

Cynata Therapeutics Limited (CYP.AX)
Rating: Buy

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FUJIFILM Delay Merely a Bump in the Road, We Believe; Reiterate Buy

Stock Data		03/21/2019	
Price		A\$1.25	
Exchange		ASX	
Price Target		A\$2.00	
52-Week High		A\$1.85	
52-Week Low		A\$0.94	
Enterprise Value (M)		A\$117	
Market Cap (M)		A\$127	
Public Market Float (M)		70.6	
Shares Outstanding (M)		101.6	
3 Month Avg Volume		123,380	
Balance Sheet Metrics			
Cash (M)		A\$10.60	
Total Debt (M)		A\$0.00	
Total Cash/Share		A\$0.10	
Book Value/Share		A\$0.15	
EPS Diluted			
Full Year - Jun	2017A	2018A	2019E
1Q	(0.01)	--	--
2Q	(0.01)	(0.02)	(0.03)A
3Q	(0.02)	--	--
4Q	(0.04)	(0.03)	(0.03)
FY	(0.06)	(0.05)	(0.07)



Six-month extension granted to partner. This week, Cynata Therapeutics announced that it had granted a six-month extension of the option exercise period to its partner, FUJIFILM, following a request from the Japanese firm to permit additional time for legal review to take place. While the market appears to have been somewhat disappointed by this, given the consideration that the formal opt-in for FUJIFILM to exercise its right to take over development and commercialization of Cynata's lead candidate CYP-001 would normally have occurred this month, we believe that the six-month extension is not indicative of a reduced likelihood of option exercise. In the event that the license option is exercised by FUJIFILM on or before the extended expiry date of September 19, 2019, the parties would execute the previously-formulated GvHD license agreement, the material terms of which were set out in Cynata's ASX announcement of January 19, 2017. Cynata confirms that it is not negotiating any changes to those material terms and no changes have been agreed. In anticipation of FUJIFILM's opt-in by September this year, we reiterate our Buy rating and 12-month target of A\$2.00 per share. We remind investors that total milestone payments to Cynata from FUJIFILM under the previously-negotiated license terms could exceed A\$60M, along with double-digit royalties on net sales of CYP-001. FUJIFILM would also bear all future development costs.

Mid-stage development for CYP-001 should start this year. Cynata management indicated at a conference in New York this week that a Phase 2 trial of CYP-001 in graft-vs.-host disease (GvHD) should still start enrollment this year. We remind investors that the Phase 1 data set in steroid-resistant GvHD patients showed that four out of eight enrolled subjects (50%) achieved a complete response (CR), which was sustained in all such cases until Day 100. All treated subjects achieved at least a partial response. CYP-001 administered at a 1×10^6 MSCs/kg dose was safe and well-tolerated. In our view, the potential for favorable results from Phase 2 testing of CYP-001 appears high when taking into consideration the data from the Phase 1 study. We also anticipate that Cynata may enter at least one other clinical indication with its Cymerus™ technology platform this year.

Valuation methodology and risks. We have used a discounted cash flow (DCF)-based approach that assigns a value of A\$190M to Cynata, based upon the valuation of the platform on collaboration-based revenue only, with a 12 - 18% royalty rate range vs. the prior 10 - 16% range, along with an 11% discount rate. Our valuation translates into a price objective of roughly A\$2.00 per share, based on 103M fully-diluted shares outstanding as of end-fiscal 2019 (calendar mid-2019). Risks include, but are not limited to: (1) delays in clinical trial enrollment; (2) inability of Cynata to consummate further strategic partnerships; and (3) adverse results from clinical studies with Cynata's candidates.

Table 5: Cynata Therapeutics, Inc. (CYP.AX) – Historical Income Statements, Financial Projections

FY end June 30

A\$ in thousands, except per share data

	2017A	2018A				2018A	2019E				2019E	2020E
		1HA		2HA			1HA		2HE			
Revenue												
Revenue from continuing operations	-	-	77	-	66	143	-	129	-	-	129	-
Other income	1,843	-	1,375	-	-	1,375	-	1,309	-	-	1,309	-
Total revenue	1,843	-	1,452	-	66	1,518	-	1,438	-	-	1,438	-
Operating expenses												
Product development and marketing costs	(3,473)	-	(1,854)	-	(1,366)	(3,221)	-	(2,227)	-	(3,000)	(5,227)	(7,500)
Employee benefits expenses	(1,033)	-	(373)	-	(487)	(860)	-	(368)	-	(500)	(868)	(1,200)
Share based payments expenses	(249)	-	(202)	-	(73)	(274)	-	(699)	-	-	(699)	-
Depreciation and amortisation expenses	(280)	-	(140)	-	(140)	(280)	-	(140)	-	-	(140)	-
Other operational expenses	(1,362)	-	(699)	-	(750)	(1,449)	-	(984)	-	-	(984)	-
Total expenses	(6,397)	-	(3,268)	-	(2,816)	(6,084)	-	(4,419)	-	(3,500)	(7,919)	(8,700)
Gain (loss) from operations	(4,554)	-	(1,816)	-	(2,750)	(4,566)	-	(2,981)	-	(3,500)	(6,481)	(8,700)
Other income (expense)	-					-				-		-
Other income (expense)	-	-	-	-	-	-	-	-	-	-	-	-
Interest income (expense)	-	-	-	-	-	-	-	-	-	-	-	-
Total investment income and other	-	-	-	-	-	-	-	-	-	-	-	-
Loss before income tax	(4,554)	-	(1,816)	-	(2,750)	(4,566)	-	(2,981)	-	(3,500)	(6,481)	(8,700)
Income tax expense												
Net loss	(4,554)	-	(1,816)	-	(2,750)	(4,566)	-	(2,981)	-	(3,500)	(6,481)	(8,700)
Net loss per share (basic) in cents	(0.06)	-	(0.02)	-	(0.03)	(0.05)	-	(0.03)	-	(0.03)	(0.07)	(0.08)
Net loss per share (diluted) in cents	(0.06)	-	(0.02)	-	(0.03)	(0.05)	-	(0.03)	-	(0.03)	(0.07)	(0.08)
Weighted average number of shares outstanding (basic)	80,061	80,111	90,057	90,107	90,601	90,601	95,116	97,937	97,987	103,037	98,520	103,162
Weighted average number of shares outstanding (diluted)	80,061	80,111	90,057	90,107	90,601	90,601	95,116	97,937	97,987	103,037	98,520	103,162

Source: Company reports and H.C. Wainwright & Co. estimates.

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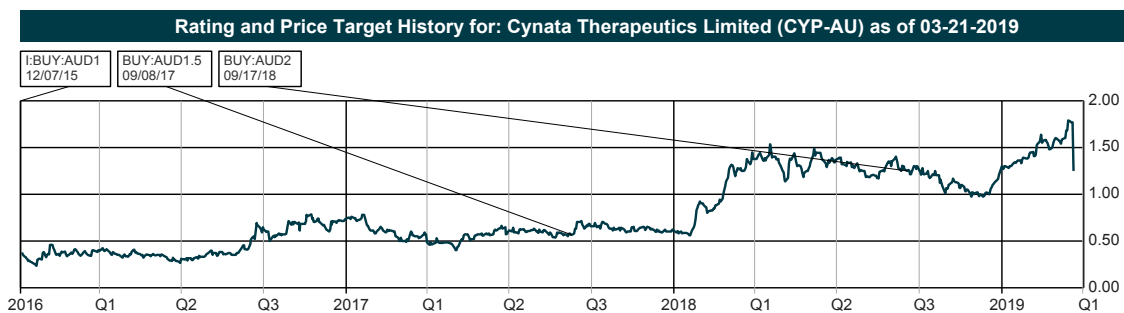
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Ratings	Count	Percent	IB Service/Past 12 Months	
			Count	Percent
Buy	304	89.94%	112	36.84%
Neutral	29	8.58%	8	27.59%
Sell	0	0.00%	0	0.00%
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