

# ResApp Health

## Key catalyst imminent

**ADD** (no change)

Current price:	A\$0.17
Target price:	A\$0.28
Previous target:	A\$0.28
Up/downside:	70.7%
Reuters:	RAP.AX
Bloomberg:	RAP AU
Market cap:	US\$80.59m A\$108.7m
Average daily turnover:	US\$0.14m A\$0.19m
Current shares o/s	659.0m
Free float:	90.2%



Price performance	1M	3M	12M
Absolute (%)	22.2	10	-46.8
Relative (%)	20.9	5.7	-55.5

### Scott POWER

T (61) 7 3334 4884

E scott.power@morgans.com.au

### Dr Derek JELLINEK

T (61) 2 9043 7904

E derek.jellinek@morgans.com.au

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- RAP has announced the completion of enrolment for the US SMARTCOUGH-C-2 trials as well as its Australian pediatric study which is a key milestone.
- There have been significant improvements in the quality of the recordings and top-line results are expected within the month.
- We view the release of these results as a key catalyst and value inflection point.
- We make no changes to our forecast, keeping a 20% discount to our DCF and retain an Add recommendation and price target of A\$0.28.

## Recruitment completed – results through in the month

RAP announced it has completed enrolment of 1,470 patients across three hospitals in its US trial and 681 patients for the Australian study. As a reminder, the US study is a revision of last year's SMARTCOUGH-C study which failed to meet its primary endpoints due to poor clinical trial adherence protocols. Significant improvements in hospital staff training along with an enhanced audio setup has now reduced unacceptable recordings to less than 3% (from a significant proportion in the original study). With the enrolment now finalised for both studies, they will enter into verification phase and expect to release the top-line results by the end of August. Although the Australian trial was delayed due to insufficient patient numbers with pneumonia, croup and upper respiratory tract infection pushing out trial close date, we still anticipate the Australian results prior to the release of the US results. The studies are similar and should act as a strong lead indicator to the pivotal US results which we view as the key catalyst for de novo submission to the FDA. As a reminder, RAP's primary endpoint for these results is achieving >80% positive percent agreement (PPA) and negative percent agreement (NPA) across the disease indications. Asthma and lower respiratory tract infections are the key indications.

## Presentation from CEO Tony Keating – highlights key catalysts

RAP's CEO and Managing Director Dr Tony Keating recently delivered a company update to the Morgans network, to view the video: [click here](#). Dr Keating spoke about the progress of the current clinical trials; the US SMARTCOUGH-C-2 study and the Breathe-Easy Australian adult and children study. He also described the recent extension into sleep apnea detection software.

## No changes to forecasts

We have made no changes to our forecasts, having previously unwound our discount to 20% from 75% as recruitment and trial results approached. RAP had A\$3.4m in cash as at June 2018.

## Investment view – Add recommendation maintained

Our DCF valuation remains unchanged at A\$0.35. Our price target sits at a 20% discount to our valuation at A\$0.28. Key risk to achieving our price target is an unfavourable clinical outcome. We retain an Add recommendation.

Financial Summary	Jun-17A	Jun-18F	Jun-19F	Jun-20F	Jun-21F
Revenue (A\$m)	1.14	0.00	3.00	14.00	31.50
Operating EBITDA (A\$m)	(9.97)	(7.74)	(4.87)	5.85	22.93
Net Profit (A\$m)	(10.03)	(7.84)	(4.88)	5.72	22.96
Normalised EPS (A\$)	(0.015)	(0.010)	(0.006)	0.006	0.026
Normalised EPS Growth	204%	(32%)	(38%)		294%
FD Normalised P/E (x)	NA	NA	NA	25.39	6.44
DPS (A\$)	-	-	-	-	-
Dividend Yield	0%	0%	0%	0%	0%
EV/EBITDA (x)	NA	NA	NA	22.30	4.82
P/FCFE (x)	NA	NA	NA	28.58	6.79
Net Gearing	(75.4%)	(96.3%)	(94.3%)	(93.2%)	(94.3%)
P/BV (x)	9.58	9.51	16.10	9.08	3.73
ROE	(73.2%)	(63.9%)	(46.6%)	48.1%	82.5%
Normalised EPS/consensus EPS (x)		1.03	0.64	0.65	0.85

SOURCE: MORGANS, COMPANY REPORTS

Figure 1: Financial summary

	AIFRS	AIFRS	AIFRS	AIFRS	AIFRS	AIFRS							
	FY15A	FY16A	FY17A	FY18F	FY19F	FY20F							
<b>Income statement</b>							<b>Valuation metrics</b>						
<b>Total revenue</b>	0.2	0.0	1.1	0.0	3.0	14.0	<b>Share price (A\$)</b>	0.17	<b>Price Target (A\$)</b>	\$0.28			
<b>EBITDA</b>	-0.5	-3.3	-10.0	-7.7	-4.9	5.8	<b>DCF valuation inputs</b>						
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	-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	0.0	CAPM (Rf+Beta(Rm-Rf))	12.5%	Ke	12.5%			
<b>EBIT</b>	-0.5	-3.3	-10.2	-8.0	-5.1	5.6	Equity (E/EV)	100.0%	NPV cash flow (A\$m)	253.3			
Net interest expense	0.0	0.0	0.2	0.2	0.3	0.1	Debt (D/EV)	0.0%	Minority interest (A\$m)	0.0			
Pre-tax profit	-0.5	-3.2	-10.0	-7.8	-4.9	5.7	Interest rate	4.20%	Net debt (A\$m)	-12.7			
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	-3.2	-10.0	-7.8	-4.9	5.7	<b>WACC</b>	12.5%	Equity market value (A\$m)	266.0			
Minority interests	0.0	0.0	0.0	0.0	0.0	0.0			Diluted no. of shares (m)	759.0			
<b>NPAT</b>	-0.5	-3.2	-10.0	-7.8	-4.9	5.7			<b>DCF valuation</b>	<b>\$0.35</b>			
Significant items	0.0	0.0	0.0	0.0	0.0	0.0	<b>Multiples</b>						
<b>NPAT post abnormals</b>	-0.5	-3.2	-10.0	-7.8	-4.9	5.7	Enterprise value (A\$m)	FY15A	FY16A	FY17A	FY18F	FY19F	FY20F
<b>Cash flow statement</b>													
EBITDA	-0.5	-3.3	-10.0	-7.7	-4.9	5.8	EV/Sales (x)	883.9	na	na	#DIV/0!	45.5	10.3
Change in working capital	0.1	0.9	4.7	2.0	-0.2	-0.9	EV/EBITDA (x)	-260.0	-43.4	-13.8	-18.3	-28.0	24.6
Net interest (pd)/rec	0.0	0.0	0.2	0.2	0.3	0.1	EV/EBIT (x)	-260.0	-43.4	-13.4	-17.7	-26.6	25.8
Taxes paid	0.0	0.0	0.0	0.0	0.0	0.0	<b>PE (x)</b>	-73.1	-34.0	-11.2	-16.5	-26.4	26.2
Other oper cash items	0.0	0.0	0.0	0.0	0.0	0.0	PEG x)	n.a.	-0.3	-0.1	-0.5	-0.7	0.1
<b>Cash flow from ops (1)</b>	-0.4	-2.3	-5.0	-5.5	-4.8	5.1	<b>Per share data</b>						
Capex (2)	0.0	0.0	0.0	0.0	0.0	0.0	No. shares	FY15A	FY16A	FY17A	FY18F	FY19F	FY20F
Disposals/(acquisitions)	0.0	0.0	0.0	0.0	0.0	0.0	EPS (cps)	219.3	648.8	659.0	659.0	759.0	759.0
Other investing cash flow	-0.2	0.0	0.0	0.0	0.0	0.0	Dividend per share (c)	-0.2	-0.5	-1.5	-1.0	-0.6	0.6
<b>Cash flow from investing (3)</b>	-0.2	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
Incr/(decr) in equity	4.9	13.1	0.3	10.0	0.0	2.8	Dividend yield (%)	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	<b>Growth ratios</b>						
Ordinary dividend paid	0.0	0.0	0.0	0.0	0.0	0.0	Sales growth	FY15A	FY16A	FY17A	FY18F	FY19F	FY20F
Preferred dividends (4)	0.0	0.0	0.0	0.0	0.0	0.0	Operating cost growth	na	-100.0%	na	na	#DIV/0!	366.7%
Other financing cash flow	-0.2	-1.1	0.0	0.0	0.0	0.0	EBITDA growth	na	396.4%	237.6%	-30.3%	1.6%	3.7%
<b>Cash flow from fin (5)</b>	4.7	12.0	0.3	10.0	0.0	2.8	EBITA growth	na	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	0.0	EBIT growth	na	542.5%	211.1%	21.7%	35.9%	208.6%
<b>Inc/(decr) cash (1+3+5+6)</b>	4.1	9.7	-4.8	4.5	-4.8	7.9	EBIT growth	na	542.5%	211.1%	21.7%	35.9%	208.6%
Equity FCF (1+2+4)	-0.4	-2.3	-5.0	-5.5	-4.8	5.1	NPAT growth	na	536.7%	208.8%	21.9%	37.7%	217.3%
<b>Balance sheet</b>							Normalised EPS growth	n.a.	115.2%	204.0%	32.2%	37.7%	201.0%
Cash & deposits	4.1	13.7	8.6	12.7	7.3	14.9	<b>Operating performance</b>						
Trade debtors	0.1	0.1	0.1	0.0	0.1	0.6	Asset turnover (%)	FY15A	FY16A	FY17A	FY18F	FY19F	FY20F
Inventory	0.0	0.0	0.0	0.0	0.2	0.7	EBITDA margin (%)	1.6	0.0	2.0	0.0	5.7	24.0
Other current assets	0.6	0.0	1.2	1.2	1.2	1.2	EBITDA margin (%)	-340.0	na	na	#DIV/0!	-162.2	41.8
Goodwill	0.0	0.0	0.0	0.0	0.0	0.0	EBIT margin (%)	-340.0	na	na	#DIV/0!	-171.2	39.8
Other intangible assets	0.0	2.4	2.2	1.9	1.6	1.4	Net profit margin (%)	-338.8	na	na	#DIV/0!	-162.7	40.9
Fixed assets	0.0	0.0	0.0	0.0	0.0	0.0	Return on net assets (%)	-105.6	-20.5	-90.2	-105.6	-20.5	
Investments	0.0	0.0	0.0	0.0	0.0	0.0	Net debt (A\$m)	-4.1	-13.7	-8.6	-12.7	-7.3	-14.9
Other assets	0.0	0.0	0.0	0.0	0.0	0.0	Net debt/equity (%)	-844.9	-85.6	-75.4	-96.3	-94.3	-93.2
<b>Total assets</b>	4.8	16.3	12.0	15.8	10.4	18.7	Net interest/EBIT cover (x)						
Short-term borrowings	0.0	0.0	0.0	0.0	0.0	0.0	Invested capital	-3.5	3.2	7.5	2.5	0.2	0.2
Trade payables	0.5	0.2	0.6	2.5	2.6	2.7	ROIC (%)	14.6	-101.0	-133.4	-310.3	-2290.5	3252.1
Long-term borrowings	0.0	0.0	0.0	0.0	0.0	0.0	<b>Internal liquidity</b>						
Other term liabilities	0.0	0.0	0.1	0.1	0.1	0.1	Current ratio (x)	FY15A	FY16A	FY17A	FY18F	FY19F	FY20F
Other liabilities	0.0	0.0	0.0	0.0	0.0	0.0	Receivables turnover (x)	9.8	62.6	16.8	5.5	3.4	6.5
<b>Total liabilities</b>	0.5	0.2	0.6	2.6	2.6	2.7	Payables turnover (x)	4.6	0.0	12.5	0.0	48.7	40.1
Share capital	4.0	21.5	21.8	31.8	31.8	34.6		2.7	9.3	27.6	4.9	3.1	3.1
Other reserves	0.0	1.3	6.3	6.3	6.3	6.3							
Retained earnings	-3.5	-6.7	-16.8	-24.9	-30.3	-24.9							
Other equity	0.0	0.0	0.0	0.0	0.0	0.0							
<b>Total equity</b>	0.5	16.0	11.3	13.2	7.8	16.0							
Minority interest	0.0	0.0	0.0	0.0	0.0	0.0							
<b>Total shareholders' equity</b>	0.5	16.0	11.3	13.2	7.8	16.0							
<b>Total liabilities &amp; SE</b>	1.0	16.3	12.0	15.8	10.4	18.7							

SOURCE: MORGANS RESEARCH, COMPANY

**Queensland**

Brisbane	+61 7 3334 4888
Stockbroking, Corporate Advice, Wealth Management	
Brisbane: Edward St	+61 7 3121 5677
Brisbane: Tynan	+61 7 3152 0600
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**Western Australia**

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Perth	+61 8 6462 1999

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Adelaide	+61 8 8464 5000
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