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AtCor Medical Holdings Limited (ACG)

Speculative Buy

Second FY Sales Upgrade Builds Confidence

\$0.22

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Key Points

AtCor has upgraded FY09 sales guidance to 70% on pcp, with sales of more than \$11.0m expected.

Represents second sales upgrade in past three months.

Driven by further pharma contracts consistent with sales strategy, with some FX gains owing to weaker AUD.

Momentum building for maiden NPAT in FY10.

Summary

Market Capitalisation (M)	\$22.0
Share Price	\$0.22
Price Target	\$0.33
52 Week High	\$0.24
52 Week Low	\$0.08
Av. Monthly Volume (Yr Rolling)(M)	1.5
Cash as at 31/3/09 (M)	\$3.9
Est. Cash Burn Per Quarter (M)	n/a
NTA Per Share	\$0.06

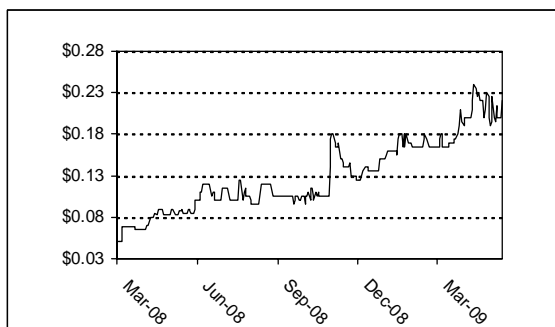
Our View

- We had previously flagged FY product guidance at 55% on pcp may have been conservative based on the YTD pharma sales run rate and FX benefits. While we had assumed 59% product revenue growth for the FY, the magnitude of the upgrade today was surprisingly large. This underscores the significant traction this Company is currently experiencing with its sales/service model to the global pharmaceutical clinical trials market. We note continued positive comments emanating from management in this respect, which is consistent with an embedment strategy to which we have also previously referred.
- We continue to believe in the robustness of the pharma clinical trial sales/service model, despite global economic gloom. This is a function of an increased requirement for cardiovascular safety by regulators such as the FDA during clinical trials and the competitive advantage central pressure testing provides when examining any beneficial central effects cardiovascular drugs may exhibit during the trial process. Indeed, we view traction in this market segment is an enticing entrée into the specialist clinician and GP markets, which are dependent on reimbursement and for which AtCor is expending significant resources to achieve, though no explicit guidance has been provided on the timing of filing(s).
- On a forward EV/sales basis, AtCor currently trades on 1.7x, a major discount to ASX peers and despite a robust growth outlook, in our view. As a result of the upgraded sales guidance, we have increased our FY09 product sales estimates to \$11.2m, up 9.1% on previous. This has reduced our FY09 NPAT loss forecast by 48.4% to \$0.82m. Once again this illustrates the significant operating leverage of the business, owing to high gross margins and a relatively stable operating cost base. We have made no major changes to our FY10 and FY11 NPAT estimates as a result of today's upgrade. However, we note FY10 cash flow is expected to be enhanced by a further \$1.1m, owing to the repayment of outstanding full recourse director loans in the 1H. As a result of demonstrable management execution, a significantly enhanced operating environment and continued sufficient cash reserves through to sustained profitability, we continue with our Speculative Buy recommendation and have upgraded our blended valuation/price target by 10% to \$0.33.

Key Financials (A\$'000)

Year End	2008	2009	2010
	Actual	Est.	Est.
Product Sales	6,451	11,216	13,743
Total Revenue	7,363	12,642	14,390
COGS	(1,286)	(1,963)	(2,405)
Net Op. Rev	(3,579)	(645)	749
EBITDA	(3,997)	(866)	702
EBIT	(4,145)	(1,006)	560
Reported Profit	(3,793)	(822)	607
Reported EPS (c)	(3.8)	(0.8)	0.6
PE Ratio (x)	n/a	n/a	36.3
ROE (%)	-49.4%	-14.9%	11.3%

Share Price Graph (A\$)



ACG - Summary of Forecasts

ACG \$ 0.22

PROFIT & LOSS SUMMARY (A\$000s)					
Period	FY07A	FY08A	FY09E	FY10E	FY11E
Product Sales	4,859	6,451	11,216	13,743	16,557
Total Revenue	5,736	7,363	12,642	14,390	16,695
<i>Growth (pcp)</i>	33.9%	28.4%	71.7%	13.8%	16.0%
Cost of Goods Sold	(1,011)	(1,286)	(1,963)	(2,405)	(2,898)
<i>Gross Margin</i>	79.2%	80.1%	82.5%	82.5%	82.5%
Net Operating Revenue	(5,251)	(3,579)	(645)	749	3,496
Direct R&D Expenses	0	0	0	0	0
EBITDA	(5,917)	(3,997)	(866)	702	3,358
Depn/Other Amort'n	(162)	(148)	(140)	(142)	(162)
EBIT	(6,079)	(4,145)	(1,006)	560	3,196
Net Interest	666	418	221	47	138
Pre-Tax Profit	(5,413)	(3,727)	(785)	607	3,334
Tax Expense	230	(66)	(37)	0	0
Minorities	0	0	0	0	0
NPAT	(5,183)	(3,793)	(822)	607	3,334
<i>Growth (pcp)</i>	-29.4%	26.8%	78.3%	n/a	149.6%
Net Abnormals	0	0	0	0	0
Reported Profit	(5,183)	(3,793)	(822)	607	3,334

PER SHARE DATA					
Period	FY07A	FY08A	FY09E	FY10E	FY11E
Reported EPS (c)	(5.2)	(3.8)	(0.8)	0.6	3.3
<i>Growth (pcp)</i>	n/a	-26.8%	-78.3%	n/a	449.4%
EPS Pre-Net R&D (c)	(5.4)	(4.3)	(1.4)	0.0	3.3
<i>Growth (pcp)</i>	n/a	-20.5%	-66.8%	-100.5%	48543.8%
Dividend (c)	0.0	0.0	0.0	0.0	0.0
Franking	0%	0%	0%	0%	0%
Gross CF per Share (c)	(4.6)	(4.0)	(0.1)	1.9	2.3
NTA per share (c)	9.1	5.7	4.9	5.5	8.9

KEY RATIOS					
Period	FY07A	FY08A	FY09E	FY10E	FY11E
EBITD/Sales Margin %	-103.2%	-54.3%	-6.9%	4.9%	20.1%
EBIT/Sales Margin %	-106.0%	-56.3%	-8.0%	3.9%	19.1%
Current ratio (x)	4.5	2.9	2.8	3.0	3.7
Net Debt : Equity (%)	-74.6%	-55.6%	-57.9%	-82.7%	-75.5%
ROE (%)	-43.6%	-49.4%	-14.9%	11.3%	45.3%
Dividend Payout Ratio (%)	n/a	n/a	0.0%	0.0%	0.0%

VALUATION MULTIPLES					
Period	FY07A	FY08A	FY09E	FY10E	FY11E
PE Ratio (x)	n/a	n/a	n/a	36.3	6.6
Dividend Yield (%)	n/a	n/a	0.0%	0.0%	0.0%
EV/EBITDA (x)	n/a	n/a	n/a	24.7	4.5
EV/EBIT (x)	n/a	n/a	n/a	30.9	4.7

CAPITAL RAISING ASSUMPTIONS					
Period	FY07A	FY08A	FY09E	FY10E	FY11E
Shares Issued (m)	0.0	0.0	0.0	0.0	0.0
Issue Price (A\$)	0.00	0.00	0.00	0.00	0.00
Cash Raised (A\$m)	0.0	0.0	0.0	0.0	0.0

* TC est additional \$0.5m in expenses in FY10 if FY09 US reimbursement achieved

BALANCE SHEET SUMMARY					
Period	FY07A	FY08A	FY09E	FY10E	FY11E
Cash	6,999	3,316	2,927	4,699	6,820
Receivables	1,446	1,877	3,140	1,787	3,311
Pre Payments	0	0	0	0	0
Inventories	383	401	785	962	1,159
Investments	0	0	0	0	0
Other	196	100	159	159	159
Total Current Assets	9,024	5,694	7,011	7,606	11,449
Investments	0	0	0	0	0
Inventories	0	0	0	0	0
Receivables*	1,828	1,684	0	0	0
Property Plant & Equip	284	350	414	494	539
Intangibles	268	222	173	147	125
Deferred Tax Assets	0	0	0	0	0
Other	0	0	0	0	0
Total Non-Current Assets	2,380	2,256	587	641	664
TOTAL ASSETS	11,404	7,950	7,598	8,247	12,113
Accounts Payable	1,985	1,953	2,467	2,474	2,980
Revenue in Advance	0	0	0	0	0
Borrowings	0	0	0	0	0
Deferred Tax Liabilities	0	0	0	0	0
Provisions	19	19	56	69	83
Total Current Liab	2,004	1,972	2,524	2,542	3,063
Borrowings	0	0	0	0	0
Provisions	18	17	20	20	20
Other	0	0	0	0	0
Total Non-Current Liab	18	17	20	20	20
TOTAL LIABILITIES	2,022	1,989	2,544	2,562	3,083
TOTAL EQUITY	9,382	5,961	5,054	5,685	9,030

* Assumes director loans repaid in FY10

CASH FLOW SUMMARY					
Period	FY07A	FY08A	FY09E	FY10E	FY11E
EBIT (excl Abs/Extr)	(6,079)	(4,145)	(1,006)	560	3,196
Add: Depreciation	121	102	102	120	143
Amortisation	41	46	38	22	19
Change in Pay.	597	(32)	514	6	507
Change in Rev. in Ad.	0	0	0	0	0
Less: Tax paid	230	(66)	(37)	0	0
Net Interest	666	418	221	47	138
Change in Rec.	(65)	(287)	421	1,354	(1,525)
Change in Inv.	(89)	(18)	(384)	(177)	(197)
Gross Cashflows	(4,578)	(3,982)	(131)	1,932	2,281
Capex	(137)	(168)	(165)	(160)	(160)
Free Cashflows	(4,715)	(4,150)	(296)	1,772	2,121
Dividends Paid	0	0	0	0	0
Net Cash Flow	(4,715)	(4,150)	(296)	1,772	2,121

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