

ResApp Health

HOLD (previously ADD)

Current price:	A\$0.070
Target price:	A\$0.070
Previous target:	A\$0.48
Up/downside:	0.0%
Reuters:	RAP.AX
Bloomberg:	RAP AU
Market cap:	US\$36.56m
	A\$46.13m
Average daily turnover:	US\$0.40m
	A\$0.73m
Current shares o/s	659.0m
Free float:	90.2%

Endpoints not met

- RAP has released its top-line SMARTCOUGH-C clinical trial preliminary results which failed to meet the predefined endpoints.
- The major issue was around the failure of clinical trial adherence.
- Management has indicated its intention to re-start the trial before the end of this calendar year with improved protocols and training.
- RAP has sufficient cash reserves to re-run the trial. We have moved our recommendation to Hold and will monitor trial progress.

Negative results

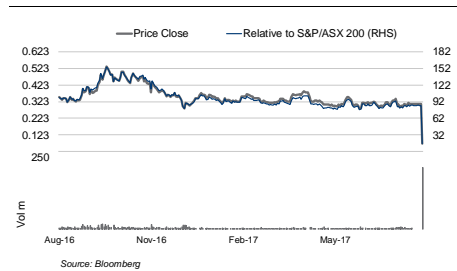
RAP has released the preliminary top-line results from its SMARTCOUGH-C study. Major issues were identified in the final data review with a high number of patients having been treated before research staff recorded their cough sounds as well as significant recordings containing secondary cough sounds or unacceptable background noise and interference. As a result, the predefined endpoints for achieving greater than 75% Positive Percent Agreement (PPA) and Negative Percent Agreement (NPA) for diagnosis of pneumonia, croup, bronchiolitis, asthma, lower respiratory tract disease, and upper respiratory tract disease were not achieved. PPA and NPA study results for the various disease states can be seen in Figure 2.

Where to from here?

We expect RAP to re-start the US trial in the next six months with improved clinical protocols and staff training. Based on this, we expect results in mid-2018. The company has sufficient cash (~A\$8m) to fund another study which we expect will cost A\$2.5-3.0m.

Investment view – move to Hold rating

Although we have made no changes to our forecast, we have applied an 85% discount to our DCF valuation of A\$0.48 to reflect the uncertainty around the delays and further clinical results. As a result our price target has been reduced to A\$0.07 from A\$0.48. We have moved our recommendation to Hold (from Add). The downside risk is a delay in restarting the US trial.



Price performance	1M	3M	12M
Absolute (%)	-76.7	-76.7	-80
Relative (%)	-77.8	-75.4	-83.8

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Financial Summary	Jun-15A	Jun-16A	Jun-17F	Jun-18F	Jun-19F
Revenue (A\$m)	0.15	0.00	0.00	1.00	7.50
Operating EBITDA (A\$m)	-0.51	-3.29	-12.39	-7.53	-1.24
Net Profit (A\$m)	-0.51	-3.33	-12.67	-7.63	-1.36
Normalised EPS (A\$)	(0.002)	(0.005)	(0.019)	(0.011)	(0.002)
Normalised EPS Growth		119%	274%	(43%)	(82%)
FD Normalised P/E (x)	NA	NA	NA	NA	NA
DPS (A\$)	-	-	-	-	-
Dividend Yield	0%	0%	0%	0%	0%
EV/EBITDA (x)	NA	NA	NA	NA	NA
P/FCFE (x)	NA	NA	NA	NA	NA
Net Gearing	(95%)	(86%)	(149%)	(105%)	(94%)
P/BV (x)	3.58	2.83	13.65	8.42	11.03
ROE	(24%)	(33%)	(130%)	(167%)	(27%)
% Change In Normalised EPS Estimates			0%	0%	0%
Normalised EPS/consensus EPS (x)			0.96	1.10	

SOURCE: MORGANS, COMPANY REPORTS

Figure 1: Financial summary

Income statement							Valuation metrics						
	FY15A	FY16A	FY17F	FY18F	FY19F	FY20F							
Total revenue	0.2	0.0	0.0	1.0	7.5	19.6	Share price	\$0.07		Target		\$0.07	
EBITDA	-0.5	-3.3	-12.4	-7.5	-1.2	10.5	DCF valuation inputs						
Associate income	0.0	0.0	0.0	0.0	0.0	0.0	Rf	4.00%		10-year rate		4.00%	
Depreciation	0.0	0.0	0.0	0.0	0.0	0.0	Rm-Rf	5.00%		Margin		2.0%	
EBITA	-0.5	-3.3	-12.4	-7.5	-1.2	10.5	Beta	1.70		Kd		4.20%	
Amortisation/impairment	0.0	0.0	0.0	0.0	0.0	0.0	CAPM (Rf+Beta(Rm-Rf))	12.5%		Ke		12.5%	
EBIT	-0.5	-3.3	-12.4	-7.5	-1.2	10.5	Equity (E/EV)	100.0%		NPV cash flow (A\$m)		396.5	
Net interest expense	0.0	0.0	-0.3	-0.1	-0.1	-0.1	Debt (D/EV)	0.0%		Minority interest (A\$m)		0.0	
Pre-tax profit	-0.5	-3.3	-12.7	-7.6	-1.4	10.4	Interest rate	4.20%		Net debt (A\$m)		0.0	
Income tax expense	0.0	0.0	0.0	0.0	0.0	0.0	Tax rate (t)	30.0%		Investments (A\$m)		0.0	
After-tax profit	-0.5	-3.3	-12.7	-7.6	-1.4	10.4	WACC	12.5%		Equity market value (A\$m)		396.5	
Minority interests	0.0	0.0	0.0	0.0	0.0	0.0				Diluted no. of shares (m)		814.1	
NPAT	-0.5	-3.3	-12.7	-7.6	-1.4	10.4				DCF valuation		\$0.49	
Significant items	0.0	0.0	0.0	0.0	0.0	0.0							
NPAT post abnormals	-0.5	-3.3	-12.7	-7.6	-1.4	10.4							
Cash flow statement							Multiples						
	FY15A	FY16A	FY17F	FY18F	FY19F	FY20F		FY15A	FY16A	FY17F	FY18F	FY19F	FY20F
EBITDA	-0.5	-3.3	-12.4	-7.5	-1.2	10.5	Enterprise value (A\$m)	61.1	70.7	62.0	63.0	61.1	73.4
Change in working capital	0.1	0.9	4.0	-1.4	-0.5	-1.0	EV/Sales (x)	405.5	na	na	63.0	8.2	3.7
Net interest (pd)/rec	0.0	0.0	-0.3	-0.1	-0.1	-0.1	EV/EBITDA (x)	-119.3	-21.5	-5.0	-8.4	-49.3	7.0
Taxes paid	0.0	0.0	0.0	0.0	0.0	0.0	EV/EBIT (x)	-119.3	-21.5	-5.0	-8.4	-49.3	7.0
Other oper cash items	0.0	0.0	0.0	0.0	0.0	0.0	PE (x)	-29.9	-13.6	-3.6	-6.4	-35.6	5.5
Cash flow from ops (1)	-0.4	-2.4	-8.7	-9.0	-1.9	9.5	PEG x)	n.a.	-0.1	0.0	-0.1	-0.4	0.0
Capex (2)	0.0	0.0	0.0	0.0	0.0	0.0							
Disposals/(acquisitions)	0.0	0.0	0.0	0.0	0.0	0.0	Per share data	FY15A	FY16A	FY17F	FY18F	FY19F	FY20F
Other investing cash flow	-0.2	0.0	0.0	0.0	0.0	0.0	No. shares	219.3	648.8	659.0	659.0	692.4	692.4
Cash flow from investing (3)	-0.2	0.0	0.0	0.0	0.0	0.0	EPS (cps)	-0.2	-0.5	-1.9	-1.1	-0.2	1.3
Incr/(decr) in equity	4.9	13.1	0.0	10.0	0.0	2.8	Dividend per share (c)	0.0	0.0	0.0	0.0	0.0	0.0
Incr/(decr) in debt	0.0	0.0	0.0	0.0	0.0	0.0	Dividend payout ratio (%)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Ordinary dividend paid	0.0	0.0	0.0	0.0	0.0	0.0	Dividend yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Preferred dividends (4)	0.0	0.0	0.0	0.0	0.0	0.0							
Other financing cash flow	-0.2	-1.1	0.0	0.0	0.0	0.0	Growth ratios	FY15A	FY16A	FY17F	FY18F	FY19F	FY20F
Cash flow from fin (5)	4.7	12.0	0.0	10.0	0.0	2.8	Sales growth	na	-100.0%	na	na	650.0%	161.3%
Forex and disc ops (6)	0.0	0.0	0.0	0.0	0.0	0.0	Operating cost growth	na	396.4%	276.6%	-31.2%	2.5%	3.8%
Incr/(decr) cash (1+3+5+6)	4.1	9.6	-8.7	1.0	-1.9	12.3	EBITDA growth	na	542.5%	276.6%	39.3%	83.5%	948.7%
Equity FCF (1+2+4)	-0.4	-2.4	-8.7	-9.0	-1.9	9.5	EBITA growth	na	542.5%	276.6%	39.3%	83.5%	948.7%
							EBIT growth	na	542.5%	276.6%	39.3%	83.5%	948.7%
							NPAT growth	na	548.2%	280.2%	39.8%	82.1%	867.4%
							Normalised EPS growth	n.a.	119.1%	274.3%	42.7%	82.1%	752.7%
Balance sheet							Operating performance						
	FY15A	FY16A	FY17F	FY18F	FY19F	FY20F		FY15A	FY16A	FY17F	FY18F	FY19F	FY20F
Cash & deposits	4.1	13.7	5.0	6.0	4.2	16.4	Asset turnover (%)	1.6	0.0	0.0	3.1	23.6	35.1
Trade debtors	0.1	0.1	0.0	0.0	0.3	0.8	EBITDA margin (%)	-340.0	na	na	-752.6	-16.5	53.7
Inventory	0.0	0.0	0.0	0.1	0.4	1.0	EBIT margin (%)	-340.0	na	na	-752.6	-16.5	53.7
Other current assets	0.6	0.0	0.0	0.0	0.0	0.0	Net profit margin (%)	-341.3	na	na	-762.6	-18.2	53.3
Goodwill	0.0	0.0	0.0	0.0	0.0	0.0	Return on net assets (%)	-105.6	-20.5	-366.7		-105.6	-20.5
Other intangible assets	0.0	2.4	2.4	2.4	2.4	2.4	Net debt (A\$m)	-4.1	-13.7	-5.0	-6.0	-4.2	-16.4
Fixed assets	0.0	0.0	0.0	0.0	0.0	0.0	Net debt/equity (%)	-844.9	-85.6	-148.6	-104.9	-94.5	-93.0
Investments	0.0	0.0	0.0	0.0	0.0	0.0	Net interest/EBIT cover (x)						
Other assets	0.0	0.0	0.0	0.0	0.0	0.0	Invested capital	-3.5	3.2	2.3	-1.6	-0.3	0.2
Total assets	4.8	16.3	7.5	8.6	7.3	20.6	ROIC (%)	14.7	-103.6	-548.1	464.5	486.8	4321.4
Short-term borrowings	0.0	0.0	0.0	0.0	0.0	0.0	Internal liquidity	FY15A	FY16A	FY17F	FY18F	FY19F	FY20F
Trade payables	0.5	0.2	4.1	2.8	2.9	3.0	Current ratio (x)	9.8	62.6	1.2	2.2	1.7	6.1
Long-term borrowings	0.0	0.0	0.0	0.0	0.0	0.0	Receivables turnover (x)	4.6	0.0	0.0	48.7	42.9	35.2
Other term liabilities	0.0	0.0	0.0	0.0	0.0	0.0	Payables turnover (x)	2.7	9.3	5.8	2.5	3.1	3.1
Other liabilities	0.0	0.0	0.0	0.0	0.0	0.0							
Total liabilities	0.5	0.2	4.1	2.8	2.9	3.0							
Share capital	0.0	4.0	21.5	21.5	31.5	31.5							
Other reserves	0.0	0.0	1.3	1.3	1.3	1.3							
Retained earnings	0.0	-3.5	-6.7	-19.4	-27.0	-28.4							
Other equity	0.0	0.0	0.0	0.0	0.0	0.0							
Total equity	0.0	0.5	16.0	3.4	5.8	4.4							
Minority interest	0.0	0.0	0.0	0.0	0.0	0.0							
Total shareholders' equity	0.0	0.5	16.0	3.4	5.8	4.4							
Total liabilities & SE	1.0	16.3	7.5	8.6	7.3	20.6							

SOURCE: MORGANS RESEARCH, COMPANY

SMARTCOUGH-C result detail

Figure 2: Positive Percent Agreement (PPA) & Negative Percent Agreement (NPA) method, study results using SMARTCOUGH-C

Condition	Australian paediatric study				US paediatric study			Outcome
	# patients	PPA %	NPA %	Overall %	# patients	PPA %	NPA %	
Primary Upper Respiratory Tract Infection								
- Cough alone	53	89%	84%	84%	470	47%	69%	NEG
- cough, age, gender and symptoms		92%	89%	90%		49%	74%	
Croup								
- cough alone	57	97%	92%	93%	Excluded (not sufficient patient numbers)			n.a
- cough, age, gender and symptoms		100%	96%	97%				
Lower Respiratory Tract Involvement								
- cough alone	492	86%	85%	85%	363	64%	54%	NEG
- cough, age, gender and symptoms		90%	92%	90%		83%	47%	
Asthma/Reactive Airways Disease								
- cough alone	234	80%	71%	75%	213	36%	79%	NEG
- cough, age, gender and symptoms		92%	89%	90%		62%	83%	
Bronchiolitis								
- cough alone	101	94%	91%	91%	46	89%	79%	NEG
- cough, age, gender and symptoms		95%	94%	94%		80%	83%	
Pneumonia								
- cough alone	123	80%	67%	70%	88	47%	65%	NEG
- cough, age, gender and symptoms		89%	79%	81%		56%	64%	

SOURCE: MORGANS RESEARCH, COMPANY

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