

1300 Smiles

Happy gums

ADD (no change)

Current price:	A\$7.00
Target price:	A\$7.94
Previous target:	A\$7.94
Up/downside:	13.5%
Reuters:	ONT.AX
Bloomberg:	ONT AU
Market cap:	US\$117.8m
	A\$165.7m
Average daily turnover:	US\$0.01m
	A\$0.02m
Current shares o/s	23.70m
Free float:	100.0%



Price performance	1M	3M	12M
Absolute (%)	-5.4	-7.9	14.9
Relative (%)	-1.1	-1.5	32.6

Scott POWER

T (61) 7 3334 4884

E scott.power@morgans.com.au

- ONT posted a solid 1HFY16 NPAT which was ahead of our forecast and up 20% on the pcp.
- Despite modest revenue growth of 3%, cost control and improved operating efficiency contributed to the higher profit.
- Shareholders have been rewarded with a higher dividend of 11cps (up 22%).
- No changes to forecasts or target price, although we have increased our full year dividend forecast.

Solid 1HFY16, ahead of our forecast

ONT has posted a solid 1HFY16 NPAT of A\$4.1m up 20% on pcp and ahead of our forecast of A\$3.6m. Revenue was up 3% to A\$19.0m, EBITDA was up 11% to A\$7.0m and the EBITDA margin was 37% (compared with 36% in pcp). The margin improvement was driven by continued focus on costs (mainly COGS) and improving operating efficiencies. ONT has A\$7.4m in cash and no bank debt. The interim dividend was 11cps fully franked and was better than our forecast of 9.4cps.

Industry remains competitive

The dental industry remains competitive. There are a number of factors contributing to this including; 1) friction between the private health funds and the dental industry as some funds continue to acquire practices; and 2) the ongoing government review of the medical benefits schedule where recommendations and outcomes are not expected until later in CY16. ONT are responding to some of these pressures through the growth in its \$1-a-day Dental Care Plan and 1300SMILES DMA Vouchers program both of which continue to experience strong patient demand.

No changes to forecasts

We have made no changes to our FY16-18 forecasts however we have increased our dividend in FY16 to 22cps (from 20cps) and in FY17 to 23cps (from 22cps).

Investment view – maintain positive stance

We maintain an ADD recommendation and our price target and valuation of A\$7.94, remain unchanged. The capital growth together with the dividend yield of 3.1% provides for a forecast total shareholder return of 16.5% from the current share price. ONT has a decade long history of operational success. The main risk lies in its ability to continue to acquire dental practices at reasonable multiples to maintain the solid historical growth levels, countered by its ability to grow organically.

Financial Summary	Jun-14A	Jun-15A	Jun-16F	Jun-17F	Jun-18F
Revenue (A\$m)	31.59	36.51	39.70	42.88	46.25
Operating EBITDA (A\$m)	9.56	12.07	13.25	14.32	15.44
Net Profit (A\$m)	5.05	6.58	7.15	7.98	8.79
Normalised EPS (A\$)	0.21	0.28	0.30	0.34	0.37
Normalised EPS Growth	(20.6%)	30.3%	8.6%	11.7%	10.2%
FD Normalised P/E (x)	32.84	25.22	23.21	20.79	18.87
DPS (A\$)	0.15	0.19	0.22	0.23	0.24
Dividend Yield	2.14%	2.74%	3.14%	3.29%	3.43%
EV/EBITDA (x)	17.22	13.22	12.29	11.32	10.40
P/FCFE (x)	NA	18.63	96.22	26.61	23.78
Net Gearing	(4.7%)	(19.8%)	(8.8%)	(10.6%)	(13.3%)
P/BV (x)	5.68	5.22	4.89	4.54	4.17
ROE	17.7%	21.6%	21.7%	22.6%	23.0%
% Change In Normalised EPS Estimates			0.000%	(0.083%)	(0.190%)
Normalised EPS/consensus EPS (x)			0.97	0.95	0.94

SOURCE: MORGANS, COMPANY REPORTS

Figure 1: Financial summaries

Profit and loss	Jun-14A	Jun-15A	Jun-16F	Jun-17F	Jun-18F
Revenue	31.6	36.5	39.7	42.9	46.2
Gross Profit	9.6	12.1	13.3	14.3	15.4
Total Operating Costs	0.0	0.0	0.0	0.0	0.0
EBITDA	9.6	12.1	13.3	14.3	15.4
Depreciation	-2.0	-2.3	-2.4	-2.4	-2.4
Amortisation & impairments	-0.3	-0.5	-0.5	-0.5	-0.5
EBIT	7.3	9.4	10.4	11.5	12.6
Net Interest Income	0.2	0.0	0.0	0.1	0.2
Pre-tax Profit	7.4	9.4	10.4	11.6	12.8
Tax	-2.4	-2.8	-3.3	-3.6	-4.0
Reported Profit	5.1	6.6	7.1	8.0	8.8
Exceptional items	0.0	0.0	0.0	0.0	0.0
Normalised Profit	5.1	6.6	7.1	8.0	8.8
Gross dividends	0.0	0.0	0.0	0.0	0.0

Cash flow statement	Jun-14A	Jun-15A	Jun-16F	Jun-17F	Jun-18F
EBITDA	9.6	12.1	13.3	14.3	15.4
Net interest	0.2	0.0	0.0	0.1	0.2
Tax	-2.4	-2.8	-3.3	-3.6	-4.0
Changes in working capital	0.8	-0.6	-3.8	0.1	0.1
Operating cash flow	8.2	8.7	6.2	10.9	11.7
Capex	-1.6	-0.7	-2.3	-2.4	-2.4
Free Cash Flow	6.5	8.0	3.9	8.5	9.4
Acquisitions and divestments	-9.4	0.0	-2.2	-2.3	-2.4
Other Investing cash flow	-6.8	-7.2	-3.9	-8.5	-9.4
Investing cash flows	-11.3	0.2	-4.5	-4.7	-4.8
Increase / decrease in Equity	0.0	0.0	0.0	0.0	0.0
Increase / decrease in Debt	0.0	0.0	0.0	0.0	0.0
Dividends paid	-3.6	-4.0	-5.0	-5.3	-5.6
Other financing cash flows	0.0	0.0	0.0	0.0	0.0
Financing cash flows	-3.6	-4.0	-5.0	-5.3	-5.6

Balance Sheet	Jun-14A	Jun-15A	Jun-16F	Jun-17F	Jun-18F
Assets					
Cash And Deposits	1.4	6.3	3.0	3.9	5.3
Debtors	3.6	1.7	2.2	2.3	2.5
Inventory	0.0	0.0	1.6	1.7	1.8
Other current assets	0.1	0.8	0.8	0.8	0.8
Total Current Assets	5.1	8.8	7.5	8.7	10.5
Fixed Assets	12.0	9.7	9.6	9.6	9.6
Investments	0.3	0.3	2.5	4.8	7.2
Goodwill	0.0	0.0	0.0	0.0	0.0
Intangibles	21.0	21.2	20.8	20.3	19.8
Other non-current assets	0.5	0.1	0.1	0.1	0.1
Total Non-Current Assets	33.7	31.3	32.9	34.8	36.7
TOTAL ASSETS	38.8	40.1	40.4	43.5	47.1
Liabilities					
Short Term Debt	0.0	0.0	0.0	0.0	0.0
Creditors	7.3	6.9	5.1	5.5	5.9
Other current liabilities	0.7	0.7	0.7	0.7	0.7
Total Current Liabilities	8.0	7.6	5.8	6.2	6.6
Long Term Debt	0.0	0.0	0.0	0.0	0.0
Other Debt (inc hybrids)	0.0	0.0	0.0	0.0	0.0
Other Non curren liabilities	0.0	0.0	0.0	0.0	0.0
Total Non -Current liabilities	0.0	0.0	0.0	0.0	0.0
TOTAL LIABILITIES	9.6	8.3	6.5	6.9	7.3
Equity					
Issued capital	0.0	0.0	0.0	0.0	0.0
Retained earnings	13.7	16.3	16.3	16.3	16.3
Other reserves and FX	15.5	15.5	17.6	20.3	23.5
TOTAL EQUITY	29.2	31.8	33.9	36.6	39.8
TOTAL EQUITY + LIABLILITY	38.8	40.1	40.4	43.5	47.1

Valuation details	Jun-14A	Jun-15A	Jun-16F	Jun-17F	Jun-18F
Share Price	\$7.00		Market Cap	AS\$165.9m	
Price Target	\$7.94				
Total shareholder return	16.2%		WACC		9.6%

Key metrics/ multiples	Jun-14A	Jun-15A	Jun-16F	Jun-17F	Jun-18F
P/E	32.8	25.2	23.2	20.8	18.9
Yield	2.1%	2.7%	3.1%	3.3%	3.4%
PEG	1.6	-0.8	-2.7	-1.8	1.9
EV/EBITDA	17.2	13.2	12.3	11.3	10.4
Price/ Book Value	5.7	5.2	4.9	4.5	4.2
Price/ Net Tangible Assets	20.2	15.7	12.6	10.2	8.3
Operating cash flow yield	4.9%	5.2%	3.7%	6.6%	7.1%
Free cash flow yield	3.9%	4.9%	2.4%	5.1%	5.6%

Per share data	Jun-14A	Jun-15A	Jun-16F	Jun-17F	Jun-18F
Diluted shares on issue	23.7	23.7	23.7	23.7	23.7
Reported EPS (A\$)	0.21	0.28	0.30	0.34	0.37
Normalised EPS (A\$)	0.21	0.28	0.30	0.34	0.37
Dividends per share (A\$)	0.15	0.19	0.22	0.23	0.24
Payout ratio	70.4%	69.2%	73.0%	68.3%	64.7%

Result quality	Jun-14A	Jun-15A	Jun-16F	Jun-17F	Jun-18F
Cash flow conversion	108.6%	95.0%	71.3%	100.7%	100.7%
FCF vs. NPAT	129.6%	122.3%	55.1%	106.9%	106.6%
Gross dividends vs FCF	0.0%	0.0%	0.0%	0.0%	0.0%

Gearing	Jun-14A	Jun-15A	Jun-16F	Jun-17F	Jun-18F
Net Debt	-1.37	-6.28	-2.99	-3.89	-5.30
Net Debt / Equity	-4.7%	-19.8%	-8.8%	-10.6%	-13.3%
Net Debt / EBITDA (x)	-0.14	-0.52	-0.23	-0.27	-0.34
EBIT interest cover (x)	45.48	623.73	2016.10	96.01	81.01
Invested Capital	28.7	24.9	27.1	32.8	34.6
Enterprise Value	164.5	159.6	162.9	162.0	160.6

Growth ratios	Jun-14A	Jun-15A	Jun-16F	Jun-17F	Jun-18F
Revenue	-12.7%	15.6%	8.8%	8.0%	7.9%
Operating costs					
EBITDA	14.4%	-26.4%	-9.8%	-8.0%	7.9%
EBIT	19.5%	-28.6%	-11.2%	10.4%	9.8%
NPAT	20.6%	-30.3%	-8.6%	-11.7%	10.2%
EPS growth	20.6%	-30.3%	-8.6%	-11.7%	10.2%
DPS growth	-21.1%	28.0%	14.6%	4.5%	4.3%
Operating cash flow	5.4%	-6.7%	28.8%	-76.5%	7.5%

Margin analysis	Jun-14A	Jun-15A	Jun-16F	Jun-17F	Jun-18F
EBITDA Margin	30.2%	33.1%	33.4%	33.4%	33.4%
EBIT margin	23.0%	25.6%	26.2%	26.8%	27.3%
NPAT margin	16.0%	18.0%	18.0%	18.6%	19.0%
ROE	17.3%	20.7%	21.1%	21.8%	22.1%
ROIC	25.4%	37.5%	38.3%	35.0%	36.4%
ROE less WACC	7.7%	11.1%	11.4%	12.2%	12.5%
ROIC less WACC	15.8%	27.9%	28.7%	25.4%	26.8%

SOURCE: MORGANS RESEARCH, COMPANY

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Sydney: Reynolds Equities	+61 2 9373 4452
Wollongong	+61 2 4227 3022

Victoria

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South Yarra	+61 3 8762 1400
Southbank	+61 3 9037 9444
Traralgon	+61 3 5176 6055
Warrnambool	+61 3 5559 1500

Western Australia

West Perth	+61 8 6160 8700
Stockbroking, Corporate Advice, Wealth Management	
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