

Nanosonics

HOLD (no change)

Current price:	A\$2.30
Target price:	A\$2.15 ▲
Previous target:	A\$2.06
Up/downside:	-6.4%
Reuters:	NAN.AX
Bloomberg:	NAN AU
Market cap:	US\$502.7m A\$680.6m
Average daily turnover:	US\$1.70m A\$2.25m
Current shares o/s	283.0m
Free float:	52.0%

Key changes in this note

- FY16F revenue no changes.
- FY16F EPS no changes.
- FY16F ROE no changes.



Price performance	1M	3M	12M
Absolute (%)	0.4	10.6	45.1
Relative (%)	4.7	10.7	52.8

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New guidelines in UK to follow

- The next key catalyst is the expected release of the UK guidelines for ultrasound probe decontamination. Wales and Scotland have already released guidelines.
- Strong 3Q results are a good indicator for growth into FY17 and FY18.
- No changes to forecasts.
- Price target moved up modestly.
- Hold recommendation maintained, although looking for reasons to upgrade.

Scotland guidelines in place – UK next

Health Protection Scotland and Health Facilities Scotland recently released ultrasound probe decontamination guidelines. These guidelines follow a national survey performed on current decontamination practices. It concluded that “there is ongoing risk to patient safety with regard to decontamination of semi-invasive ultrasound probes”. NAN’s trophon EPR[®] meets a full range of criteria outlined in the guidelines. Wales has previously issued similar guidelines and positive market share gains have been noted by management. The UK is expected to release similar guidelines shortly and we expect this will be positive for the share price.

Strong 3Q result and no changes to forecasts

At this stage, we have made no changes to our FY16, FY17 and FY18 forecasts. We note that NAN posted a strong 3Q sales result of A\$12.3m, up 33% on the pcp. The installed base grew by 1,000 units to over 7,700 trophon EPR[®] units. NAN finished the quarter in a strong cash position of A\$44.2m. We currently sit at the lower end of consensus forecasts (Factset) for FY16, which currently sit at sales of A\$38.3m and a net loss of A\$2.1m.

Investment view - positive outlook although Hold maintained

Although we have made no changes to our forecasts, our DCF-based valuation and price target have increased modestly to A\$2.15 (from A\$2.06) reflecting a roll forward in our model. The risk key to our target price is a slower-than-expected US sales ramp. We maintain a Hold recommendation, but would revisit our view on share price weakness.

Financial Summary	Jun-14A	Jun-15A	Jun-16F	Jun-17F	Jun-18F
Revenue (A\$m)	21.49	22.20	34.14	45.49	60.43
Operating EBITDA (A\$m)	-1.85	-4.73	-3.66	2.74	11.57
Net Profit (A\$m)	-2.62	-5.47	-3.36	3.20	12.09
Normalised EPS (A\$)	(0.010)	(0.019)	(0.012)	0.011	0.043
Normalised EPS Growth	(54%)	95%	(39%)		277%
FD Normalised P/E (x)	NA	NA	NA	203.2	53.9
DPS (A\$)	-	-	-	-	-
Dividend Yield	0%	0%	0%	0%	0%
EV/EBITDA (x)	NA	NA	NA	223.1	52.0
P/FCFE (x)	NA	NA	900.6	417.0	66.0
Net Gearing	(74.3%)	(82.8%)	(91.3%)	(88.3%)	(86.9%)
P/BV (x)	21.27	14.57	15.76	14.62	11.50
ROE	(12.6%)	(16.9%)	(7.8%)	7.5%	23.9%
% Change In Normalised EPS Estimates			0%	0%	0%
Normalised EPS/consensus EPS (x)			1.69	0.49	0.67

SOURCE: MORGANS, COMPANY REPORTS

Figure 1: Financial summaries

Profit and loss	Jun-14A	Jun-15A	Jun-16F	Jun-17F	Jun-18F
Revenue	21.5	22.2	34.1	45.5	60.4
COGS	7.0	8.8	12.0	13.5	15.4
Total Operating Costs	16.3	20.5	28.1	31.6	35.9
EBITDA	-1.8	-4.7	-3.7	2.7	11.6
Depreciation	-1.0	-1.1	-0.8	-0.9	-0.9
Amortisation & impairments	0.0	0.0	0.0	0.0	0.0
EBIT	-2.8	-5.8	-4.5	1.9	10.7
Net Interest Income	0.2	0.3	1.1	1.3	1.4
Pre-tax Profit	-2.6	-5.5	-3.4	3.2	12.1
Tax	0.0	0.0	0.0	0.0	0.0
Reported Profit	-2.6	-5.5	-3.4	3.2	12.1
Exceptional items	0.0	0.0	0.0	0.0	0.0
Normalised Profit	-2.6	-5.5	-3.4	3.2	12.1
Gross dividends	0.0	0.0	0.0	0.0	0.0

Cash flow statement	Jun-14A	Jun-15A	Jun-16F	Jun-17F	Jun-18F
EBITDA	-1.8	-4.7	-3.7	2.7	11.6
Net interest	0.2	0.3	1.1	1.3	1.4
Tax	0.0	0.0	0.0	0.0	0.0
Changes in working capital	-1.0	-0.4	4.4	-1.6	-2.1
Operating cash flow	-2.6	-4.8	1.9	2.5	10.8
Capex	-0.5	-2.1	-1.2	-0.9	-1.0
Free Cash Flow	-3.1	-6.9	0.7	1.6	9.9
Acquisitions and divestments	0.0	-0.2	0.0	0.0	0.0
Other Investing cash flow	3.1	6.9	-0.7	-1.6	-9.9
Investing cash flows	-0.5	-2.3	-1.2	-0.9	-1.0
Increase / decrease in Equity	0.3	28.6	0.0	0.0	0.0
Increase / decrease in Debt	0.0	0.0	0.0	0.0	0.0
Dividends paid	0.0	0.0	0.0	0.0	0.0
Other financing cash flows	0.0	0.0	0.0	0.0	0.0
Financing cash flows	0.3	28.6	0.0	0.0	0.0

Balance Sheet	Jun-14A	Jun-15A	Jun-16F	Jun-17F	Jun-18F
Assets					
Cash And Deposits	21.2	45.7	46.4	48.0	57.9
Debtors	5.7	3.9	4.7	6.2	8.3
Inventory	4.2	6.2	1.4	1.8	2.4
Other current assets	0.4	0.6	0.6	0.6	0.6
Total Current Assets	31.6	56.4	53.1	56.7	69.2
Fixed Assets	1.8	3.6	3.9	3.9	4.0
Investments	0.0	0.0	0.0	0.0	0.0
Goodwill	0.0	0.0	0.0	0.0	0.0
Intangibles	0.0	0.2	0.2	0.2	0.2
Other non-current assets	0.1	0.2	0.2	0.2	0.2
Total Non-Current Assets	1.9	3.9	4.3	4.3	4.4
TOTAL ASSETS	33.5	60.4	57.4	61.0	73.6
Liabilities					
Short Term Debt	0.0	8.7	3.5	3.5	3.5
Creditors	3.0	2.7	3.1	3.5	4.0
Other current liabilities	1.7	4.3	4.3	4.3	4.3
Total Current Liabilities	4.7	15.7	10.8	11.3	11.8
Long Term Debt	0.0	0.0	5.2	5.2	5.2
Other Debt (inc hybrids)	0.0	0.0	0.0	0.0	0.0
Other Non curren liabilities	0.0	0.0	0.0	0.0	0.0
Total Non -Current liabilities	0.0	0.0	5.2	5.2	5.2
TOTAL LIABILITIES	5.0	15.7	16.1	16.5	17.0
Equity					
Issued capital	3.7	5.1	5.1	5.1	5.1
Retained earnings	-58.0	-63.5	-63.5	-63.5	-63.5
Other reserves and FX	82.9	103.1	99.7	102.9	115.0
TOTAL EQUITY	28.5	44.7	41.3	44.5	56.6
TOTAL EQUITY + LIABILITY	33.5	60.4	57.4	61.0	73.6

Valuation details	Jun-14A	Jun-15A	Jun-16F	Jun-17F	Jun-18F
Share Price	\$2.30		Market Cap	A\$651.0m	
Price Target	\$2.15				
Total shareholder return	-6.4%		WACC		9.9%

Key metrics/ multiples	Jun-14A	Jun-15A	Jun-16F	Jun-17F	Jun-18F
P/E	-231.9	-119.1	-193.9	203.2	53.9
Yield	0.0%	0.0%	0.0%	0.0%	0.0%
PEG	-4.3	1.3	-5.0	1.0	0.2
EV/EBITDA	-317.4	-129.9	-167.6	223.1	52.0
Price/ Book Value	21.3	14.6	15.8	14.6	11.5
Price/ Net Tangible Assets	21.3	14.6	15.8	14.7	11.5
Operating cash flow yield	-0.4%	-0.7%	0.3%	0.4%	1.7%
Free cash flow yield	-0.5%	-1.1%	0.1%	0.2%	1.5%

Per share data	Jun-14A	Jun-15A	Jun-16F	Jun-17F	Jun-18F
Diluted shares on issue	263.8	283.0	283.0	283.0	283.0
Reported EPS (A\$)	-0.01	-0.02	-0.01	0.01	0.04
Normalised EPS (A\$)	-0.01	-0.02	-0.01	0.01	0.04
Dividends per share (A\$)	0.00	0.00	0.00	0.00	0.00
Payout ratio	0.0%	0.0%	0.0%	0.0%	0.0%

Result quality	Jun-14A	Jun-15A	Jun-16F	Jun-17F	Jun-18F
Cash flow conversion	151.6%	108.6%	-20.8%	41.6%	81.5%
FCF vs. NPAT	117.4%	127.0%	-21.5%	48.7%	81.7%
Gross dividends vs FCF	0.0%	0.0%	0.0%	0.0%	0.0%

Gearing	Jun-14A	Jun-15A	Jun-16F	Jun-17F	Jun-18F
Net Debt	-21.21	-37.01	-37.74	-39.30	-49.17
Net Debt / Equity	-74.3%	-82.8%	-91.3%	-88.3%	-86.9%
Net Debt / EBITDA (x)	11.50	7.83	10.31	-14.33	-4.25
EBIT interest cover (x)	-16.40	-17.55	-3.97	1.40	7.65
Invested Capital	6.4	7.3	8.0	3.6	5.3
Enterprise Value	585.6	614.0	613.3	611.7	601.8

Growth ratios	Jun-14A	Jun-15A	Jun-16F	Jun-17F	Jun-18F
Revenue	44.3%	3.3%	53.8%	33.3%	32.8%
Operating costs		25.3%	37.3%	12.5%	13.6%
EBITDA	65.6%	-156.2%	22.6%	174.9%	322.1%
EBIT	55.0%	-105.3%	22.5%	-141.6%	471.8%
NPAT	53.7%	-108.8%	38.6%	195.4%	277.2%
EPS growth	54.0%	-94.6%	38.6%	195.4%	277.2%
DPS growth	0.0%	0.0%	0.0%	0.0%	0.0%
Operating cash flow	42.4%	-85.4%	139.4%	-30.8%	337.6%

Margin analysis	Jun-14A	Jun-15A	Jun-16F	Jun-17F	Jun-18F
EBITDA Margin	-8.6%	-21.3%	-10.7%	6.0%	19.2%
EBIT margin	-13.1%	-26.1%	-13.2%	4.1%	17.7%
NPAT margin	-12.2%	-24.6%	-9.8%	7.0%	20.0%
ROE	-9.2%	-12.2%	-8.1%	7.2%	21.3%
ROIC	-44.3%	-79.8%	-56.1%	51.6%	201.7%
ROE less WACC	-19.1%	-22.2%	-18.1%	-2.7%	11.4%
ROIC less WACC	-54.2%	-89.7%	-66.0%	41.7%	191.7%

SOURCE: MORGANS RESEARCH, COMPANY

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