

Fresh registrations for NovaPrep in US and China

Novacyt has secured new regulatory approvals in the US and China that will expand the availability and use of its NovaPrep cancer diagnostic technology, which should help to build on recent momentum in NovaPrep sales seen in FY16 results. Key next steps are the appointment of a commercialisation partner in the US and expansion of the marketing effort in China (via Novacyt's subsidiary) to support broader use of the technology beyond gynaecological cancer. NovaPrep sales growth in FY16 was particularly strong in Asia Pacific, and allied to near-term growth prospects for Primerdesign and Lab21, we believe Novacyt is making good progress towards its aim of becoming break-even by the end of 2017. This would be a significant milestone which in our view is not fully recognised in the share price. Reiterate Buy.

FDA Class I device registration for NovaPrep HQ+ Orange vials will make the system available to the estimated \$365m molecular HPV testing market in the US. Key to accessing this market will be the appointment of a suitable commercialisation partner in the US, which we look forward to over the coming months.

CFDA approval in China relates to non-gynaecology cancer testing, having previously secured CFDA approval for NovaPrep in February 2015 for cervical cancer screening. This means Novacyt's Chinese subsidiary can now market the system for use across multiple cancers. Due to population growth and greater access and affordability of healthcare, China is a key market for cancer diagnostics.

Expanded uses of NovaPrep should help to build on recent momentum. FY16 NovaPrep sales of €1.6m were driven by 116% sales growth in Asia Pacific, while sales in Eastern Europe and the Middle East were up 60%. Novacyt is currently planning to roll out the technology in new markets (Turkey, Qatar, Israel, Malaysia and Australia), while a launch in South America is expected in 2017 through its strategic alliance with Cepheid (signed in October 2016).

We therefore see NovaPrep sales growth continuing in 2017, which represents an important driver to Novacyt achieving break-even by the end of the year. Novacyt's detailed FY16 results are expected on 27 April 2017.

Target price methodology/risks

Our target price for Novacyt of €2.34 is based on our belief that shares can trade on a forward EV/Sales of 3.5x and our DCF model assuming a discount rate of 12.5% and terminal growth of 2%.

Risks to the achievement of our target price include market acceptance of the NovaPrep system failing to materialise, gross margins failing to improve as anticipated, and potential changes to reimbursement policy.

Price (22 February 2017)	€1.02
Rating	BUY
Target Price	€2.34
Bloomberg/Reuters codes:	ALNOV FP / ALNOV.PA
Market cap (€m)	14

Key financials

Year to Dec	2015A	2016E	2017E
Sales (€)	8.9	11.1	16.0
EBIT adj	(3.23)	(1.50)	0.28
EBIT margin (%)	(145.7)	(15.3)	0.5
EPS adj (c)	(204.9)	(18.8)	(4.6)
EV/EBITDA (x)	0.5	1.7	(7.9)
PE adj (x)	NA	NA	NA
Div yield (%)	0	0	0
DPS	0	0	0
FCF yield (%)	0	0	0

Prices are as of close 22 February 2017

All sources unless otherwise stated: Company data, FactSet, Stifel estimates

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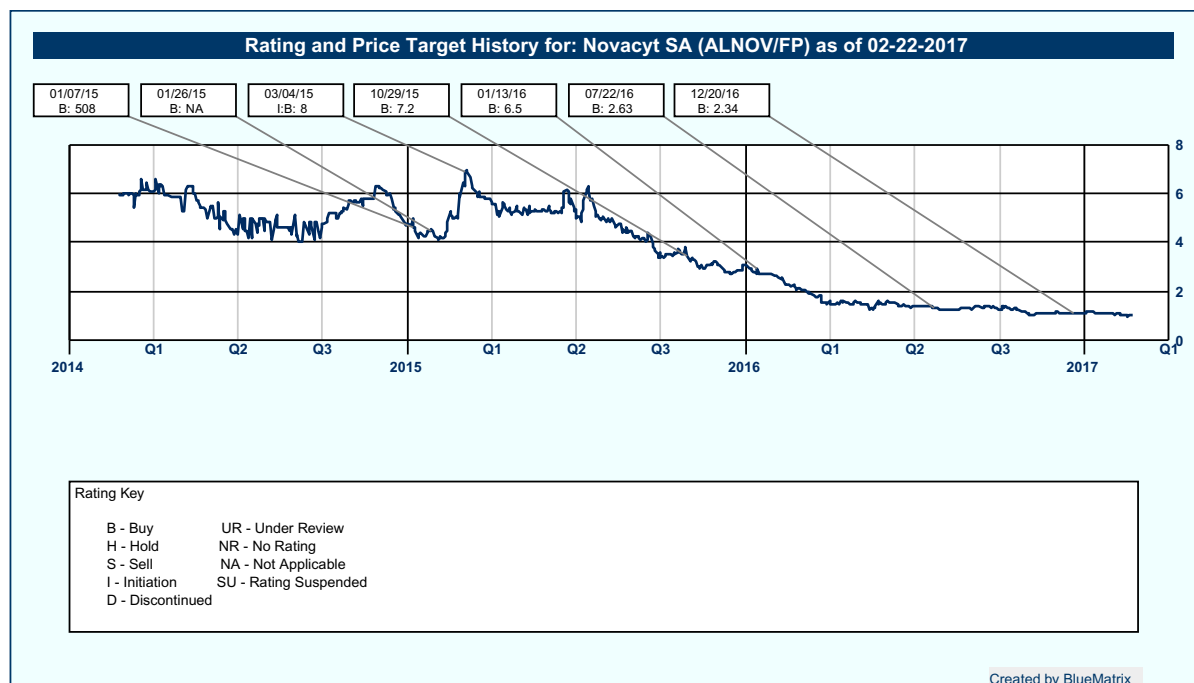
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