

# Cynata Therapeutics (CYP)

Rating: Buy | Risk: High | Price Target: \$3.00

## Fujifilm Takes Up its GvHD License Option Providing Commercial Validation of CYP's Platform

### Key Information

Current Price (\$ps)	1.74
12m Target Price (\$ps)	3.00
52 Week Range (\$ps)	0.97 - 1.85
Target Price Upside (%)	72.4%
TSR (%)	72.4%
Reporting Currency	AUD
Market Cap (\$m)	178.1
Sector	Health Care
Avg Daily Volume (m)	0.3
ASX 200 Weight (%)	0%

### Fundamentals

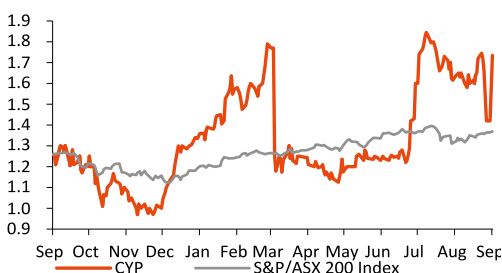
YE 30 Jun (AUD)	FY19A	FY20E	FY21E	FY22E
Sales (\$m)	0.0	14.4	14.9	37.4
NPAT (\$m)	(8.5)	3.0	(1.8)	15.3
EPS (cps)	(8.9)	3.0	(1.7)	15.0
EPS Growth (%)	(75.8%)	133.5%	nm	nm
DPS (cps) (AUD)	0.0	0.0	0.0	0.0
Franking (%)	0%	0%	0%	0%

### Ratios

YE 30 Jun	FY19A	FY20E	FY21E	FY22E
P/E (x)	(14.0)	58.3	(99.9)	11.6
EV/EBITDA (x)	(14.6)	50.7	(114.3)	9.8
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 (%)	2.9%	7.7%	38.0%	29.0%
Absolute (%)	7.4%	8.4%	39.9%	37.7%
Benchmark (%)	4.5%	0.7%	1.9%	8.7%



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

CYP has announced that FUJIFILM Corporation has exercised its license option in graft-versus-host disease (GvHD). Shaw and Partners forecasts have been amended to reflect revised expectations around potential Fujifilm milestone payments and the signing of additional licensing arrangements. Our risk weighted DCF valuation increases to \$3.00.

### Highlights

- CYP has announced that it has granted Fujifilm an exclusive, worldwide license to develop and commercialise CYP's lead mesenchymal stem cell (MSC) product, CYP-001, for the prevention and treatment of GvHD in humans.
- CYP will receive US\$3m cash from Fujifilm as an upfront fee. Fujifilm will bear responsibility for all costs of any further product development activities in relation to GvHD, along with responsibility for regulatory submissions and commercialisation. CYP will potentially receive additional future milestone payments from Fujifilm totalling up to US\$43m based on successful attainment of certain industry standard product development and commercial milestones, the first of which is US\$2m on completion of the first Phase 2 clinical trial in USA, UK or Japan. Subsequent milestones are completion of Phase 3 clinical trials (US\$3m), submission of applications for regulatory approvals (US\$12m), acceptance of geographic marketing authorisations and first sales (US\$16m) and extending the indication (US\$10m). CYP will also receive a 10% royalty on all future product sales if the licensed product is successfully commercialised in any country in which any licensed patents are granted or pending.
- CYP will be required to make a one-off cash payment to WARF of US\$10,000. CYP is also required to pay WARF a mid-single digit percentage royalty on Fujifilm product sales and 30% of other amounts received from Fujifilm, including in respect of milestone payments.
- The non-dilutive upfront payment of US\$3m will lengthen CYP's cash runway and support further investment in the upcoming Phase 2 trials in critical limb ischemia and in osteoarthritis, along with other potential future clinical programs.
- CYP also stated that dialogue continues with Sumitomo Dainippon Pharma Co regarding its indicative, non-binding proposal regarding a possible acquisition of all of the shares in CYP at a price of A\$2.00 per share or A\$200m for the company. We note Sumitomo is currently set to pay USD3bn (A\$4.3bn) upfront to buy Roivant's stake in five of its start-ups which have multiple late-phase assets.

### Recommendation

The licensing of CYP-001 to Fujifilm, one of the major global participants in the growing regenerative medicine sector, is clear commercial validation of CYP's Cymerus platform for manufacturing MSCs at scale. This is a significant de-risking that gives us increased confidence that further licensing is likely, as does Sumitomo's indicative offer. CYP's unique market position having licensed all the patents to what we believe to be the most commercially prospective use of iPSCs could eventually see its Cymerus platform underpinning the manufacture of MSCs for multiple indications. CYP currently has interest in 3 indications going into clinical trials with a further 11 indications currently of interest and others likely to be possible. With such a unique and strong foothold in what looks to be a promising therapeutic field we believe it is undervalued and that Sumitomo's offer is opportunistic. Shaw and Partners rating remains BUY.

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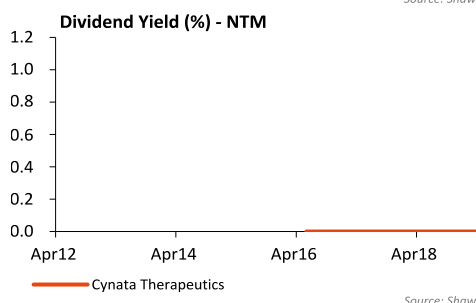
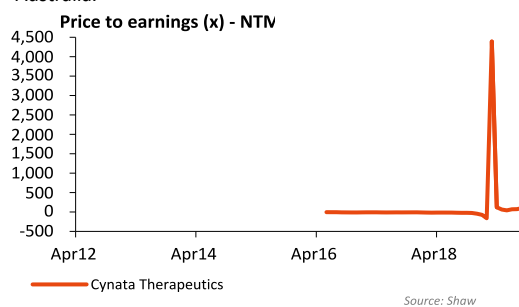
**Cynata Therapeutics**  
**Health Care**  
**Pharmaceuticals, Biotechnology & Life Sciences**  
FactSet: CYP-AU / Bloomberg: CYP AU

Key Items	Data
Recommendation	BUY
Risk	HIGH
Price (\$ps)	1.74
Target Price (\$ps)	3.00
52 Week Range (\$ps)	0.97 - 1.85
Shares on Issue (m)	102.3
Market Cap (\$m)	178.1
Enterprise Value (\$m)	168.4
TSR (%)	72.4%

Valuation NPV	Data
Beta	1.20
Cost of Equity (%)	11.5%
Cost of Debt (net) (%)	10.3%
Risk Free Rate (%)	4.3%
Terminal Growth (%)	3.0%
WACC (%)	14.2%

**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)	FY18A	FY19A	FY20E	FY21E	FY22E
EPS (Reported) (cps)	(5.1)	(8.9)	3.0	(1.7)	15.0
EPS (Underlying) (cps)	(5.1)	(8.9)	3.0	(1.7)	15.0
EPS (Underlying) Growth (%)	25.3%	(75.8%)	133.5%	nm	nm
PE (Underlying) (x)	(26.9)	(14.0)	58.3	(99.9)	11.6
EV / EBIT (x)	(25.7)	(14.1)	55.4	(96.2)	10.0
EV / EBITDA (x)	(27.4)	(14.6)	50.7	(114.3)	9.8
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 (%)	(3.1%)	(5.3%)	1.0%	(1.3%)	10.1%
Profit and Loss (AUD) (m)	FY18A	FY19A	FY20E	FY21E	FY22E
Sales	0.0	0.0	14.4	14.9	37.4
Sales Growth (%)				3.7%	150.4%
Other Operating Income	1.5	1.6	1.6	1.6	1.6
EBITDA	(4.3)	(8.2)	3.3	(1.5)	15.6
EBITDA Margin (%)	nm	nm	23.1%	(10.0%)	41.7%
Depreciation & Amortisation	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)
EBIT	(4.6)	(8.5)	3.0	(1.8)	15.3
EBIT Margin (%)	nm	nm	21.1%	(11.9%)	41.0%
Net Interest	0.0	0.0	0.0	0.0	0.0
Pretax Profit	(4.6)	(8.5)	3.0	(1.8)	15.3
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	(4.6)	(8.5)	3.0	(1.8)	15.3
Significant Items	0.0	0.0	0.0	0.0	0.0
NPAT Reported	(4.6)	(8.5)	3.0	(1.8)	15.3
Cashflow (AUD) (m)	FY18A	FY19A	FY20E	FY21E	FY22E
EBIT	(4.6)	(8.5)	3.0	(1.8)	15.3
Tax Paid	0.0	0.0	0.0	0.0	0.0
Net Interest	0.2	0.2	0.0	0.0	0.0
Other	0.3	1.5	(1.2)	(0.5)	2.5
Operating Cashflow	(4.1)	(6.8)	1.8	(2.3)	17.8
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	(4.1)	(6.8)	1.8	(2.3)	17.8
Equity Raised / Bought Back	5.9	1.3	0.0	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	0.0	0.2	0.0	0.0	0.0
Financing Cashflow	5.9	1.5	0.0	0.0	0.0
Net Change in Cash	1.8	(5.2)	1.8	(2.3)	17.8
Balance Sheet (AUD) (m)	FY18A	FY19A	FY20E	FY21E	FY22E
Cash	12.2	7.0	8.9	6.5	24.4
Accounts Receivable	0.4	0.1	0.0	0.0	0.0
Inventory	0.0	0.0	0.0	0.0	0.0
Other Current Assets	0.0	0.3	0.0	0.0	0.0
PPE	0.0	0.0	0.0	0.0	0.0
Goodwill & Intangibles	3.5	3.3	3.0	2.7	2.4
Investments	0.0	0.0	0.0	0.0	0.0
Other Non Current Assets	0.0	1.7	1.7	1.7	1.7
Total Assets	16.1	12.2	13.5	10.9	28.5
Accounts Payable	0.7	1.2	0.5	0.9	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	0.7	1.3	0.5	0.9	1.0
Ratios	FY18A	FY19A	FY20E	FY21E	FY22E
ROE (%)	(29.1%)	(62.2%)	27.7%	(13.0%)	83.2%
Gearing (%)	(383.7%)	(174.7%)	(211.4%)	(188.0%)	(788.2%)
Net Debt / EBITDA (x)	2.8	0.9	(2.7)	4.4	(1.6)

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

## Risk Rating

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

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