

Positive momentum into 2017

Novacyt has reported 25% revenue growth in FY16 to €11.1m (+38% in constant currency), with NovaPrep sales growth of 24% boosted by a strong performance in Asia Pacific (+116%). Group revenues were marginally lower than our estimate (€13.3m), primarily as a result of currency headwinds to Primerdesign, continuing outstanding tender contracts in the Middle East for Lab21, and the timing of certain NovaPrep shipments. However, we believe Novacyt is making good progress towards its aim of becoming break-even by the end of 2017, and in light of the near-term prospect of profitable growth, we believe the company remains significantly undervalued. Reiterate Buy.

Reported sales growth of 25% for FY16. Novacyt has reported 25% reported revenue growth for FY16 (+38% at constant currency), with revenues of €11.1m, marginally below Stifel estimate of €13.3m. Revenue for 2H16 increased 47% reported YoY (+68% at CER). The company also raised €8.1m in cash and €3m in bonds during 2016, finishing the year with €2.9m in cash.

Strong NovaPrep performance. NovaPrep sales of €1.6m were just shy of our estimate of €1.9m, primarily due to a supply chain issue affecting the timing of orders totalling €346k, now expected to be shipped in 2017. Of note, sales in Asia Pacific grew 116%, Eastern Europe and the Middle East sales were up 60%, and in France sales declined 7% as it transferred from a direct to indirect sales model with the appointment of distributor MM France in 2H16. Given the product's launch in new markets (Turkey, Qatar, Israel, Malaysia and Australia), increasing investment in the MDL Asia partnership, and a planned launch in South America in 2017 through Cepheid, we expect this growth to continue.

Investing behind Primerdesign. Primerdesign full year sales of €3.3m were negatively impacted by currency (Stifel estimate €4.2m) but driven by strong growth of 71% in South America, 67% in Asia Pacific and 28% in North America. Novacyt expects to invest in R&D and commercial infrastructure at Primerdesign to continue driving growth of higher margin products.

Lab21 product sales grew 10% at CER in 2H16. Despite revenues declining 8% YoY to €6.2m (Stifel estimate €7.2m), product sales grew 10% at CER in 2H16, suggesting positive momentum into 2017. The revenue decline in 2016 had been expected as the result of delays in awarding outstanding tenders from a number of oil-producing regions. Ten new CE marked products have been launched and are expected to continue driving growth of the division, although for now we have removed expectations of tender contracts being awarded (see below).

Revenue forecasts updated. We have marginally adjusted our revenue forecasts to account for the lower Lab21 revenues (now conservatively assuming none of the outstanding tenders are awarded) and currency headwinds to Primerdesign growth. The group reiterated its expectations for reaching break-even/profitability by the end of 2017, having transformed its prospects through the acquisition of Primerdesign. Given the sales momentum in 2H16 we believe the company is on track to achieve this goal. Full year results are expected on 27 April 2017.

Price (24 January 2017)		€1.19
Changes	Previous	Current
Rating	-	BUY
Target Price	-	€2.34

Share price performance (indexed)



Key data

Bloomberg/Reuters codes:	ALNOV FP / ALNOV.PA
Market cap (€m)	17
CAC	4,828
1mth perf (%)	0.9
3mths perf (%)	(11.2)
12mths perf (%)	(59.2)
12mth high-low (€)	3 - 1
Free float (%)	77

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	(7.8)
PE adj (x)	NA	NA	NA
Div yield (%)	0	0	0
DPS	0	0	0
FCF yield (%)	0	0	0

Prices are as of 08:15 GMT, 24 January 2017

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

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Key data¹

Key valuation ratios (x)				
	2015A	2016E	2017E	2018E
PE adj (x)	NA	NA	NA	NA
Div yield (%)	0	0	0	0
Key profit and loss data (€)				
	2015A	2016E	2017E	2018E
Sales (€)	8.9	11.1	16.0	19.1
EBITDA adj	(3.0)	(1.1)	0.7	1.2
EBIT adj	(3.23)	(1.50)	0.28	0.71
EBIT adj margin (%)	(36.2)	(13.5)	1.7	3.7
Net income	(13.9)	(2.1)	(0.8)	(0.4)
EPS adj (c)	(204.9)	(18.8)	(4.6)	(2.1)
DPS (c)	0	0	0	0
Key cash flow data (€)				
	2015A	2016E	2017E	2018E
Operating profit	(13.0)	(1.7)	0.1	0.5
Operating cash flow	(5.3)	(1.8)	(0.8)	(0.4)
Taxes paid	0	0	0	0
Net interest	(0.7)	(0.4)	(0.9)	(0.9)
Capex	(0.8)	(0.7)	(0.9)	(1.0)
Free cash flow	(6.9)	(2.9)	(2.6)	(2.2)
Dividends	0	0	0	0
Change in cash	(1)	3	(3)	(6)
Net debt	(1.5)	(2.0)	(5.5)	(8.0)
Key balance sheet (€)				
	2015A	2016E	2017E	2018E
Cash	2	5	2	(4)
Net assets	11	21	21	20

Key information

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.

Business description

Novacyt develops, manufactures and supplies diagnostic tests for infectious diseases and cancer screening cytology to diagnostic laboratories.

Senior management

Graham Mullis (CEO)

Anthony Dyer (FD)

Jean-Pierre Crinelli (COO)

Eric Peltier (CIO)

Key dates

27 April 2017 - FY16 financial results

29 June 2017 - AGM

20 July 2017 - 1H17 revenues

26 October 2017 - 1H17 results

Major shareholders

SAS Cup 92 (founders) - 19.9%

Aurinvest Capital - 9.9%

Merlin residual investment Ltd - 8.1%

Website

www.novacyt.com

¹ Year end December
Data in millions, except per share and percentages
Source: Company data, FactSet, Stifel estimates

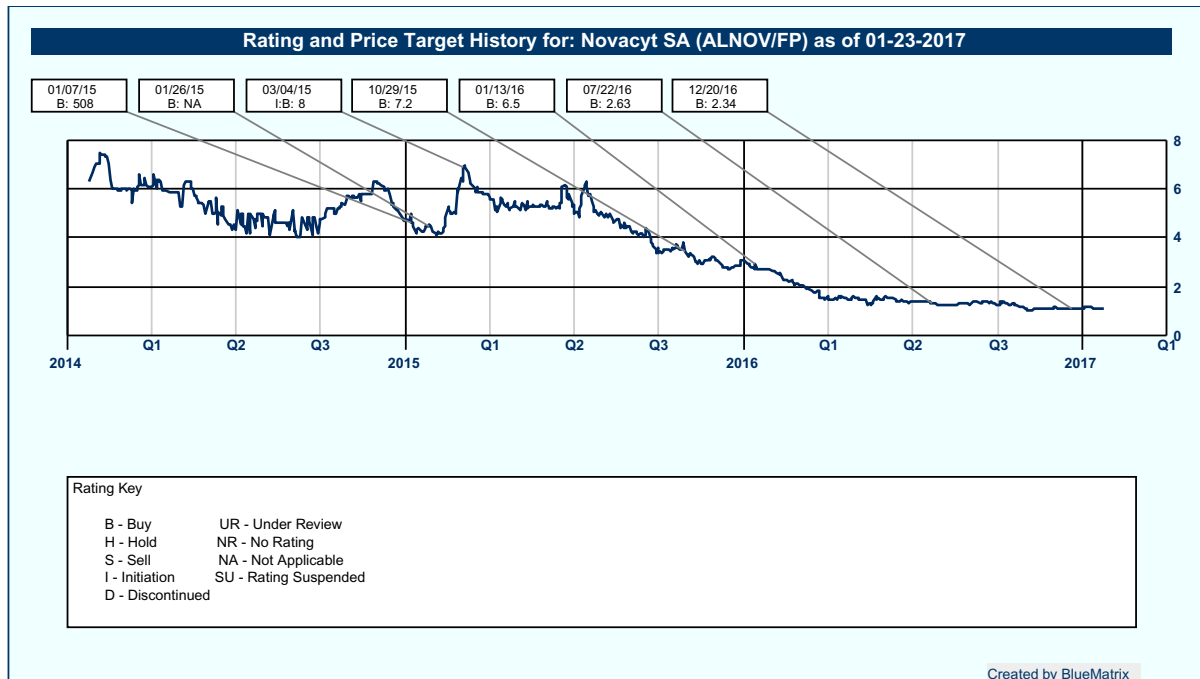
Figure 1: Novacyt P&L forecast (€m)

Year ending December	2015	2016	2016E	2016E	2017E	2018E	2019E
€m		H1	H2				
Lab 21	7.6	3.2	3.1	6.2	7.2	8.1	8.6
Novacyt	1.3	0.9	0.8	1.6	2.6	3.4	4.7
Primerdesign		1.0	2.3	3.3	6.2	7.6	9.8
Total revenues	8.9	5.0	6.1	11.1	16.0	19.1	23.1
<i>Growth</i>	97%	5%	46%	24%	44%	20%	21%
COGS (€m)	-4.7	-2.4	-1.0	-3.3	-5.8	-7.0	-8.0
Gross profit (€m)	4.3	2.6	5.2	7.8	10.2	12.1	15.0
<i>Gross margin</i>	48%	52%	84%	70%	64%	63%	65%
General and admin	-4.8	-2.6	-1.9	-4.5	-4.6	-4.7	-4.8
Sales and marketing	-2.3	-1.5	-1.0	-2.5	-2.7	-3.1	-3.5
R&D	-0.6	-0.4	-0.2	-0.6	-0.6	-0.8	-0.9
Primerdesign costs		-0.8	-1.0	-1.8	-2.2	-3.0	-3.7
Subsidies	0.1	0.1	0.1	0.2	0.2	0.2	0.2
Total operating expenses	-7.5	-5.2	-4.0	-9.3	-9.9	-11.4	-12.8
EBITA (pre-exceptional)	-3.2	-2.6	1.1	-1.5	0.3	0.7	2.3
Operating margin					1.7%	3.7%	9.8%
Amortisation	-9.8		-0.2	-0.2	-0.2	-0.2	-0.2
EBIT (pre-exceptional)	-13.0	-2.6	0.9	-1.7	0.1	0.5	2.1
Exceptional							
Other income/expense	-0.2	-0.5					
Finance costs	-0.7	-0.4	0.0	-0.4	-0.9	-0.9	-0.4
Pre-tax (loss) profit	-13.9	-3.5	0.9	-2.1	-0.8	-0.4	1.6
Tax	0.0	0.0	0.0	0	0	0	0
Net income	-13.9	-3.5	0.9	-2.1	-0.8	-0.4	1.6
NOSH	6.8	9.5	14.0	11.3	17.3	17.3	17.3
EPS (€)	-2.0	-0.37	0.06	-0.19	-0.05	-0.02	0.09

Source: Company data; Stifel estimates

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