

SomnoMed

A transitional year

ADD (no change)

Current price:	A\$3.22
Target price:	A\$3.84
Previous target:	A\$4.05
Up/downside:	19.3%
Reuters:	SOM.AX
Bloomberg:	SOM AU
Market cap:	US\$142.3m
	A\$188.6m
Average daily turnover:	US\$0.05m
	A\$0.06m
Current shares o/s	53.29m
Free float:	87.6%



Price performance	1M	3M	12M
Absolute (%)	0.3	-11.8	15
Relative (%)	-1.8	-15.3	2.5

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- Weaker-than-anticipated unit sales growth in North America continued as a result of the RSS direct channel push-back from a number of practitioners.
- Exceptional growth is being seen in Europe with France in particular.
- RSS rollout has commenced and currently exceeding management expectations.
- We have revised our forecasts in line with management guidance. As a result, our price target reduces to A\$3.84 although our Add recommendation is retained.

North American sales weak but Europe exceptionally strong

SOM reported a weaker-than-expected quarterly update as a result of pressure on North American sales post the introduction and rollout of the RSS direct sales channel. European sales showed exceptional growth, largely offsetting weakness in North America. Pleasingly, management noted a significant pick-up in sales during March and April with a number of practitioners either returning to SOM or increasing orders post consultation. We expect the recent softness in North American sales growth to be short-lived and settle back to historical levels over the next 12 months, but anticipate localised weakness from existing practitioners in areas which new RSS centres enter. We are increasingly positive on the RSS rollout but await to see the true impact on margins. Management noted that early results of the first centres are either in-line with or exceeding expectations in patient call volumes, appointments and the fitting of devices.

3Q results and revised guidance

At the group level, 14,931 devices were sold during the quarter, up 6.7% on the pcp. Revenue grew 2% (8% on a constant currency basis) to A\$11.3m. The result brings group sales for the year to 48,241 units and revenue of A\$35m. This result implies full-year revenues of A\$47m (against our previous forecast of A\$55m) although we note that the 2H is seasonally stronger and SOM has pointed to strong April sales as a sign of a turnaround. Geographically, European sales showed continued growth (+26% on the pcp) to ~6,900 units, while North American sales of ~6,700 units imply mid-single digit growth on the pcp. France showed particularly strong results post reimbursement regulations, growing 40% on the pcp. As a result of the quarterly sales and RSS rollout costs, SOM management has downwardly revised its FY17 revenue and EBITDA guidance to A\$53m (from A\$56m) and a loss of A\$1.5m (from breakeven) respectively.

Forecast changes

Considering revised company guidance, we have reduced our forecast unit sales from ~71k unit sales to ~67k in FY17 which has a further flow-on effect across our forecast years. As a result, our forecast net loss increases from A\$0.8m in FY17 to A\$2.1m and reduces NPAT in FY18 and FY19 from A\$5.5m to A\$5.3m and A\$12.8m to A\$12.4m respectively. Further breakdown is provided in our changes to forecast table (Figure 2).

Investment view remains positive

As a result of our forecast changes, our DCF valuation decreases to A\$3.84 (from A\$4.05). We retain an Add recommendation. The key downside risk to our target is slower-than-expected growth in the key markets of North America and Europe.

Financial Summary	Jun-15A	Jun-16A	Jun-17F	Jun-18F	Jun-19F
Revenue (A\$m)	34.43	44.08	51.86	71.88	97.08
Operating EBITDA (A\$m)	1.21	1.47	(1.26)	7.14	15.28
Net Profit (A\$m)	0.54	0.07	(2.12)	5.26	12.40
Normalised EPS (A\$)	0.01	0.00	(0.04)	0.10	0.23
Normalised EPS Growth	129%	(88%)	(3142%)		136%
FD Normalised P/E (x)	305	2,458	NA	33	14
DPS (A\$)	-	-	-	-	-
Dividend Yield	0%	0%	0%	0%	0%
EV/EBITDA (x)	129.6	100.6	NA	20.6	8.8
P/FCFE (x)	NA	NA	148.4	26.2	11.2
Net Gearing	(38.6%)	(53.2%)	(62.1%)	(67.9%)	(76.4%)
P/BV (x)	7.65	4.98	5.53	4.73	3.53
ROE	3.2%	0.2%	(6.6%)	15.6%	29.2%
% Change In Normalised EPS Estimates			(153%)	(5%)	(3%)
Normalised EPS/consensus EPS (x)			1.81	1.10	1.06

SOURCE: MORGANS, COMPANY REPORTS

Figure 1: Financial summary

	AIFRS	AIFRS	AIFRS	AIFRS	AIFRS	Share price (A\$)	3.22				
Income statement	FY15A	FY16A	FY17F	FY18F	FY19F	Valuation metrics					
Total revenue	34.4	44.1	51.9	71.9	97.1	Price Target (A\$) \$3.84					
EBITDA	1.2	1.5	-1.3	7.1	15.3	DCF valuation inputs					
Associate income	0.0	0.0	0.0	0.0	0.0	Rf	4.00%	10-year rate	4.00%		
Depreciation	-0.6	-1.0	-1.1	-1.3	-1.5	Rm-Rf	4.00%	Margin	2.0%		
EBITA	0.6	0.4	-2.4	5.8	13.8	Beta	1.70	Kd	4.20%		
Amortisation/impairment	0.0	0.0	0.0	0.0	0.0	CAPM (Rf+Beta(Rm-Rf))	10.8%	Ke	13.0%		
EBIT	0.6	0.4	-2.4	5.8	13.8	Equity (E/EV)	60.0%	NPV cash flow (A\$m)	203.8		
Net interest expense	0.1	0.0	0.0	0.0	0.0	Debt (D/EV)	40.0%	Minority interest (A\$m)	0.0		
Pre-tax profit	0.7	0.5	-2.4	5.8	13.8	Interest rate	4.20%	Net debt (A\$m)	-0.7		
Income tax expense	-0.2	-0.4	0.2	-0.6	-1.4	Tax rate (t)	30.0%	Investments (A\$m)	0.0		
After-tax profit	0.5	0.1	-2.1	5.3	12.4	WACC	9.5%	Equity market value (A\$m)	204.5		
Minority interests	0.0	0.0	0.0	0.0	0.0	DCF valuation					
NPAT	0.5	0.1	-2.1	5.3	12.4	\$3.84					
Significant items	0.0	0.0	0.0	0.0	0.0	Multiples					
NPAT post abnormal	0.5	0.1	-2.1	5.3	12.4	Enterprise value (A\$m)	FY15A	FY16A	FY17F	FY18F	FY19F
Cash flow statement						EV/Sales (x)	179.9	189.2	190.8	196.2	208.8
EBITDA	1.2	1.5	-1.3	7.1	15.3	EV/EBITDA (x)	5.2	4.3	3.7	2.7	2.2
Change in working capital	-1.3	1.0	3.8	0.1	0.1	EV/EBIT (x)	149.3	129.1	-151.6	27.5	13.7
Net interest (pd)/rec	-0.1	0.0	0.0	0.0	0.0	PE (x)	312.7	424.7	-80.9	33.6	15.1
Taxes paid	0.2	0.4	-0.2	0.6	1.4	PEG x)	-11.1	-28.1	0.0	-0.1	0.1
Other oper cash items	0.0	0.0	0.0	0.0	0.0	Per share data					
Cash flow from ops (1)	-0.1	2.9	2.3	7.8	16.8	No. shares	FY15A	FY16A	FY17F	FY18F	FY19F
Capex (2)	-1.5	-3.2	-1.1	-1.3	-1.5	EPS (cps)	51.1	51.3	53.3	53.3	53.3
Disposals/(acquisitions)	0.0	0.0	0.0	0.0	0.0	Dividend per share (c)	1.1	0.1	-4.0	9.9	23.3
Other investing cash flow	0.0	0.0	0.0	0.0	0.0	Dividend payout ratio (%)	0.0	0.0	0.0	0.0	0.0
Cash flow from investing (3)	-1.5	-3.2	-1.1	-1.3	-1.5	Dividend yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%
Incr/(decr) in equity	7.1	10.5	0.0	0.0	0.0	Growth ratios					
Incr/(decr) in debt	0.0	0.0	0.0	0.0	0.0	Sales growth	FY15A	FY16A	FY17F	FY18F	FY19F
Ordinary dividend paid	0.0	0.0	0.0	0.0	0.0	Operating cost growth	32.9%	28.1%	17.6%	38.6%	35.1%
Preferred dividends (4)	0.0	0.0	0.0	0.0	0.0	EBITDA growth	32.7%	28.3%	24.6%	21.9%	26.4%
Other financing cash flow	0.0	0.0	0.0	0.0	0.0	EBITDA growth	41.3%	21.6%	-185.9%	-667.1%	114.0%
Cash flow from fin (5)	7.1	10.5	0.0	0.0	0.0	EBITA growth	136.5%	-22.5%	-629.5%	-347.6%	135.9%
Forex and disc ops (6)	0.0	0.0	0.0	0.0	0.0	EBIT growth	136.5%	-22.5%	-629.5%	-347.6%	135.9%
Inc/(decr) cash (1+3+5+6)	5.5	10.1	1.2	6.5	15.3	NPAT growth	136.8%	-87.5%	-3260.6%	-347.6%	135.9%
Equity FCF (1+2+4)	-1.6	-0.4	1.2	6.5	15.3	Normalised EPS growth	-27.6%	-87.6%	-3141.6%	-347.6%	135.9%
Balance sheet						Operating performance					
Cash & deposits	8.3	17.6	19.3	24.6	37.2	Asset turnover (%)	FY15A	FY16A	FY17F	FY18F	FY19F
Trade debtors	7.2	7.8	2.1	3.0	4.0	EBITDA margin (%)	36.7	32.3	34.5	47.6	51.0
Inventory	1.3	1.7	0.0	0.0	0.0	EBIT margin (%)	3.5	3.3	-2.4	9.9	15.7
Other current assets	0.0	0.0	0.0	0.0	0.0	Net profit margin (%)	1.7	1.0	-4.5	8.1	14.2
Goodwill	0.0	0.0	0.0	0.0	0.0	Return on net assets (%)	1.6	0.2	-4.1	7.3	12.8
Other intangible assets	0.0	0.0	0.0	0.0	0.0	Net debt (A\$m)	2.7	1.3	-7.6	1.9	2.7
Fixed assets	2.1	3.6	3.6	3.6	3.6	Net debt/equity (%)	-8.3	-17.6	-19.3	-24.6	-37.2
Investments	0.0	0.0	0.0	0.0	0.0	Net interest/EBIT cover (x)	-38.6	-53.2	-62.1	-67.9	-76.4
Other assets	8.9	9.7	9.7	9.7	9.7	Invested capital	11.9	16.5	15.5	11.7	11.6
Total assets	27.7	40.4	34.6	40.8	54.4	ROIC (%)	4.5	0.4	-13.7	44.8	106.7
Short-term borrowings	0.0	0.0	0.0	0.0	0.0	Internal liquidity					
Trade payables	3.9	6.1	2.4	3.4	4.5	FY15A	FY16A	FY17F	FY18F	FY19F	
Long-term borrowings	0.0	0.0	0.0	0.0	0.0	Current ratio (x)	4.3	4.5	8.8	8.2	9.1
Other term liabilities	1.1	0.1	0.1	0.1	0.1	Receivables turnover (x)	5.4	5.9	10.4	28.3	28.0
Other liabilities	0.0	0.0	0.0	0.0	0.0	Payables turnover (x)	9.1	8.6	12.5	22.3	20.7
Total liabilities	6.2	7.3	3.6	4.6	5.8						
Share capital	33.7	44.6	44.6	44.6	44.6						
Other reserves	3.7	4.4	4.4	4.4	4.4						
Retained earnings	-15.9	-15.8	-17.9	-12.7	-0.3						
Other equity	0.0	0.0	0.0	0.0	0.0						
Total equity	21.5	33.1	31.0	36.3	48.7						
Minority interest	0.0	0.0	0.0	0.0	0.0						
Total shareholders' equity	21.5	33.1	31.0	36.3	48.7						
Total liabilities & SE	27.7	40.4	34.6	40.8	54.4						

SOURCE: MORGANS RESEARCH, COMPANY

Changes to forecasts

Figure 2: Changes to forecasts

	FY17F	FY17F	% chg	FY18F	FY18F	% chg	FY19F	FY19F	% chg
	Prev	Rev		Prev	Rev		Prev	Rev	
Revenue	55.1	51.9	-6%	73.5	71.9	-2%	99.4	97.1	-2%
EBITDA	0.2	(1.3)	-848%	7.4	7.1	-4%	15.7	15.3	-3%
EBITDA margin	0.3%	-2.4%	-894%	10.1%	9.9%	-2%	15.8%	15.7%	0%
NPAT	(0.8)	(2.1)	153%	5.5	5.3	-5%	12.8	12.4	-3%
EPS	(0.015)	(0.040)	170%	0.097	0.099	1%	0.226	0.233	3%
DPS	0.0	0.0	n.a.	0.0	0.0	n.a.	0.0	0.0	n.a.

SOURCE: MORGANS RESEARCH, COMPANY

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