Industrial AUSTRALIA November 27, 2012

Sunshine Heart

X RBS Morgans

COMPANY NOTE

SHC AU / SHC.AX			Current	A\$0.033	SHORT TERM (3 MTH)	LONG TERM
Market Cap	Avg Daily Turnover	Free Float	Target 🗲	A\$0.07	TRADING BUY	OUTPERFORM
US\$59.6m	US\$0.07m	70%	Previous Target	A\$0.07	TRADING SELL	NEUTRAL
A\$61.4m	A\$0.07m	0.153m shares	Up/downside	112.1%		UNDERPERFORM

Notes from the Field

Important: The recommendation has been made on a 12 month view and may not suit your investment needs or timeframe. The basis it is prepared on is summarised on the last page of this report. PLEASE CONTACT YOUR ADVISER TO DISCUSS THIS GENERAL RECOMMENDATION BEFORE ACTING ON IT.

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All systems go

SHC has received unconditional approval from the FDA to commence a pivotal trial for its flagship C-Pulse® Heart Assist System. A 388 patient pivotal trial in North America will commence in the 4QCY12. Enrolment will take approximately 2.5 years and the recent raising will ensure that trial is adequately funded over the next 12 to 18 months.

The C- Pulse System has the potential to treat patients suffering from Class III and ambulatory Class IV heart failure. The trial design will consist of 388-patients of which half will be implanted with the C-Pulse System. The other half will be randomized to optimal medical therapy across 30-40 clinical sites. SHC expects to receive revenues from trial sites for device implants as the FDA has granted CMS Category B3 status. Because of this designation, it is also anticipated that participating trial centres will be reimbursed by CMS and most private insurance providers. It is estimated that enrolment in the pivotal trial will take approximately 2.5 years. The primary endpoint of the trial will be reduction in worsening heart failure events leading to hospitalization, advanced heart failure therapies and heart failure related mortality. A one year safety follow-up is expected.

No changes to forecasts >

We have made no changes to our forecast and as a result our DCF valuation of A\$0.08 and price target of A\$0.07 remain unchanged. As at 30 September the cash position was sound at US\$17.4m. The key downside risk to our price target revolves around possible delays in the recruitment of the pivotal trial.

Key catalyst to watch >

The key milestone to watch in the near term is the start of the US pivotal trial in 4QCY12. We are also watching the competitive landscape and note recently that Heartware (HIN) received FDA approval for their Class IV heart assist device in the Bridge to Transplant indication. We view this as a positive development as it hiegthens investor interest in the heart failure market. We have maintained an outperform recommendation for investors with a longer term view.

Milestone Table		
Event	Timing	Impact
FDA Feasibility Trial - Finish recruitment	Achieved	Positive
FDA Feasibility Trial - 6mth Follow Up	Achieved	Positive
CE Mark approval	Achieved	Positive
FDA approval to commence pivotal trial	Achieved	Positive
Initiate pivotal trial	2HCY12	Positive
FDA Pivotal Trial Complete	2HCY15	Positive
Pivotal Trial Follow Up	2HCY16	Positive
PMA application	2HCY16	Positive

SOURCE: CIMB, COMPANY REPORTS

Important disclosures regarding companies that are the subject of this report and an explanation of recommendations and volatility can be found at the end of this document.

BY THE NUMBERS

Income statement	AIFRS 2010A	AIFRS 2011A	AIFRS 2012F	AIFRS 2013F	AIFRS 2014F	Closing price (A\$) Valuation metrics	0.033	Price	target (A\$)	0.07
Divisional sales	0.4	0.0	0.0	3.2	7.1		DOF		Val'n (A\$)	\$0.08
Total revenue	0.4	0.0	0.0	3.2	7.1	DCF valuation inputs	DG		Vaiii(Aq)	ф0.00
BITDA	-8.4	-16.6	-13.3	-15.4	-13.1	Rf	5.25%	1	0-year rate	5.25%
Associate income	0.0	0.0	0.0	0.0	0.0	Rm-Rf	6.00%		Margin	2.0%
Depreciation	0.0	0.0	0.1	0.1	0.1	Beta	1.80		(d	16.05%
BITA	-8.4	-16.6	-13.4	-15.5	-13.2	CAPM (Rf+Beta(Rm-Rf))	16.1%		ke Ke	16.1%
Amortisation/impairment	0.0	0.0	0.0	0.0	0.0	E/EV*Ke+D/EV*Kd(1-t)		PV cash flow		171.0
BIT	-8.4	-16.6	-13.4	-15.5	-13.2	Equity (E/EV)		linarity intere	,	0.0
BIT(incl associate profit)	-8.4	-16.6	-13.4	-15.5	-13.2	Debt (D/EV)		let debt (A\$m	,	-2.3
Net interest expense	-0.2	-0.3	-0.4	-0.8	0.1	Interest rate		ivestments (A		0.0
Pre-tax profit	-8.3	-16.4	-13.0	-14.7	-13.3	Tax rate (t)		quity market		173.4
Income tax expense	-0.7	-10.4	0.7	0.0	-0.3	WACC		iluted no. of:		2165.9
After-tax profit	-7.6	-16.2	-13.7	-14.7	-13.0	WACC	10.176 D		F valuation	\$0.08
Vinority interests	-7.0	- 10.2	- 13.7	- 14.7	-13.0			00		40.0 6
,							00404			
NPAT	-7.6	-16.2	-13.7	-14.7	-13.0	Multiples	2010A	2011A	2012F	2013F
Significant items	0.0	0.0	0.0	0.0	0.0	Enterprise value (A\$m)	69.5	59.1	64.9	57.6
NPAT post abnormals	-7.6	-16.2	-13.7	-14.7	-13.0	EV/Sales (x)	na	na	#DIV/0!	17.8
						EV/EBITDA (x)	-8.2	-36	-4.9	-3.7
Cash flow statement	2010A	2011A	2012F	2013F	2014F	EV/EBIT (x)	-8.2	-36	-4.8	-3.7
BITDA	-8.4	-16.6	-13.3	-15.4	-13.1	PE (pre-goodwill) (x)	-2.3	-24	-4.4	-4.1
Change in working capital	0.4	3.1	-0.8	-0.3	-0.8					
vet interest (pd)/rec	0.2	0.3	0.4	0.8	-0.1					
l'axes paid	0.7	0.1	-0.7	0.0	0.3	At target price	2010A	2011A	2012F	2013F
Other oper cash items	0.0	0.0	0.0	0.0	0.0	EV/EBITDA (x)	-18.0	-9.0	-10.2	-7.3
Cash flow from ops (1)	-7.2	-13.1	-14.4	-14.9	-13.7	PE (pre-goodwill) (x)	-4.9	-5.2	-9.3	-8.7
Capex (2)	0.0	-0.5	0.0	-0.1	-0.1					
Disposals/(acquisitions)	0.0	0.0	0.0	0.0	0.0	Comparable company data (x)	2010A	2011A	2012F	2013
Other investing cash flow	0.0	0.0	0.0	0.0	0.0	Acrux				
Cash flow from invest (3)	0.0	-0.5	0.0	-0.1	-0.1	EV/EBITDA	9.3	5.9	130.1	36.8
. ,										
ncr/(decr) in equity	11.9	7.6	21.7	0.0	15.0	EV/EBIT	9.4	6.1	143.8	37.7
ncr/(decr) in debt	0.0	0.0	0.0	0.0	0.0	PE	11.2	9.2	71.0	53.8
Drdinary dividend paid	0.0	0.0	0.0	0.0	0.0	ImpediMed				
Preferred dividends (4)	0.0	0.0	0.0	0.0	0.0	EV/EBITDA	-1.2	-1.0	-1.5	-2.3
Other financing cash flow	0.6	0.1	0.0	0.0	0.0	EV/EBIT	-1.1	-1.0	-1.4	-2.2
ash flow from fin (5)	12.5	7.8	21.7	0.0	15.0	PE	na	na	na	na
Forex and disc ops (6)	0.0	0.0	0.0	0.0	0.0					
nc/(decr) cash (1+3+5+6)	0.0	0.0	0.0	0.0	0.0	Per share data	2010A	2011A	2012F	2013F
Equity FOF (1+2+4)	-7.2	-13.5	-14.4	-15.0	-13.8	No. shares	536.9	1203.9	1823.9	1823.9
						EPS (cps)	-1.4	-1.3	-0.8	-0.8
Balance sheet	2010A	2011A	2012F	2013F	2014F	EPS (normalised) (c)	-1.4	-1.3	-0.8	-0.8
Cash & deposits	12.4	6.6	13.8	-1.2	0.1	Dividend per share (c)	0.0	0.0	0.0	0.0
Frade debtors	0.2	0.0	0.0	0.3	0.6	Dividend payout ratio (%)	0.0%	0.0%	0.0%	0.0%
nventory	0.0	0.0	0.0	0.5	1.1	Dividend yield (%)	0.0%	0.0%	0.0%	0.0%
vestments	0.0	0.0	0.0	0.0	0.0	Dividence yield (76)	0.070	0.070	0.070	0.070
Goodwill	0.0	0.0	0.0	0.0	0.0	Crowth antian	2010A	2011A	2012F	2013F
						Growth ratios		-100.0%	#DIV/0!	#DIV/0
Other intangible assets	0.0	0.0	0.0	0.0	0.0	Sales growth	203.7%			
ixed assets	0.1	0.5	0.5	0.5	0.5	Operating cost growth	-3.9%	-87.6%	19.5%	-40.1%
Otherassets	0.2	0.3	0.3	0.3	0.3	EBITDA growth	0.1%	-97.2%	19.1%	-15.6%
	129	7.4	14.6	0.4	2.5	EBITA growth	0.1%	-97.2%	19.1%	-15.6%
		0.0	0.0	0.0	0.0	EBIT growth	0.1%	-97.2%	19.1%	-15.6%
Short-term borrowings	0.0		1.1	1.5	1.7	NPAT growth	6.7%	-113.6%	15.4%	-7.0%
hort-term borrowings Trade payables	0.7	1.9	0.0	0.0	0.0	Pre-goodwill NPAT growth	6.7%	-113.6%	15.4%	-7.0%
hort-term borrowings Trade payables		1.9 0.0	0.0						1076.1%	-94.9%
short-term borrowings irade payables .ong-term borrowings	0.7		0.0	0.0	0.0	Pre-goodwill EPS growth	18.2%	90.8%	1076.1%	-94.9%
Short-term borrowings Trade payables Long-term borrowings Provisions	0.7 0.0	0.0		0.0 1.0	0.0 1.0		18.2% 18.2%	90.8% 90.8%	101 01 170	
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hort-term borrowings irade payables ong-term borrowings tovisions Mher liabilities otal liabilities	0.7 0.0 0.0 0.1	0.0 0.0 1.0	0.0 1.0	1.0	1.0	Pre-goodwill EPS growth			2012F	2013F
hort-term borrowings irade payables ong-term borrowings Hovisions Other fabilities of al fabilities hare capital	0.7 0.0 0.0 0.1 0.8	0.0 0.0 1.0 2.8	0.0 1.0 2.1	1.0 2.5	1.0 2.6	Pre-goodwill EPS growth Normalised EPS growth Operating performance	18.2%	90.8%		
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Prort-term borrowings Trade payables Long-term borrowings Tovisions Other liabilities Share capital Dher reserves Retained earnings Dher equity Fotal equity Monthy interest Total shareholders' equity	07 00 01 08 601 1.0 -490 00 121	0.0 0.0 1.0 28 68.7 1.1 -65.2 0.0 4.6 0.0 4.6	0.0 1.0 2.1 76.6 1.1 -65.2 0.0 12.6 0.0 12.6	1.0 2.5 61.9 1.1 -65.2 0.0 -2.1 0.0 -2.1	1.0 2.6 63.9 1.1 -65.2 0.0 -0.1 0.0 -0.1	Pre-goodwill EPS growth Normalised EPS growth Asset turnover (%) EBITDAmargin (%) EBIT margin (%) Return on net assets (%) Net dett (A\$m) Net dett (A\$m) Net dett/equity (%) Net interest/EBT cover (x) ROIC (%) Internal liquidity Current ratio (x)	18.2% 2010A 1.3 na na -69.7 -124 -1022 -56.1 na 2010A 152	90.8% 2011A 0.0 ra ra -361.2 -666 -1428 -661 -1428 -661 -1355 2011A 23	2012F 0.0 #DIV/0! #DIV/0! -106.9 -13.8 -110.1 -34.1 -14.2 2012F 6.7	10.8 -476.1 -479.3 -453.3 731.7 1.2 -55.1 -18.7 -15.8 2013F -0.5
Anort-term borrowings Trade payables ong-term borrowings Toxisions Other liabilities fortal flabilities Phare capital Dher reserves Retained earnings Dher wayity fortal equity Monthy interest Total shareholders' equity	07 00 01 08 601 1.0 -490 00 121	0.0 0.0 1.0 28 68.7 1.1 -65.2 0.0 4.6 0.0 4.6	0.0 1.0 2.1 76.6 1.1 -65.2 0.0 12.6 0.0 12.6	1.0 2.5 61.9 1.1 -65.2 0.0 -2.1 0.0 -2.1	1.0 2.6 63.9 1.1 -65.2 0.0 -0.1 0.0 -0.1	Pre-goodwill EPS growth Normalised EPS growth Asset tumover (%) EBITDAmergin (%) EBITDAmergin (%) Net profit mergin (%) Return on net assets (%) Net detkroptly (%) Net detkroptly (%) Net interest/EBIT cover (x) ROIC (%) Internal liquidity	18.2% 2010A 1.3 ra ra -69.7 -12.4 -102.2 -56.1 ra 2010A	90.8% 2011A 00 ra ra -361.2 -361.2 -666 -1428 -661 -1355 2011A	2012F 00 #DIV/0! #DIV/0! -1069 -138 -1101 -34.1 -14.2 2012F	10.8 -476.1 -479.3 -453.3 731.7 1.2 -55.1 -18.7 -15.8 2013F

SOURCE: CIMB, COMPANY REPORTS

QUEENSLAND		PARRAMATTA	(02) 9615 4500
BRISBANE	(07) 3334 4888	PORT MACQUARIE	(02) 6583 1735
BUNDABERG	(07) 4153 1050	SCONE	(02) 6544 3144
CAIRNS	(07) 4222 0555	SYDNEY – LEVEL 9	(02) 8215 5000
CALOUNDRA	(07) 5491 5422	SYDNEY – LEVEL 33	(02) 8216 5111
CAPALABA	(07) 3245 5466	SYDNEY – MACQUARIE STREET	(02) 9125 1788
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GLADSTONE	(07) 4972 8000	ACT	
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YEPPOON	(07) 4939 3021	TRARALGON	(03) 5176 6055
		WARRNAMBOOL	(03) 5559 1500
NEW SOUTH WALES			
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ARMIDALE	(02) 6770 3300	PER TH	(08) 6462 1999
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HURSTVILLE	(02) 9570 5755	NORTHERN TERRITORY	
MERIMBULA	(02) 6495 2869	DARWIN	(08) 8981 9555
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