

# Cynata Therapeutics (CYP)

Rating: Buy | Risk: High | Price Target: \$1.95

## 1H18 Produced a De Risking and Increased Investor Interest

### Key Information

Current Price (\$ps)	1.19
12m Target Price (\$ps)	1.95
52 Week Range (\$ps)	0.40 - 1.32
Target Price Upside (%)	63.9%
TSR (%)	63.9%
Reporting Currency	AUD
Market Cap (\$m)	107.2
Sector	Health Care
Avg Daily Volume (m)	0.2
ASX 200 Weight (%)	0%

### Fundamentals

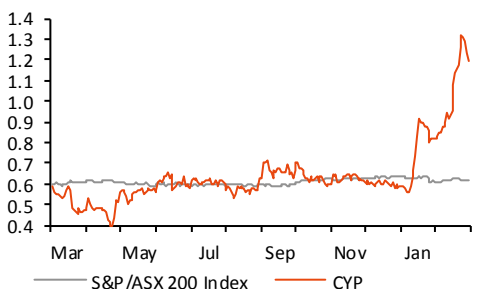
YE 30 Jun (AUD)	FY17A	FY18E	FY19E	FY20E
Sales (\$m)	0.1	0.1	12.6	20.3
NPAT (\$m)	(4.9)	(5.0)	9.1	16.7
EPS (cps)	(6.8)	(5.5)	10.2	18.5
EPS Growth (%)	0.0%	18.4%	283.2%	82.1%
DPS (cps) (AUD)	0.0	0.0	0.0	0.0
Franking (%)	0%	0%	0%	0%

### Ratios

YE 30 Jun	FY17A	FY18E	FY19E	FY20E
P/E (x)	(9.0)	(21.5)	11.7	6.4
EV/EBITDA (x)	(9.3)	(22.7)	11.2	4.6
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 (%)	43.0%	108.0%	92.4%	124.9%
Absolute (%)	45.1%	105.2%	91.9%	128.8%
Benchmark (%)	2.1%	(2.8%)	(0.5%)	3.9%



### Major Shareholders

FUJIFILM Corporation	8.9%
Phillip Capital	4.0%
Slukvin, Igor	2.6%
Dixon, Ian	2.5%
Celtic Capital	2.4%

### Darren Vincent | Senior Analyst

+61 2 9238 1269

[dvincent@shawandpartners.com.au](mailto:dvincent@shawandpartners.com.au)

### Matthew Johnston | Analyst

+61 2 9238 1311

[mjohnston@shawandpartners.com.au](mailto:mjohnston@shawandpartners.com.au)

### Event

CYP has reported its 1H18 results and a review of its achievements over the half which included encouraging early safety and efficacy data in its Phase 1 trial of CYP-001 in GvHD and a MOU with Celularity, Inc a Celgene offshoot. Shaw and Partners forecasts and 12 month TP have been revised (TP increases to \$1.95 from \$1.20). Our recommendation remains unchanged. BUY.

### Highlights

- 1H18 financial results were as expected – a slow burn with cash to see CYP thru.** The key takeaway from CYPs 1H18 result is that it has enough cash to see it through the next two years. CYP reported a 1H17 cash burn of \$1.8m, not a lot for a company pushing ahead with a platform capability in clinical trials, but more importantly it reported \$8.8m of cash reserves which is why we expect it to be funded through the next one to two years.
- First GVHD cohort results were strong and subsequent 100 day data was even stronger.** CYP announced results from the first cohort of 8 patients in its Phase 1 clinical trial in January. Early indications of efficacy, from what is essentially a safety trial, were very encouraging. All eight participants in Cohort A (lower dose cohort) of CYPs Phase 1 clinical trial of its lead Cymerus™ mesenchymal stem cell (MSC) product CYP-001 demonstrated at least a partial response (defined as an improvement in the severity of GvHD by at least one grade compared to baseline). Since, following completion of the Primary Evaluation Period (100 days), CYP has announced an improvement in the efficacy data above the initial results announced in January. Overall survival at day 100 was 87.5%. Overall Response rate by day 100 was 100% (all eight participants showed an improvement in the severity of GvHD by at least one grade compared to baseline) Complete Response rate by day 100 was 50% (GvHD signs/symptoms completely resolved in four out of eight patients). No treatment-related serious adverse events or safety concerns were identified during the Primary Evaluation Period. Typically the prognosis for these patients is poor, with mortality rates in excess of 90 percent, so CYP's data is very promising.
- In January CYP announced the execution of MoU with Celularity, Inc.** The MOU is for the evaluation of and identification of commercial opportunities for the Cymerus™ platform and Celularity's leading cell therapy assets. Celularity, Inc. is a US biotechnology company that is utilising cells taken from the postpartum placenta to treat serious and life-threatening diseases with strategic and equity contributions from NASDAQ companies such as Celgene Corporation and United Therapeutics. This represents an opportunity to expand CYP's target disease areas further into a broad range of degenerative and immunological diseases.

### Recommendation

CYPs clinical trial of CYP-001, the first clinical trial ever in which patients have been treated with an allogeneic, induced pluripotent stem cell (iPSC)-derived therapeutic MSC product, produced excellent first cohort results during 1H18 which we believe has de risked CYP and generated increased partnering interest. The data produced is not only good for CYP's GvHD aspirations but more importantly points towards validation of CYPs Cymerus™ platform (its process for producing MSCs) and that it increasingly looks to be the only likely viable MSC solution for large scale clinical applications. Following CYPs successful phase 1 first cohort read out we have lowered the risk weighting we factor into our DCF valuation which based on GvHD and Crohn's disease only, determines a value of A\$1.95 per share (up from A\$1.20) which continues to value CYP well below recent relevant acquisition prices. BUY.

## Cynata Therapeutics

### Health Care

### Pharmaceuticals, Biotechnology & Life Sciences

FactSet: CYP-AU / Bloomberg: CYP AU

#### Key Items

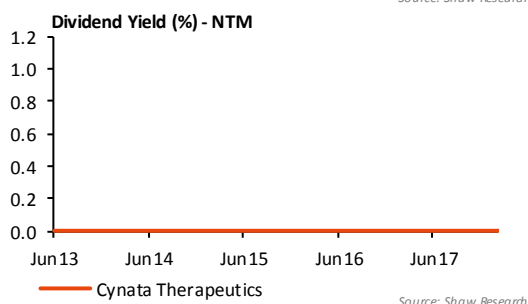
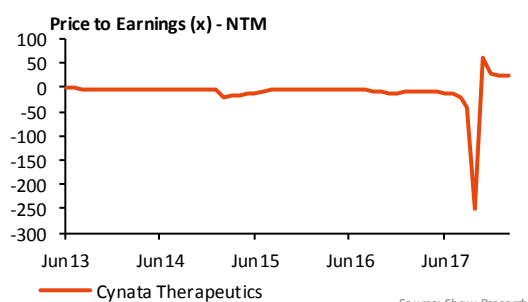
Key Items	Data
Recommendation	BUY
Risk	HIGH
Price (\$ps)	1.19
Target Price (\$ps)	1.95
52 Week Range (\$ps)	0.40 - 1.32
Shares on Issue (m)	90.1
Market Cap (\$m)	107.2
Enterprise Value (\$m)	102.9
TSR (%)	63.9%

#### Valuation NPV

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)	FY16A	FY17A	FY18E	FY19E	FY20E
EPS (Reported) (cps)	(6.8)	(6.8)	(5.5)	10.2	18.5
EPS (Underlying) (cps)	(6.8)	(6.8)	(5.5)	10.2	18.5
EPS (Underlying) Growth (%)	(12.7%)	0.0%	18.4%	283.2%	82.1%
PE (Underlying) (x)	(4.6)	(9.0)	(21.5)	11.7	6.4
EV / EBIT (x)	(3.5)	(8.8)	(20.6)	11.2	4.6
EV / EBITDA (x)	(3.7)	(9.3)	(22.7)	11.2	4.6
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 (%)	(19.2%)	(7.9%)	(5.7%)	0.3%	23.7%
Profit and Loss (AUD) (m)	FY16A	FY17A	FY18E	FY19E	FY20E
Sales	0.1	0.1	0.1	12.6	20.3
Sales Growth (%)		0.0%	(38.3%)	16,233.9%	61.5%
Other Operating Income	1.0	1.0	1.4	2.8	1.4
EBITDA	(4.8)	(4.8)	(4.5)	9.1	16.7
EBITDA Margin (%)	nm	nm	nm	72.6%	81.8%
Depreciation & Amortisation	(0.3)	(0.3)	(0.5)	0.0	0.0
EBIT	(5.1)	(5.1)	(5.0)	9.1	16.7
EBIT Margin (%)	nm	nm	nm	72.6%	81.8%
Net Interest	0.1	0.1	0.0	0.0	0.0
Pretax Profit	(4.9)	(4.9)	(5.0)	9.1	16.7
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)	(4.9)	(5.0)	9.1	16.7
Significant Items	0.0	0.0	0.0	0.0	0.0
NPAT Reported	(4.9)	(4.9)	(5.0)	9.1	16.7
Cashflow (AUD) (m)	FY16A	FY17A	FY18E	FY19E	FY20E
EBIT	(5.1)	(5.1)	(5.0)	9.1	16.7
Tax Paid	0.0	0.0	0.0	0.0	0.0
Net Interest	0.1	0.1	0.1	0.0	0.0
Other	0.6	0.6	(1.2)	(8.9)	8.7
Operating Cashflow	(4.3)	(4.3)	(6.1)	0.3	25.4
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)	(4.3)	(6.1)	0.3	25.4
Equity Raised / Bought Back	5.0	5.0	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	(0.5)	(0.5)	0.0	0.0	0.0
Financing Cashflow	4.5	4.5	0.0	0.0	0.0
Net Change in Cash	0.2	0.2	(6.1)	0.3	25.4
Balance Sheet (AUD) (m)	FY16A	FY17A	FY18E	FY19E	FY20E
Cash	4.9	10.3	4.3	4.5	29.9
Accounts Receivable	0.1	0.1	0.0	9.0	0.4
Inventory	0.0	0.0	0.0	0.0	0.0
Other Current Assets	0.0	0.0	0.0	0.0	0.0
PPE	0.0	0.0	0.0	0.0	0.0
Goodwill & Intangibles	4.1	3.8	3.3	3.3	3.3
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	9.0	14.3			
Accounts Payable	0.4	0.4	0.3	0.3	0.3
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	0.1	0.0	0.0	0.0	0.0
Total Liabilities	0.5	0.4	0.3	0.3	0.3
Ratios	FY16A	FY17A	FY18E	FY19E	FY20E
ROE (%)	(53.8%)	(41.1%)			
Gearing (%)	(129.7%)	(278.5%)			
Net Debt / EBITDA (x)	1.0	2.2	0.9	(0.5)	(1.8)

## Contacts Page

### Equities

<b>Head of Equities</b>	Mike Ryan	+612 9238 1527	mryan@shawandpartners.com.au
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### Chief Investment Officer

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

Banks, Insurance	Brett Le Mesurier	+612 9238 1256	blemesurier@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
Aged Care, Media, Software	Matthew Johnston	+612 9238 1311	mjohnston@shawandpartners.com.au
Executive Assistant, Corporate Access	Melody Matthews	+612 9238 1299	mmatthews@shawandpartners.com.au
Metals & Mining	Peter O'Connor	+612 9238 1219	poconnor@shawandpartners.com.au
Real Estate	Peter Zuk	+612 9238 1211	pzuk@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
	John Bowie Wilson	+612 9238 1253	jbowiewilson@shawandpartners.com.au
	Phillip Janis	+612 9238 1503	pjanis@shawandpartners.com.au
	Rob Pizzichetta	+613 9268 1174	rpizzichetta@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

<b>Head of Corporate Finance</b>	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 Kopsiaftis	+612 9238 1597	gkopsiaftis@shawandpartners.com.au
	Grace Belsito	+612 9238 1226	gbelsito@shawandpartners.com.au
	Jeremy D'Sylva	+612 9238 1239	jdsylva@shawandpartners.com.au
	Maxfield Peres	+612 9238 1268	mperes@shawandpartners.com.au
	Nick Tregoning	+612 9238 1397	ntregoning@shawandpartners.com.au
	Robert Hallam	+612 9238 1594	rhallam@shawandpartners.com.au

**Sydney | Head Office**  
L15, 60 Castlereagh Street  
Sydney NSW 2000  
Telephone: +61 2 9238 1238  
Fax: +61 2 9232 1296  
Toll Free: 1800 636 625

**Melbourne**  
L20, 90 Collins Street  
Melbourne VIC 3000  
Telephone: +61 3 9268 1000  
Fax: +61 3 9650 2277  
Toll Free: 1800 150 009

**Brisbane**  
L28, 111 Eagle Street  
Brisbane QLD 4000  
Telephone: +61 7 3036 2500  
Fax: +61 7 3036 2599  
Toll Free: 1800 463 972

**Perth**  
L14, 197 St Georges Terrace  
Perth WA 6000  
Telephone: +61 8 6188 7643  
Fax: +61 8 6188 7607  
Toll Free: 1800 636 625

**Adelaide**  
L23, 91 King William Street  
Adelaide SA 5000  
Telephone: +61 8 7109 6000  
Fax: +61 2 9232 1296  
Toll Free: 1800 636 625

**Canberra**  
L1, 18 National Circuit  
Barton ACT 2600  
Telephone: +61 2 6113 5300  
Fax: +61 2 6113 5399  
Toll Free: 1800 636 625

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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

**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.

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<b>Sydney   Head Office</b> L15, 60 Castlereagh Street Sydney NSW 2000 Telephone: +61 2 9238 1238 Fax: +61 2 9232 1296 Toll Free: 1800 636 625	<b>Melbourne</b> L20, 90 Collins Street Melbourne VIC 3000 Telephone: +61 3 9268 1000 Fax: +61 3 9650 2277 Toll Free: 1800 150 009	<b>Brisbane</b> L28, 111 Eagle Street Brisbane QLD 4000 Telephone: +61 7 3036 2500 Fax: +61 7 3036 2599 Toll Free: 1800 463 972	<b>Perth</b> L14, 197 St Georges Terrace Perth WA 6000 Telephone: +61 8 6188 7643 Fax: +61 8 6188 7607 Toll Free: 1800 636 625	<b>Adelaide</b> L23, 91 King William Street Adelaide SA 5000 Telephone: +61 8 7109 6000 Fax: +61 2 9232 1296 Toll Free: 1800 636 625	<b>Canberra</b> L1, 18 National Circuit Barton ACT 2600 Telephone: +61 2 6113 5300 Fax: +61 2 6113 5399 Toll Free: 1800 636 625
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