

Alchemia

ACL AU / ACL.AX

Market Cap
US\$161.8m
A\$170.3m

Avg Daily Turnover
US\$0.31m
A\$0.33m

Free Float
80.0%
324.0 m shares

Current **A\$0.53**
Target **A\$0.70**
Prev. Target **A\$0.71**
Up/Downside **32.8%**

SHORT TERM (3 MTH) LONG TERM
TRADING BUY **OUTPERFORM**
TRADING SELL NEUTRAL
UNDERPERFORM

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Share price info

| Share price perf. (%) | 1M | 3M | 12M |
|-----------------------|-------|------|-------|
| Relative | -17.9 | 34.5 | -22.9 |
| Absolute | -13.9 | 41.9 | -2.8 |

| Major shareholders | % held |
|--------------------|--------|
| Orbis | 19.9 |

Gaining traction in US market

ACL has announced that Dr Reddy's has reported growing revenue from fondaparinux in the US and the product will shortly be launched in Canada. However the approval in Europe is to be delayed by at least 12 months. We have adjusted our forecasts to reflect the delay with minimal impact on valuation. The short term catalysts of monetising fondaparinux and a possible partnering deal for the cancer program remain the key share price drivers.

ACL has noted that following the release Dr Reddy's (NYSE:RDY) 2Q14 results that revenue growth in North America was driven partially by significant traction in market share of key existing products including fondaparinux. We follow the weekly sales data (from IMS) and note total script market share for fondaparinux of approx 31% in the US. We also believe the competitive landscape could improve with the possibility that the Authorised Generic player Apotex may leave the market leaving Dr Reddy's and Aspen (recently acquired GSK - Arixtra business) to share the market which we estimate at US\$300m.

Other news of interest

Dr Reddy's also notes fondaparinux is expected to be launched in Canada in the coming months. On the downside, Dr Reddy's has decided to conduct additional technical work and resubmit its application in Europe,

this will result in a delay in approval of at least 12 months now expected in late CY14 or CY15 (we have previously assumed approval in early CY14). We have adjusted our forecasts (details contained overleaf) and our valuation modestly lowers to A\$0.70 (from A\$0.71).

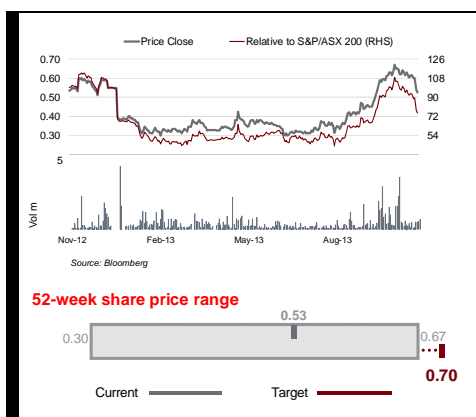
Key catalyst to watch

ACL recently released two key short-term catalysts (within 3 to 6 months) of a potential partnership deal for HA-Irinotecan and the potential to monetise the fondaparinux revenue stream (which delivered revenue of A\$10m in FY13). If ACL is able to achieve either or both these milestones the share price will re-rate quickly though our price target. The key risk to our target is a negative read out of the Phase III clinical trial results for the treatment of metastatic colorectal cancer expected in 1HCY14.

Financial Summary

| | Jun-12A | Jun-13A | Jun-14F | Jun-15F | Jun-16F |
|--------------------------------------|---------|---------|---------|---------|---------|
| Revenue (A\$m) | 0.34 | 24.08 | 37.11 | 60.20 | 47.96 |
| Operating EBITDA (A\$m) | -14.14 | -3.67 | 20.38 | 51.00 | 38.48 |
| Net Profit (A\$m) | -15.08 | -4.79 | 19.76 | 35.77 | 27.84 |
| Normalised EPS (A\$) | -0.05 | -0.01 | 0.06 | 0.11 | 0.09 |
| Normalised EPS Growth | (21.6%) | (73.1%) | na | 81.0% | (22.2%) |
| FD Normalised P/E (x) | NA | NA | 8.61 | 4.75 | 6.11 |
| DPS (A\$) | - | - | - | - | - |
| Dividend Yield | 0% | 0% | 0% | 0% | 0% |
| EV/EBITDA (x) | NA | NA | 6.79 | 2.13 | 1.97 |
| P/FCFE (x) | NA | NA | NA | NA | NA |
| Net Gearing | (57.8%) | (40.1%) | (60.7%) | (69.7%) | (81.3%) |
| P/BV (x) | 5.95 | 5.25 | 3.26 | 1.93 | 1.47 |
| ROE | (70.0%) | (16.9%) | 46.8% | 51.1% | 27.3% |
| % Change In Normalised EPS Estimates | | | (25.7%) | (17.7%) | (3.3%) |
| Normalised EPS/consensus EPS (x) | | | 0.74 | 0.70 | 0.72 |

SOURCE: RBS MORGANS, COMPANY REPORTS



Profit & Loss

| (A\$m) | Jun-13A | Jun-14F | Jun-15F | Jun-16F |
|--|--------------|--------------|--------------|--------------|
| Total Net Revenues | 24.08 | 37.11 | 60.20 | 47.96 |
| Gross Profit | 24.08 | 37.11 | 60.20 | 47.96 |
| Operating EBITDA | -3.67 | 20.38 | 51.00 | 38.48 |
| Depreciation And Amortisation | -1.60 | -1.44 | -1.45 | -1.45 |
| Operating EBIT | -5.28 | 18.94 | 49.55 | 37.03 |
| Total Financial Income/(Expense) | 0.22 | 0.82 | 1.27 | 2.45 |
| Total Pretax Income/(Loss) from Assoc. | 0.00 | 0.00 | 0.00 | 0.00 |
| Total Non-Operating Income/(Expense) | 0.00 | 0.00 | 0.00 | 0.00 |
| Profit Before Tax (pre-EI) | -5.06 | 19.76 | 50.82 | 39.48 |
| Exceptional Items | | | | |
| Pre-tax Profit | -5.06 | 19.76 | 50.82 | 39.48 |
| Taxation | 0.27 | 0.00 | -15.04 | -11.64 |
| Exceptional Income - post-tax | 0.00 | 0.00 | 0.00 | 0.00 |
| Profit After Tax | -4.79 | 19.76 | 35.77 | 27.84 |
| Minority Interests | 0.00 | 0.00 | 0.00 | 0.00 |
| Preferred Dividends | | | | |
| FX Gain/(Loss) - post tax | | | | |
| Other Adjustments - post-tax | | | | |
| Preference Dividends (Australia) | | | | |
| Net Profit | -4.79 | 19.76 | 35.77 | 27.84 |
| Normalised Net Profit | -4.79 | 19.76 | 35.77 | 27.84 |
| Fully Diluted Normalised Profit | -4.79 | 19.76 | 35.77 | 27.84 |

Balance Sheet

| (A\$m) | Jun-13A | Jun-14F | Jun-15F | Jun-16F |
|--------------------------------------|-------------|-------------|-------------|--------------|
| Total Cash And Equivalents | 13.0 | 31.7 | 61.3 | 94.1 |
| Total Debtors | 12.4 | 9.2 | 14.8 | 11.8 |
| Inventories | 0.0 | 1.9 | 3.0 | 2.4 |
| Total Other Current Assets | 0.7 | 0.7 | 0.7 | 0.7 |
| Total Current Assets | 26.0 | 43.3 | 79.8 | 109.0 |
| Fixed Assets | 0.4 | 0.6 | 0.6 | 0.6 |
| Total Investments | 0.0 | 0.0 | 0.0 | 0.0 |
| Intangible Assets | 14.7 | 13.4 | 12.1 | 10.8 |
| Total Other Non-Current Assets | 0.3 | 0.3 | 0.3 | 0.3 |
| Total Non-current Assets | 15.5 | 14.3 | 13.0 | 11.6 |
| Short-term Debt | 0.0 | 0.0 | 0.0 | 0.0 |
| Current Portion of Long-Term Debt | | | | |
| Total Creditors | 5.0 | 1.4 | 0.8 | 0.8 |
| Other Current Liabilities | 0.9 | 0.9 | 0.9 | 0.9 |
| Total Current Liabilities | 5.9 | 2.3 | 1.6 | 1.7 |
| Total Long-term Debt | 0.0 | 0.0 | 0.0 | 0.0 |
| Hybrid Debt - Debt Component | | | | |
| Total Other Non-Current Liabilities | 0.0 | 0.0 | 0.0 | 0.0 |
| Total Non-current Liabilities | 0.0 | 0.0 | 0.0 | 0.0 |
| Total Provisions | 3.2 | 3.2 | 3.2 | 3.2 |
| Total Liabilities | 9.1 | 5.5 | 4.9 | 4.9 |
| Shareholders' Equity | 32.4 | 52.1 | 87.9 | 115.8 |
| Minority Interests | 0.0 | 0.0 | 0.0 | 0.0 |
| Total Equity | 32.4 | 52.1 | 87.9 | 115.8 |

Cash Flow

| (A\$m) | Jun-13A | Jun-14F | Jun-15F | Jun-16F |
|----------------------------------|---------------|---------------|---------------|---------------|
| EBITDA | -3.67 | 20.38 | 51.00 | 38.48 |
| Cash Flow from Inv. & Assoc. | 0.00 | 0.00 | 0.00 | 0.00 |
| Change In Working Capital | -12.65 | -2.24 | -7.47 | 3.65 |
| (Incr)/Decr in Total Provisions | | | | |
| Other Non-Cash (Income)/Expense | | | | |
| Other Operating Cashflow | 0.00 | 0.00 | 0.00 | 0.00 |
| Net Interest (Paid)/Received | 0.22 | 0.82 | 1.27 | 2.45 |
| Tax Paid | 0.27 | 0.00 | -15.04 | -11.64 |
| Cashflow From Operations | -15.84 | 18.96 | 29.76 | 32.95 |
| Capex | -0.09 | -0.28 | -0.11 | -0.13 |
| Disposals Of FAs/subsidiaries | 0.00 | 0.00 | 0.00 | 0.00 |
| Acq. Of Subsidiaries/investments | 0.00 | 0.00 | 0.00 | 0.00 |
| Other Investing Cashflow | -6.23 | 0.00 | 0.00 | 0.00 |
| Cash Flow From Investing | -6.33 | -0.28 | -0.11 | -0.13 |
| Debt Raised/(repaid) | 9.68 | -18.68 | -29.65 | -32.82 |
| Proceeds From Issue Of Shares | 12.48 | 0.00 | 0.00 | 0.00 |
| Shares Repurchased | | | | |
| Dividends Paid | 0.00 | 0.00 | 0.00 | 0.00 |
| Preferred Dividends | 0.00 | 0.00 | 0.00 | 0.00 |
| Other Financing Cashflow | 0.00 | 0.00 | 0.00 | 0.00 |
| Cash Flow From Financing | 22.16 | -18.68 | -29.65 | -32.82 |
| Total Cash Generated | 0.00 | 0.00 | 0.00 | 0.00 |
| Free Cashflow To Equity | -12.48 | 0.00 | 0.00 | 0.00 |
| Free Cashflow To Firm | -22.38 | 17.86 | 28.38 | 30.37 |

Key Ratios

| | Jun-13A | Jun-14F | Jun-15F | Jun-16F |
|---------------------------|---------|---------|---------|---------|
| Revenue Growth | 6962% | 54% | 62% | (20%) |
| Operating EBITDA Growth | (74%) | N/A | 150% | (25%) |
| Operating EBITDA Margin | (15%) | 55% | 85% | 80% |
| Net Cash Per Share (A\$) | 0.04 | 0.10 | 0.19 | 0.29 |
| BVPS (A\$) | 0.10 | 0.16 | 0.27 | 0.36 |
| Gross Interest Cover | -33,407 | 119,917 | 313,677 | 234,436 |
| Effective Tax Rate | 0.0% | 0.0% | 29.6% | 29.5% |
| Net Dividend Payout Ratio | 0% | 0% | 0% | 0% |
| Accounts Receivables Days | 94.4 | 105.9 | 72.7 | 101.8 |
| Inventory Days | N/A | N/A | N/A | N/A |
| Accounts Payables Days | N/A | N/A | N/A | N/A |
| ROIC (%) | (40%) | 84% | 149% | 89% |
| ROCE (%) | (17.9%) | 46.8% | 72.6% | 38.8% |

1. Changes to Forecasts

Table 1: Changes to forecasts

| A\$m | FY14 | | | FY15 | | |
|-----------------|------|------|----------|------|------|----------|
| | Prev | New | % Change | Prev | New | % Change |
| Revenue | 43.9 | 37.1 | -15.5% | 71.0 | 60.2 | -15.2% |
| EBITDA | 27.2 | 20.4 | -25.1% | 61.8 | 51.0 | -17.5% |
| Underlying NPAT | 26.6 | 19.8 | -25.7% | 43.5 | 35.8 | -17.8% |
| EPS (cps) | 8.2 | 6.1 | -25.6% | 13.4 | 11.0 | -17.6% |
| DPS (cps) | 0.0 | 0.0 | 0.0% | 0.0 | 0.0 | 0.0% |

SOURCE: Morgans

| | | | |
|------------------------|----------------|--|----------------|
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| CAIRNS | (07) 4222 0555 | SYDNEY – LEVEL 9 | (02) 8215 5000 |
| CALOUNDRA | (07) 5491 5422 | SYDNEY – LEVEL 33 | (02) 8216 5111 |
| CHERMSIDE | (07) 3350 9000 | SYDNEY – MACQUARIE STREET | (02) 9125 1788 |
| EDWARD STREET | (07) 3121 5677 | SYDNEY – MACQUARIE STREET (Parramatta) | (02) 9615 4500 |
| EMERALD | (07) 4988 2777 | SYDNEY – REYNOLDS EQUITIES | (02) 9373 4452 |
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| GOLD COAST | (07) 5581 5777 | | |
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| | | TRARALGON | (03) 5176 6055 |
| | | WARRNAMBOOL | (03) 5559 1500 |
| NEW SOUTH WALES | | | |
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| ARMIDALE | (02) 6770 3300 | PERTH | (08) 6462 1999 |
| BALLINA | (02) 6686 4144 | | |
| BALMAIN | (02) 8755 3333 | SOUTH AUSTRALIA | |
| CHATSWOOD | (02) 8116 1700 | ADELAIDE | (08) 8464 5000 |
| COFFS HARBOUR | (02) 6651 5700 | NORWOOD | (08) 8461 2800 |
| GOSFORD | (02) 4325 0884 | | |
| HURSTVILLE | (02) 9570 5755 | NORTHERN TERRITORY | |
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| NEUTRAL BAY | (02) 8969 7500 | | |
| NEWCASTLE | (02) 4926 4044 | TASMANIA | |
| NEWPORT | (02) 9998 4200 | HOBART | (03) 6236 9000 |
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