

Cynata Therapeutics Limited (CYP-AU)
Rating: Buy

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**Upcoming Milestones Could Prove Transformative;
 Reiterate Buy and Raising Target to A\$1.50**

Stock Data		09/07/2017	
Price		A\$0.57	
Exchange		ASX	
Price Target		A\$1.50	
52-Week High		A\$0.81	
52-Week Low		A\$0.37	
Enterprise Value (M)		A\$39	
Market Cap (M)		A\$51	
Public Market Float (M)		65.2	
Shares Outstanding (M)		80.0	
3 Month Avg Volume		129,820	
Balance Sheet Metrics			
Cash (M)		A\$11.59	
Total Debt (M)		A\$0.00	
Total Cash/Share		A\$0.14	
Book Value/Share		A\$0.15	
EPS Diluted			
Full Year - Jun	2016A	2017E	2018E
1Q	(0.01)	(0.01)A	--
2Q	(0.02)	(0.01)A	(0.04)
3Q	(0.01)	(0.02)A	--
4Q	(0.02)	(0.04)A	(0.06)
FY	(0.06)	(0.06)A	(0.10)

Continuing coverage under H.C. Wainwright & Co. with a Buy rating. Effective September 8, 2017, research in the above-titled name will be published under H.C. Wainwright & Co. and no longer distributed in conjunction with 'Rodman & Renshaw, a unit of H.C. Wainwright'.

Raising price target—anticipating further milestones near-term. We believe that Cynata is entering a catalyst-rich period, with the possible option exercise near-term in its arrangement with Fujifilm (FUJIIY; not rated). Investors should note that this would trigger the payment of an upfront fee of US\$3M to Cynata. As a reminder, this option is exercisable at any time up to 90 days after the completion of the primary evaluation period of Cynata's Phase 1 clinical trial of CYP-001 in graft-vs.-host disease (GvHD). This, together with other potential future milestones, would total over A\$60M over the entire course of the agreement, along with double-digit royalties on net sales of CYP-001 product. Should Fujifilm choose to exercise this option, future CYP-001 development costs will be borne by Fujifilm. Upon the exercise of the option, which we anticipate could occur early next year, we believe Cynata could reach mid-2018 with an 18-month operational runway. We reiterate our Buy rating while raising our 12-month target to A\$1.50 from A\$1.00 per share on Cynata.

Meeting with Canadian regulators proves favorable. At the end of August, Cynata reported that it had completed a meeting with the Canadian regulatory authority, Health Canada, regarding the clinical development of Cynata's proprietary Cymerus™ mesenchymal stem cell (MSC) products in Canada. Health Canada agreed in principle that the Cymerus™ process meets its expectations for a product entering clinical trials. Health Canada also clarified the design requirements for preclinical studies to support a Clinical Trial Application (CTA) in Canada. This advice was consistent with that recently obtained from the FDA, reported in early July 2017. Cynata now expects to be able to include Canadian sites in future clinical trials.

Recent acquisition in cell-based immunotherapy bodes well. The recent acquisition of Kite Pharma (KITE; Buy) by Gilead Sciences (GILD; not rated) for \$11.9B demonstrates the substantial appetite among strategic entities for cell-based immunotherapy-focused firms. While Cynata is not a chimeric antigen receptor-T cell (CAR-T)-focused company *per se*, its Cymerus™ technology platform has applicability in the manufacturing of such solutions, particularly with respect to the development of allogeneic ("off-the-shelf") CAR-T therapeutics. These could prove even more critical to the market for such products, since they would not face the manufacturing bottleneck that exists for autologous CAR-T products.

Valuation methodology and risks. We have used a discounted cash flow (DCF)-based approach that assigns a value of A\$120M to Cynata, based upon the valuation of the platform on collaboration-based revenue only, with a 10 - 16% royalty rate range and 11% discount rate. Our valuation translates into a price of A\$1.50 per share, based on 86M fully-diluted shares outstanding as of end-2018. 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.



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

FY end December 31

A\$ in thousands, except per share data

	2015A	2016A	2017A		2017A	2018E		2018E	
			1HA	2HA		1HE	2HE		
Revenue									
Revenue from continuing operations	-	-	-	25	-	(25)	-	-	-
Other income	375	1,247	-	1,749	-	94	1,843	-	-
Total revenue	375	1,247	-	1,774	-	69	1,843	-	-
Operating expenses									
Product development and marketing costs	(1,920)	(4,155)	-	(1,619)	-	(1,853)	(3,473)	-	(2,500)
Employee benefits expenses	(831)	(784)	-	(495)	-	(538)	(1,033)	-	(600)
Share based payments expenses	(429)	(238)	-	(81)	-	(168)	(249)	-	-
Depreciation and amortisation expenses	(448)	(281)	-	(140)	-	(140)	(280)	-	-
Other operational expenses	(459)	(729)	-	(461)	-	(902)	(1,362)	-	-
Total expenses	(4,087)	(6,187)	-	(2,796)	-	(3,601)	(6,397)	-	(3,100)
Gain (loss) from operations	(3,712)	(4,939)	-	(1,021)	-	(3,532)	(4,554)	-	(3,100)
Other income (expense)									
Other income (expense)	-	-	-	-	-	-	-	-	-
Interest income (expense)	-	-	-	-	-	-	-	-	-
Total investment income and other	-	-	-	-	-	-	-	-	-
Loss before income tax	(3,712)	(4,939)	-	(1,021)	-	(3,532)	(4,554)	-	(3,100)
Income tax expense									
Net loss	(3,712)	(4,939)	-	(1,021)	-	(3,532)	(4,554)	-	(3,100)
Net loss per share (basic) in cents	(0.06)	(0.07)	-	(0.01)	-	(0.04)	(0.06)	-	(0.04)
Net loss per share (diluted) in cents	(0.06)	(0.07)	-	(0.01)	-	(0.04)	(0.06)	-	(0.04)
Weighted average number of shares outstanding (basic)	60,655	72,447	72,955	80,061	80,061	80,111	80,161	80,211	87,761
Weighted average number of shares outstanding (diluted)	60,655	72,447	72,955	80,061	80,061	80,111	80,161	80,211	87,761

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

Important Disclaimers

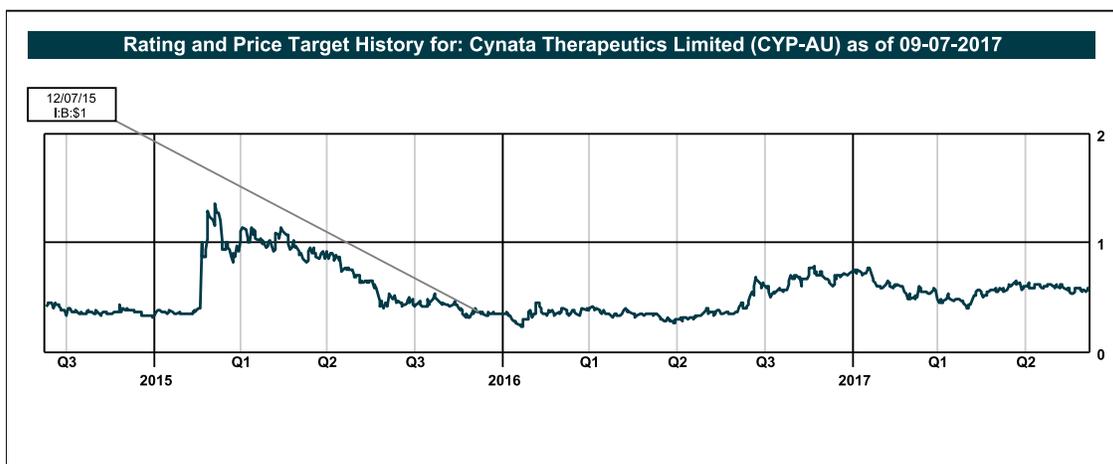
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Distribution of Ratings Table as of September 7, 2017				
Ratings	Count	Percent	IB Service/Past 12 Months	
			Count	Percent
Buy	220	88.35%	71	32.27%
Neutral	11	4.42%	0	0.00%
Sell	0	0.00%	0	0.00%
Under Review	18	7.23%	2	11.11%
Total	249	100%	73	29.32%

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