

Compumedics (CMP)

Validation of step-out growth

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KEY POINTS

- JV with Chinese health check platform ("Health 100") validates CMP's emerging consumer sleep application ("Somfit") and sets up CMP as global sleep & neuro leader.
- Health 100 is a perfect fit for CMP with 30m/annum health checks, a commitment to build sleep/neuro platform, and order for 1m Somfit units (US\$100m) over two years.
- We estimate CMP receives \$9m EBITDA in FY'20 and lifts group EBITDA by 30%. More significant is the validation of both step out technologies (Somfit and MEG) which should transform FY'17A EBITDA from \$4m to \$32m by FY'20.
- Health 100/CMP JV is targeted to be complete by 16 Aug.

Today Health 100 with Somfit, Jun'17 US BNI with MEG

The simple mechanics of consumer SomFit. It is a simple patent protected wrist watch with half of the 12 channels CMP uses in its hospital based diagnostic unit. This watch is stuck on your forehead with a sensor pad. You can then sleep in your own bed and download your effective sleep to a smart phone. If there is an issue you send data via cloud for a "paid for" analysis. You can keep your doctor in the loop for treatment and do more testing, possible in a clinic.

Our assumed steps with "Health 100" JV (PJV) are:

CFDA approval for Somfit within 8 months because Health 100 has a track record and CMP is the leader in diagnostics.

Somfit units and consumables (sensors) are made by the JV in China with option to export globally at CMP's discretion. Capital Cost of A\$42m to JV and rest paid by supplier.

1m Somfit units sold into "Health 100" clinics over two yrs at US\$100 each with 20% EBITDA margin (2H'19F 0.1m, 1H'20F 0.3m, 2H'20F 0.3m, 1H'21F 0.3m and 0.6m for each subsequent year.) Consumables include sensors and extra analysis make and 20% extra EBITDA over the unit sales.

VIEW - JV with Chinese health check platform ("Health 100") validates CMP's emerging consumer sleep application ("Somfit") and sets up CMP as global sleep & neuro leader.

We double our 12 Month Price Target to \$1.90/share with long term cash flow from Chinese JV underpinning the lift and FY'20 EBITDA of 10x. The combined validation of China with Somfit and USA with MEG give greater certainty to FY'20 EBITDA of \$32m and make CMP a Buy.

RISKS. *Formalisation of Health 100 JV* by 16 August. *Core Business Slippage* - CMP and main neuro/sleep competitor Natus have both had slippage with sales into USA. CMP is confident its midmarket product is better than peers. *MEG sales* - CMP has four buyers progressed and another 30 non-Chinese and 30 Chinese in pipeline. The first sale was impressive because CMP won key US neuro reference centre (BNI) vs. incumbent Elekta, but it took 18 months. We now have cash from the second MEG coming in during FY'19F. We assume 18 month sale cycle vs. six month aim.

RECOMMENDATION

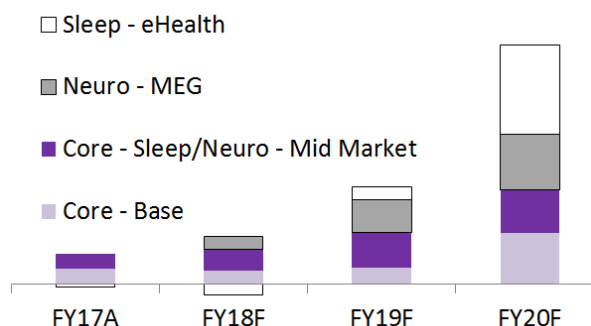
Buy

Previous Recommendation	Buy
Risk Rating	High
Current Share Price	\$0.41
12 Month Price Target	\$1.90 (from \$0.92)
Price Target Methodology	DCF, 10x FY'20 EV/EBITDA
Total Return (Capital + Yield)	360%
DCF Valuation	\$1.90 (from \$0.92)
Market capitalisation	\$72m
Liquidity – Daily Value	\$0.1m

Financial Forecasts & Valuation Metrics

Y/EJun (\$m)	FY'17A	FY'18F	FY'19F	FY'20F
Revenue	34.3	40.4	58.5	118.2
EBITDA	4.4	5.0	20.6	31.6
NPAT	1.3	4.0	15.8	24.8
EPS (cps)	0.7	2.3	8.9	14.1
EPS Growth	-61%	206%	296%	57%
DPS (c)	0.0	0.6	2.2	10.6
EV / EBITDA (x)	15.7	13.7	2.9	1.9
PER (x)	55.7	18.2	4.6	2.9
Dividend Yield	0.0%	1.4%	5.4%	25.7%
Gearing	-17%	-16%	-36%	-30%
Interest Cover (x)	na	49.0	178	65

CMP – Core and Step Outs - EBITDA



Source: PAC Partners estimates

Compumedics

NFPOS

176 m

Price \$ 0.70

Market Cap \$124 m

PROFIT & LOSS (\$m)

Y/End	FY13A	FY14A	FY15A	FY16A	FY17A	FY18F	FY19F	FY20F
Revenue	27.2	30.8	33.5	37.5	34.3	40.4	58.5	118.2
EBITDA	0.3	3.0	4.1	5.3	4.4	5.0	20.6	31.6
Depreciation & Amortisation	1.2	1.4	1.4	1.8	1.3	0.5	1.0	1.0
EBIT	-0.9	1.6	2.7	3.6	3.1	4.5	19.6	30.6
Net Interest	-0.4	-0.6	-0.7	-0.4	-0.3	0.1	0.1	0.5
Income tax	-0.2	-0.1	0.0	0.2	-0.4	-0.6	-3.9	-6.2
NPAT underlying	-1.5	0.9	2.0	3.4	1.3	4.0	15.8	24.8
Equity Accounting Profits								
Less non-controlling Interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
NPAT underlying - attribu	-1.5	0.9	2.0	3.4	1.3	4.0	15.8	24.8
Abnormal items	0.0	0.0	0.0	0.0	-0.8	0.0	0.0	0.0
NPAT Reported.	-1.5	0.9	2.0	3.4	0.5	4.0	15.8	24.8

BALANCE SHEET (\$m) = Does not include capex for Health 100 JV

Y/End	FY13A	FY14A	FY15A	FY16A	FY17A	FY18F	FY19F	FY20F
Cash	1.3	1.1	2.2	3.1	4.1	4.5	13.6	13.1
PP&E	0.7	0.7	0.8	0.8	0.7	2.0	3.8	6.0
Debtors & Inventory	13.6	14.7	15.5	18.4	20.5	23.3	25.7	44.2
Intangibles	3.5	2.9	2.7	2.4	2.4	3.7	3.9	4.0
Other assets	0.0	0.2	0.5	1.4	1.4	0.7	0.7	0.7
Total Assets	19.1	19.5	21.7	26.1	29.2	34.1	47.5	68.0
Borrowings	2.3	2.0	2.0	2.6	0.7	0.7	0.7	0.7
Trade Creditors	4.6	4.6	4.2	4.1	4.2	4.9	3.8	10.7
Other Liabilities	3.8	3.7	4.2	4.8	4.3	5.2	7.5	15.1
Total Liabilities	10.7	10.4	10.4	11.5	9.2	10.8	11.9	26.4
NET ASSETS	8.4	9.2	11.3	14.6	20.1	23.3	35.6	41.6

CASH FLOW (\$m)

Y/End	FY13A	FY14A	FY15A	FY16A	FY17A	FY18F	FY19F	FY20F
Operating EBITDA	0.3	3.0	4.1	5.3	4.4	5.0	20.6	31.6
Interest & Tax	(0.6)	(0.7)	(0.7)	(0.5)	(0.7)	(0.7)	(4.0)	(6.3)
Working Cap.	0.6	(1.6)	(1.1)	(2.4)	(4.1)	(1.2)	(1.4)	(4.5)
Operating CF	0.3	0.7	2.2	2.2	(0.4)	3.1	15.2	20.8
Maintenance Capex	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Expansion Capex	(0.3)	(0.2)	(1.3)	(1.5)	(1.3)	(1.6)	(2.2)	(2.6)
Acquisitions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Free Cashflow (FCF)	(0.1)	0.4	0.9	0.7	(1.7)	1.4	12.9	18.2
Ord Dividends	0.0	0.0	0.0	0.0	0.0	(1.0)	(3.9)	(18.6)
Equity, (Debt Paydown)	0.0	0.0	0.0	0.0	4.5	0.0	0.0	0.0
Net Cashflow	(0.1)	0.4	0.9	0.7	2.8	0.4	9.0	(0.4)

DIRECTORS

EXECUTIVES

	Shares (m)	Shares (m)
David Burton	96.0	Warwick Freeman (CTO) 0.1
David Lawson	3.4	
Alan Anderson	0.1	
Tucson Dunn	0.0	Total 99.6

DIVISIONAL SUMMARY (A\$m)

Y/End	FY13A	FY14A	FY15A	FY16A	FY17A	eHealth (China)	eHealth (China + ROW)		
							add MEG		
						FY18F	FY19F	FY20F	
Revenue									
Sleep	8.1	9.3	9.4	12.4	10.8		12.2	13.7	14.4
Brain / Neuro	8.4	9.3	11.5	10.9	9.1		13.4	20.5	31.2
Blood Flow (DWL)	5.1	6.5	6.9	7.5	7.1		6.8	7.1	7.5
eHealth*	0.0	0.0	0.0	0.0	0.5		1.0	9.0	50.0
Consumables/Services*	5.4	5.9	5.7	6.8	6.8		7.1	8.2	15.1
Total	27.2	30.8	33.5	37.5	34.3		40.4	58.5	118.2
EBITDA									
Sleep	0.1	0.9	1.1	1.8	0.1		1.0	1.9	3.1
Brain / Neuro	0.1	0.9	1.4	1.5	2.8		3.8	7.3	11.9
Blood Flow (DWL)	0.1	0.6	0.8	1.1	0.0		0.6	1.0	1.6
eHealth*	0.0	0.0	0.0	-0.4	-0.4		-1.5	1.8	12.5
Consumables/Services*	0.1	0.6	0.7	1.4	1.4		1.4	1.6	4.5
Other	0.0	0.0	0.0	0.0	0.6		-0.2	-1.0	-2.0
MILESTONE			0.0	0.0	0.0		0.0	8.0	0.0
Total	0.3	3.0	4.1	5.3	4.4		5.0	20.6	31.6

*Includes Chinese Health 100 JV EBITDA \$m

1.1 8.6

% total

5% 27%

Date: 31-May-18
Model Updated: 31-May-18

KEY RATIOS								
Y/End	FY13A	FY14A	FY15A	FY16A	FY17A	FY18F	FY19F	FY20F
EBITDA Margin (%)	1.3%	9.6%	12.2%	14.2%	12.9%	12.4%	35.2%	26.7%
EBIT Margin (%)	-3.2%	5.1%	8.0%	9.5%	9.1%	11.2%	33.5%	25.9%
NPAT Margin (%)	-5.5%	2.9%	5.9%	8.9%	3.8%	9.9%	26.9%	21.0%
ROE (%) y/e	-17.8%	9.9%	17.5%	23.0%	6.5%	17.1%	44.3%	59.7%
ROI (%) y/e	-9.2%	15.6%	24.4%	25.2%	18.6%	23.3%	86.1%	104.7%
ROA (%) y/e	-8%	5%	9%	13%	4%	12%	33%	36%
NTA per share (\$)	0.09	0.09	0.11	0.13	0.15	0.17	0.25	0.36
Eff Tax Rate (%)	16.1%	-6.5%	-2.0%	6.3%	-15.0%	-14.0%	-20.0%	-20.0%
Interest Cover (x)	(2.1)	2.6	4.0	8.8	10.0	(49.0)	(177.7)	(65.0)
Net Gearing (%)	12.5%	10.5%	-2.0%	-3.4%	-16.9%	-16.4%	-36.1%	-29.8%

VALUATION PARAMETERS								
Y/End	FY13A	FY14A	FY15A	FY16A	FY17A	FY18F	FY19F	FY20F
EPS Adj (cps)	-0.9	0.5	1.2	2.0	0.7	2.3	8.9	14.1
PE Adj (x)	-76.5	128.5	59.1	35.1	95.0	31.0	7.8	5.0
Enterprise Value (\$m)	124.6	124.5	123.3	123.0	120.1	119.7	110.7	111.1
EV / EBITDA (x)	364.3	41.9	30.2	23.1	27.3	23.9	5.4	3.5
EV / EBIT (x)	-184.8	69.7	45.8	34.6	38.7	26.4	5.6	3.6
Price / NTA	7.9	7.4	6.5	5.2	4.6	4.1	2.8	1.9
DPS (cps)	0.0	0.0	0.0	0.0	0.0	0.6	2.2	10.6
Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%	0.8%	3.2%	15.1%
Franking (%)	0%	0%	0%	0%	0%	0%	0%	0%
Free Cash / Share (c)	0.0	0.2	0.5	0.4	-1.0	0.8	7.3	10.3
Price / FCF PS (x)	-2375.5	286.6	134.0	178.3	-71.5	85.8	9.5	6.8

DCF VALUATION & SENSITIVITY - Includes nominal \$22m capex for Health 100

PV of Cashflows 2018 to 2020	11	Risk Free Rate	4.2%
PV of Cashflows 2021 to 2024	95	Equity Risk Premium	8.4%
PV of Term Year Cashflow	250	Equity Beta	1.10
		Cost of Equity	13.4%
Health 100 JV Capex	(21.8)	After Tax WACC	13.8%
Less OEI at FY17 y/e	0	Terminal Growth	3.0%
(Net Debt) or Cash	(0.5)		
PV of Equity	335		
PV of Equity per share	\$ 1.90		

		TV WACC			
		11.8%	13.8%	15.8%	17.8%
Term Growth	2.0%	\$ 2.32	\$ 1.77	\$ 1.39	\$ 1.11
	2.5%	\$ 2.43	\$ 1.83	\$ 1.43	\$ 1.14
	3.0%	\$ 2.54	\$ 1.90	\$ 1.47	\$ 1.17
	3.5%	\$ 2.67	\$ 1.97	\$ 1.52	\$ 1.20
	4.0%	\$ 2.82	\$ 2.06	\$ 1.57	\$ 1.24

MAJOR SHAREHOLDERS			
	%		%
D&DJ Burton Holdings Pty Ltd	54.4%	Beijing Bestmed Tech	2.8%
Teijin Ltd	4.7%		
Armco Barriers Pty Ltd	3.5%	Top 4	65%

GROWTH PROFILE (YoY)								
Y/End	FY13A	FY14A	FY15A	FY16A	FY17A	FY18F	FY19F	FY20F
Sales revenue	-3%	14%	9%	12%	-9%	18%	45%	102%
EBITDA	-319%	768%	37%	31%	-17%	14%	311%	53%
EBIT	-32%	-282%	70%	32%	-13%	46%	332%	56%
NPAT	-47%	-161%	117%	70%	-61%	206%	296%	57%
EPS (cps)	-48%	-160%	117%	69%	-63%	206%	296%	57%
DPS (cps)	0%	0%	0%	0%	0%	0%	296%	372%

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Buy	Hold	Sell
>20%	20% – 5%	<5%