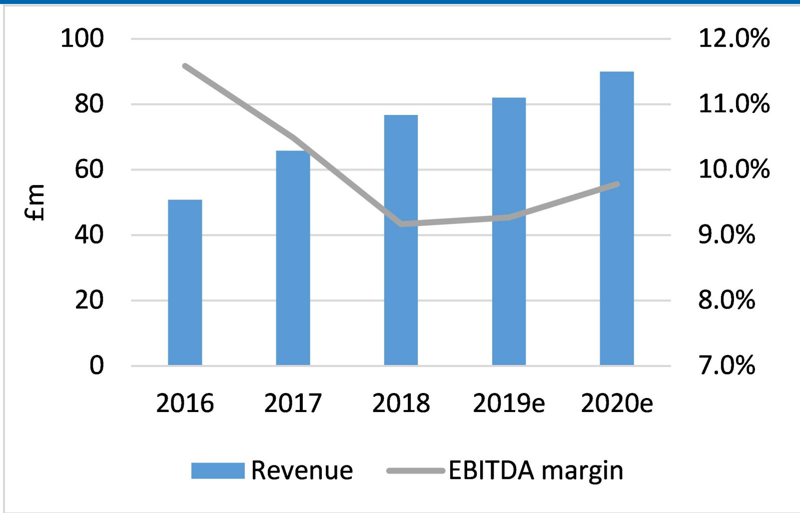
The shares are now trading on a FY March 2020e price/earnings (P/E) multiple of 7.4x. We believe that this discount multiple reflects market concerns about the issues that have affected Films. We expect to see a material positive re-rating if the company can demonstrate steady progress towards market expectations during FY Mar 2020.

Year end Mar 31	2017	2018	Current	2020
Revenue £M	65.8	76.7	82.0	90.0
EBITDA (£M)	6.9	7.0	7.6	8.8
Underlying PBT	4.3	4.2	4.3	5.1
EPS (p)	11.5	9.5	9.7	11.5

Faisal Rahmatallah, chairman. Rahmatallah is a founding shareholder of Synnovia PLC. He has more than 20 years in the sector, and holds an MBA from Harvard Business School.

Nick Ball, group finance director. Ball joined Synnovia PLC in 2005. He is an ACA accountant and spent 10 years working at Deloitte & Touche.

Revenue and EBITDA margin



Source: Company data and Capital Network forecasts

We are forecasting revenue growth of 9.7% and EPS growth of 18.6% for FY March 2020

Margin drivers

Synnovia operates through two divisions:

Industrial designs and manufactures ball-bearing assemblies, and also plastic consumables used in the manufacture of boxes and packaging, as well as plastic consumables used in the manufacture of hydraulic and industrial hoses.

Films develops and manufactures high strength plastic films for industrial packaging applications, and also packaging for the food industry and other applications.

During FY March 2019, Synnovia has benefitted from strong growth in the Industrial division, which is fundamentally a higher margin business than Films; however, this beneficial mix effect has been offset by project delays that have occurred in Films as it has been adding new capacity. The net effect has been little change to EBITDA margins for FY March 2019 versus 2018.

In FY March 2020 we are forecasting growth from both divisions, together with non-recurrence of the delays in Films, leading to an improvement in group EBITDA margin.

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