

Sunshine Heart

SHC AU / SHC.AX

COMPANY NOTE

Market Cap US\$59.6m <small>A\$61.4m</small>	Avg Daily Turnover US\$0.07m <small>A\$0.07m</small>	Free Float 70% <small>0.153m shares</small>	Current A\$0.033	SHORT TERM (3 MTH)	LONG TERM
			Target A\$0.07	TRADING BUY	OUTPERFORM
			Previous Target A\$0.07	TRADING SELL	NEUTRAL
			Up/downside 112.1%		UNDERPERFORM

Notes from the Field

Important: The recommendation has been made on a 12 month view and may not suit your investment needs or timeframe. The basis it is prepared on is summarised on the last page of this report. **PLEASE CONTACT YOUR ADVISER TO DISCUSS THIS GENERAL RECOMMENDATION BEFORE ACTING ON IT.**

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All systems go

SHC has received unconditional approval from the FDA to commence a pivotal trial for its flagship C-Pulse® Heart Assist System. A 388 patient pivotal trial in North America will commence in the 4QCY12. Enrolment will take approximately 2.5 years and the recent raising will ensure that trial is adequately funded over the next 12 to 18 months.

The C- Pulse System has the potential to treat patients suffering from Class III and ambulatory Class IV heart failure. The trial design will consist of 388-patients of which half will be implanted with the C-Pulse System. The other half will be randomized to optimal medical therapy across 30-40 clinical sites. SHC expects to receive revenues from trial sites for device implants as the FDA has granted CMS Category B3 status. Because of this designation, it is also anticipated that participating trial centres will be reimbursed by CMS and most private insurance providers. It is estimated that enrolment in the pivotal trial will take approximately 2.5 years. The primary endpoint of the trial will be reduction in worsening heart failure events leading to hospitalization, advanced heart failure therapies and heart failure related mortality. A one year safety follow-up is expected.

No changes to forecasts

We have made no changes to our forecast and as a result our DCF valuation of A\$0.08 and price target of A\$0.07 remain unchanged. As at 30 September the cash position was sound at US\$17.4m. The key downside risk to our price target revolves around possible delays in the recruitment of the pivotal trial.

Key catalyst to watch

The key milestone to watch in the near term is the start of the US pivotal trial in 4QCY12. We are also watching the competitive landscape and note recently that Heartware (HIN) received FDA approval for their Class IV heart assist device in the Bridge to Transplant indication. We view this as a positive development as it heightens investor interest in the heart failure market. We have maintained an outperform recommendation for investors with a longer term view.

Milestone Table

Event	Timing	Impact
FDA Feasibility Trial - Finish recruitment	Achieved	Positive
FDA Feasibility Trial - 6mth Follow Up	Achieved	Positive
CE Mark approval	Achieved	Positive
FDA approval to commence pivotal trial	Achieved	Positive
Initiate pivotal trial	2HCY12	Positive
FDA Pivotal Trial Complete	2HCY15	Positive
Pivotal Trial Follow Up	2HCY16	Positive
PMA application	2HCY16	Positive

SOURCE: CIMB, COMPANY REPORTS

BY THE NUMBERS

	AIFRS 2010A	AIFRS 2011A	AIFRS 2012F	AIFRS 2013F	AIFRS 2014F	Closing price (A\$)	0.033	Price target (A\$)	0.07	
Income statement										
Divisional sales	0.4	0.0	0.0	3.2	7.1	Preferred methodology	DCF	Val'n (A\$)	\$0.08	
Total revenue	0.4	0.0	0.0	3.2	7.1	DCF valuation inputs				
EBITDA	-8.4	-16.6	-13.3	-15.4	-13.1	Rf	5.25%	10-year rate	5.25%	
Associate income	0.0	0.0	0.0	0.0	0.0	Rm-Rf	6.00%	Margin	2.0%	
Depreciation	0.0	0.0	0.1	0.1	0.1	Beta	1.80	Kd	16.05%	
EBITA	-8.4	-16.6	-13.4	-15.5	-13.2	CAPM (Rf+Beta*(Rm-Rf))	16.1%	Ke	16.1%	
Amortisation/impairment	0.0	0.0	0.0	0.0	0.0	E/EV*Ke+D/EV*Kd(1-t)		NPV cash flow (A\$m)	171.0	
EBIT	-8.4	-16.6	-13.4	-15.5	-13.2	Equity (E/EV)	-13.2	100.0% Minority interest (A\$m)	0.0	
EBIT(ind associate profit)	-8.4	-16.6	-13.4	-15.5	-13.2	Debt (D/EV)	0.0%	Net debt (A\$m)	-2.3	
Net interest expense	-0.2	-0.3	-0.4	-0.8	0.1	Interest rate	16.05%	Investments (A\$m)	0.0	
Pre-tax profit	-8.3	-16.4	-13.0	-14.7	-13.3	Tax rate (t)	30.0%	Equity market value (A\$m)	173.4	
Income tax expense	-0.7	-0.1	0.7	0.0	-0.3	WACC	16.1%	Diluted no. of shares (m)	2165.9	
After-tax profit	-7.6	-16.2	-13.7	-14.7	-13.0	DCF valuation				
Minority interests	0.0	0.0	0.0	0.0	0.0	Multiples				
NPAT	-7.6	-16.2	-13.7	-14.7	-13.0	Enterprise value (A\$m)	2010A	2011A	2012F	2013F
Significant items	0.0	0.0	0.0	0.0	0.0	EV/Sales (x)	69.5	59.1	64.9	57.6
NPAT post abnormal	-7.6	-16.2	-13.7	-14.7	-13.0	EV/EBITDA (x)	na	na	#DIV/0!	17.8
Cash flow statement										
EBITDA	-8.4	-16.6	-13.3	-15.4	-13.1	EV/EBIT (x)	-8.2	-3.6	-4.8	-3.7
Change in working capital	0.4	3.1	-0.8	-0.3	-0.8	PE (pre-goodwill) (x)	-2.3	-2.4	-4.4	-4.1
Net interest (pd)/rec	0.2	0.3	0.4	0.8	-0.1	At target price				
Taxes paid	0.7	0.1	-0.7	0.0	0.3	EV/EBITDA (x)	2010A	2011A	2012F	2013F
Other oper cash items	0.0	0.0	0.0	0.0	0.0	PE (pre-goodwill) (x)	-18.0	-9.0	-10.2	-7.3
Cash flow from ops (1)	-7.2	-13.1	-14.4	-14.9	-13.7	Comparable company data (x)				
Capex (2)	0.0	-0.5	0.0	-0.1	-0.1	AcruX				
Disposals/(acquisitions)	0.0	0.0	0.0	0.0	0.0	EV/EBITDA	9.3	5.9	130.1	36.8
Other investing cash flow	0.0	0.0	0.0	0.0	0.0	EV/EBIT	9.4	6.1	143.8	37.7
Cash flow from invest (3)	0.0	-0.5	0.0	-0.1	-0.1	PE	11.2	9.2	71.0	53.8
Incr/(decr) in equity	11.9	7.6	21.7	0.0	15.0	ImpedMed				
Incr/(decr) in debt	0.0	0.0	0.0	0.0	0.0	EV/EBITDA	-1.2	-1.0	-1.5	-2.3
Ordinary dividend paid	0.0	0.0	0.0	0.0	0.0	EV/EBIT	-1.1	-1.0	-1.4	-2.2
Preferred dividends (4)	0.0	0.0	0.0	0.0	0.0	PE	na	na	na	na
Other financing cash flow	0.6	0.1	0.0	0.0	0.0	Per share data				
Cash flow from fin (5)	12.5	7.8	21.7	0.0	15.0	No. shares	2010A	2011A	2012F	2013F
Forex and disc ops (6)	0.0	0.0	0.0	0.0	0.0	EPS (cps)	536.9	1203.9	1823.9	1823.9
Incr/(decr) cash (1+3+5+6)	0.0	0.0	0.0	0.0	0.0	EPS (normalised) (c)	-1.4	-1.3	-0.8	-0.8
Equity FCF (1+2+4)	-7.2	-13.5	-14.4	-15.0	-13.8	Dividend per share (c)	0.0	0.0	0.0	0.0
Balance sheet										
Cash & deposits	12.4	6.6	13.8	-1.2	0.1	Dividend payout ratio (%)	0.0%	0.0%	0.0%	0.0%
Trade debtors	0.2	0.0	0.0	0.3	0.6	Dividend yield (%)	0.0%	0.0%	0.0%	0.0%
Inventory	0.0	0.0	0.0	0.5	1.1	Growth ratios				
Investments	0.0	0.0	0.0	0.0	0.0	Sales growth	203.7%	-100.0%	#DIV/0!	#DIV/0!
Goodwill	0.0	0.0	0.0	0.0	0.0	Operating cost growth	-3.9%	-87.6%	19.5%	-40.1%
Other intangible assets	0.0	0.0	0.0	0.0	0.0	EBITDA growth	0.1%	-97.2%	19.1%	-15.6%
Fixed assets	0.1	0.5	0.5	0.5	0.5	EBITA growth	0.1%	-97.2%	19.1%	-15.6%
Other assets	0.2	0.3	0.3	0.3	0.3	EBIT growth	0.1%	-97.2%	19.1%	-15.6%
Total assets	12.9	7.4	14.6	0.4	2.5	NPAT growth	6.7%	-113.6%	15.4%	-7.0%
Short-term borrowings	0.0	0.0	0.0	0.0	0.0	Pre-goodwill NPAT growth	6.7%	-113.6%	15.4%	-7.0%
Trade payables	0.7	1.9	1.1	1.5	1.7	Pre-goodwill EPS growth	18.2%	90.8%	1076.1%	-94.9%
Long-term borrowings	0.0	0.0	0.0	0.0	0.0	Normalised EPS growth	18.2%	90.8%	1076.1%	-94.9%
Provisions	0.0	0.0	0.0	0.0	0.0	Operating performance				
Other liabilities	0.1	1.0	1.0	1.0	1.0	Asset turnover (%)	2010A	2011A	2012F	2013F
Total liabilities	0.8	2.8	2.1	2.5	2.6	EBITDA margin (%)	1.3	0.0	0.0	10.8
Share capital	60.1	68.7	76.6	61.9	63.9	EBIT margin (%)	na	na	#DIV/0!	-476.1
Other reserves	1.0	1.1	1.1	1.1	1.1	EBIT margin (%)	na	na	#DIV/0!	-479.3
Retained earnings	-49.0	-65.2	-65.2	-65.2	-65.2	Net profit margin (%)	na	na	#DIV/0!	-453.3
Other equity	0.0	0.0	0.0	0.0	0.0	Return on net assets (%)	-69.7	-361.2	-106.9	731.7
Total equity	12.1	4.6	12.6	-2.1	-0.1	Net debt (A\$m)	-12.4	-6.6	-13.8	1.2
Minority interest	0.0	0.0	0.0	0.0	0.0	Net debt/equity (%)	-102.2	-142.8	-110.1	-55.1
Total shareholders' equity	12.1	4.6	12.6	-2.1	-0.1	Net interest/EBT cover (x)	-56.1	-66.1	-34.1	-18.7
Total liabilities & SE	12.9	7.4	14.6	0.4	2.5	ROIC (%)	na	-13.5	-14.2	-15.8
Internal liquidity										
Current ratio (x)	15.2	2.3	6.7	-0.5		Internal liquidity				
Receivables turnover (x)	na	0.0	#DIV/0!	24.3		Current ratio (x)	2010A	2011A	2012F	2013F
Payables turnover (x)	17.0	13.0	9.0	14.2		Receivables turnover (x)	na	0.0	#DIV/0!	24.3
						Payables turnover (x)	17.0	13.0	9.0	14.2

SOURCE: CIMB, COMPANY REPORTS

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