

Cynata Therapeutics (CYP)

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

A Key Strategic Position in the Emerging Stem Cell Therapeutic Market

Key Information

Current Price (\$ps)	1.24
12m Target Price (\$ps)	2.50
52 Week Range (\$ps)	0.97 - 1.79
Target Price Upside (%)	101.6%
TSR (%)	101.6%
Reporting Currency	AUD
Market Cap (\$m)	126.3
Sector	Health Care
Avg Daily Volume (m)	0.0
ASX 200 Weight (%)	0%

Fundamentals

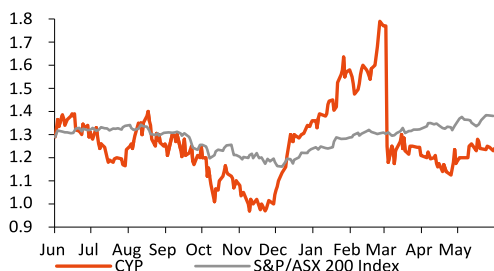
YE 30 Jun (AUD)	FY18A	FY19E	FY20E	FY21E
Sales (\$m)	0.0	0.0	15.6	42.6
NPAT (\$m)	(4.6)	(7.3)	4.0	23.0
EPS (cps)	(5.1)	(7.7)	4.2	24.2
EPS Growth (%)	25.3%	(52.0%)	154.0%	481.4%
DPS (cps) (AUD)	0.0	0.0	0.0	0.0
Franking (%)	0%	0%	0%	0%

Ratios

YE 30 Jun	FY18A	FY19E	FY20E	FY21E
P/E (x)	(26.9)	(16.1)	29.8	5.1
EV/EBITDA (x)	(27.4)	(15.8)	26.4	4.2
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 (%)	2.3%	(2.5%)	(36.0%)	(14.4%)
Absolute (%)	5.5%	2.5%	(29.9%)	(6.8%)
Benchmark (%)	3.2%	5.0%	6.1%	7.6%



Price performance indexed to 100

Source:

Major Shareholders

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

Event

As CYP looks to finalise licensing its lead candidate CYP-001 in GvHD to Fujifilm, induced pluripotent stem cells (iPSC) derived therapies are getting increased media and regulator attention, highlighting key therapeutic and commercial advantages over other manufacturing approaches for stem cell therapies. We review where iPSCs sit relative to other types of stem cell treatments and where CYP sits relative to the other emerging iPSC treatments. Shaw and Partners forecasts, TP and rating remain unchanged. BUY.

Highlights

- iPSC derived cells deliver key advantages over other types of stem cell treatments.**
 There are a number of different types of stem cells, each have different characteristics significant to their therapeutic and commercial potential. An important difference is whether they are undifferentiated stem cells (such as Embryonic Stem Cells and iPSC cells which can still turn into any other type of stem cell), or more mature differentiated stem cells (such as Mesenchymal Stem Cells (MSC) or later stage cells such as body cells, e.g. skin cells, that don't differentiate further). Most cells have markers on them which enable a host's immune systems to identify cells from an unrelated donor as foreign and kill them. Consequently if these cells are used therapeutically they have to be donated by the patient themselves or by a matched donor, involving time and significant expense (Novartis' Kymriah has a US list price of \$475,000). MSCs don't have markers and so can come from donors unrelated to the patient, but can't be grown infinitely creating practical manufacturing issues in deriving sufficient quantities for commercial scale-up. Since iPSC's can be grown infinitely, MSCs derived from them open up the potential for significantly cheaper off the shelf therapeutics.
- iPSC derived cells are being recognised as the 2nd generation SC therapeutics.**
 A steadily growing body of scientific literature now reflects issues with the loss of potency of MSCs and other issues for which iPSC derived MSCs deliver solutions. iPSCs are also useful for deriving other types of cells which are just starting to get regulator and commercial traction, including, i) In Feb 2019 Fate Therapeutics launched the first US trial of a cell therapy derived from iPSCs in patients with tumors that haven't responded to treatment, ii) Bluerock Therapeutics is developing iPSC-based therapeutics in neurology, cardiology and immunology, iii) Takeda has, in conjunction with Kyoto University, committed to a ten year collaboration to take iPSC derived cell products into the clinic, iv) Fujifilm's Cellular Dynamics recently announced the construction of a production facility for industrialising iPSC manufacture of regenerative medicine therapies (such as CYP's CYP-001).
- CYP has patents covering the key silo of iPSC uses – MSCs.**
 iPSCs can be turned into essentially any type of cell such as MSCs, Hepatocytes, Neuronal cells, and other somatic cells. However, MSCs are the key category from both a therapeutic and commercial perspective. MSC research makes up the bulk of the world wide stem cell research effort accounting for ~40% of stem cell IND submissions to the FDA between 2006 and 2013. 600+ clinical trials have been completed or are currently underway investigating not only treating symptoms, but also addressing underlying causes of disease. MSCs have shown efficacy in clinical trials up to and including phase 3 and three therapies now have regulator approval. CYP has licensed the key patents to make MSCs from iPSCs and CYP's Cymerus is the only commercially scalable technology that can make off the shelf MSCs from iPSCs that can be used for therapeutic purposes.

Recommendation

Since Shaw and Partners initiated coverage on CYP in May 2017 it has appreciated 190%. We expect further out performance as CYP i) licenses its lead candidate CYP-001 to Fujifilm, expected by the 19 Sept 2019, ii) moves CYP-001 into GvHD phase 2 trials in 2019-20, iii) partners a number of other undisclosed indications which it has disclosed it is currently negotiating, and iii) begins the NHMRC funded phase 2 Osteoarthritis clinical trial expected 2019-20. This trial in 448 patients will not only be one of the largest MSC trials ever undertaken, but targets a market opportunity estimated at USD11.6b by 2025.

Darren Vincent | Senior Analyst

+61 2 9238 1269

dvincent@shawandpartners.com.au

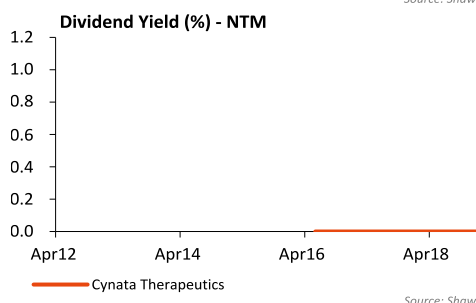
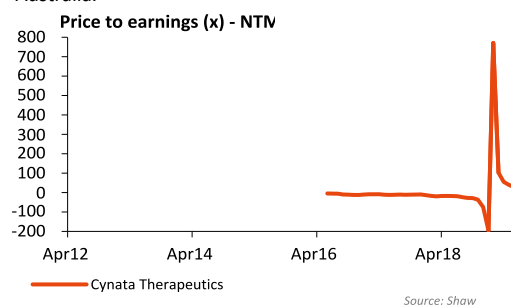
Cynata Therapeutics
Health Care
Pharmaceuticals, Biotechnology & Life Sciences
FactSet: CYP-AU / Bloomberg: CYP AU

Key Items	Data
Recommendation	BUY
Risk	HIGH
Price (\$ps)	1.24
Target Price (\$ps)	2.50
52 Week Range (\$ps)	0.97 - 1.79
Shares on Issue (m)	101.8
Market Cap (\$m)	126.3
Enterprise Value (\$m)	111.0
TSR (%)	101.6%

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)	(16.1)	29.8	5.1
EV / EBIT (x)	(8.8)	(25.7)	(15.2)	28.3	4.2
EV / EBITDA (x)	(9.3)	(27.4)	(15.8)	26.4	4.2
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%)	(5.0%)	(0.8%)	12.7%
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)

Contacts Page

Equities

Head of Equities	Mike Ryan	+612 9238 1527	mryan@shawandpartners.com.au
-------------------------	-----------	----------------	------------------------------

Chief Investment Officer

	Martin Crabb	+612 9238 1352	mcrabb@shawandpartners.com.au
--	--------------	----------------	-------------------------------

Research

Banks, Insurance	Brett Le Mesurier	+612 9238 1256	blesurier@shawandpartners.com.au
Retailers, Technology	Danny Younis	+612 9238 1292	dyounis@shawandpartners.com.au
Technology, Life Sciences, Industry Consolidators	Darren Vincent	+612 9238 1269	dvincent@shawandpartners.com.au
Consumer Discretionary, Info Technology	Jonathon Higgins	+613 9268 1182	jhiggins@shawandpartners.com.au
Metals & Mining	Peter O'Connor	+612 9238 1219	poconnor@shawandpartners.com.au
Oil & Gas	Stuart Baker	+613 9268 1148	sbaker@shawandpartners.com.au

Income Strategies

	Cameron Duncan	+612 9238 1544	cduncan@shawandpartners.com.au
	Steve Anagnos	+612 9238 1513	sanagnos@shawandpartners.com.au

Institutional Equities

	David Erskine	+613 9268 1061	derskine@shawandpartners.com.au
	Edward Walker	+612 9238 1367	ewalker@shawandpartners.com.au
	James Diamond	+612 9238 1503	jdiamond@shawandpartners.com.au
	John Bowie Wilson	+612 9238 1253	jbowiewilson@shawandpartners.com.au
	Roger Gamble	+613 9268 1107	rgamble@shawandpartners.com.au
	Sam Kanaan	+612 9238 1275	skanaan@shawandpartners.com.au
	Scott Coventry	+612 9238 1363	scoventry@shawandpartners.com.au

Corporate Finance

Head of Corporate Finance	Geoff Carrick	+612 9238 1339	gcarrick@shawandpartners.com.au
	Damian Rigney	+612 9238 1398	drigney@shawandpartners.com.au
	David Kells	+612 9238 1362	dkells@shawandpartners.com.au
	Edward Loneragan	+612 9238 1283	eloneragan@shawandpartners.com.au
	George BouAntoun	+612 9238 1597	gbouantoun@shawandpartners.com.au
	Grace Belsito	+612 9238 1226	gbelsito@shawandpartners.com.au
	Jeremy D'Sylva	+612 9238 1239	jdsylva@shawandpartners.com.au
	Jock Rayner	+612 9238 1268	jrayner@shawandpartners.com.au
	Nick Tregoning	+612 9238 1397	ntregoning@shawandpartners.com.au
	Robert Hallam	+612 9238 1594	rhallam@shawandpartners.com.au

Sydney | Head Office

Level 7, Chifley Tower
2 Chifley Square
Sydney NSW 2000
Telephone: +61 2 9238 1238
Toll Free: 1800 636 625

Melbourne

Level 20
90 Collins Street
Melbourne VIC 3000
Telephone: +61 3 9268 1000
Toll Free: 1800 150 009

Brisbane

Level 28
111 Eagle Street
Brisbane QLD 4000
Telephone: +61 7 3036 2500
Toll Free: 1800 463 972

Adelaide

Level 23
91 King William Street
Adelaide SA 5000
Telephone: +61 8 7109 6000
Toll Free: 1800 636 625

Canberra

Level 7
54 Marcus Clarke Street
Canberra ACT 2600
Telephone: +61 2 6113 5300
Toll Free: 1800 636 625

Perth

Level 14
197 St Georges Terrace
Perth WA 6000
Telephone: +61 8 6188 7643
Toll Free: 1800 636 625

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

RISK STATEMENT: Where a company is designated as ‘High’ risk, this means that the analyst has determined that the risk profile for this company is significantly higher than for the market as a whole, and so may not suit all investors. Clients should make an assessment as to whether this stock and its potential price volatility is compatible with their financial objectives. Clients should discuss this stock with their Shaw adviser before making any investment decision.

Disclaimer

Shaw and Partners Limited ABN 24 003 221 583 (“Shaw”) is a Participant of ASX Limited, Chi-X Australia Pty Limited and holder of Australian Financial Services Licence number 236048.

ANALYST CERTIFICATION: The Research Analyst who prepared this report hereby certifies that the views expressed in this document accurately reflect the analyst's personal views about the Company and its financial products. The Research Analyst has not been, is not, and will not be receiving direct or indirect compensation for expressing the specific recommendations or views in this report. As at the date of this report the Research Analyst does not have an interest in the financial products of the Company.

DISCLAIMER: This report is published by Shaw to its clients by way of general, as opposed to personal, advice. This means it has been prepared for multiple distribution without consideration of your investment objectives, financial situation and needs (“personal circumstances”). Accordingly, the advice given is not a recommendation that a particular course of action is suitable for you and the advice is therefore not to be acted on as investment advice. You must assess whether or not the advice is appropriate for your personal circumstances before making any investment decisions. You can either make this assessment yourself, or if you require a personal recommendation, you can seek the assistance of your Shaw client adviser. This report is provided to you on the condition that it not be copied, either in whole or in part, distributed to or disclosed to any other person. If you are not the intended recipient, you should destroy the report and advise Shaw that you have done so. This report is published by Shaw in good faith based on the facts known to it at the time of its preparation and does not purport to contain all relevant information with respect to the financial products to which it relates. Although the report is based on information obtained from sources believed to be reliable, Shaw does not make any representation or warranty that it is accurate, complete or up to date and Shaw accepts no obligation to correct or update the information or opinions in it. If you rely on this report, you do so at your own risk. Any projections are estimates only and may not be realised in the future. Except to the extent that liability under any law cannot be excluded, Shaw disclaims liability for all loss or damage arising as a result of any opinion, advice, recommendation, representation or information expressly or impliedly published in or in relation to this report notwithstanding any error or omission including negligence. This publication has been prepared in accordance with Shaw’s Research Policy. A copy of the Policy can be found at www.shawandpartners.com.au.

DISCLOSURE: Shaw will charge commission in relation to client transactions in financial products and Shaw client advisers will receive a share of that commission. Shaw, its authorised representatives, its associates and their respective officers and employees may have earned previously, or may in the future earn fees and commission from dealing in the Company's financial products. Shaw acted for the company in a corporate capacity within the past 12 months for which it received a fee.

Sydney Head Office Level 7, Chifley Tower 2 Chifley Square Sydney NSW 2000 Telephone: +61 2 9238 1238 Toll Free: 1800 636 625	Melbourne Level 20 90 Collins Street Melbourne VIC 3000 Telephone: +61 3 9268 1000 Toll Free: 1800 150 009	Brisbane Level 28 111 Eagle Street Brisbane QLD 4000 Telephone: +61 7 3036 2500 Toll Free: 1800 463 972	Adelaide Level 23 91 King William Street Adelaide SA 5000 Telephone: +61 8 7109 6000 Toll Free: 1800 636 625	Canberra Level 7 54 Marcus Clarke Street Canberra ACT 2600 Telephone: +61 2 6113 5300 Toll Free: 1800 636 625	Perth Level 14 197 St Georges Terrace Perth WA 6000 Telephone: +61 8 6188 7643 Toll Free: 1800 636 625
---	--	---	--	---	--