

# Nanosonics

## Strong share price rise hits the target

**HOLD** (previously ADD)

Current price:	A\$3.19
Target price:	A\$3.12
Previous target:	A\$3.12
Up/downside:	-2.0%
Reuters:	NAN.AX
Bloomberg:	NAN AU
Market cap:	US\$705.7m
	A\$954.9m
Average daily turnover:	US\$3.82m
	A\$5.07m
Current shares o/s	297.7m
Free float:	52.0%

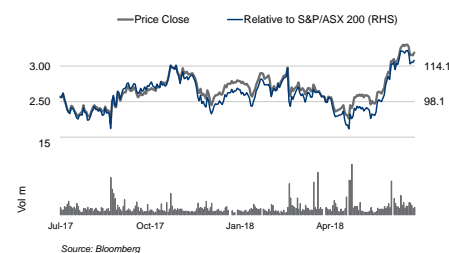
- While we remain long term supporters of the name, NAN's recent strong share price rise sees our target price being achieved. As such, we move our recommendation to Hold from Add.
- The second generation device (trophon2) has recently received Canadian and European clearance enabling a launch in 1QFY19.
- We have made no changes to our forecasts and target price.

### Key changes in this note

FY18F no changes.

FY19F no changes.

FY20F no changes.



Price performance	1M	3M	12M
Absolute (%)	18.6	27.6	25.1
Relative (%)	14.9	19.6	15.9

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- N/A

### Trophon2 obtains further clearances

Following the receipt of the FDA 510(k) clearance for its second generation trophon platform device – trophon2 in April, NAN has subsequently received the Medical Device License from Health Canada and the European CE Mark clearance. It is expected that the trophon2 will be launched in 1QFY19.

### No changes to forecasts and sensitivity comment

We have made no changes to forecasts. We are sitting broadly in line with consensus Factset (FY18 A\$2.2m, FY19 A\$13.5m and FY20 A\$26.5m). We have assumed with the launch of the trophon2 the installed base will continue to grow in FY19, noting that there will be a transition phase in the early stages of the launch. We have previously commented on and factored into our forecasts the positive impact that will be achieved from the higher levels of consumables across the GE Healthcare installed base following the execution of a new three-year Capital Reseller agreement which come into effect on 1 July 2019. Our model is most sensitive to a change in installed base volumes whereby a 5% change from our forecast of 3,570 units in FY19 impacts our valuation 2.2%.

### Investment view – positive long term stance maintained

Given we have made no changes to forecasts, our DCF based valuation remains unchanged at A\$3.12. Our target price also remains unchanged at A\$3.12. While we remain long term supporters of the name, the share price is now trading at our target price and subsequently we move our recommendation to Hold from Add. The key downside risk relates to a slower roll out of the trophon2 than expected and the key upside risk is better penetration into the UK and main Europe markets.

### Financial Summary

	Jun-16A	Jun-17A	Jun-18F	Jun-19F	Jun-20F
Revenue (A\$m)	42.8	67.6	62.3	80.0	103.8
Operating EBITDA (A\$m)	0.96	14.19	1.68	12.86	28.48
Net Profit (A\$m)	0.12	26.25	1.38	13.42	21.12
Normalised EPS (A\$)	0.000	0.088	0.005	0.045	0.071
Normalised EPS Growth		20815%	(95%)	869%	57%
FD Normalised P/E (x)	7,568	36	686	71	45
DPS (A\$)	-	-	-	-	-
Dividend Yield	0%	0%	0%	0%	0%
EV/EBITDA (x)	891.2	62.6	523.9	67.6	29.9
P/FCFE (x)	294.0	65.1	114.9	89.6	54.6
Net Gearing	(83.1%)	(70.6%)	(79.0%)	(79.1%)	(79.7%)
P/BV (x)	15.93	10.89	10.72	9.31	7.71
ROE	0.2%	36.5%	1.6%	14.1%	18.8%
% Change In Normalised EPS Estimates			0%	0%	0%
Normalised EPS/consensus EPS (x)			0.77	0.96	0.81

SOURCE: MORGANS, COMPANY REPORTS

**Figure 1: Financial summary**

Profit and loss						Valuation details				
	Jun-16A	Jun-17A	Jun-18F	Jun-19F	Jun-20F					
Revenue	42.8	67.6	62.3	80.0	103.8	Share Price	\$3.19	Market Cap	A\$949.8m	
COGS	12.6	16.0	18.2	20.2	22.6	Price Target	\$3.12			
Total Operating Costs	29.3	37.4	42.4	47.0	52.7	Total shareholder return	-2.0%	WACC	9.9%	
EBITDA	1.0	14.2	1.7	12.9	28.5					
Depreciation	-1.3	-1.2	-1.5	-1.5	-1.5					
Amortisation & impairments	0.0	0.0	0.0	0.0	0.0					
EBIT	-0.4	13.0	0.2	11.4	27.0					
Net Interest Income	0.5	1.0	1.2	2.1	3.2					
Pre-tax Profit	0.1	13.9	1.4	13.5	30.2					
Tax	0.0	12.3	0.0	0.0	-9.0					
Reported Profit	0.1	26.2	1.4	13.4	21.1					
Exceptional items	0.0	0.0	0.0	0.0	0.0					
Normalised Profit	0.1	26.2	1.4	13.4	21.1					
Gross dividends	0.0	0.0	0.0	0.0	0.0					
Cash flow statement						Key metrics/ multiples				
	Jun-16A	Jun-17A	Jun-18F	Jun-19F	Jun-20F		Jun-16A	Jun-17A	Jun-18F	Jun-19F
EBITDA	1.0	14.2	1.7	12.9	28.5	P/E	7568.4	36.2	686.1	70.8
Net interest	-0.1	0.9	1.1	2.0	3.1	Yield	0.0%	0.0%	0.0%	0.0%
Tax	0.0	12.3	0.0	0.0	-9.0	PEG	74.1	0.0	-7.2	0.1
Changes in working capital	1.8	-11.1	6.9	-2.6	-3.5	EV/EBITDA	891.2	62.6	523.9	67.6
Operating cash flow	2.6	16.3	9.6	12.2	19.0	Price/ Book Value	15.9	10.9	10.7	9.3
Capex	-1.1	-1.0	-1.4	-1.6	-1.6	Price/ Net Tangible Assets	16.0	10.9	10.7	9.3
Free Cash Flow	1.6	15.3	8.3	10.6	17.4					
Acquisitions and divestments	-0.2	-0.2	0.0	0.0	0.0	Operating cash flow yield	0.3%	1.7%	1.0%	1.3%
Other Investing cash flow	-1.6	-15.3	-8.3	-10.6	-17.4	Free cash flow yield	0.2%	1.6%	0.9%	1.1%
Investing cash flows	-1.3	-1.2	-1.4	-1.6	-1.6					
Increase / decrease in Equity	0.0	0.0	0.0	0.0	0.0	Per share data				
Increase / decrease in Debt	1.7	-0.5	0.0	0.0	0.0	Diluted shares on issue	Jun-16A	Jun-17A	Jun-18F	Jun-19F
Dividends paid	0.0	0.0	0.0	0.0	0.0		283.0	297.7	297.7	297.7
Other financing cash flows	0.0	0.0	0.0	0.0	0.0	Reported EPS (A\$)	0.00	0.09	0.00	0.05
Financing cash flows	1.7	-0.5	0.0	0.0	0.0	Normalised EPS (A\$)	0.00	0.09	0.00	0.05
						Dividends per share (A\$)	0.00	0.00	0.00	0.00
						Payout ratio	0.0%	0.0%	0.0%	0.0%
Balance Sheet						Result quality				
	Jun-16A	Jun-17A	Jun-18F	Jun-19F	Jun-20F		Jun-16A	Jun-17A	Jun-18F	Jun-19F
Assets						Cash flow conversion	286.1%	21.8%	509.6%	79.8%
Cash And Deposits	48.8	63.0	71.4	82.1	99.5	FCF vs. NPAT	1309.6%	58.2%	597.3%	79.0%
Debtors	7.7	8.9	8.5	11.0	14.2	Gross dividends vs FCF	0.0%	0.0%	0.0%	0.0%
Inventory	6.9	7.7	2.5	3.2	4.2					
Other current assets	1.1	1.7	1.7	1.7	1.7	Gearing				
Total Current Assets	64.6	81.4	84.1	97.9	119.6		Jun-16A	Jun-17A	Jun-18F	Jun-19F
Fixed Assets	3.3	3.5	3.4	3.5	3.6	Net Debt	-47.10	-61.64	-69.99	-80.67
Investments	0.0	0.0	0.0	0.0	0.0	Net Debt / Equity	-83.1%	-70.6%	-79.0%	-79.1%
Goodwill	0.0	0.0	0.0	0.0	0.0	Net Debt / EBITDA (x)	-49.04	-4.34	-41.68	-6.28
Intangibles	0.3	0.3	0.3	0.3	0.3	EBIT interest cover (x)	-0.73	13.14	0.19	5.54
Other non-current assets	0.0	14.2	14.2	14.2	14.2	Invested Capital	11.4	14.5	25.5	18.8
Total Non-Current Assets	3.6	17.9	17.8	17.9	18.0	Enterprise Value	855.8	888.2	879.8	869.1
TOTAL ASSETS	68.2	99.3	101.9	115.9	137.7					
Liabilities						Growth ratios				
	Jun-16A	Jun-17A	Jun-18F	Jun-19F	Jun-20F		Jun-16A	Jun-17A	Jun-18F	Jun-19F
Short Term Debt	0.4	0.4	0.6	0.6	0.6	Revenue	92.8%	58.0%	-7.8%	28.4%
Creditors	4.6	3.7	5.0	5.5	6.2	Operating costs	43.1%	27.6%	13.5%	10.8%
Other current liabilities	5.1	6.9	6.9	6.9	6.9	EBITDA	120.3%	1378.1%	-88.2%	665.6%
Total Current Liabilities	10.2	11.1	12.5	13.0	13.7	EBIT	93.8%	3581.9%	-98.2%	4885.7%
Long Term Debt	1.3	0.9	0.8	0.8	0.8	NPAT	102.2%	21901.5%	-94.7%	869.3%
Other Debt (inc hybrids)	0.0	0.0	0.0	0.0	0.0	EPS growth	102.2%	20815.2%	-94.7%	869.3%
Other Non curren liabilities	0.0	0.0	0.0	0.0	0.0	DPS growth	0.0%	0.0%	0.0%	0.0%
Total Non -Current liabilities	1.3	0.9	0.8	0.8	0.8	Operating cash flow	148.6%	521.4%	-41.0%	26.6%
TOTAL LIABILITIES	11.5	12.0	13.3	13.8	14.5					
Equity						Margin analysis				
	Jun-16A	Jun-17A	Jun-18F	Jun-19F	Jun-20F		Jun-16A	Jun-17A	Jun-18F	Jun-19F
Issued capital	7.3	11.8	11.8	11.8	11.8	EBITDA Margin	2.2%	21.0%	2.7%	16.1%
Retained earnings	-63.4	-37.2	-37.2	-37.2	-37.2	EBIT margin	-0.8%	19.2%	0.4%	14.2%
Other reserves and FX	112.7	112.7	114.1	127.5	148.6	NPAT margin	0.3%	38.8%	2.2%	16.8%
TOTAL EQUITY	56.7	87.3	88.6	102.1	123.2	ROE	0.2%	30.1%	1.6%	13.1%
TOTAL EQUITY + LIABILITY	68.2	99.3	101.9	115.9	137.7	ROIC	-3.2%	89.2%	0.9%	60.7%
						ROE less WACC	-9.7%	20.2%	-8.4%	3.2%
						ROIC less WACC	-13.1%	79.3%	-9.0%	50.8%

SOURCE: MORGANS RESEARCH, COMPANY

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