

9 April 2018

Cogstate Ltd (CGS)

BUY**Share Price: A\$0.83****Establishes centre of excellence****Target Price:****A\$1.35**

CGS announced on Friday that it has established a rare disease and paediatric centre of excellence to assist the industry in selecting and measuring endpoints for clinical trials in this area. This is likely to lead to an increased level of trial, which should be beneficial to CGS in the future. We reiterate our Buy recommendation and A\$1.35 target price.

Centre of Excellence established

- CGS announced last week that it has established a Rare Disease and Paediatric Centre of Excellence.
- The centre will be focused on leading all activities related to the selection and administration of cognitive and behavioural outcome measures in these areas.
- The centre will equip pharma sponsors with the tools required to conduct clinical trials in rare disease and paediatric patient populations.
- The goal is to help the industry in selecting the appropriate endpoints for clinical trials.

Potential new market for Cogstate

- Approximately 350m people globally suffer from rare diseases, ~50% of which are children, with ~95% of cases untreated.
- An improvement in identifying and measuring appropriate endpoints for these patient populations is likely to lead to an increase in clinical trials in this area.
- Cogstate's computerised assessment of cognitive ability has already been used in over 40 paediatric and rare disease trial across a range on indications.
- Initiatives such as the establishment of a centre of excellence in this area is likely, in our view, to increase the number of clinical trials and revenue for Cogstate.

Cogstate has had a strong start to FY18F

- Cogstate has had a strong start to FY18F, reporting a book to bill of 1.0x in 1Q18, rising to 2.5x in 2Q18.
- Outlook for 2H18 is positive with management highlighting strong contracted revenue and market conditions.

Forecasts and Valuation

- We have made no changes to our forecasts on the back of this positive announcement.
- Cogstate has consistently delivered on expectations YTD and we expect this to be maintained, which should lead to a re-rating of the stock.
- We reiterate our Buy recommendation and A\$1.35 target price (implies ~60% upside to current levels).

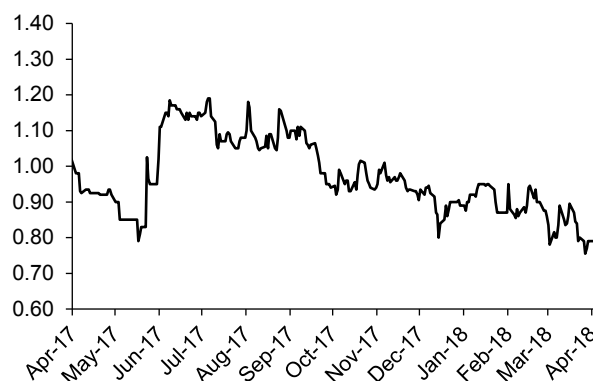
Company Data

Shares – ordinary (M)	111.9
Dilution (M)	10.0
Total (fully diluted) (M)	121.9
Market capitalisation (\$M)	92.9
12 month low/high (\$)	0.77 / 1.34
Average monthly turnover (\$M)	2.3
Index	-
GICS Industry	Health Care Equipment

Financial Summary (fully diluted/normalised)

Year end June	2016A	2017A	2018F	2019F	2020F
Revenue (\$M)	56.0	34.9	45.0	60.0	70.0
Costs (\$M)	-54.6	-34.8	-43.0	-49.8	-58.2
EBITDA (\$M)	1.4	0.1	2.0	10.2	11.8
NPAT (\$M)	2.6	-0.8	1.2	6.9	8.0
EPS (¢ps)	0.6	-0.7	0.9	5.6	6.4
EPS Growth (%)	n/m	-211%	-244%	491%	15%
PER (x)	140.4	-126.1	87.5	14.8	12.9
Free Cashflow (\$M)	1.0	1.4	0.4	8.6	11.2
FCFPS (¢ps)	0.9	1.2	0.3	7.7	10.0
PFCFPS (x)	92.8	66.5	239.5	10.8	8.3
Enterprise Value (\$M)	85.4	83.5	83.2	74.6	63.4
EV / EBITDA (x)	63.0	582.6	40.8	7.3	5.3
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



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Analysis

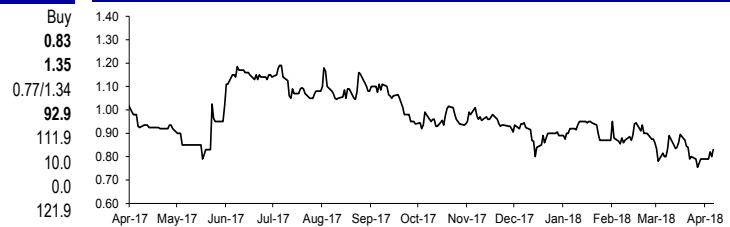
Cogstate Ltd

Year end 30 June

MARKET DATA

Recommendation		Buy
Price	\$	0.83
Target price (12-month)	\$	1.35
52 week low / high	\$	0.77/1.34
Market capitalisation	\$m	92.9
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

	FY16A	FY17A	FY18F	FY19F	FY20F
Reported NPAT	\$m 2.6	(0.8)	1.2	6.9	8.0
NPAT normalised	\$m 2.6	(0.8)	1.2	6.9	8.0
Reported EPS (undiluted)	¢ 0.6	(0.7)	1.0	5.9	6.8
EPS normalised (undiluted)	¢ 0.6	(0.7)	0.9	5.6	6.4
... Growth	% n/m	(211%)	-244%	491%	15%
PER normalised	x n/m	n/m	87.5	14.8	12.9
Operating cash flow per share	¢ 2.1	2.1	1.3	8.0	10.2
Free cash flow per share	¢ 0.9	1.2	0.3	7.7	10.0
Price to free cash flow per share	x 92.8	66.5	239.5	10.8	8.3
FCF yield	% 1.1	1.5	0.4	9.2	12.1
Dividend	¢ 0.0	0.0	0.0	0.0	0.0
Payout	% 0.0	0.0	0.0	0.0	0.0
Yield	% 0.0	0.0	0.0	0.0	0.0
Franking	% n/a	n/a	n/a	n/a	n/a
Enterprise value	\$m 85.4	83.5	83.2	74.6	63.4
EV/EBITDA	x 63.0	582.6	40.8	7.3	5.3
EV/EBIT	x 82.9	(95.0)	51.8	7.6	5.6
Price to book (NAV)	x 6.6	6.1	4.3	2.9	2.1
Price to NTA	x 5.3	4.7	3.3	2.3	1.7

KEY RATIOS

	FY16A	FY17A	FY18F	FY19F	FY20F
EBITDA margin	% 5.0	0.4	4.5	17.0	16.9
EBIT margin	% 3.8	(2.5)	3.6	16.3	16.3
NPAT margin	% 2.7	(2.3)	2.6	11.5	11.5
ROE	% 4.7	(4.9)	4.9	19.6	16.9
ROA	% 3.7	(3.7)	3.7	15.2	13.3
Net debt / (cash)	\$m (7.4)	(9.3)	(9.7)	(18.3)	(29.5)
Interest cover (EBIT / net interest)	x (117.3)	14.0	(25.6)	(155.9)	(181.9)
Gearing (net debt / EBITDA)	x n/m	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

	FY16A	FY17A	FY18F	FY19F	FY20F
Net Profit Margin	% 2.7	(2.3)	2.6	11.5	11.5
Asset Turnover	x 1.4	1.6	1.4	1.3	1.2
Return on Assets	% 3.7	(3.7)	3.7	15.2	13.3
Financial Leverage	x 1.3	1.3	1.3	1.3	1.3
Return on Equity	% 4.7	(4.9)	4.9	19.6	16.9

GROWTH PROFILE

	FY16A	FY17A	FY18F	FY19F	FY20F
Operating revenue	% 69.8	28.0	28.8	33.3	16.7
EBITDA	% (158.9)	(89.4)	1,320.7	401.5	16.0
EBIT	% (133.9)	(185.4)	(282.4)	510.0	16.7
Operating NPAT	% (114.4)	(211.3)	(244.2)	490.8	16.6
Normalised EPS	% (111.6)	(211.3)	(244.2)	490.8	14.7

PROFIT AND LOSS (PRO FORMA)

	FY16A	FY17A	FY18F	FY19F	FY20F
Total revenue	\$m 27.3	34.9	45.0	60.0	70.0
EBITDA	\$m 1.4	0.1	2.0	10.2	11.8
Depreciation & amortisation	\$m 0.3	0.4	0.4	0.4	0.4
EBIT	\$m 1.0	(0.9)	1.6	9.8	11.4
Net interest	\$m 0.0	0.1	0.1	0.1	0.1
Non-operating income	\$m 0.0	0.0	0.0	0.0	0.0
Pretax Profit	\$m 1.0	(0.8)	1.7	9.8	11.5
Tax expense	\$m (0.3)	0.0	(0.5)	(3.0)	(3.4)
Minorities	\$m 0.0	0.0	0.0	0.0	1.0
Operating NPAT	\$m 0.7	(0.8)	1.2	6.9	8.0
Significant items	\$m 1.9	0.0	0.0	0.0	0.0
Reported NPAT	\$m 2.6	(0.8)	1.2	6.9	8.0

BALANCE SHEET

	FY16A	FY17A	FY18F	FY19F	FY20F
Cash	\$m 7.4	9.3	9.7	18.3	29.5
Receivables	\$m 5.3	5.1	13.7	18.3	21.3
Inventory	\$m 0.0	0.0	0.0	0.0	0.0
Other	\$m 0.9	1.2	1.0	1.0	1.0
Current	\$m 13.6	15.6	24.4	37.5	51.8
Prop, plant & equip	\$m 1.7	2.1	2.9	3.7	4.4
Intangibles	\$m 0.4	0.4	0.4	0.4	0.4
Other	\$m 3.8	3.8	3.8	3.8	3.8
Non current	\$m 6.0	6.2	7.0	7.8	8.6
Total assets	\$m 19.6	21.8	31.4	45.3	60.4
Accounts Payable	\$m 3.4	4.6	7.1	9.5	11.1
Borrowings	\$m 0.0	0.0	0.0	0.0	0.0
Other	\$m 0.0	0.7	0.7	0.7	1.7
Total liabilities	\$m 3.4	5.3	7.8	10.2	12.8
Shareholder's equity	\$m 15.4	16.5	23.6	35.1	47.6

CASH FLOW

	FY16A	FY17A	FY18F	FY19F	FY20F
EBITDA	\$m 1.4	0.1	2.0	10.2	11.8
Change in provisions	\$m 0.0	0.0	0.0	0.0	1.0
Change in working capital	\$m 1.3	2.4	(0.5)	(0.5)	(0.5)
Net interest	\$m 0.0	0.1	0.1	0.1	0.1
Tax paid	\$m 0.0	0.0	0.0	0.0	1.0
Other	\$m 1.3	2.4	(0.5)	(0.5)	(0.5)
Operating cash flow	\$m 2.6	2.6	1.6	9.8	12.4
Capex	\$m (1.6)	(1.2)	(1.2)	(1.2)	(1.2)
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 (1.6)	(1.2)	(1.2)	(1.2)	(1.2)
Equity	\$m 0.9	0.5	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 0.9	0.5	0.0	0.0	0.0
Free cash flow	\$m 1.0	1.4	0.4	8.6	11.2

Source: Petra Capital



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