

SomnoMed

Building for growth

ADD (no change)

Current price:	A\$3.38
Target price:	A\$3.84 ▲
Previous target:	A\$3.72
Up/downside:	13.6%
Reuters:	SOM.AX
Bloomberg:	SOM AU
Market cap:	US\$146.3m A\$191.7m
Average daily turnover:	US\$0.15m A\$0.20m
Current shares o/s	56.71m
Free float:	87.6%



Price performance	1M	3M	12M
Absolute (%)	2.4	11.9	20.7
Relative (%)	0.5	9.3	17.6

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- Overall positive result with solid sales growth in North America and Europe.
- Underlying EBITDA growth strong although one-offs including acquisition costs and global CEO recruitment impacting the NPAT.
- Outlook commentary was positive and growth will be driven by the SCA acquisition from FY18.
- We maintain our positive view on the stock, with our price target increasing to A\$3.84 and retain our Add recommendation.

FY16 results, growth and margins continue to expand

SOM posted FY16 NPAT of A\$0.1m, down 87% on the pcp as a result of deferred tax adjustments, one-off costs relating to the SCA acquisition and global CEO hunt. Revenues of A\$44.0m were up 28% on the pcp, while volumes grew 15% to 58,983 units. North America and Europe continued to show strong sales and unit growth, with all four quarters up significantly on the pcp. North American direct sales (+25.6%) continued to lead Europe (+22.9%) and APAC (+13%) in sales growth, and accounts for c53% of regional sales splits. EBITDA rose 70% to A\$1.48m as MAS gross margins grew slightly to 68.6%, and group gross margins were up to 57.5% (from 56.6% on the pcp). Adding back the SCA costs and CEO recruitment, underlying profit was A\$2.1m, up 141% on the pcp. SOM maintains a strong cash position of A\$17.6m.

Outlook commentary

Management has guided to global direct sales growth of over 20% on the pcp which we believe is conservative. SOM has historically exceeded on their guidance. Strong growth in emerging markets along with regulatory changes in France and significant increases in managed care operations due to new contracts signed with US insurers look to offset the costs associated with the SCA startup. We expect SCA to contribute materially from FY18. SOM aims to open five SCA treatment centres in early CY17 for a cost of approximately A\$4m. In a previous announcement, management guided to an estimated initial cost of A\$500k per site and expects them to break even within 12 months of opening. From these comments we expect five completed centres and an additional three under contract by this time next year, ramping up to 18 centres by FY18.

Forecast changes

With the increased costs associated with the SCA start-up, we have moderated our FY17 EBITDA and NPAT forecasts. We expect SCA retail stores to contribute significantly from FY18, and accordingly we have increased our unit sales growth from 20% up to 25% and 30% in FY17 and FY18, respectively.

Investment view remains positive

As a result of changes to forecasts, our DCF valuation has increased to A\$3.84 from A\$3.72. We retain an Add recommendation. The key downside risk to our target is slower-than-expected growth in the key markets of US and Europe.

Financial Summary	Jun-15A	Jun-16A	Jun-17F	Jun-18F	Jun-19F
Revenue (A\$m)	34.43	44.08	55.06	68.91	84.52
Operating EBITDA (A\$m)	1.21	1.47	0.17	5.28	11.12
Net Profit (A\$m)	0.54	0.07	(0.39)	4.21	9.47
Normalised EPS (A\$)	0.01	0.00	(0.01)	0.07	0.17
Normalised EPS Growth	129%	(89%)	(678%)		125%
FD Normalised P/E (x)	320	2,853	NA	46	20
DPS (A\$)	-	-	-	-	-
Dividend Yield	0%	0%	0%	0%	0%
EV/EBITDA (x)	136	119	1,013	32	14
P/FCFE (x)	NA	NA	57.01	36.57	16.41
Net Gearing	(38.6%)	(53.2%)	(64.4%)	(68.7%)	(75.3%)
P/BV (x)	8.03	5.79	5.85	5.19	4.13
ROE	3.2%	0.2%	(1.2%)	12.1%	22.7%
% Change In Normalised EPS Estimates			(107%)	(49%)	(22%)
Normalised EPS/consensus EPS (x)			(0.12)	0.58	

SOURCE: MORGANS, COMPANY REPORTS

Figure 1: Financial summary

Income statement						Valuation metrics							
	FY15A	FY16A	FY17F	FY18F	FY19F					Price Target (A\$)	\$3.84		
Total revenue	34.4	44.1	55.1	68.9	84.5	DCF valuation inputs							
EBITDA	1.2	1.5	0.2	5.3	11.1	Rf	4.00%	10-year rate	4.00%				
Associate income	0.0	0.0	0.0	0.0	0.0	Rm-Rf	4.00%	Margin	2.0%				
Depreciation	-0.6	-1.0	-0.6	-0.6	-0.6	Beta	1.70	Kd	4.20%				
EBITA	0.6	0.4	-0.4	4.7	10.5	CAPM (Rf+Beta(Rm-Rf))	10.8%	Ke	13.0%				
Amortisation/impairment	0.0	0.0	0.0	0.0	0.0	Equity (E/EV)	60.0%	NPV cash flow (A\$m)	216.9				
EBIT	0.6	0.4	-0.4	4.7	10.5	Debt (D/EV)	40.0%	Minority interest (A\$m)	0.0				
Net interest expense	0.1	0.0	0.0	0.0	0.0	Interest rate	4.20%	Net debt (A\$m)	-0.7				
Pre-tax profit	0.7	0.5	-0.4	4.7	10.5	Tax rate (t)	30.0%	Investments (A\$m)	0.0				
Income tax expense	-0.2	-0.4	0.0	-0.5	-1.1	WACC	9.5%	Equity market value (A\$m)	217.6				
After-tax profit	0.5	0.1	-0.4	4.2	9.5	DCF valuation						\$3.84	
Minority interests	0.0	0.0	0.0	0.0	0.0	Multiples							
NPAT	0.5	0.1	-0.4	4.2	9.5	Enterprise value (A\$m)	FY15A	FY16A	FY17F	FY18F	FY19F		
Significant items	0.0	0.0	0.0	0.0	0.0	EV/Sales (x)	160.3	169.6	173.1	177.4	187.0		
NPAT post abnormals	0.5	0.1	-0.4	4.2	9.5	EV/EBITDA (x)	4.7	3.8	3.1	2.6	2.2		
Cash flow statement						EV/EBIT (x)	133.0	115.7	1027.8	33.6	16.8		
EBITDA	1.2	1.5	0.2	5.3	11.1	PE (x)	253.9	2262.4	-391.3	36.1	16.0		
Change in working capital	-1.3	1.0	3.8	0.1	0.1	PEG x)	-9.2	-25.5	0.6	0.0	0.1		
Net interest (pd)/rec	-0.1	0.0	0.0	0.0	0.0	Per share data							
Taxes paid	0.2	0.4	0.0	0.5	1.1	No. shares	FY15A	FY16A	FY17F	FY18F	FY19F		
Other oper cash items	0.0	0.0	0.0	0.0	0.0	EPS (cps)	51.1	56.7	56.7	56.7	56.7		
Cash flow from ops (1)	-0.1	2.9	4.0	5.8	12.3	Dividend per share (c)	1.1	0.1	-0.7	7.4	16.7		
Capex (2)	-1.5	-3.2	-0.6	-0.6	-0.6	Dividend payout ratio (%)	0.0	0.0	0.0	0.0	0.0		
Disposals/(acquisitions)	0.0	0.0	0.0	0.0	0.0	Dividend yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%		
Other investing cash flow	0.0	0.0	0.0	0.0	0.0	Growth ratios							
Cash flow from investing (3)	-1.5	-3.2	-0.6	-0.6	-0.6	Sales growth	FY15A	FY16A	FY17F	FY18F	FY19F		
Incr/(decr) in equity	7.1	10.5	0.0	0.0	0.0	Operating cost growth	32.9%	28.1%	24.9%	25.2%	22.7%		
Incr/(decr) in debt	0.0	0.0	0.0	0.0	0.0	EBITDA growth	32.7%	28.3%	28.8%	15.9%	15.3%		
Ordinary dividend paid	0.0	0.0	0.0	0.0	0.0	EBITDA growth	41.3%	21.6%	-88.5%	3034.3%	110.8%		
Preferred dividends (4)	0.0	0.0	0.0	0.0	0.0	EBITA growth	136.5%	-22.5%	-196.9%	-1183.8%	125.0%		
Other financing cash flow	0.0	0.0	0.0	0.0	0.0	EBIT growth	136.5%	-22.5%	-196.9%	-1183.8%	125.0%		
Cash flow from fin (5)	7.1	10.5	0.0	0.0	0.0	NPAT growth	136.8%	-87.5%	-678.2%	-1183.8%	125.0%		
Forex and disc ops (6)	0.0	0.0	0.0	0.0	0.0	Normalised EPS growth	-27.6%	-88.8%	-678.2%	-1183.8%	125.0%		
Inc/(decr) cash (1+3+5+6)	5.5	10.1	3.4	5.2	11.7	Operating performance							
Equity FCF (1+2+4)	-1.6	-0.4	3.4	5.2	11.7	Asset turnover (%)	FY15A	FY16A	FY17F	FY18F	FY19F		
Balance sheet						EBITDA margin (%)	36.7	32.3	35.7	44.1	45.4		
Cash & deposits	8.3	17.6	21.1	25.4	35.0	EBIT margin (%)	3.5	3.3	0.3	7.7	13.2		
Trade debtors	7.2	7.8	2.3	2.8	3.5	Net profit margin (%)	1.7	1.0	-0.8	6.8	12.5		
Inventory	1.3	1.7	0.0	0.0	0.0	Return on net assets (%)	1.6	0.2	-0.7	6.1	11.2		
Other current assets	0.0	0.0	0.0	0.0	0.0	Net debt (A\$m)	2.7	1.3	-1.3	1.9	2.7		
Goodwill	0.0	0.0	0.0	0.0	0.0	Net debt/equity (%)	-8.3	-17.6	-21.1	-25.4	-35.0		
Other intangible assets	0.0	0.0	0.0	0.0	0.0	Net interest/EBIT cover (x)	-38.6	-53.2	-64.4	-68.7	-75.3		
Fixed assets	2.1	3.6	3.6	3.6	3.6	Invested capital	n/a	n/a	n/a	n/a	n/a		
Investments	0.0	0.0	0.0	0.0	0.0	ROIC (%)	11.9	16.5	15.5	11.7	11.6		
Other assets	8.9	9.7	9.7	9.7	9.7	Internal liquidity							
Total assets	27.7	40.4	36.6	41.5	51.7	Current ratio (x)	FY15A	FY16A	FY17F	FY18F	FY19F		
Short-term borrowings	0.0	0.0	0.0	0.0	0.0	Receivables turnover (x)	4.3	4.5	8.8	8.5	9.5		
Trade payables	3.9	6.1	2.6	3.3	4.1	Payables turnover (x)	5.4	5.9	10.9	27.1	26.8		
Long-term borrowings	0.0	0.0	0.0	0.0	0.0		9.1	8.6	12.6	21.4	19.9		
Other term liabilities	1.1	0.1	0.1	0.1	0.1	Operating performance							
Other liabilities	0.0	0.0	0.0	0.0	0.0	Asset turnover (%)	FY15A	FY16A	FY17F	FY18F	FY19F		
Total liabilities	6.2	7.3	3.9	4.5	5.3	EBITDA margin (%)	36.7	32.3	35.7	44.1	45.4		
Share capital	33.7	44.6	44.6	44.6	44.6	EBIT margin (%)	3.5	3.3	0.3	7.7	13.2		
Other reserves	3.7	4.4	4.4	4.4	4.4	Net profit margin (%)	1.7	1.0	-0.8	6.8	12.5		
Retained earnings	-15.9	-15.8	-16.2	-12.0	-2.5	Return on net assets (%)	1.6	0.2	-0.7	6.1	11.2		
Other equity	0.0	0.0	0.0	0.0	0.0	Net debt (A\$m)	2.7	1.3	-1.3	1.9	2.7		
Total equity	21.5	33.1	32.7	36.9	46.4	Net debt/equity (%)	-8.3	-17.6	-21.1	-25.4	-35.0		
Minority interest	0.0	0.0	0.0	0.0	0.0	Net interest/EBIT cover (x)	-38.6	-53.2	-64.4	-68.7	-75.3		
Total shareholders' equity	21.5	33.1	32.7	36.9	46.4	Invested capital	n/a	n/a	n/a	n/a	n/a		
Total liabilities & SE	27.7	40.4	36.6	41.5	51.7	ROIC (%)	11.9	16.5	15.5	11.7	11.6		

SOURCE: MORGANS RESEARCH, COMPANY

Changes to forecasts

Figure 2: Changes to forecasts table

	Forecast FY16	Actual FY16	% chg	FY17F Prev	FY17F Rev	% chg	FY18F Prev	FY18F Rev	% chg
Revenue	45.0	44.1	-2%	55.0	55.1	0%	65.0	68.9	6%
EBITDA	2.8	1.5	-47%	6.2	0.2	-97%	9.4	5.3	-44%
EBITDA margin	6.1%	3.3%	-46%	11.2%	0.3%	-97%	14.4%	7.7%	-47%
NPAT	2.0	0.1	-97%	5.0	(0.4)	-108%	7.9	4.2	-47%
EPS	0.0	0.0	-97%	0.1	(0.0)	-107%	0.1	0.1	-49%

SOURCE: MORGANS RESEARCH, COMPANY

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