

COMPANY Compumedics | CMP | \$ 0.40/share MCap \$66m

Date: 22 February 2016

RECOMMENDATION Buy | High Risk | \$ 0.80/share target (+20%)**EVENT** - Adding Brain Imaging division...major new earnings stream**KEY POINTS**

- CMP secured a Brain Image licence and technology deal with Korea's KRISS institute that enables FY19 and FY20 EBITDA to be raised 25% from FY'19. Our Price Target is lifted 20% to \$0.80/share.
- We initiating coverage on CMP in Oct 2015 with a Buy because CMP was delivering on its four growth drivers: lowering costs of base sleep and neuro diagnostic platforms; accelerating growth in China and USA with new distribution; opening up new channels with e-commerce ; and, blue sky opportunities.
- This MEG Division converts some of the Blue Sky to tangible cash flow and reinforces our Buy. DCF and Price Target up 20% to \$0.80/share.

FY 16F METRICS PER 21.3x | EV/EBITDA 11.2x | Yield 0 %**LINK TO FINANCIAL SUMMARY and today's summary update** [RN_CMP_220216](#)**DETAIL – see our initiation report – RR_CMP_211015**

- CMP secured a licence and technology deal with Korea's KRISS institute that enables CMP to sell \$20m/annum of complete "new generation" MEG* Brain Imaging Systems by FY19. **Magnetoencephalography*
- This will add a complimentary high barrier to entry division to CMP with high EBITDA margins. Our estimates of FY19 and FY20 EBITDA are raised 25% to \$19m and \$25m. Our DCF lifts 20% to \$0.80/share.
- CMP has been supplying the key software for Brain Imaging Systems to Elekta, the current MEG market leader with 80% market share, for over 10 years. CMP's \$20m/annum represents ~40% market share.
- CMP and KRISS have timed its entry into the MEG market well.
 - Demand for brain imaging is growing at "a multiple of the 4%pa" developed world health spend increase due to its use in early detection and treatment of neurological disorders
 - MEG is better suited to significant neurological disorders such as: Alzheimer's, Parkinson's, epilepsy and autism. MEG has a higher degree of sensitivity and faster measurement of brain signals than standard MRI (*Magnetic resonance imaging*)
- CMP now has three globally significant platforms with: premium sleep diagnosis systems (6% global market share; neuro/blood flow diagnosis systems (~5% global market shares); and now brain imaging (potential for 40% of new sales).
- We initiating coverage on CMP last year with a Buy because it was delivering on its three growth drivers: lowering costs of base platforms; accelerating growth in China and USA with new distribution; opening up new channels with e-commerce ; and, blue sky.
- This MEG Division converts some of the Blue Sky to tangible cash flow and reinforces our Buy. Our 12 Month price target is up 20% to \$0.80/share.

NEXT UPDATE – HY Road Show

- Please contact Roger Chen rchen@pacpartners.com.au or myself.

Should you have any queries, please do not hesitate to contact me on +613-8633-9864.

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Compumedics

NFPOS

167 m

Price \$ 0.40
Market Cap \$67 m

PROFIT & LOSS (\$m)

Y/End	FY10A	FY11A	FY12A	FY13A	FY14A	FY15A	FY16F	FY17F	FY18F	FY19F	FY20F
Revenue	32.4	30.9	27.9	27.2	30.8	33.5	37.6	42.7	51.7	79.6	98.7
EBITDA	1.5	0.6	-0.2	0.3	3.0	4.1	5.7	8.5	12.1	18.9	25.1
Depreciation & Amortisation	0.5	1.0	1.1	1.2	1.4	1.4	1.4	1.4	1.4	1.5	1.5
EBIT	1.0	-0.4	-1.3	-0.9	1.6	2.7	4.3	7.0	10.7	17.5	23.6
Net Interest	-0.6	-0.4	-0.5	-0.4	-0.6	-0.7	-0.6	0.0	0.2	0.1	0.1
Income tax	0.0	0.8	-1.0	-0.2	-0.1	0.0	-0.6	-1.1	-2.2	-3.5	-4.7
NPAT underlying	0.4	0.1	-2.8	-1.5	0.9	2.0	3.1	6.0	8.7	14.1	18.9
Equity Accounting Profits											
Less non-controlling interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
NPAT underlying - attribu	0.4	0.1	-2.8	-1.5	0.9	2.0	3.1	6.0	8.7	14.1	18.9
Abnormal items	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
NPAT Reported	0.4	0.1	-2.8	-1.5	0.9	2.0	3.1	6.0	8.7	14.1	18.9

BALANCE SHEET (\$m)

Y/End	FY10A	FY11A	FY12A	FY13A	FY14A	FY15A	FY16F	FY17F	FY18F	FY19F	FY20F
Cash	1.8	1.2	1.1	1.3	1.1	2.2	5.6	12.4	13.5	15.9	15.8
PP&E	0.9	0.8	0.8	0.7	0.7	0.8	1.3	2.1	2.7	3.9	5.6
Debtors & Inventory	14.7	16.0	14.0	13.6	14.7	15.5	17.1	18.6	22.5	33.9	40.6
Intangibles	4.2	4.2	4.0	3.5	2.9	2.7	2.8	2.9	3.1	3.2	3.4
Other assets	0.2	0.9	0.0	0.0	0.2	0.5	0.5	0.5	0.5	0.5	0.5
Total Assets	21.8	23.1	19.9	19.1	19.5	21.7	27.4	36.5	42.2	57.4	66.0
Borrowings	1.9	2.8	2.1	2.3	2.0	2.0	2.5	2.7	3.3	5.1	6.3
Trade Creditors	4.5	4.6	4.9	4.6	4.6	4.2	5.0	4.9	5.9	9.1	11.1
Other Liabilities	3.2	3.0	3.7	3.8	3.7	4.2	4.8	5.4	6.5	10.1	12.5
Total Liabilities	9.6	10.3	10.7	10.7	10.4	10.4	12.2	13.0	15.8	24.3	29.9
NET ASSETS	12.2	12.8	9.2	8.4	9.2	11.3	15.2	23.4	26.5	33.1	36.1

Y/End	FY10A	FY11A	FY12A	FY13A	FY14A	FY15A	FY16F	FY17F	FY18F	FY19F	FY20F
Operating EBITDA	1.5	0.6	(0.2)	0.3	3.0	4.1	5.7	8.5	12.1	18.9	25.1
Interest & Tax	(0.6)	0.4	(1.6)	(0.6)	(0.7)	(0.7)	(1.3)	(1.3)	(2.5)	(3.9)	(5.3)
Working Cap.	(0.5)	(0.4)	(2.2)	(0.6)	1.6	1.1	(0.2)	0.7	1.2	3.1	1.2
Operating CF	0.5	0.7	(3.9)	(0.8)	3.9	4.5	4.3	7.8	10.8	18.1	21.0
Maintenance Capex	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Expansion Capex	(1.3)	(1.0)	(0.3)	(0.3)	(0.2)	(0.5)	(0.9)	(1.1)	(1.0)	(1.6)	(2.1)
Acquisitions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Free Cashflow (FCF)	(0.8)	(0.3)	(4.2)	(1.2)	3.7	4.0	3.4	6.7	9.8	16.4	18.9
Ord Dividends	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(8.7)	(14.1)	(18.9)
Equity, (Debt Paydown)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net Cashflow	(0.8)	(0.3)	(4.2)	(1.2)	3.7	4.0	3.4	6.7	1.1	2.4	(0.0)

DIRECTORS

EXECUTIVES

	Shares (m)		Shares (m)
David Burton	100.8	Warwick Freeman (CTO)	0.1
David Lawson	4.3		
Alan Anderson	0.1		
Total	105.3		

eHealth (China)

eHealth (China + ROW)

DIVISIONAL SUMMARY (A\$m)

Y/End	FY10A	FY11A	FY12A	FY13A	FY14A	FY15A	FY16F	FY17F	FY18F	FY19F	FY20F
Revenue											
Sleep	9.7	9.3	8.4	8.1	9.3	9.4	10.3	11.3	12.5	13.7	14.4
Brain / Neuro	9.5	9.8	8.6	8.4	9.3	11.5	13.2	15.2	17.5	36.7	42.2
Blood Flow (DWL)	6.7	5.6	5.9	5.1	6.5	6.9	7.3	7.6	8.0	9.2	10.6
eHealth	0.0	0.0	0.0	0.0	0.0	0.0	0.2	1.0	5.0	10.0	20.0
Consumables/Services	6.5	6.2	5.0	5.4	5.9	5.7	6.5	7.5	8.7	10.0	11.5
Total	32.4	30.9	27.9	27.2	30.8	33.5	37.6	42.7	51.7	79.6	98.7
EBITDA											
Sleep	0.5	0.2	0.0	0.1	0.9	1.1	1.6	2.2	2.9	3.3	3.7
Brain / Neuro	0.4	0.2	0.0	0.1	0.9	1.4	2.0	3.0	4.1	8.7	10.7
Blood Flow (DWL)	0.3	0.1	0.0	0.1	0.6	0.8	1.1	1.5	1.9	2.2	2.7
eHealth	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	1.3	3.0	8.0
Consumables/Services	0.3	0.1	0.0	0.1	0.6	0.7	1.3	1.9	2.6	3.0	3.4
Other	0.0	0.0	0.0	0.0	0.0	0.0	-0.3	-0.3	-0.7	-1.2	-3.5
MILESTONE	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total	1.5	0.6	-0.2	0.3	3.0	4.1	5.7	8.5	12.1	18.9	25.1

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Date: 22-Feb-16
Model Updated: 22-Feb-16

KEY RATIOS

Y/End	FY10A	FY11A	FY12A	FY13A	FY14A	FY15A	FY16F	FY17F	FY18F	FY19F	FY20F
EBITDA Margin (%)	4.7%	2.0%	-0.6%	1.3%	9.6%	12.2%	15.2%	19.8%	23.4%	23.8%	25.4%
NPAT Margin (%)	1.3%	0.3%	-10.1%	-5.5%	2.9%	5.9%	8.3%	14.0%	16.8%	17.7%	19.2%
ROE (%) y/e	3.4%	0.7%	-30.7%	-17.8%	9.9%	17.5%	20.7%	25.4%	32.8%	42.5%	52.4%
ROI (%) y/e	8.0%	-2.5%	-12.5%	-9.2%	15.6%	24.4%					
NTA per share (\$)	0.11	0.11	0.09	0.09	0.10	0.11	0.15	0.20	0.23	0.32	0.38
Eff Tax Rate (%)	0.0%	-111.0%	58.3%	16.1%	-6.5%	-2.0%	-15.0%	-15.0%	-20.0%	-20.0%	-20.0%
Interest Cover (x)	1.7	(0.9)	(2.5)	(2.1)	2.6	4.0	7.0	200.3			
Net Gearing (%)											

VALUATION PARAMETERS

Y/End	FY10A	FY11A	FY12A	FY13A	FY14A	FY15A	FY16F	FY17F	FY18F	FY19F	FY20F
EPS Adj (cps)	0.3	0.1	-1.7	-0.9	0.5	1.2	1.9	3.6	5.2	8.4	11.3
PE Adj (x)		771.3	-22.9	-43.7	73.4	33.8	21.3	11.2	7.7	4.7	3.5
Enterprise Value (\$m)	66.9	68.4	67.7	67.8	67.7	66.5	63.6	57.1	56.6	56.0	57.2
EV / EBITDA (x)	43.9	113.5	-434.2	198.2	22.8	16.3	11.2	6.7	4.7	3.0	2.3
EV / EBIT (x)	68.1	-193.6	-53.3	-78.1	42.8	24.7	14.8	8.1	5.3	3.2	2.4
Price / NTA		3.5	4.2	4.3	4.0	3.5	2.7	2.0	1.7	1.2	1.1
DPS (cps)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	5.2	8.4	11.3
Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	13.0%	21.1%	28.3%
Franking (%)	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Free Cash / Share (c)	-0.5	-0.2	-2.5	-0.7	2.2	2.4	2.0	4.0	5.9	9.9	11.3
Price / FCF PS (x)	-86.5	-213.3	-15.9	-56.9	18.1	16.8	19.6	9.9	6.8	4.1	3.5

DCF VALUATION & SENSITIVITY

PV of Cashflows 2016 to 2024	63	Risk Free Rate	4.0%
		Equity Risk Premium	8.5%
PV of Term Year Cashflow	268	Equity Beta	1.2
		Cost of Equity	13.9%
		After Tax WACC	14.2%
Less OEI at FY'15 y/e	0		
(Net Debt) or Cash	(0)	Terminal Growth	3.0%
PV of Equity	134		
PV of Equity per share	\$ 0.80		

MAJOR SHAREHOLDERS

	%		%
D&DJ Burton Holdings Pty Ltd	60.4%	Beijing Bestmed Tech	2.9%
Teijin Ltd	5.0%		
Armco Barriers Pty Ltd	3.6%	Top 20	72%

GROWTH PROFILE (YoY)

Y/End	FY11A	FY12A	FY13A	FY14A	FY15A	FY16F	FY17F	FY18F	FY19F	FY20F
Sales (\$m)	-5%	-10%	-3%	14%	9%	12%	14%	21%	54%	24%
EBITDA inc EAT (\$m)	-60%	-126%	-319%	768%	37%	40%	49%	43%	57%	32%
EBIT (\$m)	-136%	260%	-32%	-282%	70%	60%	64%	51%	64%	35%
NPAT (\$m)	-80%	-3468%	-47%	-161%	117%	59%	90%	46%	62%	34%
EPS (cps)	-80%	-3468%	-48%	-160%	117%	59%	90%	46%	62%	34%
DPS (cps)	0%	0%	0%	0%	0%	0%	0%	0%	62%	34%

Recommendation Criteria

Investment View

PAC Partners Investment View is based on an absolute 1-year total return equal to capital appreciation plus yield.

Buy	Hold	Sell
> 20%	20% - 5%	< 5%

A Speculative recommendation is when a company has limited experience from which to derive a fundamental investment view.

Risk Rating

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