A seemingly undervalued Compumedics reaffirms profit guidance

Trevor Hoey July 19, 2016

Shares in medical devices group Compumedics increased circa 9% from 40 cents to 43.5 cents after the company announced that it was on track to meet revenue and earnings guidance previously advised.

Management expects the company to generate a net profit in a range between $2.8 million and $3.2 million from revenues of $37 million in fiscal 2016. This would represent revenue growth of 11%.

As highlighted by analysts at PAC Partners, this represents a continuation of the company's achievements in delivering double-digit sales growth since fiscal 2013.

Importantly, the group has also been able to expand EBITDA margins as a result of lowering its cost base and realising the benefits of improved distribution and scale.

PAC Partners expects more of the same over the next three years with Compumedics' platform of sleep and neuro diagnostic devices and consumables generating annual EBITDA growth of circa 15%.

The broker was buoyed by the fact that earnings from the development of MEG (fast brain imaging for Alzheimer is, Parkinson's, epilepsy and autism) and its e-health technology will now make a material contribution in fiscal 2017, two years earlier than PAC Partners were expecting.

The broker has reaffirmed its buy recommendation and share price target of 80 cents, implying upside of approximately 85% to the company's current trading range.

Market Wire suggested in June (***Strong profit growth from Compumedics suggests share price rerating is imminent***) that the progress made by the company in terms of establishing strong relationships with end markets, developing new technologies and paving the way for significant earnings growth could result in a share price rerating.

While the company's shares subsequently increased from 40 cents at that time to hit a high of 43.5 cents in late June they trailed off to trade as low as 36.5 cents at the end of the month.

Consequently, while yesterday's news was a distinct positive, Compumedics' share price response merely sees it return to the upper end of its six month trading range when it could be argued that the company's prospects are looking far better now than when it struck a 12 month high of 52 cents in November.

PAC Partners is forecasting Compumedics to generate a net profit of $3 million in fiscal 2016, doubling to $6 million in fiscal 2017, representing earnings per share of 3.5 cents. This implies a fiscal 2017 PE multiple of 12.4 based on the company's current share price.

To put this in perspective, the sector multiple is approximately 20, which if applied would equate to a share price of 70 cents. If Compumedics were to be assessed on a price-earnings to growth basis (PEG), a PE multiple well in excess of 20 could be justified.

Compumedics is a smaller company (market capitalisation – circa $75 million) that tends to fly under the radar, but at some stage the group's share price will have to respond to its earnings profile. This being the case, the company may be one to watch when it reports its full-year result in August.

Other share price catalysts include the release of sales figures relating to its new initiatives in e-health and brain function diagnostic technology (MEG), which provides faster and improved measurement of brain signals than standard magnetic resonance imaging (MRI).

http://www.marketwire.com.au/market-moving-stocks/a-seemingly-undervalued-compumedics-reaffirms-profit-guidance/