

13 April 2018

## Cogstate Ltd (CGS)

**BUY****Share Price: A\$0.93**

### Strong 3Q18 result and outlook

**Target Price: A\$1.35**

Following a mixed quarterly performance in FY17, Cogstate has consistently delivered in FY18. The company's 3Q18 announcement yesterday was further evidence of this trend. The business reported ~33% sequential revenue growth, strong cash generation and reiterated positive FY18 guidance. YTD book to bill of 1.38x suggests the business is on track to meet our FY19F expectations, which implies the stock is very cheap at current levels. We reiterate our Buy recommendation and A\$1.35 target price.

#### Strong 3Q18 – key highlights

- Revenue +33% qoq – av. Book to bill of 1.38x YTD, implying ~38% growth for FY19 (Petra top line +33%).
- Value of contracts signed to date is US\$29.9m (greater than value signed for all of FY17).
- Positive cash inflow of US\$1.5m.
- Reiterated positive FY18 guidance.

#### Cogstate has had a strong start to FY18F

- Outlook for 2H18 is positive with management highlighting strong contracted revenue and market conditions
- Cogstate has had a strong start to FY18F, reporting an average book to bill of 1.38x YTD.
- The group recently announced that it has established a Rare Disease and Paediatric Centre of Excellence. Initiatives such as these, are likely, in our view, to increase the number of clinical trials and revenue for Cogstate over the medium term.

#### Stock looks extremely attractive at these levels

- After a mixed performance in FY17, Cogstate looks set to deliver a strong result in FY18F.
- Furthermore, with an average book to bill of 1.38x YTD, the business is on track to reach our FY19F expectations.
- At current levels Cogstate is trading on ~8.4x FY19F EBITDA, which is extremely cheap in our view.

#### 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 ~45% upside to current levels).

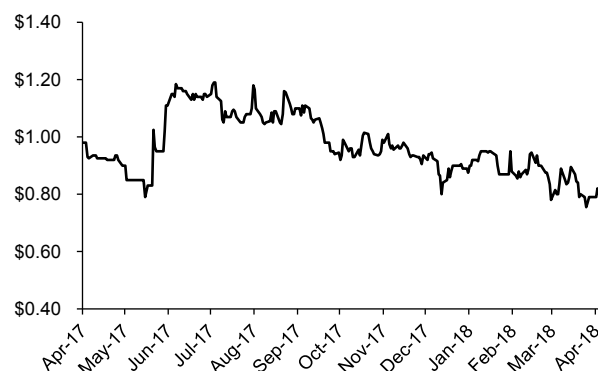
#### Company Data

Shares – ordinary (M)	111.9
Dilution (M)	10.0
Total (fully diluted) (M)	121.9
Market capitalisation (\$M)	104.0
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)	157.3	-141.3	98.0	16.6	14.5
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)	104.0	74.5	268.4	12.1	9.3
Enterprise Value (\$M)	96.6	94.7	94.3	85.8	74.6
EV / EBITDA (x)	71.3	660.6	46.3	8.4	6.3
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

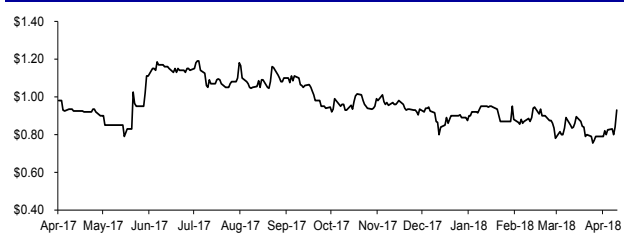
### Cogstate Ltd

Year end 30 June

#### MARKET DATA

Recommendation		Buy
Price	\$	0.93
Target price (12-month)	\$	1.35
52 week low / high	\$	0.77/1.34
Market capitalisation	\$m	104.0
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
<b>NPAT normalised</b>	<b>\$m</b>	<b>2.6</b>	<b>(0.8)</b>	<b>1.2</b>	<b>6.9</b>	<b>8.0</b>
Reported EPS (undiluted)	¢	0.6	(0.7)	1.0	5.9	6.8
<b>EPS normalised (undiluted)</b>	<b>¢</b>	<b>0.6</b>	<b>(0.7)</b>	<b>0.9</b>	<b>5.6</b>	<b>6.4</b>
....Growth	%	n/m	(211%)	-244%	491%	15%
<b>PER normalised</b>	<b>x</b>	<b>n/m</b>	<b>n/m</b>	<b>98.0</b>	<b>16.6</b>	<b>14.5</b>
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
<b>Price to free cash flow per share</b>	<b>x</b>	<b>104.0</b>	<b>74.5</b>	<b>268.4</b>	<b>12.1</b>	<b>9.3</b>
FCF yield	%	1.0	1.3	0.4	8.2	10.8
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
<b>Enterprise value</b>	<b>\$m</b>	<b>96.6</b>	<b>94.7</b>	<b>94.3</b>	<b>85.8</b>	<b>74.6</b>
EV/EBITDA	x	71.3	660.6	46.3	8.4	6.3
EV/EBIT	x	93.8	(107.7)	58.8	8.8	6.5
Price to book (NAV)	x	7.4	6.9	4.8	3.2	2.4
Price to NTA	x	5.9	5.3	3.7	2.5	1.9

#### 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
<b>Return on Equity</b>	<b>%</b>	<b>4.7</b>	<b>(4.9)</b>	<b>4.9</b>	<b>19.6</b>	<b>16.9</b>

#### 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
<b>EBITDA</b>	<b>\$m</b>	<b>1.4</b>	<b>0.1</b>	<b>2.0</b>	<b>10.2</b>	<b>11.8</b>
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
<b>Operating NPAT</b>	<b>\$m</b>	<b>0.7</b>	<b>(0.8)</b>	<b>1.2</b>	<b>6.9</b>	<b>8.0</b>
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
<b>Current</b>	<b>\$m</b>	<b>13.6</b>	<b>15.6</b>	<b>24.4</b>	<b>37.5</b>	<b>51.8</b>
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
<b>Non current</b>	<b>\$m</b>	<b>6.0</b>	<b>6.2</b>	<b>7.0</b>	<b>7.8</b>	<b>8.6</b>
<b>Total assets</b>	<b>\$m</b>	<b>19.6</b>	<b>21.8</b>	<b>31.4</b>	<b>45.3</b>	<b>60.4</b>
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
<b>Total liabilities</b>	<b>\$m</b>	<b>3.4</b>	<b>5.3</b>	<b>7.8</b>	<b>10.2</b>	<b>12.8</b>
<b>Shareholder's equity</b>	<b>\$m</b>	<b>15.4</b>	<b>16.5</b>	<b>23.6</b>	<b>35.1</b>	<b>47.6</b>

#### 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)
<b>Operating cash flow</b>	<b>\$m</b>	<b>2.6</b>	<b>2.6</b>	<b>1.6</b>	<b>9.8</b>	<b>12.4</b>
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
<b>Investing cash flow</b>	<b>\$m</b>	<b>(1.6)</b>	<b>(1.2)</b>	<b>(1.2)</b>	<b>(1.2)</b>	<b>(1.2)</b>
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
<b>Financing cash flow</b>	<b>\$m</b>	<b>0.9</b>	<b>0.5</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Free cash flow</b>	<b>\$m</b>	<b>1.0</b>	<b>1.4</b>	<b>0.4</b>	<b>8.6</b>	<b>11.2</b>

Source: Petra Capital



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