

## MONEY TALK

### Synagie Corporation (SCL SP)

1H18: Revenue Growth In Line; Development Expenses Required For Expansion

Synagie Corporation's 1H18 revenue remains in line for a growth trajectory with expected seasonality in demand. Although development expenses such as increased staffing would drag profitability, its strategic plans still bode well. With strong fundamentals, recent share price correction appears overdone and could offer good entry opportunity. We maintain our target price of \$0.45, based on 4.2x P/S.

#### 1H18 RESULTS

Year to 31 Dec (S\$m)	1H18	1H17	yoy % chg
Revenue	6.9	3.0	132.4
Gross Profit	1.8	0.7	152.0
Gross Margin (%)	25.8	23.8	2.0ppt
Profit to Owners	(3.4)	(1.2)	n.a.
Net Margin (%)	(50.0)	(24.6)	n.a.

Source: Synagie, UOB Kay Hian

#### RESULTS

- Revenue in line; expect stronger pick-up in 2H18 due to seasonality.** Synagie reported 1H18 revenue of S\$6.9m, up 132.4% yoy. Excluding the Insurtech business which was acquired in Apr 18, revenue increased 76.7% yoy. This represents 36.8% of our full-year forecast, similar to 1H17 where sales were also at 36.8% of full-year's, excluding Insurtech. Taking into account seasonality in the e-commerce industry with a strong pick-up from end-of-year sales expected, revenue was in line with expectations.
- Growing margins and sales volume.** Gross margin increased 2ppt yoy from 23.8% in 1H17 to 25.8% in 1H18 due to higher contribution from the Insurtech business. The stronger sales volume was also due to higher online sales volume as Synagie adopted a more proactive marketing strategy with brand partners to promote their products in various online marketplaces. The number of brand partners increased from 186 as at 2017 to more than 250 as at 1H18.
- Staff cost and one-off expense dragged profitability.** Administrative expense increased by S\$3.0m yoy in 1H18, from S\$1.5m in 1H17. This was due to an increase in staff cost as a result of increased staff strength from the group's Malaysian expansion as well as staff inherited from its Insurtech business. One-off expenses of S\$1.7m, comprising IPO expenses and professional fees, were incurred. The group made a loss of S\$1.7m in 1H18, excluding one-off expenses.

#### KEY FINANCIALS

Year to 31 Dec (S\$m)	2016	2017	2018F	2019F	2020F
Net Turnover	3.7	12.3	18.7	28.0	39.3
EBITDA	(2.1)	(1.7)	(4.4)	(0.3)	2.1
EBIT	(2.3)	(1.8)	(4.6)	(0.6)	1.7
Net profit (rep./act.)	(2.3)	(2.3)	(4.7)	(0.5)	1.4
Net profit (adj.)	(2.3)	(2.3)	(3.0)	(0.5)	1.4
EPS (S cent)	(1.0)	(1.0)	(1.8)	(0.2)	0.6
PE (x)	n.a.	n.a.	n.a.	n.a.	35.0
P/B (x)	310.4	8.9	5.1	5.4	4.7
Dividend Yield (%)	n.a.	n.a.	n.a.	n.a.	n.a.
Net margin (%)	n.a.	n.a.	n.a.	n.a.	3.7
Net debt/(cash) to equity (%)	(33.1)	(57.4)	(87.9)	(79.4)	(75.4)
Interest cover (x)	n.a.	8.9	n.a.	n.a.	n.a.
ROE (%)	n.a.	n.a.	n.a.	n.a.	13.4

Source: Bloomberg, UOB Kay Hian

## BUY

(Maintained)

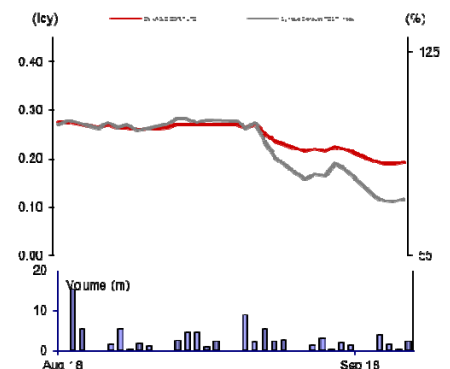
Share Price	S\$0.193
Target Price	S\$0.45
Upside	+133.2%

#### COMPANY DESCRIPTION

Synagie Corporation is an e-commerce company, offering solutions to businesses in online and offline sale of consumer goods, as well as real-time big data analytics and artificial intelligence services. Synagie's cloud platform helps to manage clients' orders, inventory, vendors and customers. Synagie serves customers in Southeast Asia.

GICS sector	Information Technology
Bloomberg ticker:	SCL SP
Shares issued (m):	261.7
Market cap (S\$m):	50.5
Market cap (US\$m):	36.8
3-mth avg t'over (US\$m):	0.6

#### PRICE CHART



Source: Bloomberg

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## ESSENTIALS

- Collaboration with UOB Bank.** In its recent joint collaboration with United Overseas Bank (UOB), Synagie will assist small and medium enterprises (SMEs) to expand and manage multiple online sales channels. Under the partnership, UOB's SME clients in Singapore will have preferential access to Synagie's range of easy-to-use, end-to-end e-commerce solutions such as its integrated cloud based platform as well as warehousing and fulfilment services. UOB and Synagie plan to extend their collaboration regionally, with the Malaysia's launch expected by end-18, followed by Thailand, Vietnam and Indonesia.
- Gearing up for online shopping season.** The year-end (September to December) is usually a peak period for e-commerce, featuring discount events to entice shoppers. Lazada recently launched its shopping extravaganza, dubbed "9.9", on 9 Sep 18, across six ASEAN countries. Shoppers enjoyed bargains from over 1,000 brands with discounts of up to 90% up for grabs. According to iPrice, monthly average traffic to Singapore e-commerce sites increased 78% qoq in 4Q17.

## NOTABLE E-COMMERCE EVENTS

9.9 Extravaganza	9 Sep 18	Lazada
9.9 Super Shopping Day	9 Sep 18	Shopee
Perfect 10 Sale	10 Oct 18	Qoo10
Singles' Day	11 Nov 18	Various Marketplaces
Black Friday	23 Nov 18	Various Marketplaces
Cyber Monday	26 Nov 18	Various Marketplaces
Online Revolution	12 Dec 18	Lazada

Source: Shopback, Respective companies' websites

## STOCK IMPACT

- Quick market access to SME.** The UOB partnership provides Synagie with a solid foundation towards gaining access to the SME online retail market without much cost incurred in customer acquisition. We estimate Synagie could support up to 50,000 of UOB's SME corporate cardholders who will enjoy up to S\$2,500 worth of benefits, including a three-month complimentary subscription to Synagie's platform with free warehousing storage. Warehousing expense is expected to be minimal and potential gains would come in the medium term as Synagie accumulates SME clients.
- Seasonality of e-commerce purchases.** The end-of-season sales have considerable impact on e-commerce purchases. According to its press release, Singles Day 2017 (11 Nov 17) generated US\$123m of gross merchandise value (GMV) for Lazada, representing a 171% yoy growth. We expect Synagie's 2H18 top-line to similarly pick up with increased purchases from e-commerce events.

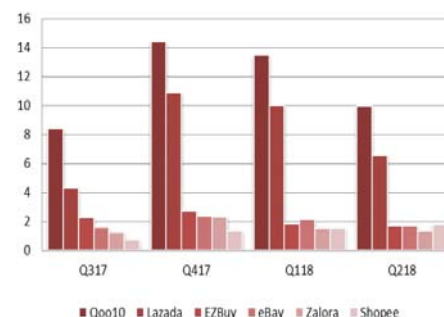
## EARNINGS REVISION/RISK

- 2018-19 net profit forecasts reduced slightly.** Factoring in slightly higher development costs as Synagie expands into the region, we lower our 2018-19 net profit estimates by up to S\$1.0m. Despite the reduction, Synagie is well poised to attain top-line targets as it grows.

## VALUATION/RECOMMENDATION

- Maintain BUY and PS-based target price of S\$0.45,** pegged to peers' 2019F average. Recent share price correction appears overdone and could offer good entry opportunity for investors looking for proxies to the booming e-commerce sector in Asia. The equity story and fundamentals remain intact and we see potential catalysts from stronger contributions from Insurtech, deeper collaborations with brand partners as well as accretive M&A or other strategic collaborations

## SINGAPORE MONTHLY AVERAGE E-COMMERCE TRAFFIC ('MILLIONS)



Source: iPrice.sg, UOB Kay Hian

PEER COMPARISON

Company	Ticker	Trading Curr (lcy)	Price @ 12 Sep18 (lcy)	Market Cap (US\$m)	----- PE -----				Yield 2018F (%)	ROE 2018F (%)	Price to Sales		2015-17 Sales CAGR (%)
					2017 (x)	2018F (x)	2019F (x)	2020F (x)			2019F (x)	2018F (x)	
58.Com	WUBA US	USD	68.18	10,056	53.0	27.6	20.3	15.2	0.0	9.8	5.3	4.4	49.7
Alibaba	BABA US	USD	161.46	418,534	44.2	29.8	22.0	17.2	0.0	16.8	7.2	5.2	57.3
Amazon.Com	AMZN US	USD	1990	970,605	314.9	74.4	53.8	40.7	0.0	22.4	4.1	3.4	28.9
Baozun	BZUN US	USD	45.71	2,603	27.0	44.9	28.3	18.4	0.0	19.8	3.3	2.4	26.4
Ebay	EBAY US	USD	34.26	33,902	n.a.	14.9	13.3	11.4	0.0	30.4	3.1	2.9	5.5
Hubspot	HUBS US	USD	159.15	6,174	n.a.	243.3	149.7	101.0	n.a.	11.7	12.4	9.9	43.7
SEA	SE US	USD	13.24	4,436	n.a.	n.a.	n.a.	n.a.	0.0	n.a.	5.1	3.3	19.1
Shopify	SHOP US	USD	153.13	16,290	n.a.	n.a.	n.a.	n.a.	0.0	0.3	15.8	11.5	81.1
Sps Commerce	SPSC US	USD	98.07	1,714	n.a.	58.4	53.8	45.6	n.a.	12.6	7.0	6.4	18.0
Etsy	ETSY US	USD	49.17	5,888	71.3	84.3	59.5	33.8	n.a.	n.a.	9.9	7.7	27.0
Jd.Com	JD US	USD	27.63	39,630	n.a.	67.2	37.1	23.4	0.0	0.4	0.6	0.5	41.4
Zhongan Online	6060 HK	HKD	32.4	6,067	n.a.	n.a.	256.9	28.9	0.0	(1.5)	4.1	2.6	49.2
<b>Average P/S</b>											<b>6.5</b>	<b>5.0</b>	
<b>Adjusted P/S of high sales growth companies (ex outliers)</b>											<b>7.2</b>	<b>5.5</b>	

Source: Bloomberg, UOB Kay Hian

## PROFIT & LOSS

Year to 31 Dec (\$m)	2017	2018F	2019F	2020F
Net turnover	12.3	18.7	28.0	39.3
EBITDA	(1.7)	(4.4)	(0.3)	2.1
Deprec. & amort.	0.1	0.2	0.3	0.4
EBIT	(1.8)	(4.6)	(0.6)	1.7
Net interest income/(expense)	-	-	-	-
Associates	-	-	-	-
Other non-recurring items	(0.2)	-	-	-
<b>Pre-tax profit</b>	<b>(2.0)</b>	<b>(4.6)</b>	<b>(0.6)</b>	<b>1.7</b>
Tax	(0.2)	(0.2)	0.0	(0.3)
Minorities	-	-	-	-
<b>Net profit</b>	<b>(2.3)</b>	<b>(4.7)</b>	<b>(0.5)</b>	<b>1.4</b>
Net profit (adj.)	(2.3)	(3.0)	(0.5)	1.4

## CASH FLOW

Year to 31 Dec (\$m)	2017	2018F	2019F	2020F
<b>Operating</b>	<b>(2.5)</b>	<b>(3.5)</b>	<b>(0.5)</b>	<b>1.7</b>
Pre-tax profit	(2.0)	(4.6)	(0.6)	1.7
Tax	(0.0)	(0.2)	0.1	(0.3)
Deprec. & amort.	0.2	0.2	0.3	0.4
Associates	-	-	-	-
Working capital changes	(0.9)	1.0	(0.3)	(0.1)
Non-cash items	0.3	-	-	-
Other operating cashflows	-	-	-	-
<b>Investing</b>	<b>(2.3)</b>	<b>(0.4)</b>	<b>(0.7)</b>	<b>(1.0)</b>
Capex	(0.2)	(0.2)	(0.4)	(0.6)
Investments	-	-	-	-
Proceeds from sale of assets	-	-	-	-
Others	(2.1)	(0.2)	(0.3)	(0.4)
<b>Financing</b>	<b>7.4</b>	<b>9.8</b>	-	-
Issue of shares	2.3	9.8	-	-
Proceeds from borrowings	-	-	-	-
Loan repayment	-	-	-	-
Others/interest paid	5.1	-	-	-
<b>Net cash inflow (outflow)</b>	<b>2.7</b>	<b>5.9</b>	<b>(1.2)</b>	<b>0.7</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>0.0</b>	<b>2.7</b>	<b>8.6</b>	<b>7.4</b>
<b>Ending cash &amp; cash equivalent</b>	<b>2.7</b>	<b>8.6</b>	<b>7.4</b>	<b>8.1</b>

## BALANCE SHEET

Year to 31 Dec (\$m)	2017	2018F	2019F	2020F
Fixed assets	0.1	0.2	0.5	0.9
Other LT assets	4.5	4.6	4.8	5.0
Cash/ST investment	2.7	8.6	7.4	8.1
Other current assets	8.6	5.5	7.7	10.6
<b>Total assets</b>	<b>16.0</b>	<b>19.0</b>	<b>20.5</b>	<b>24.6</b>
ST debt	-	-	-	-
Other current liabilities	8.2	6.1	8.1	10.8
LT debt	-	-	-	-
Other LT liabilities	3.0	3.0	3.0	3.0
Shareholders' equity	4.7	9.8	9.4	10.8
Minority interest	-	-	-	-
<b>Total liabilities &amp; equity</b>	<b>16.0</b>	<b>19.0</b>	<b>20.5</b>	<b>24.6</b>

## KEY METRICS

Year to 31 Dec (%)	2017	2018F	2019F	2020F
<b>Profitability</b>				
EBITDA margin	n.a.	n.a.	n.a.	5.4
Pre-tax margin	n.a.	n.a.	n.a.	4.4
Net margin	n.a.	n.a.	n.a.	3.7
ROA	n.a.	n.a.	n.a.	5.9
ROE	n.a.	n.a.	n.a.	13.4
<b>Growth</b>				
Turnover	234.0	51.8	50.2	40.3
EBITDA	n.a.	n.a.	n.a.	n.a.
Pre-tax profit	n.a.	n.a.	n.a.	n.a.
Net profit	n.a.	n.a.	n.a.	n.a.
Net profit (adj.)	n.a.	n.a.	n.a.	n.a.
EPS	n.a.	n.a.	n.a.	n.a.
<b>Leverage</b>				
Debt to total capital	n.a.	n.a.	n.a.	n.a.
Debt to equity	n.a.	n.a.	n.a.	n.a.
Net debt/(cash) to equity	Net cash	Net cash	Net cash	Net cash
Interest cover (x)	8.9	n.a.	n.a.	n.a.

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