

Nanosonics

Early product clearance paints rosy future

ADD (no change)

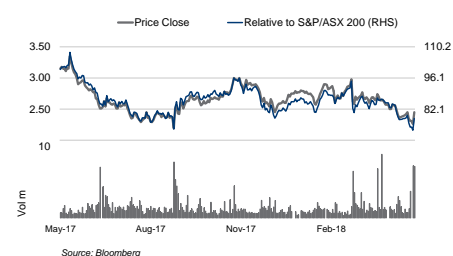
Current price:	A\$2.45
Target price:	A\$3.12
Previous target:	A\$3.13
Up/downside:	27.4%
Reuters:	NAN.AX
Bloomberg:	NAN AU
Market cap:	US\$554.3m
	A\$733.4m
Average daily turnover:	US\$3.46m
	A\$4.46m
Current shares o/s	297.7m
Free float:	52.0%

Key changes in this note

FY18F revenue down by 6.0%.

FY19F revenue no change.

FY20F revenue no change.



Price performance	<i>1M</i>	<i>3M</i>	<i>12M</i>
Absolute (%)	-7.6	-15.5	-22.5
Relative (%)	-9.7	-13.9	-23

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- Ahead of our expectation, NAN has received regulatory clearance for the next generation trophon. The product is expected to be released during 1QFY19.
- Management has called out softer sales during the transition period. This is understandable as distributors tightly manage inventory levels.
- We have revised down our FY18 profit forecast, reflecting slower US sales during the transition period. Our FY19 and FY20 forecasts remain unchanged.
- At least one or more infection prevention solutions are expected to be delivered by FY20. Our positive stance remains. Add.

Trophon2 gets thumbs up ahead of schedule

NAN has announced the receipt of the FDA 510(k) clearance for its second generation trophon platform device – trophon2. This approval although expected has come ahead of schedule and our expectations (we expected late CY18). Trophon2 reflects a completely new mechanical and software design (including RFID capabilities). Some of the new features include a redesigned chamber to facilitate existing and future probe designs as well as new functionality to further optimise point of care usage and clinical workflow including a large high definition colour touch screen. The trophon2 is expected to be released during the 1QFY19, with manufacturing expected to ramp up over the next three months.

Timing issues to impact short term, medium term is rosy

Management noted that during the transition period sales maybe a little softer. This is understandable given distributors will look to manage their inventory tightly ahead of the release of the trophon2. As a result we have revised down our sales forecast by 6% to A\$62.3m reflecting a lower contribution from the US for FY18. We believe this is a timing issue only and have left our FY19 and FY20 forecasts unchanged. 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 comes into effect on 1 July 2019.

Further products to come

Infection guidelines in many regions are driving adoption of automated infection prevention systems like the trophon and trophon2. To continue the momentum NAN invests heavily in R&D committing over A\$14m in FY18, where one of more new infection prevention solutions are expected to be released to the market by FY20.

Investment view medium term rosy

Given the change to our FY18 forecast our DCF valuation has reduced slightly to A\$3.12 from A\$3.13. Our target price has been set at the same level. The key risk to our target is a slower-than-expected ramp up of the trophon2 in the US market. Our positive Add recommendation is maintained.

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)	5,813	28	527	54	35
DPS (A\$)	-	-	-	-	-
Dividend Yield	0%	0%	0%	0%	0%
EV/EBITDA (x)	673.1	47.1	392.7	50.5	22.2
P/FCFE (x)	225.8	50.0	88.2	68.8	41.9
Net Gearing	(83.1%)	(70.6%)	(79.0%)	(79.1%)	(79.7%)
P/BV (x)	12.24	8.36	8.23	7.15	5.92
ROE	0.2%	36.5%	1.6%	14.1%	18.8%
% Change In Normalised EPS Estimates			(54.6%)	(0.2%)	(0.2%)
Normalised EPS/consensus EPS (x)			0.46	0.94	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	\$2.45	Market Cap	A\$729.5m	
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	27.4%	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	5812.7	27.8	527.0	54.4
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	56.9	0.0	-5.6	0.1
Changes in working capital	1.8	-11.1	6.9	-2.6	-3.5	EV/EBITDA	673.1	47.1	392.7	50.5
Operating cash flow	2.6	16.3	9.6	12.2	19.0	Price/ Book Value	12.2	8.4	8.2	7.1
Capex	-1.1	-1.0	-1.4	-1.6	-1.6	Price/ Net Tangible Assets	12.3	8.4	8.3	7.2
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	0.4%	2.2%	1.3%	1.7%
Other Investing cash flow	-1.6	-15.3	-8.3	-10.6	-17.4	Free cash flow yield	0.2%	2.1%	1.1%	1.5%
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	283.0	297.7	297.7	297.7
Dividends paid	0.0	0.0	0.0	0.0	0.0	Reported EPS (A\$)	0.00	0.09	0.00	0.05
Other financing cash flows	0.0	0.0	0.0	0.0	0.0	Normalised EPS (A\$)	0.00	0.09	0.00	0.05
Financing cash flows	1.7	-0.5	0.0	0.0	0.0	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	646.4	667.8	659.5	648.8
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 current 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

Figure 2: Changes to forecasts

	FY18F			FY19F			FY20F		
	Prev	Rev	Diff	Prev	Rev	Diff	Prev	Rev	Diff
Revenue	66.2	62.3	-6%	80.0	80.0	0%	103.8	103.8	0%
EBITDA	4.6	1.7	-63%	12.9	12.9	0%	28.5	28.5	0%
EBITDA margin	7%	3%	-62%	16%	16%	0%	27%	27%	0%
Net profit before tax	4.4	1.4	-68%	13.4	13.4	0%	21.2	21.1	0%

SOURCE: MORGANS RESEARCH, COMPANY

Queensland		New South Wales		Victoria		Western Australia	
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Stockbroking, Corporate Advice, Wealth Management		Stockbroking, Corporate Advice, Wealth Management		Stockbroking, Corporate Advice, Wealth Management		Stockbroking, Corporate Advice, Wealth Management	
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Brisbane: Tynan Partners	+61 7 3152 0600	Ballina	+61 2 6686 4144	Camberwell	+61 3 9813 2945		
Brisbane: North Quay	+61 7 3245 5466	Balmain	+61 2 8755 3333	Domain	+61 3 9066 3200	South Australia	
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