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Zacks Small-Cap Research

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CardioGenics Hldgs. (CGNH-OTC)

CGNH: Q3 2011 Results. Beads Update.

OUTLOOK

CGNH shipped initial lots to Merck Chimie who in turn is shipping the beads to their customers for testing purposes. Merck continues to refine the encapsulation process for the naked beads. Per a July 2011 presentation, CGNH expects to file QL Care Analyzer for FDA clearance in Q4.

We are maintaining our Outperform rating and $2.00 price target.

Current Recommendation	**Outperform**
Prior Recommendation	N/A
Date of Last Change	07/28/2010
Current Price (10/26/11)	$0.51
Target Price	**$2.00**

SUMMARY DATA

52-Week High	**$1.39**
52-Week Low	**$0.30**
One-Year Return (%)	**-53.21**
Beta	**0.69**
Average Daily Volume (sh)	**14020**
Shares Outstanding (mil)	**54**
Market Capitalization ($mil)	**$28.1**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**N/A**
Insider Ownership (%)	**N/A**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**N/A**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**N/A**
P/E using 2011 Estimate	**N/A**
P/E using 2012 Estimate	**25.5**
Zacks Rank	**N/A**

Risk Level	**High,**
Type of Stock	**N/A**
Industry	**Med Instruments**

ZACKS ESTIMATES

Revenue
(in millions)

	Q1 (Jan)	Q2 (Apr)	Q3 (Jul)	Q4 (Oct)	Year (Oct)
2010	$0.0 A	$0.0 A	$0.0 A	$0.0 A	$0.0 A
2011	$0.0 A	$0.0 A	$0.0 A	$0.0 E	$0.0 E
2012					$4.8 E
2013					$14.9 E

Earnings per Share

	Q1 (Jan)	Q2 (Apr)	Q3 (Jul)	Q4 (Oct)	Year (Oct)
2010	-$0.01 A	-$0.01 A	-$0.01 A	-$0.01 A	-$0.04 A
2011	-$0.01 A	-$0.01 A	-$0.04 A	-$0.01 E	-$0.07 E
2012					$0.02 E
2013					$0.12 E

Zacks Projected EPS Growth Rate - Next 5 Years % **N/A**

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WHAT'S NEW

Q3 2011 Results

CardioGenics filed their 10-Q for the third quarter ending July 31, 2011 on September 19, 2011. The numbers differed from our estimates as a result of lower revenue due to the beads launch being pushed back and a large one-time charge related to the settlement of a lawsuit brought by Flow Capital Advisors.

Revenue came in at $6.4k compared to our $120k estimate. Operating expenses were $2.18 million but excluding the lawsuit related charge, operating expenses were $426k, compared to our $698k estimate. Net loss and EPS came in at $2.17 million and ($0.04). Excluding the charge, net loss and EPS were approximately $419k and ($0.01).

Cash flow from operations was ($254k), which is a significantly lower level of cash burn compared to the first two quarters of the year ($534k in Q1 - excluding investment tax credits, $490k in Q2). Q3 cash burn benefitted from a $1.93 million net increase in accounts payable / accrued expenses. CardioGenics exited Q3 with $1.12 million in cash and equivalents. The balance sheet remains free of debt and preferred stock.

Bead Shipments Commence

CardioGenics announced in an October 11, 2011 press release that commercial lots of their magnetic beads (SAVAsphere beads) shipped to Merck Chimie. Merck Chimie in turn is shipping the beads to their customers for testing and feedback purposes. A handful of purchase orders for the beads have been placed in the last few weeks and the beads are now generating revenue (albeit very modestly). Merck Chimie will also continue to refine the encapsulation process for the naked beads.

QL Care Analyzer

A company presentation in July 2011 indicated that in Q4 2011 CardioGenics expects to complete testing and file the QL Care Analyzer for 510(k) FDA clearance, and begin discussions with a distribution partner. No subsequent updates related to QL Care Analyzer timelines have been announced.

RECOMMENDATION / VALUATION

Median valuation of peers in the professional POC IVD testing space is 16x 2013 earnings. We look for CardioGenics to post EPS of $0.12 in 2013. Using the peer averages our near-term target price for CardioGenics is $2.00 per share. The current share price indicates the stock is significantly undervalued. We are maintaining our Outperform rating on CardioGenics.

FINANCIAL MODEL

INCOME STATEMENT

CardioGenics Holdings, Inc.

	2010 A	Q1A	Q2A	Q3A	Q4E	2011 E	2012 E	2013 E	2014 E
System sales	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
YOY Growth	-	-	-	-	-	-	-	-	-
Assay revenue	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$278.3	$3,179.5	$16,462.7
YOY Growth	-					-	*#DIV/0!*	*1042.6%*	*417.8%*
Bead revenue	$0.0	$0.0	$0.0	$0.0	$50.0	$50.0	$4,000.0	$11,250.0	$19,480.0
YOY Growth	-					-	*7900.0%*	*181.3%*	*73.2%*
Test dvlpmnt milestones	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$500.0	$500.0	$1,050.0
Revenues	$0.0	$0.0	$0.0	$6.4	$50.0	$56.4	$4,778.3	$14,929.5	$36,992.7
YOY Growth	-					-	*8372.1%*	*212.4%*	*147.8%*
Cost of sales	$0.0	$0.0	$0.0	$0.0	$9.5	$9.5	$473.1	$2,240.1	$5,364.9
Gross Income	$0.0	$0.0	$0.0	$6.4	$40.5	$46.9	$4,305.2	$12,689.4	$31,627.9
Gross Margin	-	-	-	*100.0%*	*80.9%*	*83.1%*	*90.1%*	*85.0%*	*85.5%*
Amort of Prop & Equip	$20.9	$4.7	$4.9	$5.4	$10.0	$24.9	$80.0	$130.0	$200.0
Amort of Patent Applic. Costs	$3.0	$1.0	$1.1	$1.1	$2.5	$5.7	$18.0	$30.0	$75.0
G&A	$1,160.5	$296.8	$383.8	$278.3	$366.0	$1,325.0	$1,430.0	$2,212.0	$2,645.0
% G&A	-	-	-	*4348.7%*	*732.0%*	*2349.2%*	*29.9%*	*14.8%*	*7.2%*
R&D	$692.0	$158.9	$234.6	$141.2	$342.0	$876.8	$1,740.0	$2,080.0	$3,100.0
% R&D	-	*#DIV/0!*	*#DIV/0!*	*2206.3%*	*684.0%*	*1554.6%*	*36.4%*	*13.9%*	*8.4%*
Lawsuit Settlement Costs	$0.0	$0.0	$0.0	$1,753.8	$0.0	$1,753.8	$0.0	$0.0	$0.0
Operating Income	($1,981.7)	($461.4)	($624.4)	($2,173.4)	($680.0)	($3,939.3)	$1,037.2	$8,237.4	$25,607.9
Operating Margin	-	*#DIV/0!*	*#DIV/0!*	*-33959.7%*	*-1360.1%*	*-6984.6%*	*21.7%*	*55.2%*	*69.2%*
Interest income, net	($30.2)	($4.6)	($4.3)	($6.4)	($2.0)	($17.3)	$0.0	$4.0	$25.0
Other income/(loss)	($26.5)	($40.5)	($91.6)	$0.0	$0.0	($132.2)	$0.0	$0.0	$0.0
Pre-Tax Income	($2,038.5)	($506.6)	($720.4)	($2,179.9)	($682.0)	($4,088.8)	$1,037.2	$8,241.4	$25,632.9
Taxes (benefit)	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Tax Rate	-	-	-	-	-	-	*0.0%*	*0.0%*	*0.0%*
Income before non-control interest	($2,038.5)	($506.6)	($720.4)	($2,179.9)	($682.0)	($4,088.8)	$1,037.2	$8,241.4	$25,632.9
Income to non-controlling interest	($14.2)	($3.4)	($4.7)	($14.6)	($4.8)	($27.5)	$7.3	$57.7	$179.4
Net Income	($2,024.2)	($503.2)	($715.7)	($2,165.2)	($677.3)	($4,061.3)	$1,029.9	$8,183.7	$25,453.4
Net Margin	-					*-7200.9%*	*21.6%*	*54.8%*	*68.8%*
EPS	($0.04)	($0.01)	($0.01)	($0.04)	($0.01)	($0.07)	$0.02	$0.12	$0.36
YOY Growth	-					-	-	*667.2%*	*207.0%*
Diluted Shares O/S *	49,625	53,390	54,037	54,626	58,120	55,043	66,720	69,100	70,000

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HISTORICAL ZACKS RECOMMENDATIONS



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