

Nanosonics LTD

Q3FY12 Quarterly



Wilson HTM
INVESTMENT GROUP

30 April 2012

\$0.50

BUY

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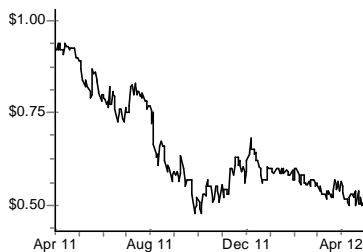
Recommendation

Nanosonics' Q3 quarterly report was softer than we had anticipated but we are retaining our forecasts for FY12-14. We are also maintaining our BUY call and our \$1.00 price target on the stock. There are two competing pressures at play with this stock: the market knows Nanosonics is in discussions with GEHC, to shape FY13 Trophon unit demand; but the market is also worried about cash levels. At this valuation, it might be a mistake to look at Trophon's first 9 months in the US market, think it slow, and misconstrue that as apathy on GEHC's part. In our view, the order volumes will come from GEHC – but it takes time to lay the regulatory and marketing groundwork for new medical device products. Even for GEHC.

Key Points

- Nanosonics Q3FY12 reported sales revenue of \$3M; +9% on pcp (WHTMe: \$3.5m). The result was softer than we had forecast, but not so much that we feel inclined to change our forecasts for FY12-14. The USA and ANZ markets remained the dominant contributors to sales in Q3. Our Q4 forecasts anticipate USA and ANZ continuing at a similar rate but for Europe and Asia to play a greater role.
- We noted an increase in cash payments to suppliers. Nanosonics has committed to greater purchase quantities for some Trophon componentary – which we see as a positive. We expect that inventory will have risen as a result and this should translate into incremental revenue gains over coming quarters.
- As described in our resumption of coverage note earlier this month, GE Healthcare (GEHC) Trophon sales are yet to reach a level where we can expect to see routine quarter-on-quarter growth. We understand that Nanosonics is in negotiations with GEHC with respect to FY13 volumes – to be finalised around June. We do not expect that the outcome of those discussions will be disclosed, but they will have a bearing on the company's decision regarding when to head towards larger accommodation and commence scale-up.
- Furthermore, Nanosonics has made direct hires in the USA to work with the Trophon end-user market and other Original Equipment Manufacturers (OEMs) to educate the market and help create demand outside GEHC's immediate ultrasound customer base.
- Cash receipts of \$3M brought the 9 month tally to \$7.9M. Net operating/investing activities used \$1.8M for the quarter. Cash balance was \$7.4M at the close of Q3.
- **WHTM View:** we remain positive on this company, again flagging the thesis that the ultrasound/radiology sector seems set for an inevitable move away from toxic, bulk chemical disinfection methods and will, in our view, increasingly demand safe, effective and traceable solutions. The involvement of GEHC cannot be underestimated as the US leader in the obstetrics/gynaecologic ultrasound market. Although progress does appear slow – it takes time to lay the regulatory and marketing groundwork for the success of new medical devices.
- The stock has struggled to break out of the 50-55cps range, primarily because of concerns re the cash position. As per our last, we factor in no future capital raisings for Nanosonics in our numbers or valuation. If we were to do so, it would be small (no more than \$10M), justified (particularly if there are positive signals relating to FY13 demand) and irrelevant to the investment view (perhaps a 10% dilutive impact).
- **Earnings changes:** no changes to our forecasts.
- **Valuation and recommendation:** retain \$1.00 target price and BUY rating.

Price Performance



Security/Capital Details

ASX Code	NAN
Market Cap	\$115 M
Issued Shares	230.9 M
Avg Mth T'over	4.29 M
12 Mth High – Low	\$0.90 - \$0.48

Key Data/Ratios – FY 2012

End-FY12	\$5.6 M
Burn	\$5.5 M
EV	\$109 M
Interest Cover	15.6 x
ROE	-52.5%
EPS Growth	46.0%
PEG Ratio	x
NTA / Share	\$ 0.04
DCF	\$ 0.89
12 Mth Price Target	\$ 1.00

Important Disclosure

Wilson HTM Corporate Finance Ltd acted as Lead Manager and underwriter for the December 2009 placement and advisor in relation to the share purchase plan by Nanosonics Limited and earned fees for acting in this capacity.

Year to June	NPAT (Rep) \$M	EPS (Norm) c	EPS Growth %	PER x	P/CF x	EV/EBITDA x	DPS c	Div Yld %	Franking %
2011a	-11.2	-4.8	-15.8	-15.7	-19.6	-14.5	0.0	0.0	0
2012e	-6.0	-2.6	46.0	-19.2	-19.1	-20.1	0.0	0.0	0
2013e	0.3	0.1	104.2	454.6	-178.6	140.6	0.0	0.0	0
2014e	12.9	5.6	4,990.9	8.9	9.3	7.4	0.0	0.0	0

Equities Research – Nanosonics LTD

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Nanosonics LTD (NAN : \$0.50)

INVESTMENT FUNDAMENTALS

Yr Ending June	2010A	2011A	2012E	2013E	2014E
EPS Reported (c)	-4.2	-4.8	-2.6	0.1	5.6
EPS Normalised (c)	-4.2	-4.8	-2.6	0.1	5.6
EPS Growth (%)	N/A	-15.8%	46.0%	104.2%	4,990.9
PER Normalised (x)	-13.2	-15.7	-19.2	454.6	8.9
DPS (c)	0.0	0.0	0.0	0.0	0.0
Payout (%)	0.0%	0.0%	0.0%	0.0%	0.0%
Yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%
Franking (%)	0%	0%	0%	0%	0%

VALUATION DATA

Yr Ending June	2010A	2011A	2012E	2013E	2014E
EV / EBITA (x)	-10.8	-13.3	-17.1	1,237.0	7.9
EV / EBITDA (x)	-11.6	-14.5	-20.1	140.6	7.4
CFPS (c)	-3.5	-3.9	-2.6	-0.3	5.4
Price / CF	-15.6	-19.6	-19.1	-178.6	9.3
Book Value / Share (\$)	0.1	0.1	0.0	0.0	0.1
Price / Book (x)	5.3	12.0	13.5	13.1	5.3

PROFIT & LOSS (\$m)

Yr Ending June	2010A	2011A	2012E	2013E	2014E
Sales Revenue	0.7	2.2	12.7	24.7	46.6
EBITDA	-9.2	-11.3	-5.5	0.8	13.4
Depreciation	0.6	1.0	1.0	0.7	0.8
EBITA	-9.8	-12.3	-6.4	0.1	12.6
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	-9.8	-12.3	-6.4	0.1	12.6
Net Interest Expense	-0.6	-1.1	-0.4	-0.2	-0.3
Pre-tax Profit	-9.2	-11.2	-6.0	0.3	12.9
Tax	0.0	0.0	0.0	0.0	0.0
Tax rate (%)	0.0%	0.0%	0.0%	0.0%	0.0%
Minorities / pref divs	0.0	0.0	0.0	0.0	0.0
Equity accounted NPAT	0.0	0.0	0.0	0.0	0.0
Net Profit	-9.2	-11.2	-6.0	0.3	12.9
Abn's / Extraord's	0.0	0.0	0.0	0.0	0.0
Reported Net Profit	-9.2	-11.2	-6.0	0.3	12.9
Revenue Growth (%)	N/A	200.4%	464.2%	94.5%	88.8%
EBIT Growth (%)	N/A	-24.7%	47.5%	101.3%	14,573.3
NPAT Growth (%)	N/A	-22.1%	46.4%	104.2%	4,971.8

PROFITABILITY RATIOS

Yr Ending June	2010A	2011A	2012E	2013E	2014E
EBIT / Sales (%)	-	-545.8%	-50.8%	0.3%	27.1%
ROA (%)	N/A	-294.8%	-130.7%	1.2%	111.0%
ROE (%)	N/A	-59.3%	-52.5%	2.9%	84.8%
ROFE (%)	N/A	-555.2%	-258.6%	2.4%	236.8%

INTERIMS (\$m)

Half Yr	Dec 10	Jun 11	Dec 11	Jun 12	Dec 12
Yr Ending June	1H A	2H A	1H A	2H E	1H E
Sales Revenue	1.4	0.9	5.1	7.6	10.0
EBIT	-5.1	-7.1	-3.3	-3.1	-0.9
Net Profit	-4.5	-6.7	-3.0	-3.0	-0.8
EBIT / Sales (%)	-374.0%	-814.8%	-64.8%	-41.3%	-9.2%

BALANCE SHEET (\$m)

Yr Ending June	2010A	2011A	2012E	2013E	2014E
Cash	21.1	12.4	5.6	4.2	15.7
Receivables	0.5	0.9	1.6	2.5	4.5
Inventories	1.6	1.6	1.8	3.0	5.4
Other	0.2	0.2	0.3	2.0	2.1
Current Assets	23.4	15.1	9.3	11.8	27.7
Net PPE	1.3	1.5	1.3	1.4	1.4
Investments	0.0	0.0	0.0	0.0	0.0
Intangibles	0.2	0.1	0.0	0.0	0.0
Other	0.1	0.1	0.2	0.2	0.2
Non-current Assets	1.6	1.8	1.6	1.6	1.6
Total Assets	24.9	16.9	10.9	13.4	29.3
Current Payables	1.0	1.8	1.6	3.8	6.8
Current Debt	0.0	0.0	0.0	0.0	0.0
Non-Current Debt	0.0	0.0	0.0	0.0	0.0
Provisions	0.4	0.8	0.7	0.7	0.7
Other	0.0	0.0	0.0	0.0	0.0
Total Liabilities	1.4	2.5	2.4	4.6	7.6
Equity	56.6	58.1	58.2	58.2	58.2
Reserves	0.9	1.2	1.4	1.4	1.4
Retained Profits	-33.9	-45.0	-51.0	-50.8	-37.8
Minorities	0.0	0.0	0.0	0.0	0.0
Total Equity	23.6	14.3	8.5	8.8	21.7
Total Funds Employed	2.4	2.0	3.0	4.6	6.0

LIQUIDITY & LEVERAGE RATIOS

Yr Ending June	2010A	2011A	2012E	2013E	2014E
Net Debt (Cash) (\$m)	-21.1	-12.4	-5.6	-4.1	-15.7
Net Debt / Equity (%)	-89.6%	-86.2%	-65.2%	-47.1%	-72.3%
Interest Cover (x)	15.6	11.7	15.6	-0.5	-40.2
Debt / CashFlow (x)	0.0	0.0	0.0	0.0	0.0

CASHFLOW (\$m)

Yr Ending June	2010A	2011A	2012E	2013E	2014E
EBIT	-9.8	-12.3	-6.4	0.1	12.6
Dep'n and Amort'n	0.6	1.0	1.0	0.7	0.8
Net Int Rec'd (Paid)	0.6	1.1	0.5	0.2	0.3
Tax Paid	0.0	0.0	0.0	0.0	0.0
Dec / (Inc) W'kg Cap	0.0	-0.5	-2.3	-1.6	-1.4
Other	0.8	1.7	1.2	0.0	0.0
Operating Cash Flow	-7.8	-9.0	-6.0	-0.7	12.3
Capital Expenditure	-0.2	-1.2	-0.7	-0.8	-0.8
Asset Sales	0.0	0.0	0.0	0.0	0.0
Investments	0.2	0.0	0.0	0.0	0.0
Other Inv. Flows	0.0	0.0	0.0	0.0	0.0
Investing Cash Flow	0.0	-1.2	-0.7	-0.8	-0.8
Equity Raised	15.2	1.4	0.0	0.0	0.0
Inc / (Dec) in Loans	0.0	0.0	0.0	0.0	0.0
Dividends Paid	0.0	0.0	0.0	0.0	0.0
Other Fin. Flows	-0.6	0.0	0.0	0.0	0.0
Financing Cash Flow	14.6	1.4	0.1	0.0	0.0
Net Cash Flow	6.8	-8.8	-6.7	-1.4	11.6

**Recommendation Structure**

BUY: Total return +10% or more over a 12 month period

HOLD: Total return expected to be between +10% to -10% over a 12-month period

SELL: Total return expected to be -10% or more over a 12 month period

TOTAL RETURN OR TSR = capital growth in share price + expected dividend yield in that period

Other definitions

CS Coverage Suspended. Wilson HTM Ltd has suspended coverage of this company.

NR Not Rated. The recommendation has been suspended temporarily. Such suspension is in line with Wilson HTM Investment Group Ltd policies in circumstances where Wilson HTM Corporate Finance Ltd is acting in an advisory capacity in a merger or strategic transaction involving the company and in certain other situations.

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Wilson HTM Corporate Finance Ltd has received compensation for corporate advisory services from this company, its subsidiaries or affiliates during the previous 12 months.

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