

# ResApp Health

## Big RAPs

**ADD** (no change)

Current price:	A\$0.20
Target price:	A\$0.35 <span style="color: green;">▲</span>
Previous target:	A\$0.28
Up/downside:	77.9%
Reuters:	RAP.AX
Bloomberg:	RAP AU
Market cap:	US\$92.66m A\$128.5m
Average daily turnover:	US\$0.35m A\$0.47m
Current shares o/s	659.0m
Free float:	90.2%

- RAP produced positive results in its Australian children's study, showing high PPA and NPA compared to clinical diagnosis. We view the result as a strong lead indicator to the pivotal US pediatric trial.
- RAP also released its FY18 results which were slightly better than our forecasts, although investor focus is firmly placed in the outcome of the US trial, with top line results due over the coming month.
- We make no changes to our underlying forecasts although remove our discount to DCF valuation. We retain an Add recommendation and price target upgraded to A\$0.35.

### A strong read-through to US results due within the month

RAP has released the top-line results from its Australian double-blinded prospective clinical paediatric study (n = 585). The results were positive, achieving positive percent agreement (PPA – proportion of patients with disease that test positive) between 79% and 97%, and negative percent agreement (NPA - proportion of patients without the disease that test negative) between 80% and 91%. Exceptional results were seen in Asthma, croup and pneumonia, with pneumonia particularly critical as it is the leading cause of death for children under 5 years old globally. We view the results as an extremely encouraging read through for US children's trial results expected by the end of the month.

### FY18 results summary

RAP reported a net loss of A\$6.5m, compared with a loss of A\$10.0m on the pcp and better than our forecast loss of A\$7.8m due to a A\$0.9m R&D rebate. R&D costs increased to A\$3.7m (from A\$3.4m on the pcp) due to the continuation of the Australian studies, and a restart of the US pediatric trial. Cash burn reduced slightly to A\$5.2m, compared with A\$5.4m on the pcp. RAP had cash reserves of A\$3.4m.

### Presentation from CEO Tony Keating – highlighting key catalysts

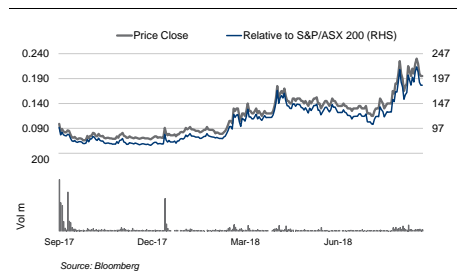
RAP's CEO and Managing Director Dr Tony Keating recently delivered a company update to the Morgans network, to view the video: [click here](#). Dr Keating spoke about the progress of the current clinical trials; the US SMARTCOUGH-C-2 study and the Breathe-Easy Australian adult and children study. He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

### No changes to underlying forecasts

Although we have made no changes to our core assumptions we have lower our cost base in line with the FY18 actuals. This has resulted in minor forecast revisions.

### Investment view – all in for the US trial

Our DCF valuation remains unchanged at A\$0.35. We have removed our 20% discount to valuation as strong Australian results providing an encouraging lead into the US children results due out within the month. Key risk to achieving our price target is an unfavourable US clinical outcome.



Price performance	1M	3M	12M
Absolute (%)	39.3	44.4	219.
Relative (%)	38.6	38.8	208.

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Analyst(s) own shares in the following stock(s) mentioned in this report:

– ResApp Health

Financial Summary	Jun-17A	Jun-18A	Jun-19F	Jun-20F	Jun-21F
Revenue (A\$m)	1.14	1.00	3.00	14.00	38.25
Operating EBITDA (A\$m)	(9.97)	(6.49)	(4.10)	6.62	30.32
Net Profit (A\$m)	(10.03)	(6.53)	(4.30)	6.56	30.42
Normalised EPS (A\$)	(0.015)	(0.010)	(0.006)	0.009	0.040
Normalised EPS Growth	204%	(35%)	(39%)		355%
FD Normalised P/E (x)	NA	NA	NA	21.92	4.82
DPS (A\$)	-	-	-	-	-
Dividend Yield	0%	0%	0%	0%	0%
EV/EBITDA (x)	NA	NA	NA	18.87	3.25
P/FCFE (x)	NA	NA	NA	24.28	5.12
Net Gearing	(75.4%)	(60.4%)	(95.1%)	(94.1%)	(94.2%)
P/BV (x)	11.32	23.19	12.44	7.17	2.88
ROE	(73.2%)	(77.4%)	(51.7%)	42.1%	85.7%
% Change In Normalised EPS Estimates			5.7%	36.9%	57.8%
Normalised EPS/consensus EPS (x)			1.01	1.48	

SOURCE: MORGANS, COMPANY REPORTS

Figure 1: Financial summary

Income statement	FY17A	FY18A	FY19F	FY20F	FY21F
<b>Total revenue</b>	1.1	1.0	3.0	14.0	38.3
<b>EBITDA</b>	-10.0	-6.5	-4.1	6.6	30.3
Associate income	0.0	0.0	0.0	0.0	0.0
Depreciation	0.0	0.0	0.0	0.0	0.0
EBITA	-10.2	-6.6	-4.4	6.3	30.0
Amortisation/impairment	0.0	0.0	0.0	0.0	0.0
<b>EBIT</b>	-10.2	-6.6	-4.4	6.3	30.0
Net interest expense	0.2	0.1	0.1	0.2	0.4
Pre-tax profit	-10.0	-6.5	-4.3	6.6	30.4
Income tax expense	0.0	0.0	0.0	0.0	0.0
After-tax profit	-10.0	-6.5	-4.3	6.6	30.4
Minority interests	0.0	0.0	0.0	0.0	0.0
<b>NPAT</b>	-10.0	-6.5	-4.3	6.6	30.4
Significant items	0.0	0.0	0.0	0.0	0.0
<b>NPAT post abnormals</b>	-10.0	-6.5	-4.3	6.6	30.4

Cash flow statement	FY17A	FY18A	FY19F	FY20F	FY21F
EBITDA	-10.0	-6.5	-4.1	6.6	30.3
Change in working capital	4.7	0.2	1.4	-0.9	-2.0
Net interest (pd)/rec	0.2	0.1	0.1	0.2	0.4
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
<b>Cash flow from ops (1)</b>	-5.0	-6.2	-2.7	5.9	28.7
Capex (2)	0.0	0.0	0.0	0.0	0.0
Disposals/(acquisitions)	0.0	0.0	0.0	0.0	0.0
Other investing cash flow	0.0	0.0	0.0	0.0	0.0
<b>Cash flow from investing (3)</b>	0.0	0.0	0.0	0.0	0.0
Incr/(decr) in equity	0.3	0.0	10.0	2.8	1.2
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
Preferred dividends (4)	0.0	0.0	0.0	0.0	0.0
Other financing cash flow	0.0	0.0	0.0	0.0	0.0
<b>Cash flow from fin (5)</b>	0.3	0.0	10.0	2.8	1.2
Forex and disc ops (6)	0.0	0.0	0.0	0.0	0.0
<b>Incr/(decr) cash (1+3+5+6)</b>	-4.8	-6.2	7.3	8.7	29.9
Equity FCF (1+2+4)	-5.0	-6.2	-2.7	5.9	28.7

Balance sheet	FY17A	FY18A	FY19F	FY20F	FY21F
Cash & deposits	8.6	3.4	10.6	18.9	48.1
Trade debtors	0.1	0.0	0.1	0.6	1.6
Inventory	0.0	0.0	0.2	0.7	1.9
Other current assets	1.2	1.0	1.0	1.0	1.0
Goodwill	0.0	0.0	0.0	0.0	0.0
Other intangible assets	2.2	2.0	1.8	1.5	1.2
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
<b>Total assets</b>	12.0	6.5	13.6	22.7	53.8
Short-term borrowings	0.0	0.0	0.0	0.0	0.0
Trade payables	0.6	0.8	2.3	2.4	2.6
Long-term borrowings	0.0	0.0	0.0	0.0	0.0
Other term liabilities	0.1	0.1	0.1	0.1	0.1
Other liabilities	0.0	0.0	0.0	0.0	0.0
<b>Total liabilities</b>	0.6	1.0	2.5	2.6	2.8
Share capital	21.8	21.8	31.8	34.6	35.8
Other reserves	6.3	7.1	7.1	7.1	7.1
Retained earnings	-16.8	-23.3	-27.7	-21.6	8.1
Other equity	0.0	0.0	0.0	0.0	0.0
<b>Total equity</b>	11.3	5.5	11.1	20.0	51.0
Minority interest	0.0	0.0	0.0	0.0	0.0
<b>Total shareholders' equity</b>	11.3	5.5	11.1	20.0	51.0
<b>Total liabilities &amp; SE</b>	12.0	6.5	13.6	22.7	53.8

Valuation metrics					
Share price (A\$)	0.20	Price Target (A\$)	\$0.35		
<b>DCF valuation inputs</b>					
Rf	4.00%	10-year rate	4.00%		
Rm-Rf	5.00%	Margin	2.0%		
Beta	1.70	Kd	4.20%		
CAPM (Rf+Beta(Rm-Rf))	12.5%	Ke	12.5%		
Equity (E/EV)	100.0%	NPV cash flow (A\$m)	242.6		
Debt (D/EV)	0.0%	Minority interest (A\$m)	0.0		
Interest rate	4.20%	Net debt (A\$m)	-3.3		
Tax rate (t)	30.0%	Investments (A\$m)	0.0		
<b>WACC</b>	12.5%	Equity market value (A\$m)	245.9		
		Diluted no. of shares (m)	709.0		
		<b>DCF valuation</b>	<b>\$0.35</b>		

Multiples	FY17A	FY18A	FY19F	FY20F	FY21F
Enterprise value (A\$m)	146.8	141.7	148.9	157.2	186.4
EV/Sales (x)	na	na	49.6	11.2	4.9
EV/EBITDA (x)	-14.7	-21.9	-36.3	23.8	6.1
EV/EBIT (x)	-14.3	-21.4	-34.1	24.8	6.2
<b>PE (x)</b>	<b>-12.8</b>	<b>-19.7</b>	<b>-32.1</b>	<b>21.9</b>	<b>4.8</b>
PEG x)	0.1	-0.6	-0.8	0.1	0.0

Per share data	FY17A	FY18A	FY19F	FY20F	FY21F
No. shares	659.0	659.0	659.0	709.0	737.0
EPS (cps)	-1.5	-1.0	-0.6	0.9	4.0
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%
<b>Dividend yield (%)</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>

Growth ratios	FY17A	FY18A	FY19F	FY20F	FY21F
Sales growth	na	na	na	366.7%	173.2%
Operating cost growth	237.6%	-32.6%	-5.2%	4.0%	7.5%
EBITDA growth	-202.9%	34.9%	36.8%	261.5%	358.1%
EBITA growth	-211.1%	35.3%	34.0%	245.4%	373.3%
EBIT growth	-211.1%	35.3%	34.0%	245.4%	373.3%
NPAT growth	-208.8%	34.9%	34.2%	252.4%	363.9%
Normalised EPS growth	-204.0%	34.9%	38.8%	246.6%	354.7%

Operating performance	FY17A	FY18A	FY19F	FY20F	FY21F
Asset turnover (%)	2.0	2.7	7.5	19.3	25.0
EBITDA margin (%)	na	na	-136.6	47.3	79.3
EBIT margin (%)	na	na	-145.6	45.3	78.6
Net profit margin (%)	na	na	-143.4	46.8	79.5
Return on net assets (%)	-90.2		-105.6	-20.5	-90.2
Net debt (A\$m)	-8.6	-3.3	-10.6	-18.9	-48.0
Net debt/equity (%)	-75.4	-60.4	-95.1	-94.1	-94.2
Net interest/EBIT cover (x)					
Invested capital	7.5	2.4	1.9	0.3	0.9
ROIC (%)	-133.4	-275.2	-223.4	2366.5	3318.7

Internal liquidity	FY17A	FY18A	FY19F	FY20F	FY21F
Current ratio (x)	16.8	5.8	5.1	8.7	20.1
Receivables turnover (x)	12.5	15.7	35.7	40.1	35.6
Payables turnover (x)	27.6	11.0	4.6	3.1	3.2

SOURCE: MORGANS RESEARCH, COMPANY

## Australian pediatric study results

**Figure 2: PPA and NPA results by disease indication**

2017/18 Pediatric Study Preliminary Results (n = 585) - results as at Sep 18 Joondalup Health Campus and Princess Margaret Hospital	Diagnosed as having disease		PPA	NPA
	Yes	No		
Lower respiratory tract disease	419	154	83%	82%
Asthma/reactive airway disease	149	381	97%	91%
Croup	68	500	88%	86%
Pneumonia	60	509	87%	85%
Primary upper respiratory tract disease	89	482	79%	80%
Bronchiolitis	131	26	84%	81%

SOURCE: COMPANY REPORTS

## Changes to forecasts

**Figure 4: Changes to forecasts**

	FY18A			FY19F			FY20F		
	Prev	Rev	% chg	Prev	Rev	% chg	Prev	Rev	% chg
Revenue	0.0	1.0	n.a.	3.0	3.0	0.0%	14.0	14.0	0.0%
EBITDA	(7.7)	(6.5)	16.2%	(4.9)	(4.1)	15.8%	5.8	6.6	13.2%
NPAT	(7.8)	(6.5)	16.6%	(4.9)	(4.3)	11.9%	5.7	6.6	14.6%
EPS	(1.0)	(1.0)	4.0%	(0.6)	(0.6)	5.7%	0.6	0.9	36.9%
Div yield	0.0%	0.0%	n.a.	0.0%	0.0%	n.a.	0.0%	0.0%	n.a.

SOURCE: MORGANS

## Valuation

**Figure 5: DCF valuation metrics**

		Price Target	\$0.35
DCF valuation inputs			
Rf	4.00%	10-year rate	4.00%
Rm-Rf	5.00%	Margin	2.0%
Beta	1.70	Kd	4.20%
CAPM (Rf+Beta(Rm-Rf))	12.5%	Ke	12.5%
		NPV cash flow (A\$m)	242.6
Equity (E/EV)	100.0%	Minority interest (A\$m)	0.0
Debt (D/EV)	0.0%	Net debt (A\$m)	-3.3
Interest rate	4.20%	Investments (A\$m)	0.0
Tax rate (t)	30.0%	Equity market value (A\$m)	245.9
WACC	12.5%	Diluted no. of shares (m)	709.0
		DCF valuation	\$0.35

SOURCE: MORGANS

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