

Cynata Therapeutics (CYP)

Rating: Buy | Risk: High | Price Target: \$2.50

Extension of Option Delivers Buying Opportunity

Key Information

Current Price (\$ps)	1.18
12m Target Price (\$ps)	2.50
52 Week Range (\$ps)	0.97 - 1.79
Target Price Upside (%)	111.9%
TSR (%)	111.9%
Reporting Currency	AUD
Market Cap (\$m)	120.2
Sector	Health Care
ASX 200 Weight (%)	0%

Fundamentals

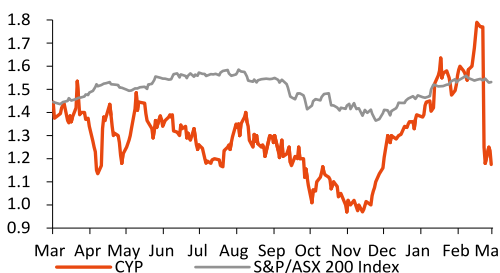
YE 30 Jun (AUD)	FY18A	FY19E	FY20E	FY21E
Sales (\$m)	0.0	0.0	15.6	42.6
NPAT (\$m)	(4.6)	(7.3)	4.0	23.0
EPS (cps)	(5.1)	(7.7)	4.2	24.2
EPS Growth (%)	25.3%	(52.0%)	154.0%	481.4%
DPS (cps) (AUD)	0.0	0.0	0.0	0.0
Franking (%)	0%	0%	0%	0%

Ratios

YE 30 Jun	FY18A	FY19E	FY20E	FY21E
P/E (x)	(26.9)	(15.3)	28.4	4.9
EV/EBITDA (x)	(27.4)	(14.9)	25.1	3.9
Div Yield (%)	0.0%	0.0%	0.0%	0.0%
Payout Ratio (%)	0.0%	0.0%	0.0%	0.0%

Price Performance

YE 30 Jun	1 Mth	2 Mth	3 Mth	1 Yr
Relative (%)	(25.4%)	(18.7%)	(11.7%)	(23.5%)
Absolute (%)	(25.6%)	(14.8%)	(2.1%)	(18.3%)
Benchmark (%)	(0.2%)	3.9%	9.6%	5.2%



Major Shareholders

Fidelity	9.4%
FUJIFILM Corporation	8.0%
Washer, Stewart	2.7%
McDonald, Ross	2.5%
Slukvin, Igor	2.4%

Event

Following the extension of Fujifilm's option to license CYP-001 for GvHD, CYP's share price is down 30%. We look at a number of factors concluding this is a buying opportunity. Our forecasts are revised down to reflect the delay. Our TP and rating remain unchanged. Buy.

Highlights

- Fujifilm option extended by six months.** The term of Fujifilm's option to licence CYP's lead candidate CYP-001 for graft-versus-host disease (GvHD) has been extended to 5:00pm (Melbourne time) 19 Sept 2019. The option was due to expire on 19 March, however undisclosed "structural aspects" of the agreement prevented execution. CYP stated that Fujifilm did not raise any material issues in respect of the financial, clinical or technical aspects of CYP-001 and that it is not negotiating any changes to those terms and no changes have been agreed (for terms of the agreement see our note dated 18 March). Factors that suggest Fujifilm will exercise the option include:
 - Fujifilm's USD900m acquisition of Biogen's biologics facility.** On March 12, Fuji announced the acquisition of Biogen's Danish biologics manufacturing site stating that the "significant investment demonstrates our commitment to grow the Bio CBMO business and become an industry leader". Finalising this transaction may have taken precedence over addressing the undisclosed structural aspects of the CYP option deal, mentioned above.
 - Fujifilm has indicated intentions to accelerate the development of CYP's MSCs.** The Fujifilm investor deck from January 2019 had three pages dedicated to CYP's MSCs. The commentary emphasised Fujifilm's intention to accelerate development of its own IPS programs while reducing risks, and
 - Fujifilm's Advertisement in Nature magazine** During February 2019 Fujifilm ran a series of advertisements directly inside the front cover of the publication Nature and Science highlighting its progress in regenerative medicine and its ambitions in the future based on CYP's CymerusTM technology.
- GvHD advances are now matched by CYP's Osteoarthritis program.** In December CYP announced that the NHMRC would fund via grant a phase 2 Osteoarthritis clinical trial in 448 patients. This will not only be one of the largest MSC trials ever undertaken, but targets a market opportunity est at USD11.6b by 2025 and CYP shareholders will not be diluted or lose any interest in the program.
- CYP's other partnering opportunities also continue to progress.** CYP announced at its AGM that a number of other indications are moving towards licensing. Indications, timeframes and likely partners have not been disclosed, however CYP's MSC's have broad application in indications such as: Asthma, Crohn's Disease, Critical Limb Ischemia and Coronary Artery Disease.
- Shaw forecasts.** Our forecasts are revised down to reflect the delay in likely payments from Fujifilm exercising its option. Our forecasts are also adjusted to recognise CYP's current burn of \$0.6m pm and the commencement of the Osteoarthritis trial in 2H19.

Recommendation

We believe if Fujifilm didn't want to exercise its option it would have walked and continue to expect it will exercise the option which will be i) strong validation of CYP's Cymerus platform, ii) see CYP-001 move into GvHD phase 2 trials in 2019, and iii) deliver substantial value to CYP (up fronts, milestones and royalties). Should Fujifilm not take up its option, negative sentiment will impact CYP's share price however we believe it is trading at an undemanding capitalisation and that the progress on various indications has been substantive. CYP would then remain well-funded to support ongoing product development, including initiating three Phase 2 clinical trial programs in 2019 for the treatment of GvHD, Critical Limb and Osteoarthritis. Shaw and Partners forecasts are revised down. Our target price and BUY recommendation remain unchanged.

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Cynata Therapeutics

Health Care

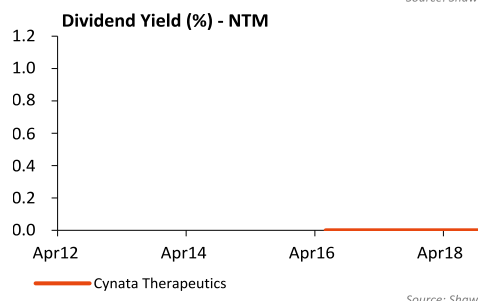
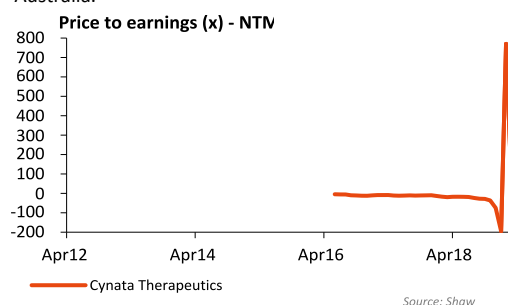
Pharmaceuticals, Biotechnology & Life Sciences

FactSet: CYP-AU / Bloomberg: CYP AU

Key Items	Data
Recommendation	BUY
Risk	HIGH
Price (\$ps)	1.18
Target Price (\$ps)	2.50
52 Week Range (\$ps)	0.97 - 1.79
Shares on Issue (m)	101.8
Market Cap (\$m)	120.2
Enterprise Value (\$m)	105.3
TSR (%)	111.9%
Valuation NPV	Data
Beta	1.50
Cost of Equity (%)	12.5%
Cost of Debt (net) (%)	7.5%
Risk Free Rate (%)	5.0%
Terminal Growth (%)	3.0%
WACC (%)	16.2%

Company Description

Cynata Therapeutics Ltd. is a stem cell and regenerative medicine company, which develops a therapeutic stem cell platform technology, Cymerus™, using discoveries made at the University of Wisconsin-Madison. The company IPO'd in November 2013 and is headquartered in Carlton, Australia.



Financial Year End: 30 June

Investment Summary (AUD)	FY17A	FY18A	FY19E	FY20E	FY21E
EPS (Reported) (cps)	(6.8)	(5.1)	(7.7)	4.2	24.2
EPS (Underlying) (cps)	(6.8)	(5.1)	(7.7)	4.2	24.2
EPS (Underlying) Growth (%)		25.3%	(52.0%)	154.0%	481.4%
PE (Underlying) (x)	(9.0)	(26.9)	(15.3)	28.4	4.9
EV / EBIT (x)	(8.8)	(25.7)	(14.4)	26.9	4.0
EV / EBITDA (x)	(9.3)	(27.4)	(14.9)	25.1	3.9
DPS (cps) (AUD)	0.0	0.0	0.0	0.0	0.0
Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%
Franking (%)	0%	0%	0%	0%	0%
Payout Ratio (%)	0.0%	0.0%	0.0%	0.0%	0.0%
Free Cash Flow Yield (%)	(7.9%)	(3.1%)	(5.3%)	(0.9%)	13.3%
Profit and Loss (AUD) (m)	FY17A	FY18A	FY19E	FY20E	FY21E
Sales	0.0	0.0	0.0	15.6	42.6
Sales Growth (%)					172.2%
Other Operating Income	1.1	1.5	1.6	1.5	2.9
EBITDA	(4.8)	(4.3)	(7.0)	4.2	23.3
EBITDA Margin (%)	nm	nm	nm	27.1%	54.7%
Depreciation & Amortisation	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)
EBIT	(5.1)	(4.6)	(7.3)	4.0	23.0
EBIT Margin (%)	nm	nm	nm	25.3%	54.1%
Net Interest	0.1	0.0	0.0	0.0	0.0
Pretax Profit	(4.9)	(4.6)	(7.3)	4.0	23.0
Tax	0.0	0.0	0.0	0.0	0.0
Tax Rate (%)	0.0%	0.0%	0.0%	0.0%	0.0%
Minorities	0.0	0.0	0.0	0.0	0.0
NPAT Underlying	(4.9)	(4.6)	(7.3)	4.0	23.0
Significant Items	0.0	0.0	0.0	0.0	0.0
NPAT Reported	(4.9)	(4.6)	(7.3)	4.0	23.0
Cashflow (AUD) (m)	FY17A	FY18A	FY19E	FY20E	FY21E
EBIT	(5.1)	(4.6)	(7.3)	4.0	23.0
Tax Paid	0.0	0.0	0.0	0.0	0.0
Net Interest	0.1	0.2	0.1	0.0	0.0
Other	0.6	0.3	1.3	(4.9)	(8.1)
Operating Cashflow	(4.3)	(4.1)	(5.9)	(1.0)	14.9
Capex	0.0	0.0	0.0	0.0	0.0
Acquisitions and Investments	0.0	0.0	0.0	0.0	0.0
Disposal of Fixed Assets/Investments	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0
Investing Cashflow	0.0	0.0	0.0	0.0	0.0
Free Cashflow	(4.3)	(4.1)	(5.9)	(1.0)	14.9
Equity Raised / Bought Back	5.0	5.9	0.4	0.0	0.0
Dividends Paid	0.0	0.0	0.0	0.0	0.0
Change in Debt	0.0	0.0	0.0	0.0	0.0
Other	(0.5)	0.0	0.2	0.0	0.0
Financing Cashflow	4.5	5.9	0.6	0.0	0.0
Net Change in Cash	0.2	1.8	(5.3)	(1.0)	14.9
Balance Sheet (AUD) (m)	FY17A	FY18A	FY19E	FY20E	FY21E
Cash	10.3	12.2	6.9	5.9	20.8
Accounts Receivable	0.1	0.4	0.0	5.6	14.4
Inventory	0.0	0.0	0.0	0.0	0.0
Other Current Assets	0.0	0.0	1.8	1.8	1.8
PPE	0.0	0.0	0.0	0.0	0.0
Goodwill & Intangibles	3.8	3.5	3.3	3.0	2.7
Investments	0.0	0.0	0.0	0.0	0.0
Other Non Current Assets	0.0	0.0	0.0	0.0	0.0
Total Assets	14.3	16.1	11.9	16.3	39.7
Accounts Payable	0.4	0.7	0.4	0.6	1.0
Short Term Debt	0.0	0.0	0.0	0.0	0.0
Long Term Debt	0.0	0.0	0.0	0.0	0.0
Income Taxes Payable	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0
Total Liabilities	0.4	0.7	0.4	0.6	1.0
Ratios	FY17A	FY18A	FY19E	FY20E	FY21E
ROE (%)		(29.1%)	(52.4%)	31.2%	85.8%
Gearing (%)	(278.5%)	(383.7%)	(147.8%)	(60.4%)	(116.6%)
Net Debt / EBITDA (x)	2.2	2.8	1.0	(1.4)	(0.9)

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Rating Classification

Buy	Expected to outperform the overall market
Hold	Expected to perform in line with the overall market
Sell	Expected to underperform the overall market
Not Rated	Shaw has issued a factual note on the company but does not have a recommendation

Risk Rating

High	Higher risk than the overall market – investors should be aware this stock may be speculative
Medium	Risk broadly in line with the overall market
Low	Lower risk than the overall market

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