

# Cynata Therapeutics (CYP)

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

## Cynata and Sumitomo Withdraw from Acquisition Discussions

### Key Information

Current Price (\$ps)	1.36
12m Target Price (\$ps)	3.00
52 Week Range (\$ps)	0.97 - 1.85
Target Price Upside (%)	120.6%
TSR (%)	120.6%
Reporting Currency	AUD
Market Cap (\$m)	139.2
Sector	Health Care
Avg Daily Volume (m)	0.1
ASX 200 Weight (%)	0%

### Fundamentals

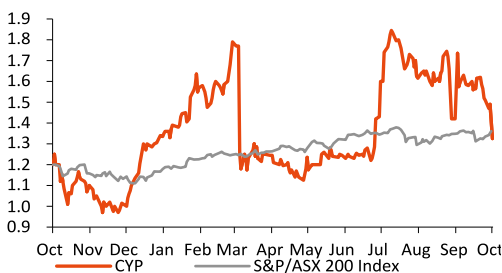
YE 30 Jun (AUD)	FY19A	FY20E	FY21E	FY22E
Sales (\$m)	0.0	14.4	14.9	37.4
NPAT (\$m)	(8.5)	3.0	(1.8)	15.3
EPS (cps)	(8.9)	3.0	(1.7)	15.0
EPS Growth (%)	(75.8%)	133.5%	nm	nm
DPS (cps) (AUD)	0.0	0.0	0.0	0.0
Franking (%)	0%	0%	0%	0%

### Ratios

YE 30 Jun	FY19A	FY20E	FY21E	FY22E
P/E (x)	(14.0)	45.5	(78.1)	9.0
EV/EBITDA (x)	(14.6)	39.0	(88.3)	7.3
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 (%)	(7.3%)	(23.2%)	(18.1%)	(3.0%)
Absolute (%)	(6.7%)	(18.0%)	(17.2%)	10.4%
Benchmark (%)	0.6%	5.2%	0.9%	13.4%



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CYP has announced that it was unable to reach agreement on terms of a potential acquisition by Sumitomo and has withdrawn from discussions. Shaw and Partners forecasts, rating and target price remain unchanged.

### Highlights

- Background** – On 19 July and 24 July 2019, CYP announced that it had received an indicative, non-binding and conditional proposal from Sumitomo on 20 June 2019 regarding a possible acquisition of all of the shares in CYP at a price of \$2.00 per share in cash by way of a scheme of arrangement.
- Withdrawal** – On 17 October, four months after Sumitomo made its proposal CYP has announced that the parties had been unable to reach agreement on terms to CYP's satisfaction and accordingly the parties have withdrawn from those discussions.
- Resumption of normal business** – CYP's withdrawal will allow the company to resume negotiations with other parties on potential licensing deals and progress its Phase 2 clinical trial programs in osteoarthritis and critical limb ischemia, and in graft-versus-host disease with partner Fujifilm. We understand some of these activities had been put on hold as a result of the Sumitomo approach.
- Shaw's view** - Our view is that a resumption of normal business is a positive development given the significant opportunities in front of CYP, especially given the indicated acquisition price of \$2.00 based on our valuation work looked to be opportunistic. Furthermore given Sumitomo, has made significant investment (3.6bn yen) in a plant to manufacture cell therapy products derived from allogeneic iPS cells (for which CYP holds all the key MSC patents), made an indicative bid for CYP, spent 4 months on further due diligence and has been actively engaging with commercial and academic institutions in the space, there may be more to play out.

### Recommendation

Since Shaw and Partners initiated coverage on CYP in May 2017 it has licensed its CYP-001 to Fujifilm and appreciated 226%. We expect further out performance as CYP i) moves CYP-001 into GvHD phase 2 trials in 2020, ii) 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. Our BUY rating is reaffirmed as is our 12 month target price (TP). Prior to the unbinding \$2.00 bid our TP was \$2.50 and CYP had traded up to \$1.80. Our TP was increased to \$3.00 with the bid. Since CYP has licensed CYP-001 to Fujifilm which equates to significant validation of its platform, is relevant to its licensing efforts and is an indicator of likely success in other indications.

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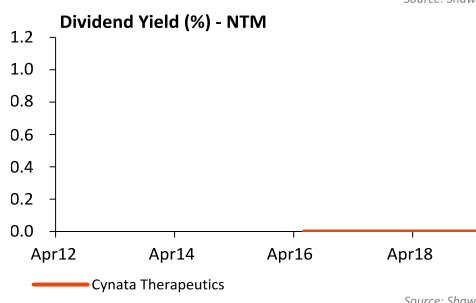
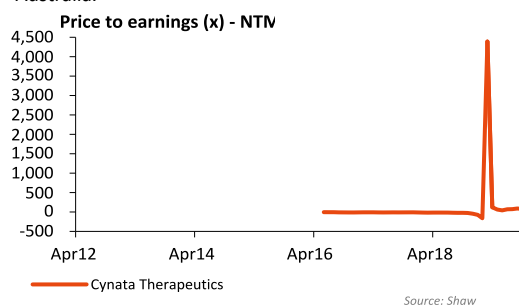
**Cynata Therapeutics**  
**Health Care**  
**Pharmaceuticals, Biotechnology & Life Sciences**  
FactSet: CYP-AU / Bloomberg: CYP AU

Key Items	Data
Recommendation	BUY
Risk	HIGH
Price (\$ps)	1.36
Target Price (\$ps)	3.00
52 Week Range (\$ps)	0.97 - 1.85
Shares on Issue (m)	102.3
Market Cap (\$m)	139.2
Enterprise Value (\$m)	129.7
TSR (%)	120.6%

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)	45.5	(78.1)	9.0
EV / EBIT (x)	(25.7)	(14.1)	42.6	(74.4)	7.4
EV / EBITDA (x)	(27.4)	(14.6)	39.0	(88.3)	7.3
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%)	1.3%	(1.7%)	12.9%
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)



## Rating Classification

<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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