

## Pain relief is on the way

We retain a BUY rating with a 12-month price target of \$4.75 p/share. TPI is a licensed producer of licit narcotics. The industry offers attractive fundamentals, including significant barriers to entry (strict licensing requirements) and solid global consumption growth (~6.0% pa). TPI is well positioned as the only truly independent producer, with first mover advantage on mainland Australian poppy production and significant European raw material supply, as well as a cost-effective extraction process developed over the past decade. The company has announced the commissioning of its Victorian processing plant and a three-year supply agreement with a European customer. Harvest updates and confirmation of first sales from the relocated processing facility are the key near-term share price catalysts.

### Key points

**Operational update.** TPI has announced that commissioning of the Victorian processing plant has been completed. Saleable product will be shipped in coming weeks. Furthermore, TPI confirmed that expected efficiencies have been exceeded. TPI also announced a three-year supply agreement with a European customer and remains confident of further expanding its customer base.

**WHTM view.** Commissioning represented a key milestone for TPI, while the timing confirmed the company will generate sales revenue in 4Q15 and enter FY16 with good momentum. The improved efficiencies are encouraging and suggest a sustainably lower cost of production is possible. The signing of a customer to a multi-year agreement demonstrates TPI's appeal as a trusted supplier of licit narcotics.

**Forecasts.** No changes at this stage.

**Valuation.** No changes to our 12-month price target of \$4.75 p/share, which is set in line with our earnings capitalisation valuation (FY18 EV/EBITDA 9.5x). This represents a ~20% discount to our DCF valuation to account for execution risk in the ramp-up of NRM production.

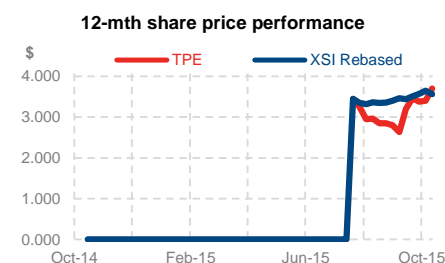
### Risks and catalysts

**Risks.** Reduction in raw material supply; changes to international and/or foreign government conventions; loss of licences; FX movements.

**Catalysts.** Harvest updates; ramp-up of NRM production and sales (towards 100t); confirmation of new working capital debt facility; commissioning of API processing capability.

12-mth target price (AUD)	\$4.75
Share price @ 11-Nov-15 (AUD)	\$3.70
Forecast 12-mth capital return	28.4%
Forecast 12-mth dividend yield	0.0%
<b>12-mth total shareholder return</b>	<b>28.4%</b>
Market cap	\$168m
Enterprise value	\$171m
Shares on issue	45m
Sold short	
ASX 300 weight	n/a
Median turnover/day	\$0.1m

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	1-mth	6-mth	12-mth
Abs return (%)	40.2		
Rel return (%)	38.2		

Year-end December (AUD)	FY13A	FY14A	FY15F	FY16F	FY17F
NPAT rep (\$m)	-5.2	-10.7	-10.2	3.9	13.9
NPAT norm (\$m)	-3.7	-5.7	-6.2	3.9	13.9
Consensus NPAT (\$m)			-6.2	3.9	13.9
EPS norm (cps)		-13.1	-12.6	7.5	27.0
EPS growth (%)			4.0	160.1	258.1
P/E norm (x)		-28.3	-29.5	49.1	13.7
EV/EBITDA (x)	-226.9	-31.1	-32.1	25.5	9.8
FCF yield (%)	0.0	0.0	-12.6	-7.6	2.4
DPS (cps)	0.0	0.0	0.0	0.0	0.0
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Franking (%)	0	0	0	0	0

Source: Company data, WHTM estimates, S&P Capital IQ

KEY CHANGES	06-Oct	After	Var %
<b>NPAT:</b> FY15F	-6.2	-6.2	0.0%
<b>norm</b> FY16F	3.9	3.9	0.0%
<b>(\$m)</b> FY17F	13.9	13.9	0.0%
<b>EPS:</b> FY15F	-12.6	-12.6	0.0%
<b>norm</b> FY16F	7.5	7.5	0.0%
<b>(cps)</b> FY17F	27.0	27.0	0.0%
<b>DPS:</b> FY15F	0.0	0.0	0.0%
<b>(cps)</b> FY16F	0.0	0.0	0.0%
<b>FY17F</b>	0.0	0.0	0.0%
<b>Price target:</b>	4.75	4.75	0.0%
<b>Rating:</b>	BUY	BUY	



#### PRICE TARGET

	Valuation	Price target
WACC post tax (%)	10.5	
PV of FCF forecast (\$m)	169.9	
<b>PV of terminal value (\$m)</b>	<b>152.9</b>	
Enterprise value (\$m)	322.8	
<b>Net debt/(cash) (\$m)</b>	<b>15.7</b>	
Equity value (\$m)	307.1	
<b>Equity value p/sh (\$)</b>	<b>5.97</b>	
<b>Earnings cap (\$)</b>	<b>4.75</b>	
FY18 EV/EBITDA (x)	9.5	
FY18 PER (x)	10.3	
<b>12-mth target (\$)</b>		<b>4.75</b>

#### INTERIMS (\$m)

Half-year (AUD)	Jun 14	Dec 14	Jun 15	Dec 15
	1HA	2HA	1HA	2HE
Sales revenue	5.6	1.9	1.1	7.9
EBITDA	0.1	-5.6	-3.6	-1.8
EBIT	-0.6	-6.5	-5.2	-2.7
<b>Net profit</b>	<b>-1.4</b>	<b>-4.4</b>	<b>-5.8</b>	<b>-0.4</b>
<b>Norm EPS</b>	<b>-3.1</b>	<b>-10.0</b>	<b>-12.2</b>	<b>-0.8</b>
EBIT/sales (%)	-11.3	-334.5	-486.6	-33.8
Dividend (c)	0.0	0.0	0.0	0.0
Franking (%)	0.0	0.0	0.0	0.0

#### FINANCIAL STABILITY

Year-end December	FY14A	FY15F	FY16F
Net debt	17.0	2.9	15.7
Net debt/equity (%)	146.5	8.0	38.7
<b>Net debt/EV (%)</b>	<b>9.9</b>	<b>1.7</b>	<b>9.2</b>
Current ratio (x)	2.0	7.0	2.5
Interest cover (x)	<0	<0	7.3
<b>Adj cash int cover (x)</b>	<b>&lt;0</b>	<b>&lt;0</b>	<b>&lt;0</b>
Debt/cash flow (x)	0.0	<0	<0
Net debt (cash)/share (\$)	0.4	0.1	0.3
NTA/share (\$)	0.3	0.7	0.8
Book value/share (\$)	0.3	0.7	0.8
Payout ratio (%)	0	0	0
Adj payout ratio (%)	0	0	0

#### EPS RECONCILIATION (\$m)

	FY14A		FY15F	
	Rep	Norm	Rep	Norm
Sales revenue	8	8	9	9
EBIT	-13.5	-7.1	-11.8	-7.9
<b>Net profit</b>	<b>-10.7</b>	<b>-5.7</b>	<b>-10.2</b>	<b>-6.2</b>
Notional earn	0.0	0.0	0.0	0.0
Pref/conv div	0.0	0.0	0.0	0.0
<b>Profit for EPS</b>	<b>-10.7</b>	<b>-5.7</b>	<b>-10.2</b>	<b>-6.2</b>
Diluted shrs (m)	44	44	50	50
<b>Diluted EPS (c)</b>	<b>-24.4</b>	<b>-13.1</b>	<b>-20.5</b>	<b>-12.6</b>

#### RETURNS

	FY14A	FY15F	FY16F	FY17F
ROE (%)	-98.8	-25.8	10.0	29.3
ROIC (%)	-34.9	-16.1	6.6	17.0
Incremental ROE	-34.9	-2.7	69.7	112.7
Incremental ROIC	-24.4	-2.5	62.5	54.6

#### KEY ASSUMPTIONS

Year-end December (AUD)	FY13A	FY14A	FY15F	FY16F	FY17F	FY18F
Revenue growth (%)	48.0	-46.2	18.1	266.2	66.6	37.7
EBIT growth (%)	-77.8	231.5	10.1	-157.2	230.4	69.5
<b>EPS growth (%)</b>			<b>-4.0</b>	<b>-160.1</b>	<b>258.1</b>	<b>70.0</b>
Tax rate (%)	30.0	30.0	30.0	0.0	0.0	0.0
ROA (%)		-17.7	-16.6	6.1	16.7	18.5
<b>ROE (%)</b>		<b>-49.4</b>	<b>-17.0</b>	<b>9.6</b>	<b>25.5</b>	<b>32.1</b>
Pharma revenue (\$m)	10.1	4.7	5.6	23.7	42.2	59.2
Poppy seed revenue (\$m)	3.8	2.9	3.4	9.0	12.3	15.9
Gross profit (\$m)	1.8	-0.7	0.8	13.3	24.1	35.0
Gross profit margin (%)	13.1	-9.0	8.5	40.5	44.2	46.6

#### PROFIT AND LOSS (\$m)

Year-end December (AUD)	FY13A	FY14A	FY15F	FY16F	FY17F	FY18F
Sales revenue	14.1	7.6	8.9	32.7	54.5	75.0
EBITDA	-0.8	-5.5	-5.3	6.7	17.4	28.0
Deprn & amort	1.4	1.6	2.5	2.2	2.5	2.9
<b>EBIT</b>	<b>-2.2</b>	<b>-7.1</b>	<b>-7.9</b>	<b>4.5</b>	<b>14.9</b>	<b>25.2</b>
Net interest expense	3.1	1.0	1.0	0.6	0.9	1.5
Tax	-1.6	-2.5	-2.7	0.0	0.0	0.0
Minorities/pref divs	0.0	0.0	0.0	0.0	0.0	0.0
Equity accounted NPAT	0.0	0.0	0.0	0.0	0.0	0.0
<b>Net profit (pre-sig items)</b>	<b>-3.7</b>	<b>-5.7</b>	<b>-6.2</b>	<b>3.9</b>	<b>13.9</b>	<b>23.6</b>
Abns/exts/signif	-1.5	-5.0	-4.0	0.0	0.0	0.0
<b>Reported net profit</b>	<b>-5.2</b>	<b>-10.7</b>	<b>-10.2</b>	<b>3.9</b>	<b>13.9</b>	<b>23.6</b>

#### CASH FLOW (\$m)

Year-end December (AUD)	FY13A	FY14A	FY15F	FY16F	FY17F	FY18F
EBITDA	-0.8	-5.5	-5.3	6.7	17.4	28.0
Interest & tax	0.0	0.0	-1.0	-0.6	-0.9	-1.5
Working cap/other	0.8	5.5	-7.9	-8.9	-10.4	-8.6
<b>Operating cash flow</b>	<b>0.0</b>	<b>0.0</b>	<b>-14.2</b>	<b>-2.7</b>	<b>6.0</b>	<b>17.9</b>
Maintenance capex	0.0	0.0	-7.0	-10.0	-2.0	-35.0
<b>Free cash flow</b>	<b>0.0</b>	<b>0.0</b>	<b>-21.2</b>	<b>-12.7</b>	<b>4.0</b>	<b>-17.1</b>
Dividends paid	0.0	0.0	0.0	0.0	0.0	-4.4
Growth capex	0.0	0.0	0.0	0.0	0.0	0.0
Invest/disposals	0.0	0.0	0.0	0.0	0.0	0.0
Other inv flows	0.0	0.0	0.0	0.0	0.0	0.0
<b>Cash flow pre-financing</b>	<b>0.0</b>	<b>0.0</b>	<b>-21.2</b>	<b>-12.7</b>	<b>4.0</b>	<b>-21.5</b>
Funded by equity	0.0	0.0	35.3	0.0	0.0	0.0
Funded by debt	0.0	0.0	-14.0	15.0	-5.0	22.0
Funded by cash	0.0	0.0	-0.1	-2.3	1.0	-0.5

#### BALANCE SHEET SUMMARY (\$m)

Year-end December (AUD)	FY13A	FY14A	FY15F	FY16F	FY17F	FY18F
Cash	0.0	0.6	0.6	2.9	1.9	2.4
Current receivables	0.0	1.2	1.3	6.5	10.9	15.0
Current inventories	0.0	6.4	10.8	21.6	34.2	44.9
Net PPE	0.0	17.8	23.0	31.1	30.8	63.2
Investments	0.0	0.3	0.3	0.3	0.3	0.3
Intangibles/capitalised	0.0	3.1	2.3	2.1	1.9	1.6
Other	0.0	10.8	8.8	8.8	8.8	8.8
<b>Total assets</b>	<b>0.0</b>	<b>40.2</b>	<b>47.3</b>	<b>73.3</b>	<b>88.7</b>	<b>136.1</b>
Current payables	0.0	2.0	2.7	9.8	16.4	22.5
Total debt	0.0	17.6	3.6	18.6	13.6	35.6
Other liabilities	0.0	9.1	4.3	4.3	4.3	4.3
<b>Total liabilities</b>	<b>0.0</b>	<b>28.6</b>	<b>10.6</b>	<b>32.7</b>	<b>34.2</b>	<b>62.4</b>
Minorities/convertibles	0.0	0.0	0.0	0.0	0.0	0.0
<b>Shareholder equity</b>	<b>0.0</b>	<b>11.6</b>	<b>36.7</b>	<b>40.6</b>	<b>54.5</b>	<b>73.7</b>
<b>Total funds employed</b>	<b>0.0</b>	<b>29.2</b>	<b>40.3</b>	<b>59.1</b>	<b>68.0</b>	<b>109.3</b>



## TPI Enterprises Limited (TPE)

### BUSINESS DESCRIPTION

TPI Enterprises Limited (TPE) is one of nine licensed suppliers of licit narcotics (specifically morphine, oripavine, codeine and thebaine) to the global pharmaceutical sector. TPI has spent the past 10 years developing its water-based, solvent-free extraction process while acquiring multiple international, national, state and territory licences.

### INVESTMENT THESIS

TPI is a licensed producer of licit narcotics. The industry offers attractive fundamentals, including significant barriers to entry (strict licensing requirements) and solid global consumption growth (~6.0% pa). TPI is well positioned as the only truly independent producer, with first mover advantage on mainland Australian poppy production and significant European raw material supply, as well as a cost-effective extraction process developed over the past decade. The company has announced the commissioning of its Victorian processing plant and a three-year supply agreement with a European customer. Harvest updates and confirmation of first sales from the relocated facility are the key near-term share price catalysts.

### REVENUE DRIVERS

- NRM production (area, yield)
- NRM, API and poppy seed prices

### MARGIN DRIVERS

- Production volume
- Crop yields
- Processing costs

### KEY ISSUES/CATALYSTS

- Harvest updates
- Ramp-up of NRM production and sales (towards 100t)
- Confirmation of new working capital debt facility
- Commissioning of API processing capability

### RISK TO VIEW

- Reduction in raw material supply
- Changes to international and/or foreign government conventions
- Loss of licences
- FX movements

### BALANCE SHEET

- 1H15 net cash: \$6M

### BOARD

- Peter Robinson – Non-Executive Chairman
- Jarrod Ritchie – Managing Director
- Todd Barlow – Non-Executive Director

### MANAGEMENT

- Jarrod Ritchie – MD
- Peter Varnay – CFO

### CONTACT DETAILS

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### Recommendation structure and other definitions

Definitions at <http://www.wilsonhtm.com.au/Disclosures>

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