

ResApp Health

Key milestone achieved with trial start

HOLD (no change)

Current price:	A\$0.085
Target price:	A\$0.090
Previous target:	A\$0.070
Up/downside:	5.9%
Reuters:	RAP.AX
Bloomberg:	RAP AU
Market cap:	US\$43.93m
	A\$56.02m
Average daily turnover:	US\$0.25m
	A\$0.32m
Current shares o/s	659.0m
Free float:	90.2%

- A key milestone has been achieved with the US pediatric SMARTCOUGH-C-2 study now having enrolled its first patient. This comes after the first trial failed to achieve clinical significance as a result of procedural and protocol issues.
- We expect the trial to enroll over the northern hemisphere winter with top line results to read out around mid CY18.
- At this stage we make no changes to forecasts, however we have moved our price target to A\$0.09 reflecting a moderation to our discount on valuation.
- We maintain a Hold rating and will monitor progress on recruitment, with this being the key risk until the results read out.

Key milestone achieved with first patient enrolled

RAP announced it has enrolled the first patient in its SMARTCOUGH-C-2 study in the US. The study is a prospective, multi-site, double blind study to evaluate the efficacy of the ResAppDx smartphone application in the diagnosis of childhood respiratory diseases from cough sounds. The SMARTCOUGH-C-2 study plans to enroll up to 1,667 patients aged 29 days to 12 years of age who present to one of the three participating sites in the United States with signs or symptoms of respiratory disease. The study's co-primary endpoints are positive and negative percent agreement with clinical diagnosis for pneumonia, lower respiratory tract disease, viral lower respiratory tract infection, bronchiolitis, asthma/reactive airways disease, upper respiratory tract disease and croup. The clinical diagnosis will be made by an independent, centralised clinical adjudication committee using all available clinical data, including radiology and microbiology.

Top line results expected mid CY18

We expect the study to complete enrolment and report top line results around mid CY18. Assuming successful results we anticipate that a licensing arrangement with a larger tele-medicine company is possible. RAP had A\$7.7m in cash reserves at 30 September 2017 and management noted in previous releases that this is sufficient to complete the current trial.

No changes to forecasts

We make no changes to forecasts having previously pushed our forecasts out by 12 months following a failure in the first US trial to achieve clinical significance following procedural and protocol issues. In our modelling we have assumed additional capital will be required in FY18 to fund further adult studies and undertake regulatory submissions. However until the top line results are known, an additional fund raising is unlikely.

Investment view – Hold maintained as recruitment is key

Although we have made no changes to forecasts, our DCF valuation has increased slightly to A\$0.35 from A\$0.34 reflecting a lower diluted capital base (excluding performance shares and higher shares issued in FY18). We still apply a significant 75% (was 80%) discount to the valuation and set our price target at A\$0.09. The key risk is delays in recruitment. Hold recommendation maintained.



Price performance	1M	3M	12M
Absolute (%)	21.4	13.3	-75.7
Relative (%)	18.9	5	-82.1

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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)	-3.25	-10.03	-7.84	-4.88	5.72
Normalised EPS (A\$)	(0.005)	(0.015)	(0.010)	(0.006)	0.006
Normalised EPS Growth	115%	204%	(32%)	(38%)	
FD Normalised P/E (x)	NA	NA	NA	NA	13.08
DPS (A\$)	-	-	-	-	-
Dividend Yield	0%	0%	0%	0%	0%
EV/EBITDA (x)	NA	NA	NA	NA	10.25
P/FCFE (x)	NA	NA	NA	NA	14.72
Net Gearing	(85.6%)	(75.4%)	(96.3%)	(94.3%)	(93.2%)
P/BV (x)	3.44	4.94	4.90	8.29	4.68
ROE	(31.9%)	(73.2%)	(63.9%)	(46.6%)	48.1%
% Change In Normalised EPS Estimates			12.6%	17.4%	(2.6%)
Normalised EPS/consensus EPS (x)			1.03	0.64	0.65

SOURCE: MORGANS, COMPANY REPORTS

Figure 1: Financial summary

Income statement						Valuation metrics						
	FY16A	FY17A	FY18F	FY19F	FY20F	Share price	\$0.09	Target	\$0.09			
Total revenue	0.0	1.1	0.0	3.0	14.0	DCF valuation inputs						
EBITDA	-3.3	-10.0	-7.7	-4.9	5.8	Rf	4.00%	10-year rate	4.00%			
Associate income	0.0	0.0	0.0	0.0	0.0	Rm-Rf	5.00%	Margin	2.0%			
Depreciation	0.0	0.0	0.0	0.0	0.0	Beta	1.70	Kd	4.20%			
EBITA	-3.3	-10.2	-8.0	-5.1	5.6	CAPM (Rf+Beta(Rm-Rf))	12.5%	Ke	12.5%			
Amortisation/impairment	0.0	0.0	0.0	0.0	0.0			NPV cash flow (A\$m)	250.6			
EBIT	-3.3	-10.2	-8.0	-5.1	5.6	Equity (E/EV)	100.0%	Minority interest (A\$m)	0.0			
Net interest expense	0.0	0.2	0.2	0.3	0.1	Debt (D/EV)	0.0%	Net debt (A\$m)	-12.7			
Pre-tax profit	-3.2	-10.0	-7.8	-4.9	5.7	Interest rate	4.20%	Investments (A\$m)	0.0			
Income tax expense	0.0	0.0	0.0	0.0	0.0	Tax rate (t)	30.0%	Equity market value (A\$m)	263.3			
After-tax profit	-3.2	-10.0	-7.8	-4.9	5.7	WACC	12.5%	Diluted no. of shares (m)	759.0			
Minority interests	0.0	0.0	0.0	0.0	0.0			DCF valuation	\$0.35			
NPAT	-3.2	-10.0	-7.8	-4.9	5.7							
Significant items	0.0	0.0	0.0	0.0	0.0	Multiples		FY16A	FY17A	FY18F	FY19F	FY20F
NPAT post abnormals	-3.2	-10.0	-7.8	-4.9	5.7	Enterprise value (A\$m)	82.0	76.9	81.0	75.6	83.2	
						EV/Sales (x)	na	na	na	25.2	5.9	
Cash flow statement	FY16A	FY17A	FY18F	FY19F	FY20F	EV/EBITDA (x)	-24.9	-7.7	-10.5	-15.5	14.2	
EBITDA	-3.3	-10.0	-7.7	-4.9	5.8	EV/EBIT (x)	-24.9	-7.5	-10.1	-14.7	14.9	
Change in working capital	0.9	4.7	2.0	-0.2	-0.9	PE (x)	-18.0	-5.9	-8.7	-14.0	13.8	
Net interest (pd)/rec	0.0	0.2	0.2	0.3	0.1	PEG x)	-0.2	0.0	-0.3	-0.4	0.1	
Taxes paid	0.0	0.0	0.0	0.0	0.0							
Other oper cash items	0.0	0.0	0.0	0.0	0.0							
Cash flow from ops (1)	-2.3	-5.0	-5.5	-4.8	5.1	Per share data	FY16A	FY17A	FY18F	FY19F	FY20F	
Capex (2)	0.0	0.0	0.0	0.0	0.0	No. shares	648.8	659.0	659.0	759.0	759.0	
Disposals/(acquisitions)	0.0	0.0	0.0	0.0	0.0	EPS (cps)	-0.5	-1.5	-1.0	-0.6	0.6	
Other investing cash flow	0.0	0.0	0.0	0.0	0.0	Dividend per share (c)	0.0	0.0	0.0	0.0	0.0	
Cash flow from investing (3)	0.0	0.0	0.0	0.0	0.0	Dividend payout ratio (%)	0.0%	0.0%	0.0%	0.0%	0.0%	
Incr/(decr) in equity	13.1	0.3	10.0	0.0	2.8	Dividend yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%	
Incr/(decr) in debt	0.0	0.0	0.0	0.0	0.0							
Ordinary dividend paid	0.0	0.0	0.0	0.0	0.0	Growth ratios	FY16A	FY17A	FY18F	FY19F	FY20F	
Preferred dividends (4)	0.0	0.0	0.0	0.0	0.0	Sales growth	-100.0%	na	na	na	366.7%	
Other financing cash flow	-1.1	0.0	0.0	0.0	0.0	Operating cost growth	396.4%	237.6%	-30.3%	1.6%	3.7%	
Cash flow from fin (5)	12.0	0.3	10.0	0.0	2.8	EBITDA growth	542.5%	202.9%	22.3%	37.1%	220.1%	
Forex and disc ops (6)	0.0	0.0	0.0	0.0	0.0	EBITA growth	542.5%	211.1%	21.7%	35.9%	208.6%	
Incr/(decr) cash (1+3+5+6)	9.7	-4.8	4.5	-4.8	7.9	EBIT growth	542.5%	211.1%	21.7%	35.9%	208.6%	
Equity FCF (1+2+4)	-2.3	-5.0	-5.5	-4.8	5.1	NPAT growth	536.7%	208.8%	21.9%	37.7%	217.3%	
						Normalised EPS growth	115.2%	204.0%	32.2%	37.7%	201.0%	
Balance sheet	FY16A	FY17A	FY18F	FY19F	FY20F	Operating performance	FY16A	FY17A	FY18F	FY19F	FY20F	
Cash & deposits	13.7	8.6	12.7	7.3	14.9	Asset turnover (%)	0.0	2.0	0.0	5.7	24.0	
Trade debtors	0.1	0.1	0.0	0.1	0.6	EBITDA margin (%)	na	na	na	-162.2	41.8	
Inventory	0.0	0.0	0.0	0.2	0.7	EBIT margin (%)	na	na	na	-171.2	39.8	
Other current assets	0.0	1.2	1.2	1.2	1.2	Net profit margin (%)	na	na	na	-162.7	40.9	
Goodwill	0.0	0.0	0.0	0.0	0.0	Return on net assets (%)	-20.5	-90.2		-105.6	-20.5	
Other intangible assets	2.4	2.2	1.9	1.6	1.4	Net debt (A\$m)	-13.7	-8.6	-12.7	-7.3	-14.9	
Fixed assets	0.0	0.0	0.0	0.0	0.0	Net debt/equity (%)	-85.6	-75.4	-96.3	-94.3	-93.2	
Investments	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	Invested capital	3.2	7.5	2.5	0.2	0.2	
Total assets	16.3	12.0	15.8	10.4	18.7	ROIC (%)	-101.0	-133.4	-310.3	-2290.5	3252.1	
Short-term borrowings	0.0	0.0	0.0	0.0	0.0	Internal liquidity	FY16A	FY17A	FY18F	FY19F	FY20F	
Trade payables	0.2	0.6	2.5	2.6	2.7	Current ratio (x)	62.6	16.8	5.5	3.4	6.5	
Long-term borrowings	0.0	0.0	0.0	0.0	0.0	Receivables turnover (x)	0.0	12.5	0.0	48.7	40.1	
Other term liabilities	0.0	0.1	0.1	0.1	0.1	Payables turnover (x)	9.3	27.6	4.9	3.1	3.1	
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

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