

Factor Therapeutics

Short-term catalyst approaches

ADD (no change)

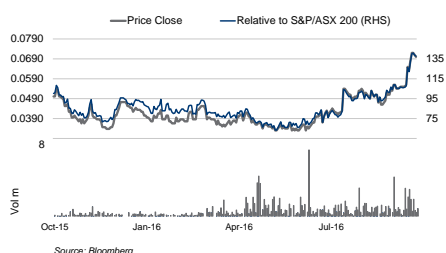
Current price:	A\$0.070
Target price:	A\$0.093 ▲
Previous target:	A\$0.063
Up/downside:	32.5%
Reuters:	FTT.AX
Bloomberg:	FTT AU
Market cap:	US\$38.95m
	A\$51.10m
Average daily turnover:	US\$0.04m
	A\$0.05m
Current shares o/s	730.0m
Free float:	100.0%

Key changes in this note

FY17F revenue no changes.

FY17F EPS no changes.

FY17F ROE no changes



Price performance	1M	3M	12M
Absolute (%)	34.6	75	32.1
Relative (%)	32.9	75.8	29.8

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- FTT recently lodged its amended IND and a decision is expected within 30 days enabling the clinical trial to commence.
- This is a key catalyst and if achieved will be positive for the share price.
- Sentiment in the sector is improving – good news is being rewarded.
- Price target and valuation have been increased as latter year forecasts adjusted.
- Positive Add recommendation maintained.

Clinical hold lift a possible key catalyst

FTT has filed an amended Investigational New Drug (IND) application with the US Food and Drug Administration (FDA). This amended IND includes complete Certificates of Analysis for materials to be used in the planned Phase II trial, comparability information and a revised clinical protocol, consistent with prior requests and disclosed interaction with the FDA. The submission was made on 7 October and FTT is now in a 30-day review process with the FDA. If the amended IND is accepted and the Clinical Hold is lifted, FTT will be able to commence recruitment for its Phase II multi-centre trial (expected to be 26 sites) in the US. The clinical trial will be for patients with venous leg ulcers. We believe the lifting of the Clinical Hold and starting the trial is a key catalyst for the share price in the short term.

Improved sentiment in emerging healthcare sector

The last month has seen significantly improved sentiment in the emerging healthcare sector. A number of company announcements has resulted in a significant re-rate in share prices. A recent example was Admedus (AHZ, Add, price target A\$0.93) where FDA clearance was received for a vascular product and the share price rallied over 60%. Recognising that the achievement of a number of short term catalysts are being rewarded, we believe FTT is well placed to see further share price appreciation following a positive response from the FDA.

No changes to near-term forecasts but latter years revised upward

We have made no changes to our forecasts for FY17, FY18 and FY19 respectively. However, in the latter years (2021) we have increased our market share assumption from 0.5% to 2.0%. As a result, our DCF valuation has increased to A\$0.093 from A\$0.063. We have set our price target at the same level.

Investment view and Add recommendation maintained

FTT is now well funded to undertake the key Phase II trial in venous leg ulcers. The key risk to our price target is a delay in the recruiting of the clinical trial. We have maintained an Add recommendation on the name believing news flow over the next quarter will be sufficient to move the share price to our target and beyond.

Financial Summary	Jun-15A	Jun-16A	Jun-17F	Jun-18F	Jun-19F
Revenue (A\$m)	0.39	0.43	0.00	0.00	10.00
Operating EBITDA (A\$m)	-11.33	-11.72	-8.37	-6.40	0.95
Net Profit (A\$m)	-11.22	-11.65	-8.03	-6.27	0.68
Normalised EPS (A\$)	(0.040)	(0.023)	(0.011)	(0.009)	0.001
Normalised EPS Growth	37.0%	(43.3%)	(51.2%)	(21.8%)	-
FD Normalised P/E (x)	NA	NA	NA	NA	75.03
DPS (A\$)	-	-	-	-	-
Dividend Yield	0%	0%	0%	0%	0%
EV/EBITDA (x)	NA	NA	NA	NA	53.75
P/FCFE (x)	NA	NA	NA	NA	NA
Net Gearing	(41.9%)	(92.6%)	(96.1%)	(57.8%)	12.3%
P/BV (x)	1.48	2.33	6.92	47.81	27.93
ROE	(74%)	(81%)	(70%)	(148%)	47%
% Change In Normalised EPS Estimates	-	-	(0.096%)	(0.192%)	0.192%
Normalised EPS/consensus EPS (x)	-	-	1.10	0.86	-

SOURCE: MORGANS, COMPANY REPORTS

Figure 1: Financial summaries

Factor Therapeutics					Year end June		Closing price (A\$)		0.07		Target price (A\$)		0.09				
Income statement (A\$m)	2015A	2016A	2017F	2018F	2019F	Valuation metrics		DCF		Valuation		0.09					
Divisional sales	0	0	0	0	10	DCF valuation inputs		Rf	5.25%	10-year rate	5.25%						
Total revenue	0	0	0	0	10	Rm-Rf	6.50%	Beta	1.60	Kd	7.25%						
EBITDA	-11	-12	-8	-6	1	CAPM (Rf+Beta(Rm-Rf))	15.7%	E/EV *Ke+D/EV *Kd(1-t)		Ke	15.7%	NPV cash flow (A\$m)	34				
Associate income	0	0	0	0	0	Equity (E/EV)	100.0%	Debt (D/EV)	0.0%	Minority interest (A\$m)	0	Net debt (A\$m)	-14				
Depreciation	-0	-0	0	0	0	Interest rate	7.3%	Tax rate (t)	30.0%	Investments (A\$m)	0	Equity market value (A\$m)	48				
EBITA	-11	-12	-8	-6	1	WACC	15.7%	DCF valuation (A\$)	0.09	Diluted no. of shares (m)	517						
Amortisation/impairment	0	0	0	0	0	Multiples		2016A	2017F	2018F	2019F						
EBIT	-11	-12	-8	-6	1	Enterprise value (A\$m)	46	37	44	50							
EBIT(incl associate profit)	-11	-12	-8	-6	1	EV/Sales (x)	104.9	na	na	5.0							
Net interest expense	0	0	0	0	0	EV/EBITDA (x)	(3.9)	(4.4)	(6.9)	52.9							
Pre-tax profit	-11	-12	-8	-6	1	EV/EBIT (x)	(3.9)	(4.4)	(6.9)	52.9							
Income tax expense	0	0	0	-0	-0	PE (normalised) (x)	(3.1)	(6.4)	(8.2)	75.0							
After-tax profit	-11	-12	-8	-6	1	PEG (normalised) (x)	0.1	0.1	0.4	(0.7)							
Minority interests	0	0	0	0	0	Price/Book (x)	2.33	6.92	47.81	27.93							
NPAT (normalised)	-11	-12	-8	-6	1	At target price		2016A	2017F	2018F	2019F						
Significant items	0	0	0	0	0	EV/EBITDA (x)	(4.6)	(7.2)	(10.5)	71.1							
NPAT (reported)	-11	-12	-8	-6	1	PE (normalised) (x)	(4.1)	(8.4)	(10.8)	99.4							
Divisional revenue (A\$m)					2015A	2016A	2017F	2018F	2019F	Comparable data (x)							
										2017F	2018F	2019F					
										IDT Australia	EV/EBITDA	28.8	5.1	2.2			
										Y/E June	EV/EBIT	-44.8	7.4	2.6			
											PE	-43.0	12.5	5.3			
											PEG	0.6	0.0	0.0			
										Admedus	EV/EBITDA	6.0	6.1	6.0			
										Y/E April	EV/EBIT	7.5	7.7	7.6			
											PE	9.2	9.6	9.3			
											PEG						
Cash flow (A\$m)					2015A	2016A	2017F	2018F	2019F	Per share data							
										2016A	2017F	2018F	2019F				
EBITDA	-11	-12	-8	-6	1	No. shares	517	731	730	730							
Change in working capital	2	7	1	-0	-2	EPS (normalised) (cps)	-2	-1	-1	0							
Net interest (pd)/rec	0	0	0	0	0	EPS (dil. normalised) (cps)	-2	-1	-1	0							
Taxes paid	0	0	0	-0	-0	Dividend per share (cps)	0	0	0	0							
Other oper cash items	0	0	0	0	0	Franking (%)	0%	0%	0%	0%							
Cash flow from ops (1)	-9	-5	-7	-6	-1	Dividend payout ratio (%)	0.0%	0.0%	0.0%	0.0%							
Capex (2)	-0	-0	-0	0	0	Dividend yield (%)	0.0%	0.0%	0.0%	0.0%							
Disposals/(acquisitions)	0	0	0	0	0	Growth ratios				2016A	2017F	2018F	2019F				
Other investing cash flow	0	0	0	0	0	Sales growth	10.3%	-	-	-							
Cash flow from invest (3)	-0	-0	-0	0	0	Operating cost growth	3.7%	-31.1%	-23.4%	41.2%							
Incr/(decr) in equity	0	0	0	0	0	EBITDA growth	3.4%	-28.6%	-23.4%	-114.9%							
Incr/(decr) in debt	0	0	0	0	0	EBITA growth	3.1%	-28.8%	-23.4%	-114.9%							
Ordinary dividend paid	0	0	0	0	0	EBIT growth	3.1%	-28.8%	-23.4%	-114.9%							
Preferred dividends (4)	0	0	0	0	0	Reported NPAT growth	3.8%	-31.1%	-21.9%	-110.9%							
Other financing cash flow	8	15	0	0	0	Normalised NPAT growth	3.8%	-31.1%	-21.9%	-110.9%							
Cash flow from fin (5)	8	15	0	0	0	Reported EPS growth	-43.3%	-51.2%	-21.8%	-110.9%							
Forex and disc ops (6)	0	0	0	0	0	Normalised EPS growth	-43.3%	-51.2%	-21.8%	-110.9%							
Incr/(decr) cash (1+3+5+6)	-1	10	-7	-6	-1	Operating performance				2016A	2017F	2018F	2019F				
Equity FCF (1+2+4)	-9	-5	-7	-6	-1	Asset turnover	0.6%	0.9%	0.0%	0.0%							
Balance sheet (A\$m)					2015A	2016A	2017F	2018F	2019F	EBITDA margin	-2699.8%	#DIV/0!	#DIV/0!	9.5%			
										EBIT margin	-2709.0%	#DIV/0!	#DIV/0!	9.5%			
Cash & deposits	6	14	7	3	2	Net profit margin	-2683.4%	#DIV/0!	#DIV/0!	6.8%	Return on net assets	-75.8%	-113.1%	-599.2%	52.2%		
Trade debtors	0	0	0	0	1	Net debt (A\$m)	-14.4	-7.1	-0.6	0.2	Net debt/equity	-92.6%	-96.1%	-57.8%	12.3%		
Inventory	9	1	0	0	1	Net interest/EBIT cover (x)	105.9	29.1	45.1	-18.2	ROIC	-106.2%	-512.4%	-1549.5%	148.4%		
Investments	0	0	0	0	0	Internal liquidity				2016A	2017F	2018F	2019F				
Goodwill	0	0	0	0	0	Current ratio (x)	17.1	8.4	3.3	3.5							
Other intangible assets	0	1	1	1	1	Receivables turnover (x)	2.5	4.3	#DIV/0!	0.0							
Fixed assets	0	0	0	0	0	Payables turnover (x)	10.1	17.4	13.8	10.1							
Other assets	0	1	1	1	1	SOURCE: MORGANS RESEARCH, COMPANY											
Total assets	15	16	8	4	5												
Short-term borrowings	0	0	0	0	0												
Trade payables	2	1	1	1	1												
Long-term borrowings	0	0	0	2	2												
Provisions	0	0	0	0	0												
Other liabilities	0	0	0	0	0												
Total liabilities	2	1	1	3	3												
Preference shares	0	0	0	0	0												
Hybrid equity	0	0	0	0	0												
Share capital	66	80	72	65	66												
Other reserves	-0	-0	-0	-0	-0												
FCTR	0	0	0	0	0												
Unrealised gains/losses	0	0	0	0	0												
Retained earnings	-53	-64	-64	-64	-64												
Other equity	0	0	0	0	0												
Total equity	13	16	7	1	2												
Minority interest	0	0	0	0	0												
Total shareholders' equity	13	16	7	1	2												
Total liabilities & SE	15	16	8	4	5												

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