

Alchemia

ACL AU / ACL.AX

Market Cap
US\$175.8m
 A\$194.6m

Avg Daily Turnover
US\$0.12m
 A\$0.13m

Free Float
80.0%
 324.0 m shares

Current **A\$0.60**
 Target **A\$0.82**
 Prev. Target **A\$0.71**
 Up/Downside **36.4%**

COMPANY NOTE

STOCK RATING

ADD

HOLD

REDUCE

Morgans Analyst(s)

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The moment of truth approaches

Although royalty income received from ACL's lead product fondaparinux was lower than expected, the main game is the Phase III read out from the colorectal cancer program, expected in 2QCY14. A positive result will not only validate the lead program but will substantially underpin the HyAct technology, which has multiple applications across other tumour types. In our modelling we have assumed the lead program is licensed to a larger pharma company. The investment case remains compelling with this near term catalyst.

ACL posted 1HFY14 result of a loss of A\$5.5m. The key highlights were royalty income received from Dr Reddy's (US marketing partner) of A\$4.6m, which was lower than we expected. Expenses of A\$10.6m were broadly in line with our expectations. The cash balance was A\$16.4m. We have revised our FY14 forecast down by A\$1.5m to A\$18.3m, to reflect the lower fonda numbers. We now assume negative 3% growth in the overall market and greater price erosion from the branded product of 40% (was 35%). We have made no changes to FY15 forecasts.

Lower fonda numbers

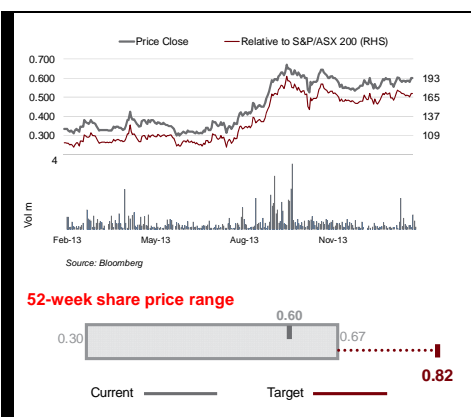
Although the fondaparinux numbers for the quarter were lower than expected at A\$2.8m or A\$2.2m (net process improvement charges). The quarter was impacted by expired product returns and competitive pricing of a contract. Short term quarters are hard to predict, however the drivers remain in place.

Cancer trial is driver

The key catalyst is the release of the Phase III metastatic colorectal cancer results in 2QCY14. The primary endpoint of this trial will be progression-free survival (PFS) providing a minimum of a six week improvement in PFS compared with the control arm. We have assumed a 60% probability of success in the trial and a licensing deal is entered into with an upfront payment of \$A20m. No value has been ascribed to the other programs and remains upside to our valuation. For more details on HyAct and the cancer program refer our note dated 17th April 2013.

Investment view is positive

We have increased our DCF valuation to A\$0.82 (fonda A\$0.32 and cancer A\$0.50) as a result of decreasing our WACC to 14.2% from 16.0%. This reflects our growing confidence in the Phase III read out.



Financial Summary

	Jun-12A	Jun-13A	Jun-14F	Jun-15F	Jun-16F
Revenue (A\$m)	0.34	24.08	35.62	57.42	39.71
Operating EBITDA (A\$m)	-14.14	-3.67	18.88	48.22	30.24
Net Profit (A\$m)	-15.08	-4.79	18.26	35.79	22.05
Normalised EPS (A\$)	-0.05	-0.01	0.06	0.11	0.07
Normalised EPS Growth	(21.6%)	(73.1%)	NA	96.0%	(38.4%)
FD Normalised P/E (x)	NA	NA	10.64	5.43	8.82
DPS (A\$)	-	-	-	-	-
Dividend Yield	0%	0%	0%	0%	0%
EV/EBITDA (x)	NA	NA	8.67	2.77	3.48
P/FCFE (x)	NA	NA	NA	NA	NA
Net Gearing	(57.8%)	(40.1%)	(60.4%)	(70.2%)	(82.3%)
P/BV (x)	6.80	6.00	3.84	2.25	1.79
ROE	(70.0%)	(16.9%)	44.0%	52.2%	22.6%
% Change In Normalised EPS Estimates			(7.6%)	0.1%	(20.8%)
Normalised EPS/consensus EPS (x)			2.25	0.81	0.38

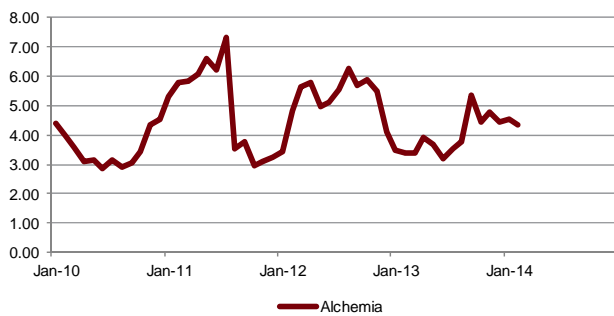
SOURCE: MORGANS, COMPANY REPORTS

PEER COMPARISON

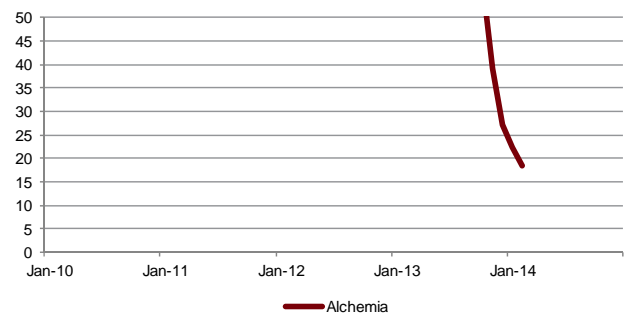
Research Coverage

	Bloomberg Code	Market	Recommendation	Mkt Cap US\$m	Price	Target Price	Upside
Alchemia	ACL AU	AU	ADD	176	0.60	0.82	36.4%

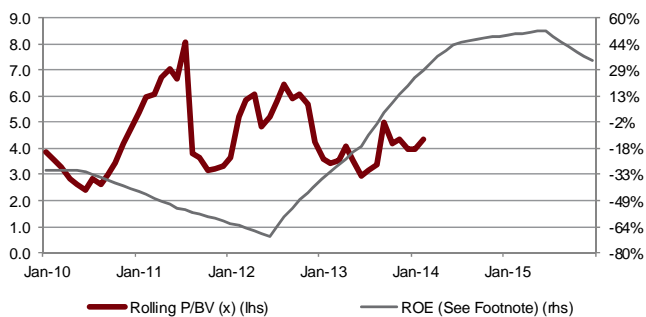
Rolling P/BV (x)



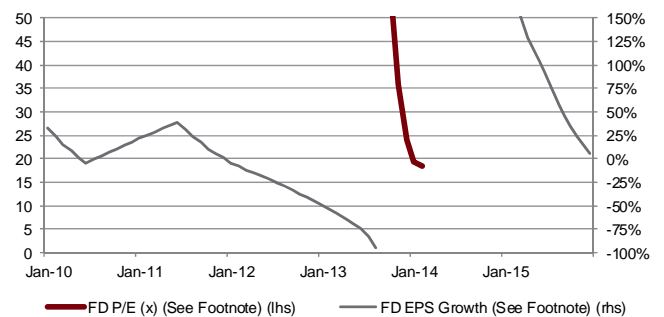
Rolling FD P/E (x)



Peer Aggregate: P/BV vs ROE



Peer Aggregate: FD P/E vs FD EPS Growth



Valuation

	FD P/E (x) (See Footnote)			P/BV (x)			EV/EBITDA (x)		
	Dec-13	Dec-14	Dec-15	Dec-13	Dec-14	Dec-15	Dec-13	Dec-14	Dec-15
Alchemia	28.45	7.17	6.74	4.67	2.83	1.99	22.42	4.41	3.05

Growth and Returns

	FD EPS Growth (See Footnote)			ROE (See Footnote)			Dividend Yield		
	Dec-13	Dec-14	Dec-15	Dec-13	Dec-14	Dec-15	Dec-13	Dec-14	Dec-15
Alchemia	NA	296.6%	6.4%	19.5%	49.2%	34.7%	0.00%	0.00%	0.00%

SOURCE: MORGANS, COMPANY REPORTS

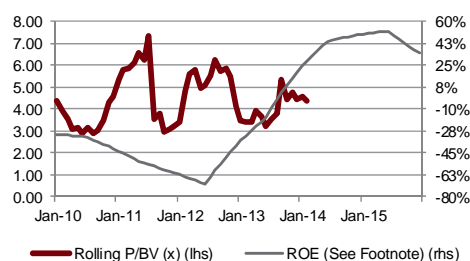
Calculations are performed using EFA™ Monthly Interpolated Annualisation and Aggregation algorithms to December year ends. NPAT/EPS values for calculations and valuations are based on recurring and normalised values for GAAP and IFRS accounting standard companies respectively.

BY THE NUMBERS

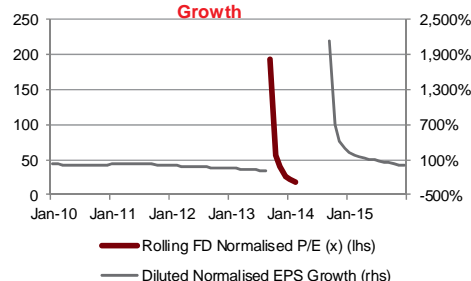
Share price info

Share px perf. (%)	1M	3M	12M
Relative	0.2	-4.4	80.6
Absolute	1.7	-4.8	87.5
Major shareholders		% held	
Alan Gray Investments			19.9

P/BV vs ROE



FD Normalised P/E vs FD Normalised EPS Growth



Profit & Loss

(A\$m)	Jun-12A	Jun-13A	Jun-14F	Jun-15F	Jun-16F
Total Net Revenues	0.34	24.08	35.62	57.42	39.71
Gross Profit	0.34	24.08	35.62	57.42	39.71
Operating EBITDA	-14.14	-3.67	18.88	48.22	30.24
Depreciation And Amortisation	-1.73	-1.60	-1.44	-1.45	-1.45
Operating EBIT	-15.87	-5.28	17.45	46.76	28.78
Total Financial Income/(Expense)	0.39	0.22	0.82	1.22	2.43
Total Pretax Income/(Loss) from Assoc.	0.00	0.00	0.00	0.00	0.00
Total Non-Operating Income/(Expense)	0.00	0.00	0.00	0.00	0.00
Profit Before Tax (pre-EI)	-15.48	-5.06	18.26	47.99	31.21
Exceptional Items					
Pre-tax Profit	-15.48	-5.06	18.26	47.99	31.21
Taxation	0.40	0.27	0.00	-12.19	-9.16
Exceptional Income - post-tax	0.00	0.00	0.00	0.00	0.00
Profit After Tax	-15.08	-4.79	18.26	35.79	22.05
Minority Interests	0.00	0.00	0.00	0.00	0.00
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Preference Dividends (Australia)					
Net Profit	-15.08	-4.79	18.26	35.79	22.05
Normalised Net Profit	-15.08	-4.79	18.26	35.79	22.05
Fully Diluted Normalised Profit	-15.08	-4.79	18.26	35.79	22.05

Cash Flow

(A\$m)	Jun-12A	Jun-13A	Jun-14F	Jun-15F	Jun-16F
EBITDA	-14.14	-3.67	18.88	48.22	30.24
Cash Flow from Invt. & Assoc.	0.00	0.00	0.00	0.00	0.00
Change In Working Capital	1.55	-12.65	-1.79	-7.08	5.27
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	0.00	0.00	0.00	0.00	0.00
Net Interest (Paid)/Received	0.39	0.22	0.82	1.22	2.43
Tax Paid	0.40	0.27	0.00	-12.19	-9.16
Cashflow From Operations	-11.80	-15.84	17.91	30.16	28.78
Capex	-0.07	-0.09	-0.28	-0.11	-0.13
Disposals Of FAs/subsidiaries	0.00	0.00	0.00	0.00	0.00
Acq. Of Subsidiaries/investments	0.00	0.00	0.00	0.00	0.00
Other Investing Cashflow	0.37	-6.23	0.00	0.00	0.00
Cash Flow From Investing	0.30	-6.33	-0.28	-0.11	-0.13
Debt Raised/(repaid)	-8.60	9.68	-17.63	-30.05	-28.65
Proceeds From Issue Of Shares	20.09	12.48	0.00	0.00	0.00
Shares Repurchased					
Dividends Paid	0.00	0.00	0.00	0.00	0.00
Preferred Dividends	0.00	0.00	0.00	0.00	0.00
Other Financing Cashflow	0.00	0.00	0.00	0.00	0.00
Cash Flow From Financing	11.49	22.16	-17.63	-30.05	-28.65
Total Cash Generated	0.00	0.00	0.00	0.00	0.00
Free Cashflow To Equity	-20.09	-12.48	0.00	0.00	0.00
Free Cashflow To Firm	-11.88	-22.38	16.81	28.83	26.22

BY THE NUMBERS

Balance Sheet

(A\$m)	Jun-12A	Jun-13A	Jun-14F	Jun-15F	Jun-16F
Total Cash And Equivalents	14.0	13.0	30.6	60.7	89.3
Total Debtors	0.1	12.4	8.8	14.2	9.8
Inventories	0.0	0.0	1.8	2.9	2.0
Total Other Current Assets	1.6	0.7	0.7	0.7	0.7
Total Current Assets	15.7	26.0	41.8	78.4	101.8
Fixed Assets	0.4	0.4	0.6	0.6	0.6
Total Investments	0.0	0.0	0.0	0.0	0.0
Intangible Assets	16.1	14.7	13.4	12.1	10.8
Total Other Non-Current Assets	0.3	0.3	0.3	0.3	0.3
Total Non-current Assets	16.7	15.5	14.3	13.0	11.6
Short-term Debt	0.0	0.0	0.0	0.0	0.0
Current Portion of Long-Term Debt					
Total Creditors	3.3	5.0	1.4	0.8	0.8
Other Current Liabilities	1.7	0.9	0.9	0.9	0.9
Total Current Liabilities	5.0	5.9	2.3	1.6	1.7
Total Long-term Debt	0.0	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	0.0
Total Non-current Liabilities	0.0	0.0	0.0	0.0	0.0
Total Provisions	3.1	3.2	3.2	3.2	3.2
Total Liabilities	8.1	9.1	5.5	4.9	4.9
Shareholders' Equity	24.3	32.4	50.6	86.4	108.5
Minority Interests	0.0	0.0	0.0	0.0	0.0
Total Equity	24.3	32.4	50.6	86.4	108.5

Key Ratios

	Jun-12A	Jun-13A	Jun-14F	Jun-15F	Jun-16F
Revenue Growth	(59%)	6962%	48%	61%	(31%)
Operating EBITDA Growth	12%	(74%)	NA	155%	(37%)
Operating EBITDA Margin	(4145%)	(15%)	53%	84%	76%
Net Cash Per Share (A\$)	0.05	0.04	0.09	0.19	0.28
BVPS (A\$)	0.09	0.10	0.16	0.27	0.33
Gross Interest Cover	-100,442	-33,407	110,438	296,028	182,220
Effective Tax Rate	0.0%	0.0%	0.0%	25.4%	29.4%
Net Dividend Payout Ratio	NA	NA	NA	NA	NA
Accounts Receivables Days	42.4	94.4	108.4	72.9	110.4
Inventory Days	N/A	N/A	N/A	N/A	N/A
Accounts Payables Days	N/A	N/A	N/A	N/A	N/A
ROIC (%)	(120%)	(40%)	77%	151%	71%
ROCE (%)	(71.8%)	(17.9%)	44.0%	70.0%	32.0%

Changes to Forecasts

A\$m	Prev	FY14		FY15		New % Change
		New	% Change	Prev	New	
Revenue	37.1	35.6	-4.0%	60.2	57.4	-4.6%
EBITDA	20.4	18.9	-7.4%	51.0	48.2	-5.5%
Underlying NPAT	19.8	18.3	-7.8%	35.8	35.8	0.0%
EPS (cps)	6.1	5.6	-7.6%	11.0	11.0	0.4%
DPS (cps)	0.0	0.0	0.0%	0.0	0.0	0.0%

SOURCE: MORGANS, COMPANY REPORTS

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