

Cynata Therapeutics Limited (CYP.AX)
Rating: Buy

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FDA Grants CYP-001 Orphan Drug Designation; Reiterate Buy

Stock Data		03/29/2018	
Price		A\$1.38	
Exchange		ASX	
Price Target		A\$1.50	
52-Week High		A\$1.49	
52-Week Low		A\$0.37	
Enterprise Value (M)		A\$113	
Market Cap (M)		A\$125	
Public Market Float (M)		68.8	
Shares Outstanding (M)		80.0	
3 Month Avg Volume		231,302	
Balance Sheet Metrics			
Cash (M)		A\$11.60	
Total Debt (M)		A\$0.00	
Total Cash/Share		A\$0.14	
Book Value/Share		A\$0.14	
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)

CYP-001 granted Orphan Drug designation in U.S. Last week, Cynata announced that the FDA had granted Cynata Orphan Drug Designation for CYP-001 for the treatment of acute graft-vs.-host disease (GvHD). CYP-001 is the lead mesenchymal stem cell (MSC) product candidate being manufactured using Cynata's proprietary Cymerus™ platform manufacturing technology. We note that Orphan Drug Designation means CYP-001 is eligible for important incentives, including a seven-year market exclusivity period from the date of approval, tax credits and FDA fee waivers. In our view, the receipt of Orphan Drug status positions CYP-001 for cost-effective commercialization in the U.S., with the potential for premium pricing. In the wake of this update, we reiterate our Buy rating and 12-month target of A\$1.50 on Cynata shares.

FUJIFILM option exercise may be the next value inflection point. We believe that the continued release of clinical data showing the promise and potential of CYP-001—and thus the entire Cymerus platform—should impel FUJIFILM to exercise its option to execute an exclusive worldwide license to market CYP-001 in prevention and treatment of GvHD. Total milestone payments under such a license could exceed A\$60M, along with double-digit royalties on net sales of CYP-001. FUJIFILM would also bear all future development costs. We believe Cynata's licensee may pull the trigger in the coming months, which would be yet another validating event for Cynata and its technology platform and should accelerate the CYP-001 timeline.

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.

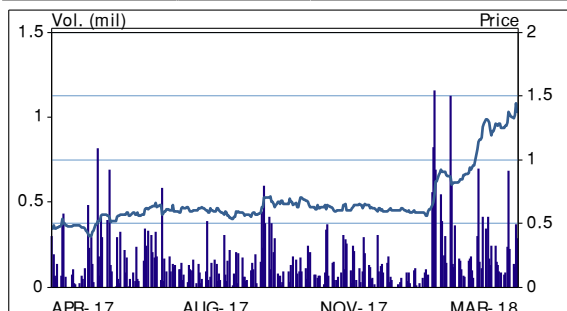


Table 5: Cynata Therapeutics, Inc. (CYP.AX) – Historical Income Statements, Financial Projections

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.

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RETURN ASSESSMENT

Market Outperform (Buy): The common stock of the company is expected to outperform a passive index comprised of all the common stock of companies within the same sector.

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Distribution of Ratings Table as of March 30, 2018				
Ratings	Count	Percent	IB Service/Past 12 Months	
			Count	Percent
Buy	253	92.00%	94	37.15%
Neutral	16	5.82%	4	25.00%
Sell	0	0.00%	0	0.00%
Under Review	6	2.18%	1	16.67%
Total	275	100%	99	36.00%

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