

Rhinomed

RNO AU / RNO.AX

➤ **Market Cap**
US\$15.39m
A\$21.58m

➤ **Avg Daily Turnover**
US\$0.05m
A\$0.07m

➤ **Free Float**
100.0%
392.0 m shares

Current **A\$0.040**
Target **A\$0.070**
Prev. Target **A\$**
Up/Downside **75.0%**

STOCK RATING

ADD
HOLD
REDUCE

Morgans Analyst(s)

Scott POWER
T (61) 7 3334 4884
E scott.power@morgans.com.au

Iain WILKIE
T (61) 7 3334 4521
E iain.wilkie@morgans.com.au

Share price info

Share price perf. (%)	1M	3M	12M
Relative	27.0	7.9	1.6
Absolute	21.2	0.0	-4.8

Major shareholders	% held
Kroy Wen Pty Ltd	5.9
Kensington Capital Management Pty Ltd	2.5
HSBC Custody Nominees	2.0

Sweet dreams are made of these

FY15 results were lower than originally forecast but expected based on the 4Q results. It appears that RNO is backing itself for a surge in sales with the production capacity heavily increased as distribution of the Mute in the UK is announced and comments of further capacity upgrades to be made in parallel to US and Asian distribution announcements. We increase our target price to A\$0.07 (from A\$0.06) and retain our Add recommendation.

FY15 misses but solid growth ahead ➤

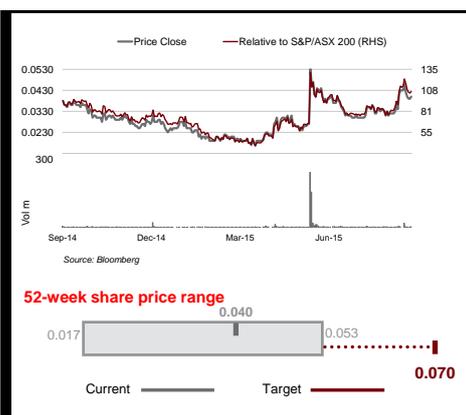
FY15 net loss of A\$5.3m was higher than our expectations (Morgans A\$3.1m), with revenues of A\$0.5m versus our forecast of A\$1.0m. We are seeing considerable interest in the Turbine due to the significant media coverage associated with Chris Froome (Tour De France winner 2015) becoming a global ambassador and user throughout the Tour. Mute sales generated from the Australian pharmacy wholesalers will be included in the 1Q16 results, which we expect to be a significant increase on the pcp. We forecast FY16 to be the year in which RNO starts to materially ramp up sales as global distributors are locked down and the significant orders commence.

Global distribution partnership is the key driver ➤

RNO recently announced a UK distribution deal for its snoring product (Mute). No financial details have been released for confidential reasons. It is expected they will go on sale in UK pharmacies from late October through the Boots Pharmacies. Boots is UK's leading pharmacy with over 2,500 stores and is part of Walgreens business. This is a key milestone for RNO and the company had flagged in previous announcements its strategy of securing global distribution partners for the Mute. We expect the market will be impressed with the quality of the partner secured in the UK and we look to upcoming announcements of a global distribution partner being the next catalyst to re-rate RNO.

Significant growth ahead, Add retained ➤

We have increased the Mute sales volumes in FY16 and beyond to reflect the potentially significant sales growth around the global distribution announcements. Upcoming catalysts which we expect to drive the share price are announcements of US and Asian distribution partners. We increase our target price to A\$0.07 (from A\$0.06); Add maintained.



Financial Summary

	Jun-14A	Jun-15A	Jun-16F	Jun-17F	Jun-18F
Revenue (A\$m)	0.21	0.43	3.60	6.17	9.87
Operating EBITDA (A\$m)	(3.68)	(5.49)	(3.74)	(1.05)	1.29
Net Profit (A\$m)	(3.53)	(5.37)	(4.19)	(1.50)	0.84
Normalised EPS (A\$)	(0.009)	(0.010)	(0.006)	(0.002)	0.001
Normalised EPS Growth	(84.2%)	10.4%	(36.7%)	(64.1%)	NA
FD Normalised P/E (x)	NA	NA	NA	NA	31.79
DPS (A\$)	-	-	-	-	-
Dividend Yield	0%	0%	0%	0%	0%
EV/EBITDA (x)	NA	NA	NA	NA	19.94
P/FCFE (x)	NA	NA	NA	NA	33.34
Net Gearing	(22.1%)	(22.9%)	(25.2%)	(1.6%)	(14.8%)
P/BV (x)	2.39	3.62	3.92	5.04	4.35
ROE	(57.8%)	(85.7%)	(65.7%)	(24.9%)	14.7%
% Change In Normalised EPS Estimates					
Normalised EPS/consensus EPS (x)					(0.23)

SOURCE: MORGANS, COMPANY REPORTS

Figure 1: Financial Summary

Income statement	FY13A	FY14A	FY15A	FY16F	FY17F	Valuation metrics	Price Target (A\$)	\$0.07		
Total revenue	0.0	0.2	0.4	3.6	6.2	DCF valuation inputs				
EBITDA	-15.4	-3.7	-5.5	-3.7	-1.1	Rf	4.00%	10-year rate	4.00%	
Associate income	0.0	0.0	0.0	0.0	0.0	Rm-Rf	7.50%	Margin	2.0%	
Depreciation	0.0	-0.2	-0.5	-0.5	-0.5	Beta	1.50	Kd	4.20%	
EBITA	-15.4	-3.9	-5.9	-4.2	-1.5	CAPM (Rf+Beta(Rm-Ri)	15.3%	Ke	19.6%	
Amortisation/impairment	0.0	0.0	0.0	0.0	0.0			NPV cash flow (A\$m)	41.6	
EBIT	-15.4	-3.9	-5.9	-4.2	-1.5	Equity (E/EV)	60.0%	Minority interest (A\$m)	0.0	
Net interest expense	0.0	0.0	0.0	0.0	0.0	Debt (D/EV)	40.0%	Net debt (A\$m)	-1.7	
Pre-tax profit	-15.4	-3.9	-5.9	-4.2	-1.5	Interest rate	4.20%	Investments (A\$m)	0.0	
Income tax expense	-0.7	0.4	0.6	0.0	0.0	Tax rate (t)	30.0%	Equity market value (A\$m)	43.3	
After-tax profit	-16.1	-3.5	-5.4	-4.2	-1.5	WACC	13.4%	Diluted no. of shares (m)	664.4	
Minority interests	0.0	0.0	0.0	0.0	0.0			DCF valuation	\$0.07	
NPAT	-16.1	-3.5	-5.4	-4.2	-1.5					
Significant items	0.0	0.0	0.0	0.0	0.0	Multiples	FY14A	FY15A	FY16F	FY17F
NPAT post abnormal	-16.1	-3.5	-5.4	-4.2	-1.5	Enterprise value (A\$m)	24.0	24.0	24.3	22.7
						EV/Sales (x)	114.0	55.4	6.8	3.7
Cash flow statement	FY13A	FY14A	FY15A	FY16F	FY17F	EV/EBITDA (x)	-6.5	-4.4	-6.5	-21.6
EBITDA	-15.4	-3.7	-5.5	-3.7	-1.1	EV/EBIT (x)	-6.1	-4.0	-5.8	-15.1
Change in working capital	0.3	0.4	-0.6	-0.2	0.0	PE (x)	-59.6	-377.1	-341.4	-539.4
Net interest (pd)/rec	0.2	0.1	-0.1	0.0	0.0	PEG (x)	0.6	4.5	-32.7	14.7
Taxes paid	0.7	-0.4	-0.6	0.0	0.0					
Other oper cash items	0.0	0.0	0.0	0.0	0.0					
Cash flow from ops (1)	-14.2	-3.6	-6.7	-3.9	-1.1	Per share data	FY14A	FY15A	FY16F	FY17F
Capex (2)	0.0	0.0	-0.3	-0.4	-0.4	No. shares	392.0	539.4	664.4	664.4
Disposals/(acquisitions)	0.0	0.0	0.0	0.0	0.0	EPS (cps)	-0.1	0.0	0.0	0.0
Other investing cash flow	0.0	0.0	0.0	0.0	0.0	Dividend per share (c)	0.0	0.0	0.0	0.0
Cash flow from investing (3)	0.0	0.0	-0.3	-0.4	-0.4	Dividend payout ratio (%)	0.0%	0.0%	0.0%	0.0%
Incr/(decr) in equity	1.8	3.5	4.7	5.0	0.0	Dividend yield (%)	0.0%	0.0%	0.0%	0.0%
Incr/(decr) in debt	0.4	0.6	0.0	0.0	0.0					
Ordinary dividend paid	0.0	0.0	0.0	0.0	0.0	Growth ratios	FY14A	FY15A	FY16F	FY17F
Preferred dividends (4)	0.0	0.0	0.0	0.0	0.0	Sales growth	n.a	105.1%	732.4%	71.4%
Other financing cash flow	0.0	0.0	0.0	0.0	0.0	Operating cost growth	-74.7%	52.2%	23.9%	-1.6%
Cash flow from fin (5)	2.2	4.1	4.7	5.0	0.0	EBITDA growth	-76.1%	49.1%	-31.9%	-71.9%
Forex and disc ops (6)	0.0	0.0	0.0	0.0	0.0	EBITA growth	-74.5%	51.5%	-29.5%	-64.1%
Inc/(decr) cash (1+3+5+6)	-12.0	0.6	-2.3	0.7	-1.5	EBIT growth	-74.5%	51.5%	-29.5%	-64.1%
Equity FCF (1+2+4)	-14.2	-3.6	-7.0	-4.3	-1.5	NPAT growth	-78.0%	52.0%	-22.0%	-64.1%
						Normalised EPS growth	-99.0%	-84.2%	10.4%	-36.7%
Balance sheet	FY13A	FY14A	FY15A	FY16F	FY17F	Operating performance	FY14A	FY15A	FY16F	FY17F
Cash & deposits	0.3	1.5	1.4	1.7	0.1	Asset turnover (%)	0.8	1.6	13.0	24.9
Trade debtors	0.7	0.1	0.1	0.1	0.3	EBITDA margin (%)	-1746.4	-1269.7	-103.8	-17.0
Inventory	0.0	0.0	0.1	0.0	0.0	EBIT margin (%)	-1860.5	-1374.0	-116.3	-24.3
Other current assets	0.0	0.0	0.0	0.0	0.0	Net profit margin (%)	-1676.3	-1242.2	-116.3	-24.3
Goodwill	0.0	0.0	0.0	0.0	0.0	Return on net assets (%)	-59.8	-99.6	-61.8	-271.3
Other intangible assets	0.0	0.0	0.0	0.0	0.0	Net debt (A\$m)	-1.5	-1.4	-1.7	-0.1
Fixed assets	0.0	0.1	0.3	0.2	0.1	Net debt/equity (%)	-22.1	-22.9	-25.2	-1.6
Investments	0.0	0.0	0.0	0.0	0.0	Net interest/EBIT cover (x)	n/a	n/a	n/a	n/a
Other assets	5.4	5.5	4.9	4.9	4.9	Invested capital	5.5	4.0	4.9	5.2
Total assets	6.4	7.1	6.8	7.0	5.4	ROIC (%)	-64.2	-132.8	-85.5	-29.1
Short-term borrowings	0.0	0.0	0.0	0.0	0.0	Internal liquidity	FY14A	FY15A	FY16F	FY17F
Trade payables	0.5	0.5	0.8	0.2	0.1	Current ratio (x)	3.1	2.0	10.5	3.0
Long-term borrowings	0.0	0.0	0.0	0.0	0.0	Receivables turnover (x)	0.6	4.5	26.8	30.7
Other term liabilities	0.2	0.0	0.0	0.0	0.0	Payables turnover (x)	7.5	9.0	14.8	49.5
Other liabilities	0.0	0.0	0.0	0.0	0.0					
Total liabilities	0.8	0.5	0.8	0.2	0.1					
Share capital	33.7	37.2	41.9	46.9	46.9					
Other reserves	-1.4	-0.5	-2.5	-2.5	-2.5					
Retained earnings	-26.6	-30.2	-33.4	-37.6	-39.1					
Other equity	0.0	0.0	0.0	0.0	0.0					
Total equity	5.7	6.6	6.0	6.8	5.3					
Minority interest	0.0	0.0	0.0	0.0	0.0					
Total shareholders' equity	5.7	6.6	6.0	6.8	5.3					
Total liabilities & SE	6.4	7.1	6.8	7.0	5.4					

SOURCES: MORGANS, COMPANY REPORTS

Model revisions

We have made changes to our modelling assumptions to reflect a higher sales growth of the Mute product, while backing out any revenues associated with the clinical program. While we believe the clinical program has significant revenue potential, at this stage we will wait and see how the program develops before forecasting revenues or milestone payments, and focus on the two core products of Mute and Turbine. We expect significant and continued unit sales growth of +20% for Mute throughout the forecast period.

Figure 2: Changes to forecasts

	FY15A		FY16F		FY17F	
	Forecast	Actual	Old	New	Old	New
EBIT	(3.30)	(5.94)	0.20	(4.19)	0.80	(1.50)
% change		(80%)		n.a.		-288%
NPAT (normalised)	(3.10)	(5.32)	(0.20)	(4.19)	0.80	(1.50)
% change		(72%)		n.a.		-288%
EPS (c) normalised	(0.60)	(1.36)	0.00	(0.78)	0.14	(0.23)
% change		(126%)		n.a.		-262%
DPS (c)	0.00	0	0	0	0	0
% change		0%		0%		0%

SOURCES: MORGANS, COMPANY REPORTS

Valuation, target price and risks

As a result of changes to forecasts, our DCF valuation has increased to A\$0.07 from A\$0.06. The price target has been set at the same level as the valuation of A\$0.07. Key risks to our price target include lower than expected volume growth for the Turbine and Mute products, market deterioration, and FX changes.

Figure 3: DCF valuation

		Price Target (A\$)	\$0.07
DCF valuation inputs			
Rf	4.00%	10-year rate	4.00%
Rm-Rf	7.50%	Margin	2.0%
Beta	1.50	Kd	4.20%
CAPM (Rf+Beta(Rm-Rf))	15.3%	Ke	19.6%
Equity (E/EV)	60.0%	NPV cash flow (A\$m)	41.6
Debt (D/EV)	40.0%	Minority interest (A\$m)	0.0
Interest rate	4.20%	Net debt (A\$m)	-1.7
Tax rate (t)	30.0%	Investments (A\$m)	0.0
WACC	13.4%	Equity market value (A\$m)	43.3
		Diluted no. of shares (m)	664.4
		DCF valuation	\$0.07

SOURCES: MORGANS

Queensland

Brisbane	+61 7 3334 4888
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Brisbane: Edward St	+61 7 3121 5677
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