

24 February 2017

Cogstate Ltd (CGS)**BUY****Share Price: A\$1.15****Strong interim result underpins confidence in FY17F****Target Price:****A\$1.35**

Cogstate issued a strong set of 1H17 results yesterday, with EBIT of A\$1.5m, slightly above the top end of guidance (A\$1.3-1.5m). The step change in the clinical trials business following investment in a commercial business development team in 2014 is showing significant returns, and with management aiming to reach revenue of ~A\$130m within 3-5 years, while maintaining gross margins, this strong growth trajectory is expected to continue. While we have not yet incorporated such growth into our forecasts, the significant strength that has been added to both the board and management team would suggest that business is well resourced to reach such levels. We remain positive on the stock and reiterate our Buy recommendation and A\$1.35 target price.

1H17 results highlights

- Revenue of A\$18.5m (+43% yoy).
- EBIT of A\$1.5m (Petra forecast A\$1.4m).
- Operating cash flow of A\$4.2m (1H16A: A\$0.3m).
- Net cash balance of A\$11.2m (+120% yoy).

Positive CY17 Outlook

- During the results conference call management highlighted that it is confident in its ability to announce significant contracts in the Alzheimer's space during CY17.
- We expect that Precision Recruitment and the partnership with Clinical Ink will allow CGS win these contracts, implying potentially higher margins.

Increasing board and management strength

- In the last number of months Cogstate has strengthened both its board and management team significantly, providing the resources required to reach its medium term revenue target of A\$130m, while maintaining current gross margins.
- At a board level the group has appointed former Eli Lilly executive, Dr Richard Mohs, and former BHP executive, Jane McAloon as independent directors.
- The group has also appointed two highly experience industry executive as divisional heads for the Clinical Trials and Healthcare divisions, respectively.
- CGS is also looking to increase its science resources to capitalise on its growth opportunities.

Forecasts and Valuation

- We have made no change to our forecasts.
- We reiterate our Buy recommendation and A\$1.35 target price.

Company Data

Shares – ordinary (M)	111.9
Dilution (M)	10.0
Total (fully diluted) (M)	121.9
Market capitalisation (\$M)	128.7
12 month low/high (\$)	0.56 / 1.39
Average monthly turnover (\$M)	2.3
Index	-
GICS Industry	Health Care Equipment

Financial Summary (fully diluted/normalised)

Year end June	2015A	2016A	2017F	2018F	2019F
Revenue (\$M)	16.1	27.3	39.6	51.7	63.0
Costs (\$M)	-18.4	-25.9	-36.1	-42.5	-50.9
EBITDA (\$M)	-2.3	1.4	3.5	9.2	12.1
NPAT (\$M)	-5.1	2.6	2.2	6.2	8.2
EPS (¢ps)	-5.1	0.6	1.8	5.1	6.7
EPS Growth (%)	n/m	n/m	203%	184%	32%
PER (x)	n/m	194.5	64.3	22.6	17.2
Free Cashflow (\$M)	-3.8	1.0	2.0	7.8	10.6
FCFPS (¢ps)	-3.4	0.9	1.8	6.9	9.5
PFCFPS (x)	n/m	128.6	65.3	16.6	12.1
Enterprise Value (\$M)	123.2	121.2	119.3	111.5	100.9
EV / EBITDA (x)	n/m	89.5	34.5	12.1	8.3
Payout ratio (%)	n/m	n/m	n/m	n/m	n/m
Dividends (¢ps)	n/m	n/m	n/m	n/m	n/m
Yield (%)	n/m	n/m	n/m	n/m	n/m

CGS– performance over one year**Disclosure and Disclaimer**

This report must be read with the disclosure and disclaimer on the final page of this document.

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Analysis

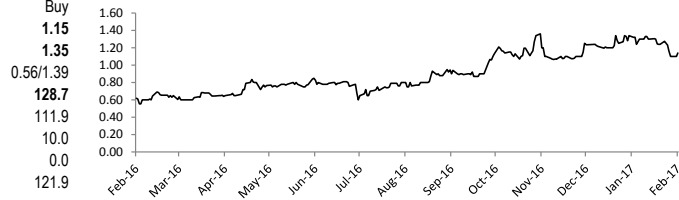
Cogstate Ltd

Year end 30 June

MARKET DATA

Recommendation		Buy
Price	\$	1.15
Target price (12-month)	\$	1.35
52 week low / high	\$	0.56/1.39
Market capitalisation	\$m	128.7
Shares on issue (basic)	no.	111.9
Options / rights	no.	10.0
Other equity	no.	0.0
Shares on issue (diluted)	no.	121.9

12-MONTH SHARE PRICE PERFORMANCE



INVESTMENT FUNDAMENTALS

	FY15A	FY16A	FY17F	FY18F	FY19F
Reported NPAT	\$m (5.1)	2.6	2.2	6.2	8.2
NPAT normalised	\$m (5.1)	2.6	2.2	6.2	8.2
Reported EPS (undiluted)	¢ (5.1)	0.6	1.9	5.4	7.1
EPS normalised (undiluted)	¢ (5.1)	0.6	1.8	5.1	6.7
...Growth	% n/m	n/m	203%	184%	32%
PER normalised	x (22.5)	194.5	64.3	22.6	17.2
Operating cash flow per share	¢ (2.3)	2.1	2.4	7.2	9.5
Free cash flow per share	¢ (3.4)	0.9	1.8	6.9	9.5
Price to free cash flow per share	x (33.6)	128.6	65.3	16.6	12.1
FCF yield	% (3.0)	0.8	1.5	6.0	8.2

Dividend	¢	0.0	0.0	0.0	0.0
Payout	%	0.0	0.0	0.0	0.0
Yield	%	0.0	0.0	0.0	0.0
Franking	%	n/a	n/a	n/a	n/a

Enterprise value	\$m	123.2	121.2	119.3	111.5	100.9
EV/EBITDA	x	(53.5)	89.5	34.5	12.1	8.3
EV/EBIT	x	(40.6)	117.7	38.0	12.5	8.6
Price to book (NAV)	x	13.9	9.3	6.3	4.3	3.1
Price to NTA	x	11.7	7.3	4.8	3.4	2.5

KEY RATIOS

	FY15A	FY16A	FY17F	FY18F	FY19F
EBITDA margin	% (14.3)	5.0	8.7	17.9	19.2
EBIT margin	% (18.9)	3.8	7.9	17.3	18.7
NPAT margin	% (31.5)	2.7	5.6	12.1	13.1
ROE	% (50.0)	4.8	9.8	19.2	18.1
ROA	% n/m	3.7	7.4	14.9	14.6
Net debt / (cash)	\$m (5.5)	(7.4)	(9.4)	(17.1)	(27.7)
Interest cover (EBIT / net interest)	x (234.8)	(117.3)	(357.2)	(1,015.7)	(1,339.5)
Gearing (net debt / EBITDA)	x 2.4	n/m	n/m	n/m	n/m
Leverage (net debt / (net debt + equity))	x n/m	n/m	n/m	n/m	n/m

DUPONT ANALYSIS

	FY15A	FY16A	FY17F	FY18F	FY19F
Net Profit Margin	% (31.5)	2.7	5.6	12.1	13.1
Asset Turnover	x 1.3	1.4	1.3	1.2	1.1
Return on Assets	% (40.9)	3.7	7.4	14.9	14.6
Financial Leverage	x 1.2	1.3	1.3	1.3	1.2
Return on Equity	% (50.0)	4.8	9.8	19.2	18.1

GROWTH PROFILE

	FY15A	FY16A	FY17F	FY18F	FY19F
Operating revenue	% 41.9	69.8	44.9	30.7	21.8
EBITDA	% (41.0)	(158.9)	155.4	167.1	30.8
EBIT	% (33.8)	(133.9)	204.4	184.4	31.9
Operating NPAT	% 30.2	(114.4)	202.7	183.9	31.8
Normalised EPS	% 18.6	(111.6)	202.7	183.9	31.8

PROFIT AND LOSS (PRO FORMA)

	FY15A	FY16A	FY17F	FY18F	FY19F
Total revenue	\$m 16.1	27.3	39.6	51.7	63.0
EBITDA	\$m (2.3)	1.4	3.5	9.2	12.1
Depreciation & amortisation	\$m 0.7	0.3	0.3	0.3	0.3
EBIT	\$m (3.0)	1.0	3.1	8.9	11.8
Net interest	\$m (0.0)	0.0	0.0	0.0	0.0
Non-operating income	\$m 0.0	0.0	0.0	0.0	0.0
Pretax Profit	\$m (5.2)	1.0	3.1	8.9	11.8
Tax expense	\$m 0.2	(0.3)	(0.9)	(2.7)	(3.5)
Minorities	\$m 0.0	0.0	0.0	0.0	0.0
Operating NPAT	\$m (5.1)	0.7	2.2	6.2	8.2
Significant items	\$m 0.0	1.9	0.0	0.0	0.0
Reported NPAT	\$m (5.1)	2.6	2.2	6.2	8.2

BALANCE SHEET

	FY15A	FY16A	FY17F	FY18F	FY19F
Cash	\$m 5.5	7.4	9.4	17.1	27.7
Receivables	\$m 4.9	5.3	12.1	15.7	19.2
Inventory	\$m 0.0	0.0	0.0	0.0	0.0
Other	\$m 0.5	0.9	1.0	1.0	1.0
Current	\$m 10.8	13.6	22.4	33.9	47.9
Prop. plant & equip	\$m 1.1	1.7	3.0	3.7	4.4
Intangibles	\$m 0.4	0.4	0.4	0.4	0.4
Other	\$m 0.0	3.8	3.8	3.8	3.8
Non current	\$m 1.5	6.0	7.3	7.9	8.6
Total assets	\$m 12.4	19.6	29.7	41.8	56.5
Accounts Payable	\$m 2.5	3.4	6.3	8.2	10.0
Borrowings	\$m 0.0	0.0	0.0	0.0	0.0
Other	\$m 0.0	0.3	0.3	0.3	0.3
Total liabilities	\$m 2.6	3.7	6.6	8.5	10.3
Shareholder's equity	\$m 10.1	15.1	22.4	32.6	45.5

CASH FLOW

	FY15A	FY16A	FY17F	FY18F	FY19F
EBITDA	\$m (2.3)	1.4	3.5	9.2	12.1
Change in provisions	\$m 0.0	0.0	0.0	0.0	0.0
Change in working capital	\$m (0.5)	1.3	(0.5)	(0.5)	(0.5)
Net interest	\$m 0.1	0.0	0.0	0.0	0.0
Tax paid	\$m 0.0	0.0	0.0	0.0	0.0
Other	\$m (0.5)	1.3	(0.5)	(0.5)	(0.5)
Operating cash flow	\$m (2.8)	2.6	3.0	8.8	11.6
Capex	\$m (1.1)	(1.6)	(1.0)	(1.0)	(1.0)
Acquisitions	\$m 0.0	0.0	0.0	0.0	0.0
Disposals	\$m 0.0	0.0	0.0	0.0	0.0
Investing cash flow	\$m (1.0)	(1.6)	(1.0)	(1.0)	(1.0)
Equity	\$m 2.1	0.9	0.0	0.0	0.0
Increase / (decrease) in borrowings	\$m 0.0	0.0	0.0	0.0	0.0
Dividend/other	\$m 0.0	0.0	0.0	0.0	0.0
Financing cash flow	\$m 2.1	0.9	0.0	0.0	0.0
Free cash flow	\$m (3.8)	1.0	2.0	7.8	10.6

Source: Petra Capital



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