



BUY HOLD SELL

Financial results

Relocation not without pain

We retain a BUY rating with a revised 12-month price target of \$4.55 p/share. TPI confirmed a messy FY15 result (NPAT loss of \$13.5M), impacted by the relocation of processing activities from Tasmania to Victoria. The company remains on track to achieve positive EBITDA in FY16, with significant earnings growth to follow as production volumes ramp up. TPI is well positioned as the only truly independent producer of licit narcotics, 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.

Key points

FY15 result. NPAT (normalised) loss of \$13.5M compared with a loss of \$4.0M in the pcp and our forecast loss of \$11.2M. The result reflected a 76% decline in gross profit (resulting from the temporary cessation of processing activities as TPI relocated its plant from Tasmania to Victoria), as well as higher operating costs. NPAT (reported) included asset impairments (\$7.1M) relating to redundant processing operations in Tasmania, crop trials in NT and Portugal (\$2.2M), and relocation expenses (\$1.6M).

Outlook. TPI confirmed its expectation for positive EBITDA in FY16 and full utilisation of its manufacturing facility within 3-4 years. This is consistent with our expectations.

Forecasts. EPS reductions reflect higher D&A and interest expense.

Valuation. Our revised 12-month price target of \$4.55 p/share is set in line with our earnings capitalisation valuation (FY18 EV/EBITDA 9.5x). This represents a discount to our DCF valuation (\$5.85) to account for execution risk in the ramp-up of NRM production.

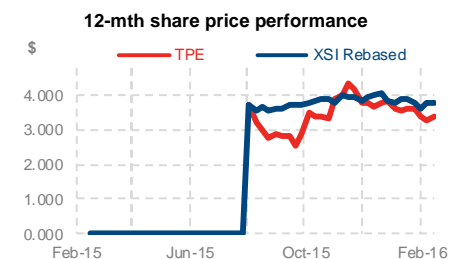
Risks and catalysts

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

Catalysts. Raw material supply 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)	\$4.55
Share price @ 29-Feb-16 (AUD)	\$3.34
Forecast 12-mth capital return	36.2%
Forecast 12-mth dividend yield	0.0%
12-mth total shareholder return	36.2%
Market cap	\$152m
Enterprise value	\$174m
Shares on issue	45m
Sold short	0.0%
ASX 300 weight	n/a
Median turnover/day	\$0.1m

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	1-mth	6-mth
Abs return (%)	-7.4	5.0
Rel return (%)	-4.5	2.9

Year-end December (AUD)	FY14A	FY15A	FY16F	FY17F	FY18F
NPAT rep (\$m)	-9.0	-25.9	1.2	12.3	21.6
NPAT norm (\$m)	-4.0	-13.5	1.2	12.3	21.6
Consensus NPAT (\$m)			3.9	13.8	
EPS norm (cps)	-9.2	-27.3	2.4	23.9	42.0
EPS growth (%)		-197.3	108.7	905.5	75.5
P/E norm (x)	-36.4	-12.2	140.3	14.0	8.0
EV/EBITDA (x)	-64.5	-18.9	27.8	10.0	6.3
FCF yield (%)	0.0	-15.4	-11.0	2.1	-12.0
DPS (cps)	0.0	0.0	0.0	0.0	12.6
Dividend yield (%)	0.0	0.0	0.0	0.0	3.8
Franking (%)	0	0	0	0	0

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

KEY CHANGES	17-Dec	After	Var %
NPAT: FY16F	3.9	1.2	-68.4%
norm FY17F	13.8	12.3	-10.8%
(\$m) FY18F	23.5	21.6	-7.9%
EPS: FY16F	7.5	2.4	-68.4%
norm FY17F	26.8	23.9	-10.7%
(cps) FY18F	45.6	42.0	-7.9%
DPS: FY16F	0.0	0.0	0.0%
(cps) FY17F	0.0	0.0	0.0%
FY18F	13.7	12.6	-7.9%
Price target:	4.75	4.55	-4.1%
Rating:	BUY	BUY	



PRICE TARGET

	Valuation	Price target
WACC post tax (%)	10.5	
PV of FCF forecast (\$m)	167.5	
PV of terminal value (\$m)	155.5	
Enterprise value (\$m)	323.0	
Net debt/(cash) (\$m)	22.0	
Equity value (\$m)	301.0	
Equity value p/sh (\$)	5.85	
Earnings cap (\$)	4.55	
FY18 EV/EBITDA (x)	9.5	
FY18 PER (x)	10.8	
12-mth target (\$)		4.55

INTERIMS (\$m)

Half-year (AUD)	Jun 15	Dec 15	Jun 16	Dec 16
	1HA	2HA	1HE	2HE
Sales revenue	1.1	1.0	15.0	16.2
EBITDA	-3.6	-5.6	3.4	2.9
EBIT	-5.2	-7.5	1.9	1.4
Net profit	-5.8	-7.7	1.2	0.0
Norm EPS	-12.2	-15.0	2.3	0.0
EBIT/sales (%)	-486.6	-757.7	12.8	8.4
Dividend (c)	0.0	0.0	0.0	0.0
Franking (%)	0.0	0.0	0.0	0.0

FINANCIAL STABILITY

Year-end December	FY15A	FY16F	FY17F
Net debt	5.3	22.0	18.8
Net debt/equity (%)	25.7	100.5	55.1
Net debt/EV (%)	3.0	12.6	10.8
Current ratio (x)	6.1	2.2	2.4
Interest cover (x)	<0	1.6	8.5
Adj cash int cover (x)	<0	<0	2.9
Debt/cash flow (x)	<0	<0	5.0
Net debt (cash)/share (\$)	0.1	0.4	0.4
NTA/share (\$)	0.4	0.4	0.7
Book value/share (\$)	0.4	0.4	0.7
Payout ratio (%)	0	0	0
Adj payout ratio (%)	0	0	0

EPS RECONCILIATION (\$m)

	FY15A		FY16F	
	Rep	Norm	Rep	Norm
Sales revenue	2	2	31	31
EBIT	-25.1	-12.7	3.3	3.3
Net profit	-25.9	-13.5	1.2	1.2
Notional earn	0.0	0.0	0.0	0.0
Pref/conv div	0.0	0.0	0.0	0.0
Profit for EPS	-25.9	-13.5	1.2	1.2
Diluted shrs (m)	50	50	51	51
Diluted EPS (c)	-52.3	-27.3	2.4	2.4

RETURNS

	FY15A	FY16F	FY17F	FY18F
ROE (%)	-83.9	5.8	44.0	49.9
ROIC (%)	-32.7	6.6	20.2	23.0
Incremental ROE	-92.1	287.7	163.8	60.8
Incremental ROIC	-43.5	147.4	55.3	28.5

KEY ASSUMPTIONS

Year-end December (AUD)	FY13A	FY14A	FY15A	FY16F	FY17F	FY18F
Revenue growth (%)	48.0	-46.2	-72.7	1,410.7	71.7	36.3
EBIT growth (%)	-77.8	118.0	171.6	-125.7	325.9	71.4
EPS growth (%)			197.3	-108.7	905.5	75.5
Tax rate (%)	30.0	30.0	0.0	0.0	0.0	0.0
ROA (%)		-11.7	-30.7	4.9	16.9	18.6
ROE (%)		-34.7	-65.6	5.6	36.0	41.2
Pharma revenue (\$m)	10.1	4.7	1.7	25.0	44.4	60.8
Poppy seed revenue (\$m)	3.8	2.9	0.4	6.2	9.2	12.2
Gross profit (\$m)	1.8	2.0	0.5	15.6	27.7	38.3
Gross profit margin (%)	13.1	26.1	22.9	50.0	51.8	52.5

PROFIT AND LOSS (\$m)

Year-end December (AUD)	FY13A	FY14A	FY15A	FY16F	FY17F	FY18F
Sales revenue	14.1	7.6	2.1	31.2	53.5	73.0
EBITDA	-0.8	-2.7	-9.2	6.3	17.4	27.7
Deprn & amort	1.4	2.0	3.6	3.0	3.4	3.7
EBIT	-2.2	-4.7	-12.7	3.3	14.0	23.9
Net interest expense	3.1	1.0	0.8	2.1	1.7	2.3
Tax	-1.6	-1.7	0.0	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
Net profit (pre-sig items)	-3.7	-4.0	-13.5	1.2	12.3	21.6
Abns/exts/signif	-1.5	-5.0	-12.4	0.0	0.0	0.0
Reported net profit	-5.2	-9.0	-25.9	1.2	12.3	21.6

CASH FLOW (\$m)

Year-end December (AUD)	FY13A	FY14A	FY15A	FY16F	FY17F	FY18F
EBITDA	-0.8	-2.7	-9.2	6.3	17.4	27.7
Interest & tax	0.0	0.0	-1.3	-2.1	-1.7	-2.3
Working cap/other	0.8	2.7	-5.0	-10.9	-10.6	-8.6
Operating cash flow	0.0	0.0	-15.5	-6.7	5.1	16.8
Maintenance capex	0.0	0.0	-7.8	-10.0	-2.0	-35.0
Free cash flow	0.0	0.0	-23.3	-16.7	3.1	-18.2
Dividends paid	0.0	0.0	0.0	0.0	0.0	-3.4
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
Cash flow pre-financing	0.0	0.0	-23.3	-16.7	3.1	-21.6
Funded by equity	0.0	0.0	28.0	0.0	0.0	0.0
Funded by debt	0.0	0.0	-4.8	20.0	-3.0	22.0
Funded by cash	0.0	0.0	0.1	-3.3	-0.1	-0.4

BALANCE SHEET SUMMARY (\$m)

Year-end December (AUD)	FY13A	FY14A	FY15A	FY16F	FY17F	FY18F
Cash	0.0	0.6	0.6	3.9	4.0	4.4
Current receivables	0.0	1.2	1.4	6.2	10.7	14.6
Current inventories	0.0	6.5	8.9	18.9	31.8	42.3
Net PPE	0.0	17.8	28.6	35.7	34.4	65.7
Investments	0.0	0.3	0.1	0.1	0.1	0.1
Intangibles/capitalised	0.0	3.1	2.0	1.9	1.9	1.8
Other	0.0	10.7	0.0	0.0	0.0	0.0
Total assets	0.0	40.2	41.5	66.8	82.9	129.0
Current payables	0.0	2.0	5.3	9.4	16.1	21.9
Total debt	0.0	17.6	5.9	25.9	22.9	44.9
Other liabilities	0.0	9.1	9.8	9.8	9.8	9.8
Total liabilities	0.0	28.6	20.9	45.0	48.7	76.5
Minorities/convertibles	0.0	0.0	0.0	0.0	0.0	0.0
Shareholder equity	0.0	11.6	20.6	21.9	34.2	52.4
Total funds employed	0.0	29.2	26.5	47.7	57.0	97.3



Result review

A summary of TPI's FY15 result is provided in the table below.

Result summary						
Y/E: 31 Dec		FY14	FY15	% Chg	WHTM est	% Chg vs est.
Operating revenue	\$M	7.6	2.1	(72.7%)	3.9	(47.1%)
EBITDA (normalised)	\$M	(2.7)	(9.2)	n/a	(7.5)	22.5%
- margin	%	(35.6%)	(445.2%)	n/a	(60.4%)	n/a
EBIT (normalised)	\$M	(4.7)	(12.7)	171.6%	(10.1)	26.2%
- margin	%	(62.0%)	(617.4%)	n/a	(85.0%)	n/a
NPAT (normalised)	\$M	(4.0)	(13.5)	236.4%	(11.2)	20.7%
NPAT (reported)	\$M	(9.0)	(25.9)	188.1%	(17.1)	51.5%
EPS (normalised)	cps	n/a	(27.3)	n/a	(22.5)	21.3%
DPS	cps	0.0	0.0	n/a	0.0	n/a
Operating cash flow (OCF)	\$M	n/a	(15.5)	n/a	(14.8)	4.7%
Net debt / (cash)	\$M	n/a	5.3	n/a	3.5	51.3%

Source: TPE & WHTM.

Income statement

NPAT (normalised) loss of \$13.5M compared with a loss of \$4.0M in the pcp and our forecast loss of \$11.2M. NPAT (reported) included asset impairments (\$7.1M) relating to redundant processing operations in Tasmania, crop trials in NT and Portugal (\$2.2M), and relocation expenses (\$1.6M).

Sales of \$2.1M declined 73% on pcp, reflecting the temporary cessation of operations as TPI relocated processing assets from Tasmania to Victoria. Sales were below our forecast of \$3.9M, reflecting the timing of first sales from the recommissioned processing plant late in the year.

EBITDA loss of \$9.2M increased on the pcp loss of \$4.7M, reflecting lower gross profit (driven by the lower sales) and higher operating costs compared to our forecast.

D&A expense of \$3.6M increased on the pcp (\$2.0M) and was above our forecast of \$2.5M.

As expected, no interim dividend was declared.

Cash flow

Operating cash outflow of \$15.5M was broadly in line with our forecasts, reflecting a slight decrease in working capital offset by the earnings loss.

Balance sheet

Net debt of \$5.3M was slightly above our forecast. Subsequent to the period end, TPI increased the shareholder loan facility (held with Washington H. Soul Pattinson Company Ltd) from \$8.0M to \$20.0M. We expect TPI will aim to establish a bank debt facility during FY16.



Earnings outlook

Guidance

TPI confirmed its expectation for positive EBITDA in FY16 and full utilisation of its manufacturing facility within 3-4 years.

Changes to our forecasts

We lower our EPS forecasts as a result of increases to D&A and interest expense.

Earnings revisions		FY16e	FY17e	FY18e
Y/E: 31 Dec				
EBITDA - old	\$M	6.8	17.4	28.1
EBITDA - new	\$M	6.3	17.4	27.7
- % chg	%	(8.1%)	(0.2%)	(1.5%)
EBIT - old	\$M	4.5	14.9	25.3
EBIT - new	\$M	3.3	14.0	23.9
- % chg	%	(27.1%)	(6.3%)	(5.4%)
NPAT (normalised) - old	\$M	3.9	13.8	23.5
NPAT (normalised) - new	\$M	1.2	12.3	21.6
- % chg	%	(68.5%)	(10.8%)	(8.0%)
EPS - old	cents	7.5	26.8	45.6
EPS - new	cents	2.4	23.9	42.0
- % chg	%	(68.3%)	(10.7%)	(7.9%)
DPS - old	\$M	0.0	0.0	13.8
DPS - new	\$M	0.0	0.0	12.6
- % chg	%	<i>nm</i>	<i>nm</i>	(8.5%)

Source: Wilson HTM

Revised forecasts

A summary of our key forecast assumptions is provided in the tables below.

Key forecast assumptions		FY12	FY13	FY14	FY15	FY16e	FY17e	FY18e
Y/E: 31 Dec								
NRM sales volume	tonnes	17.9	22.9	10.1	3.0	39.9	67.0	94.4
- change (YoY)	%	<i>n/a</i>	27.8%	(55.8%)	(70.5%)	<i>nm</i>	67.8%	40.9%
Seed sales volume	tonnes	1,094	1,398	792	1,071	3,369	4,964	6,172
- change (YoY)	%	<i>n/a</i>	27.8%	(43.3%)	35.2%	214.7%	47.4%	24.3%
NRM price (p/kg)	AUD	414	443	468	563	625	643	612
- change (YoY)	%	<i>n/a</i>	7.1%	5.6%	20.2%	11.1%	2.9%	(4.8%)
Seed price (p/t)	AUD	1,875	2,740	3,623	1,765	1,846	1,846	1,970
- change (YoY)	%	<i>n/a</i>	46.1%	32.2%	(51.3%)	4.6%	0.0%	6.7%
Grower costs	\$ p/kg	<i>n/a</i>	202	316	198	186	190	194
NRM processing costs	\$ p/kg	<i>n/a</i>	200	200	275	165	145	128

Source: TPE & WHTM.



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

The company remains on track to achieve positive EBITDA in FY16, with significant earnings growth to follow as production volumes ramp up. TPI is well positioned as the only truly independent producer of licit narcotics, 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.

REVENUE DRIVERS

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

MARGIN DRIVERS

- Production volume
- Crop yields
- Processing costs

KEY ISSUES/CATALYSTS

- Raw material supply 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

- FY15 net cash: \$5.3M

BOARD

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

MANAGEMENT

- Jarrod Ritchie – MD
- Roger McPherson – CFO

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Recommendation structure and other definitions

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

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