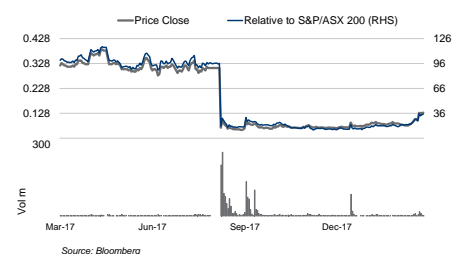


ResApp Health

Focused on trial results in 3QCY18

HOLD (no change)

Current price:	A\$0.13
Target price:	A\$0.12 ▲
Previous target:	A\$0.090
Up/downside:	-7.7%
Reuters:	RAP.AX
Bloomberg:	RAP AU
Market cap:	US\$66.93m
	A\$85.68m
Average daily turnover:	US\$0.29m
	A\$0.37m
Current shares o/s	659.0m
Free float:	90.2%



Price performance	<i>1M</i>	<i>3M</i>	<i>12M</i>
Absolute (%)	49.4	85.7	-60
Relative (%)	50	85.2	-65.3

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- RAP released its 1H18 results which are largely in line with our forecasts.
- The main focus is the outcome of the SMARTCOUGH-C-2 trial which is expected to complete recruitment in 2QCY18 and release results in 3QCY18.
- Cash burn was A\$2.8m, leaving RAP with a cash balance of A\$5.8m.
- We maintain a Hold rating and continue to monitor progress on recruitment, with this being the key risk until the results read out.

1H18 results

RAP reported a net loss of A\$3.2m, compared to a loss of A\$7.5m on the pcp (A\$2.6m excluding a large share based payment expense). R&D costs increased significantly to A\$1.7m (from A\$1.3m on the pcp) due to the restart of the US pediatric trial. Cash burn increased to A\$2.8m, compared with A\$1.8m in the pcp including a A\$0.5m R&D rebate. Cash reserves decreased to A\$5.8m as a result of significant clinical trial costs. We forecast an increase in 2H cash burn due to increased costs as the pediatric trial recruitment continues, funding of further adult studies, and undertaking regulatory submissions.

Increasing speculation

Further to our most recent update in early January, RAP received its third institutional review board (IRB) approval in the US – adding the Cleveland Clinic Children’s Hospital as one of the participating sites in the study. The next major milestone we anticipate is completion of enrolment and reporting of top-line results, expected 3QCY18.

Changes to forecasts

We make no changes to our DCF valuation although slightly wind back our discount to valuation to 65% (from 75%). We continue to assume additional capital will be required in FY18 to fund further adult studies, undertake regulatory submissions, and working capital. The unwinding of the discount reflects more certainty around timing of the results as we draw closer to the anticipated readout from the crucial SMARTCOUGH-C-2 study in the US.

Investment view – Hold retained

Although we have made no changes to our forecasts, our valuation and price target increases to A\$0.12 (from A\$0.09). The key risk lies in delays to recruitment and a negative read out in the US clinical trial results. We retain a Hold recommendation.

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	20.00
DPS (A\$)	-	-	-	-	-
Dividend Yield	0%	0%	0%	0%	0%
EV/EBITDA (x)	NA	NA	NA	NA	17.03
P/FCFE (x)	NA	NA	NA	NA	22.52
Net Gearing	(85.6%)	(75.4%)	(96.3%)	(94.3%)	(93.2%)
P/BV (x)	5.26	7.55	7.49	12.68	7.15
ROE	(31.9%)	(73.2%)	(63.9%)	(46.6%)	48.1%
% Change In Normalised EPS Estimates			0%	0%	0%
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	\$0.13	Target	\$0.12				
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)	254.8				
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)	267.5				
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	Multiples							
Significant items	0.0	0.0	0.0	0.0	0.0	Enterprise value (A\$m)	112.4	FY17A	107.2	111.4	106.0	FY20F	113.6
NPAT post abnormals	-3.2	-10.0	-7.8	-4.9	5.7	EV/Sales (x)	na	na	na	35.3	8.1		
Cash flow statement						EV/EBITDA (x)							
	FY16A	FY17A	FY18F	FY19F	FY20F		-34.2	-10.8	-14.4	-21.8	19.4		
EBITDA	-3.3	-10.0	-7.7	-4.9	5.8	EV/EBIT (x)	-34.2	-10.5	-13.9	-20.6	20.4		
Change in working capital	0.9	4.7	2.0	-0.2	-0.9	PE (x)	-26.0	-8.5	-12.6	-20.2	20.0		
Net interest (pd)/rec	0.0	0.2	0.2	0.3	0.1	PEG x)	-0.2	0.0	-0.4	-0.5	0.1		
Taxes paid	0.0	0.0	0.0	0.0	0.0	Per share data							
Other oper cash items	0.0	0.0	0.0	0.0	0.0		FY16A	FY17A	FY18F	FY19F	FY20F		
Cash flow from ops (1)	-2.3	-5.0	-5.5	-4.8	5.1	No. shares	648.8	659.0	659.0	759.0	759.0		
Capex (2)	0.0	0.0	0.0	0.0	0.0	EPS (cps)	-0.5	-1.5	-1.0	-0.6	0.6		
Disposals/(acquisitions)	0.0	0.0	0.0	0.0	0.0	Dividend per share (c)	0.0	0.0	0.0	0.0	0.0		
Other investing cash flow	0.0	0.0	0.0	0.0	0.0	Dividend payout ratio (%)	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 yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%		
Incr/(decr) in equity	13.1	0.3	10.0	0.0	2.8	Growth ratios							
Incr/(decr) in debt	0.0	0.0	0.0	0.0	0.0		FY16A	FY17A	FY18F	FY19F	FY20F		
Ordinary dividend paid	0.0	0.0	0.0	0.0	0.0	Sales growth	-100.0%	na	na	na	366.7%		
Preferred dividends (4)	0.0	0.0	0.0	0.0	0.0	Operating cost growth	396.4%	237.6%	-30.3%	1.6%	3.7%		
Other financing cash flow	-1.1	0.0	0.0	0.0	0.0	EBITDA growth	542.5%	202.9%	22.3%	37.1%	220.1%		
Cash flow from fin (5)	12.0	0.3	10.0	0.0	2.8	EBITA growth	542.5%	211.1%	21.7%	35.9%	208.6%		
Forex and disc ops (6)	0.0	0.0	0.0	0.0	0.0	EBIT 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	NPAT growth	536.7%	208.8%	21.9%	37.7%	217.3%		
Equity FCF (1+2+4)	-2.3	-5.0	-5.5	-4.8	5.1	Normalised EPS growth	115.2%	204.0%	32.2%	37.7%	201.0%		
Balance sheet						Operating performance							
	FY16A	FY17A	FY18F	FY19F	FY20F		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							
Trade payables	0.2	0.6	2.5	2.6	2.7		FY16A	FY17A	FY18F	FY19F	FY20F		
Long-term borrowings	0.0	0.0	0.0	0.0	0.0	Current ratio (x)	62.6	16.8	5.5	3.4	6.5		
Other term liabilities	0.0	0.1	0.1	0.1	0.1	Receivables turnover (x)	0.0	12.5	0.0	48.7	40.1		
Other liabilities	0.0	0.0	0.0	0.0	0.0	Payables turnover (x)	9.3	27.6	4.9	3.1	3.1		
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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