

# AFT Pharmaceuticals

Financial update

## Strong FY18 results

Pharma &amp; biotech

AFT Pharmaceuticals recently reported its FY18 results. Operating revenue grew 15.7% compared to FY17, approximately double the 8.1% growth seen the year before. The Australian market, which now represents over 61% of revenues at N\$49.2m, was leading the way with 32.7% growth, thanks to patients switching from codeine-containing products. Revenues in New Zealand fell by 7% from NZ\$29.2m to NZ\$27.1m due to the company no longer being the sole supplier of Metoprolol. Maxigesic continues to do well internationally and is now launched in 10 countries.

30 May 2018

**Price** **NZ\$2.36**
**Market cap** **NZ\$230m**

NZ\$0.69/US\$

Net debt (NZ\$m) at 31 March 2018 23.9

Shares in issue 97.3m

Free float 21.6%

Code AFT

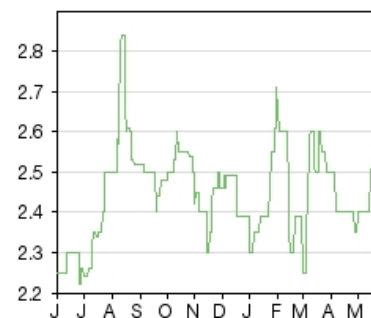
Primary exchange NZX

Secondary exchange ASX

Year end	Revenue (NZ\$m)	PBT* (NZ\$m)	EPS* (NZ\$)	DPS (NZ\$)	P/E (x)	Yield (%)
03/17	69.2	(18.5)	(0.19)	0.0	N/A	N/A
03/18	80.1	(12.9)	(0.13)	0.0	N/A	N/A
03/19e	99.6	0.0	0.05	0.0	N/A	N/A
03/20e	120.7	9.9	0.10	0.0	23.6	N/A

Note: \*PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

### Share price performance



%	1m	3m	12m
Abs	0.4	(1.3)	0.4
Rel (local)	(2.6)	(3.0)	(10.3)

52-week high/low NZ\$2.8 NZ\$2.2

### Business description

AFT Pharmaceuticals is a specialty pharmaceutical company that operates primarily in Australasia but has product distribution agreements across the globe. The company's product portfolio includes prescription and over-the-counter drugs to treat a range of conditions and a proprietary nebuliser.

### Next events

Additional Maxigesic launches 2018

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## Australia is the key near-term revenue driver

Revenue in Australia was up 32.7% in FY18 compared to FY17, thanks in large part to Maxigesic sales increasing by 65%. Growth is expected to continue to be robust as patients switch from codeine-containing products (which are no longer available over the counter after 1 February 2018 due to re-scheduling) to Maxigesic.

## FY19 a key year for Maxigesic globally

Maxigesic is currently sold and launched in 10 countries and distribution agreements are in place in a total of 125. New launches were negatively affected by slower than expected registrations in the EU, but the company believes that regulatory delays are behind it, with launches in countries such as Spain, Portugal, France, Ireland and the Nordics expected by the end of CY18.

## A potential positive catalyst in New Zealand

In January, the New Zealand Medicines Classification Committee announced a recommendation that all codeine combination medicines be upscheduled from over-the-counter to prescription-only status from 2020. This should boost Maxigesic sales in AFT's home market considerably once it takes effect.

## Valuation: NZ\$478m or NZ\$4.91 per share

We are increasing our valuation to NZ\$478m or NZ\$4.91 per share from NZ\$460m or NZ\$4.73 per share, mainly due to increased expectations for Australian revenues due to higher Maxigesic sales and rolling forward our NPV. This was partly mitigated by slight reductions in expectations for New Zealand and Rest of World (RoW), and a higher net debt balance. We continue to expect that AFT will achieve EBITDA break-even in FY19.

## Momentum increasing

AFT recently reported operating revenue of NZ\$80.1m for FY18, ending on 31 March 2018. This marks a 15.7% increase over FY17, a marked acceleration in sales growth compared to the 8.1% growth seen over the year before. The pretax loss for the period was NZ\$12.7m, compared to an FY17 loss of NZ\$18.3m.

### Exhibit 1: FY18 results by segment

NZ\$000s	Revenues (2018)	Revenues (2017)	Loss before tax (2018)	Loss before tax (2017)
Australia	49,193	37,064	538	(3,663)
New Zealand	27,096	29,168	(4,598)	(5,782)
Asia	1,286	1,005	(698)	(689)
Rest of World	2,496	1,968	(7,907)	(8,226)
Total	80,071	69,205	(12,666)	(18,330)

Source: AFT Pharmaceuticals

The Australian segment reported particularly strong results, thanks to Maxigesic revenues increasing by 65% (due to less stringent scheduling for Maxigesic, as well as the announcement that products containing codeine would no longer be available without a prescription), which is especially impressive as that growth is on top of the 133% growth seen in FY17 for Maxigesic in Australia.. The outlook for Maxigesic in Australia remains strong, as market research conducted by the company suggests that 40-47% of current consumers who buy 750m OTC codeine analgesics each year in Australia could switch to another OTC analgesic rather than get a doctor's prescription, which they have been forced to do as of 1 February 2018 (two months before the end of FY18).

### Additional Maxigesic launches coming in FY19

Maxigesic is now sold and launched in a total of 10 countries – Australia, New Zealand, Brunei, Israel, Italy, Malta, Serbia, Singapore, United Arab Emirates and the UK. New launches were negatively affected by slower than expected registrations in the EU, but the company believes regulatory delays are behind it with launches in countries such as Spain, Portugal, France, Ireland and the Nordics expected by the end of CY18. Additionally, licensing discussions are ongoing in areas such as the US, Canada, China, Russia and Brazil.

**Exhibit 2: Current and upcoming Maxigesic launches**

Country	Status
Australia	Launched
New Zealand	Launched
Israel	Launched
Italy	Launched
Malta	Launched
Serbia	Launched
Singapore/Brunei	Launched
UK	Launched
United Arab Emirates	Launched
Iraq	Launch pending CY Q218
Malaysia	Launch pending CY Q218
Central America	Launch pending CY Q218
Ireland	Launch pending CY Q218
Belgium	Launch pending CY H218
Luxembourg	Launch pending CY H218
France	Launch pending CY H218
Hong Kong	Launch pending CY H218
Spain	Launch pending CY Q418
Portugal	Launch pending CY Q418
Nordics	Launch pending CY Q418
Mexico	Launch pending CY Q418
Eastern Europe & Balkans	Launch pending CY18
US and Canada	Licensing discussions starting
China, South Korea and Taiwan	Licensing discussions starting
Russia	Licensing discussions starting
Brazil and Latin America	Licensing negotiations underway

Source: AFT Pharmaceuticals

## Valuation

We are increasing our valuation to NZ\$478m or NZ\$4.91 per share from NZ\$460m or NZ\$4.73 per share, mainly due to increased expectations for Australian revenues and rolling forward our NPV. This was partly mitigated by slight reductions to expectations for New Zealand and RoW and a higher net debt balance. Our fundamental assumptions such as terminal growth and terminal EBIT margin remain unchanged. We expect to update our valuation following additional information regarding the status of Maxigesic launches.

**Exhibit 3: DCF sensitivity table (NZ\$/share)**

Terminal revenue growth	Terminal EBIT margin					
	15%	25%	34%	38%	42%	
-2%		2.29	3.05	3.73	4.03	4.34
-1%		2.37	3.20	3.94	4.28	4.61
0%		2.47	3.38	4.20	4.57	4.93
1%		2.59	3.61	4.52	4.92	5.33
2%		2.75	3.89	<b>4.91</b>	5.37	5.82
3%		2.95	4.25	5.42	5.94	6.46
4%		3.21	4.73	6.09	6.70	7.30
5%		3.58	5.40	7.03	7.76	8.49

Source: Edison Investment Research

## Financials

We have increased our revenue estimates for FY19 from NZ\$98.0m to NZ\$99.6m due to the acceleration in sales in Australia, although this was partially offset by slightly lower estimates for New Zealand and RoW. We have also increased our SG&A expense estimates for FY19 by NZ\$1.1m due to higher than expected spending in FY18 and decreased R&D expense estimates by NZ\$2.2m due to lower than expected spending and the fact that the significant clinical trials for Maxigesic oral and IV formulations are largely completed. We are also introducing 2020 estimates (see Exhibit 4), which include operating revenue of \$120.7m, indicating growth of 21.1%, with growth driven by both Australia and Maxigesic launches globally. The company reported a cash position of NZ\$6.8m at the end of FY18 and has a further US\$5m (NZ\$7.2m) available from a loan facility, which can be drawn by 30 September 2018.

### Exhibit 4: Edison forecast changes

NZ\$m	2019e		2020e	
	Old	New	Old	New
Revenue	98.0	99.6	N/A	120.7
PBT, normalised	(0.54)	0.04	N/A	9.86
EPS, normalised (NZ\$)	(0.01)	0.00	N/A	0.10

Source: Edison Investment Research

**Exhibit 5: Financial summary**

	NZ\$000	2016	2017	2018	2019e	2020e
March		NZ GAAP	NZ GAAP	NZ GAAP	NZ GAAP	NZ GAAP
<b>PROFIT &amp; LOSS</b>						
Revenue		64,014	69,205	80,071	99,634	120,742
Cost of Sales		(40,435)	(43,207)	(45,880)	(52,987)	(59,841)
Gross Profit		23,579	25,998	34,191	46,646	60,901
EBITDA		(7,821)	(15,125)	(10,479)	1,918	11,729
Operating Profit (before amort. and except.)		(7,667)	(14,982)	(10,353)	2,044	11,855
Intangible Amortisation		114	183	214	214	214
Exceptionals		0	0	0	0	0
Other		(618)	2,245	741	778	817
Operating Profit		(8,171)	(12,554)	(9,398)	3,036	12,886
Net Interest		(3,145)	(3,531)	(2,527)	(2,000)	(2,000)
Profit Before Tax (norm)		(10,812)	(18,513)	(12,880)	44	9,855
Profit Before Tax (reported)		(11,316)	(16,085)	(11,925)	1,036	10,886
Tax		42	(58)	(58)	0	0
Profit After Tax (norm)		(10,770)	(18,571)	(12,938)	44	9,855
Profit After Tax (reported)		(11,274)	(16,143)	(11,983)	1,036	10,886
Average Number of Shares Outstanding (m)		96.8	97.1	97.2	97.3	97.3
EPS (NZ\$)		(0.11)	(0.19)	(0.13)	0.00	0.10
EPS - normalised (c)		(11.12)	(19.12)	(13.30)	4.56	10.13
EPS - (reported) (NZ\$)		(0.12)	(0.17)	(0.12)	0.01	0.11
Dividend per share (c)		0.00	0.00	0.00	0.00	0.00
Gross Margin (%)		36.8	37.6	42.7	46.8	50.4
EBITDA Margin (%)		N/A	N/A	N/A	1.9	9.7
Operating Margin (before GW and except.) (%)		N/A	N/A	N/A	2.1	9.8
<b>BALANCE SHEET</b>						
Fixed Assets		3,249	4,171	8,291	10,933	13,618
Intangible Assets		2,111	2,548	5,118	7,561	10,004
Tangible Assets		407	386	330	529	771
Investments		731	1,237	2,843	2,843	2,843
Current Assets		62,055	54,060	48,312	54,106	63,527
Stocks		17,686	18,718	24,412	24,399	27,103
Debtors		16,288	19,362	16,954	22,471	24,961
Cash		28,055	15,980	6,946	7,236	11,462
Other		26	0	0	0	0
Current Liabilities		(13,511)	(15,019)	(18,489)	(19,467)	(21,503)
Creditors		(13,511)	(15,019)	(18,489)	(19,467)	(21,503)
Short term borrowings		0	0	0	0	0
Long Term Liabilities		(23,161)	(23,426)	(30,654)	(37,854)	(37,854)
Long term borrowings		(23,161)	(23,426)	(30,654)	(37,854)	(37,854)
Other long term liabilities		0	0	0	0	0
Net Assets		28,632	19,786	7,460	7,718	17,788
<b>CASH FLOW</b>						
Operating Cash Flow		(11,326)	(15,473)	(8,319)	(1,927)	9,251
Net Interest		(3,145)	(3,531)	(2,527)	(2,000)	(2,000)
Tax		42	(58)	(58)	0	0
Capex		(694)	(1,598)	(2,853)	(2,982)	(3,024)
Acquisitions/disposals		0	0	(3,002)	0	0
Financing		38,357	9,042	877	0	0
Dividends		(1,652)	0	(412)	0	0
Net Cash Flow		21,582	(11,618)	(16,294)	(6,910)	4,226
Opening net debt/(cash)		16,039	(4,894)	7,446	23,708	30,618
HP finance leases initiated		0	0	0	0	0
Other		(649)	(722)	32	(0)	(0)
Closing net debt/(cash)		(4,894)	7,446	23,708	30,618	26,392

Source: Company accounts, Edison Investment Research

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