

ResApp Health

Waiting for trial restart

HOLD (no change)

Current price:	A\$0.063
Target price:	A\$0.070
Previous target:	A\$0.070
Up/downside:	11.1%
Reuters:	RAP.AX
Bloomberg:	RAP AU
Market cap:	US\$32.77m
	A\$41.52m
Average daily turnover:	US\$1.21m
	A\$1.54m
Current shares o/s	659.0m
Free float:	90.2%

Key changes in this note

- FY18F revenue down by 100%.
- FY18F EBITDA loss up by 2.9%.
- FY18F net loss up by 7.3%.



Price performance	1M	3M	12M
Absolute (%)	-79.7	-79.7	-82.5
Relative (%)	-79.6	-79.5	-87.7

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- RAP released its FY17 results which were ahead of our forecast, although the short term numbers are meaningless with the main focus on when the SMARTCOUGH-C trial will restart.
- With careful cost control RAP has sufficient cash reserves to re-run the trial.
- We have delayed our forecasts by 12 months which has negatively affected our valuation.
- The future of RAP remains uncertain and we maintain our Hold recommendation pending more information on the timing of the trial.

FY17 results ahead of forecasts, focus on trial restart

RAP reported a net loss of A\$10.0m, compared with a loss of A\$3.3m on the pcp and better than our forecast of A\$12.7m. R&D costs increased significantly to A\$3.4m (from A\$1.1m on the pcp) due to the US pediatric trial. Also, RAP issued A\$5.1m employee, director, and consultancy incentive options (A\$0.45 and A\$0.75 exercise) which were expensed as share based payments. Cash burn increased to A\$5.4m, compared with A\$2.4m in the pcp. RAP had cash reserves of A\$8.5m.

Trial to be re-run

Post RAP's disappointing US SMARTCOUGH-C topline results, management is working through the detail in order to make sense of why the results varied so much from previous studies. Initial issues identified were a number of patients were treated before research staff recorded their cough sounds as well as significant recordings containing secondary cough sounds or unacceptable background noise and interference. Clearly the results have been deemed insufficient for the FDA approval process and the trial will need to be redone. Management is working with the contract research organisation in an attempt to overcome the issues and restart the trial. It is expected the trial can recommence before year end. Management estimates the cost of trial will be A\$2.5m to A\$3.0m. RAP has sufficient cash reserves to re-run the trial. We would expect management to update the market at an appropriate time.

Changes to forecasts

We have delayed our forecasts by 12 months following the trial disappointment. As a result the net loss has increased to A\$8.2m from A\$7.6m and increased to A\$5.4m from A\$1.4m in FY18 and FY19 respectively.

Investment view – uncertain times

As a result of the changes to forecasts our DCF valuation has reduced to A\$0.34 from A\$0.48. We continue to apply a steep 80% discount to the valuation reflecting the uncertainty around the clinical trial and timing on its restarting. As a result our price target remains at A\$0.07 and Hold recommendation is maintained. The key downside risk is a delay in restarting the US trial.

Financial Summary	Jun-16A	Jun-17A	Jun-18F	Jun-19F	Jun-20F
Revenue (A\$m)	0.00	1.14	0.00	3.00	14.00
Operating EBITDA (A\$m)	-3.29	-9.97	-7.74	-4.87	5.85
Net Profit (A\$m)	-3.33	-10.44	-8.18	-5.39	5.43
Normalised EPS (A\$)	(0.005)	(0.016)	(0.012)	(0.008)	0.007
Normalised EPS Growth	119%	208%	(25%)	(34%)	-
FD Normalised P/E (x)	NA	NA	NA	NA	9.44
DPS (A\$)	-	-	-	-	-
Dividend Yield	0%	0%	0%	0%	0%
EV/EBITDA (x)	NA	NA	NA	NA	6.22
P/FCFE (x)	NA	NA	NA	NA	10.70
Net Gearing	(85.6%)	(75.4%)	(96.3%)	(94.3%)	(93.2%)
P/BV (x)	2.55	3.66	3.31	5.61	3.20
ROE	(32.8%)	(76.2%)	(66.7%)	(51.5%)	45.7%
% Change In Normalised EPS Estimates	-	-	(7%)	(296%)	(48%)
Normalised EPS/consensus EPS (x)	-	-	1.07	3.89	0.51

SOURCE: MORGANS, COMPANY REPORTS

Figure 1: Financial summary

Income statement						Valuation metrics					
	FY16A	FY17A	FY18F	FY19F	FY20F						
Total revenue	0.0	1.1	0.0	3.0	14.0	Share price	\$0.06	Target	\$0.07		
EBITDA	-3.3	-10.0	-7.7	-4.9	5.8	DCF valuation inputs					
Associate income	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	Rm-Rf	5.00%	Margin	2.0%		
EBITA	-3.3	-10.2	-8.0	-5.1	5.6	Beta	1.70	Kd	4.20%		
Amortisation/impairment	0.0	0.0	0.0	0.0	0.0	CAPM (Rf+Beta(Rm-Rf))	12.5%	Ke	12.5%		
EBIT	-3.3	-10.2	-8.0	-5.1	5.6	NPV cash flow (A\$m)			266.3		
Net interest expense	0.0	-0.2	-0.2	-0.3	-0.1	Equity (E/EV)	100.0%	Minority interest (A\$m)	0.0		
Pre-tax profit	-3.3	-10.4	-8.2	-5.4	5.4	Debt (D/EV)	0.0%	Net debt (A\$m)	-12.7		
Income tax expense	0.0	0.0	0.0	0.0	0.0	Interest rate	4.20%	Investments (A\$m)	0.0		
After-tax profit	-3.3	-10.4	-8.2	-5.4	5.4	Tax rate (t)	30.0%	Equity market value (A\$m)	279.0		
Minority interests	0.0	0.0	0.0	0.0	0.0	WACC	12.5%	Diluted no. of shares (m)	814.1		
NPAT	-3.3	-10.4	-8.2	-5.4	5.4	DCF valuation		\$0.34			
Significant items	0.0	0.0	0.0	0.0	0.0	Multiples					
NPAT post abnormals	-3.3	-10.4	-8.2	-5.4	5.4	Enterprise value (A\$m)	FY16A	FY17A	FY18F	FY19F	FY20F
						EV/Sales (x)					
						EV/EBITDA (x)	-19.8	-6.0	-8.3	-12.0	11.3
						EV/EBIT (x)	-19.8	-5.8	-8.0	-11.4	11.9
						PE (x)	-12.3	-4.0	-5.3	-8.1	9.4
						PEG x)	-0.1	0.0	-0.2	-0.2	0.1
						Per share data	FY16A	FY17A	FY18F	FY19F	FY20F
						No. shares	648.8	659.0	659.0	692.4	692.4
						EPS (cps)	-0.5	-1.6	-1.2	-0.8	0.7
						Dividend per share (c)	0.0	0.0	0.0	0.0	0.0
						Dividend payout ratio (%)	0.0%	0.0%	0.0%	0.0%	0.0%
						Dividend yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%
						Growth ratios	FY16A	FY17A	FY18F	FY19F	FY20F
						Sales growth	-100.0%	na	na	na	366.7%
						Operating cost growth	396.4%	237.6%	-30.3%	1.6%	3.7%
						EBITDA growth	542.5%	202.9%	22.3%	37.1%	220.1%
						EBITA growth	542.5%	211.1%	21.7%	35.9%	208.6%
						EBIT growth	542.5%	211.1%	21.7%	35.9%	208.6%
						NPAT growth	548.2%	213.3%	21.6%	34.1%	200.8%
						Normalised EPS growth	119.1%	208.5%	25.4%	34.1%	185.7%
						Operating performance	FY16A	FY17A	FY18F	FY19F	FY20F
						Asset turnover (%)	0.0	2.0	0.0	5.7	24.0
						EBITDA margin (%)	na	na	na	-162.2	41.8
						EBIT margin (%)	na	na	na	-171.2	39.8
						Net profit margin (%)	na	na	na	-179.6	38.8
						Return on net assets (%)	-20.5	-90.2		-105.6	-20.5
						Net debt (A\$m)	-13.7	-8.6	-12.7	-7.3	-14.9
						Net debt/equity (%)	-85.6	-75.4	-96.3	-94.3	-93.2
						Net interest/EBIT cover (x)					
						Invested capital	3.2	7.5	2.5	0.2	0.2
						ROIC (%)	-103.6	-138.8	-323.9	-2528.6	3085.4
						Internal liquidity	FY16A	FY17A	FY18F	FY19F	FY20F
						Current ratio (x)	62.6	16.8	5.5	3.4	6.5
						Receivables turnover (x)	0.0	12.5	0.0	48.7	40.1
						Payables turnover (x)	9.3	27.6	4.9	3.1	3.1
						Balance sheet	FY16A	FY17A	FY18F	FY19F	FY20F
						Cash & deposits	13.7	8.6	12.7	7.3	14.9
						Trade debtors	0.1	0.1	0.0	0.1	0.6
						Inventory	0.0	0.0	0.0	0.2	0.7
						Other current assets	0.0	1.2	1.2	1.2	1.2
						Goodwill	0.0	0.0	0.0	0.0	0.0
						Other intangible assets	2.4	2.2	1.9	1.6	1.4
						Fixed assets	0.0	0.0	0.0	0.0	0.0
						Investments	0.0	0.0	0.0	0.0	0.0
						Other assets	0.0	0.0	0.0	0.0	0.0
						Total assets	16.3	12.0	15.8	10.4	18.7
						Short-term borrowings	0.0	0.0	0.0	0.0	0.0
						Trade payables	0.2	0.6	2.5	2.6	2.7
						Long-term borrowings	0.0	0.0	0.0	0.0	0.0
						Other term liabilities	0.0	0.1	0.1	0.1	0.1
						Other liabilities	0.0	0.0	0.0	0.0	0.0
						Total liabilities	0.2	0.6	2.6	2.6	2.7
						Share capital	4.0	21.5	21.8	31.8	31.8
						Other reserves	0.0	1.3	6.3	6.3	6.3
						Retained earnings	-3.5	-6.7	-16.8	-24.9	-30.3
						Other equity	0.0	0.0	0.0	0.0	0.0
						Total equity	0.5	16.0	11.3	13.2	7.8
						Minority interest	0.0	0.0	0.0	0.0	0.0
						Total shareholders' equity	0.5	16.0	11.3	13.2	7.8
						Total liabilities & SE	16.3	12.0	15.8	10.4	18.7

SOURCE: MORGANS RESEARCH, COMPANY

Figure 2: Changes to forecasts

	FY18F			FY19F			FY20F		
	Prev	Rev	% chg	Prev	Rev	% chg	Prev	Rev	% chg
Revenue	1.0	0.0	-100.0%	7.5	3.0	-60.0%	19.6	14.0	-28.6%
EBITDA	(7.5)	(7.7)	-2.9%	(1.2)	(4.9)	-292.2%	10.5	5.8	-44.5%
NPAT	(7.6)	(8.2)	-7.6%	(1.4)	(5.4)	-295.8%	10.4	5.4	-48.0%
EPS	(1.1)	(1.2)	-7.3%	(0.2)	(0.8)	-295.8%	1.3	0.7	-48.0%
Div yield	0.0%	0.0%	n.a.	0.0%	0.0%	n.a.	0.0%	0.0%	n.a.

SOURCE: MORGANS RESEARCH, COMPANY

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