RBS Morgans

Alchemia

ACL AU / ACL.AX

Market Cap	Avg Daily Turnover	Free Float
US$114.2m	**US$0.14m**	**80.0%**
A$110.2m	A$0.13m	321.5 m shares

Current	**A$0.34**
Target	**A$0.76**
Previous Target	**A$0.78**
Up/downside	**124.7%**

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

Important: The recommendation has been made on a 12 month view and may not suit your investment needs or timeframe. The basis it is prepared on is summarised on the last page of this report. **PLEASE CONTACT YOUR ADVISER TO DISCUSS THIS GENERAL RECOMMENDATION BEFORE ACTING ON IT.**

Mod-High Volatility

RBS Morgans Limited
(A.B.N. 49 010 669 726) AFSL235410
A Participant of ASX Group

www.rbsmorgans.com

ACL130417

Analysts

Scott POWER

T (61) 7 3334 4884
E scott.power@rbsmorgans.com

Jack MCMANUS

T (61) 7 3334 4521
E jack.mcmanus@rbsmorgans.com

Share price info

Share price perf. (%)	1M	3M	12M
Relative	-4.8	5.2	-50.3
Absolute	-8.1	9.7	-35.2
Major shareholders			**% held**
Orbis			19.90%

Funding successfully completed

ACL has successfully completed a A$12.9m capital raising which now sees the company comfortably funded through to Phase III results early in CY14. Existing cash reserves, quarterly revenue from fondaparinux, Federal Government R&D tax incentives and the placement funds take the funding question off the table and we expect any newsflow on clinical trial updates, partnerships or licensing deals should be treated positively by investors.

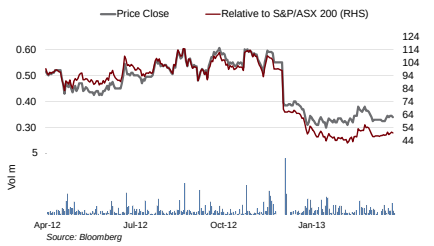
We have updated our model to adjust for the capital raising. This has resulted in only a minor dilution, given we had already anticipated a raising following the unsuccessful demerger last year. The capital raising of A$12.95m was by way of a A$10.2m placement to institutions and sophisticated investors and a $2.75m share purchase plan which were both issued at A$0.30 per share. Our valuation and price target have reduced slightly to A$0.76 (was A$0.78).

Clinical trial recruitment completed

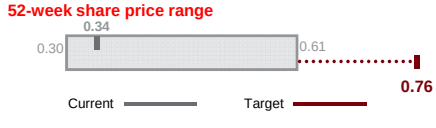
ACL completed recruitment of its 415th patient in February to its pivotal Phase III clinical trial for the Company's lead cancer drug, HA-Irinotecan. The primary endpoint will be reached when 350 patients have experienced disease progression. Statistical review and modelling on the available blinded data suggests that on average, patients on this trial are continuing treatment for longer than anticipated before their disease progresses. Although early, this is a positive trend and the primary endpoint is now likely to be met early in CY14. The trial's primary endpoint is to demonstrate that HA-Irinotecan is superior to irinotecan, as indicated by an increase in Progression-Free Survival (PFS) of 6 weeks or more than the standard of care.

Upcoming catalysts

The upcoming catalysts expected over the next few quarters include: 1) quarterly fondaparinux profit share to be received from Dr Reddy's; 2)Phase II trial (NSCLC) update; 3) R&D tax incentive update; 4) progress on licensing or partnership arrangements; and 5) Phase III results for the colorectal cancer trial. The key risk to our price target is a negative Phase III read out in early CY14. We maintain our outperform rating on the stock.



52-week share price range



Financial Summary

	Jun-12A	Jun-13F	Jun-14F	Jun-15F	Jun-16F
Revenue (A$m)	0.34	16.50	53.46	80.67	58.23
Operating EBITDA (A$m)	-14.14	-9.03	35.73	72.71	50.04
Net Profit (A$m)	-15.08	-10.11	35.00	50.48	35.81
Normalised EPS (A$)	-0.05	-0.03	0.11	0.16	0.11
Normalised EPS Growth	(21.6%)	(42.7%)	na	44.2%	(29.1%)
FD Normalised P/E (x)	NA	NA	3.12	2.17	3.05
DPS (A$)	-	-	-	-	-
Dividend Yield	0%	0%	0%	0%	0%
EV/EBITDA (x)	NA	NA	2.06	0.42	-0.27
P/FCFE (x)	NA	NA	NA	NA	NA
Net Gearing	(57.8%)	(42.2%)	(58.5%)	(70.5%)	(83.0%)
P/BV (x)	3.85	4.15	1.78	0.98	0.74
Recurring ROE	(70.0%)	(40.0%)	79.8%	58.3%	27.6%
% Change In Normalised EPS Estimates		(0.218%)	0.035%	(0.090%)	(0.033%)
Normalised EPS/consensus EPS (x)		2.86	1.51	1.28	1.04

SOURCE: RBS Morgans, COMPANY REPORTS

IMPORTANT DISCLOSURES REGARDING COMPANIES THAT ARE THE SUBJECT OF THIS REPORT AND AN EXPLANATION OF RECOMMENDATIONS AND VOLATILITY CAN BE FOUND AT THE END OF THIS DOCUMENT.

Profit & Loss

(A$m)	Jun-13F	Jun-14F	Jun-15F	Jun-16F
Total Net Revenues	**16.50**	**53.46**	**80.67**	**58.23**
Gross Profit	**16.50**	**53.46**	**80.67**	**58.23**
Operating EBITDA	**-9.03**	**35.73**	**72.71**	**50.04**
Depreciation And Amortisation	-1.44	-1.47	-1.47	-1.47
Operating EBIT	**-10.47**	**34.26**	**71.24**	**48.57**
Total Financial Income/(Expense)	0.36	0.74	1.44	3.15
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)	**-10.11**	**35.00**	**72.68**	**51.72**
Exceptional Items				
Pre-tax Profit	**-10.11**	**35.00**	**72.68**	**51.72**
Taxation	0.00	0.00	-22.20	-15.91
Exceptional Income - post-tax	0.00	0.00	0.00	0.00
Profit After Tax	**-10.11**	**35.00**	**50.48**	**35.81**
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	**-10.11**	**35.00**	**50.48**	**35.81**
Normalised Net Profit	-10.11	35.00	50.48	35.81
Fully Diluted Normalised Profit	**-10.11**	**35.00**	**50.48**	**35.81**

Balance Sheet

(A$m)	Jun-13F	Jun-14F	Jun-15F	Jun-16F
Total Cash And Equivalents	11.1	35.9	78.8	122.6
Total Debtors	4.1	13.2	19.9	14.4
Inventories	0.8	2.7	4.0	2.9
Total Other Current Assets	1.6	1.6	1.6	1.6
Total Current Assets	**17.6**	**53.3**	**104.3**	**141.5**
Fixed Assets	0.7	0.6	0.7	0.7
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	**15.7**	**14.3**	**13.0**	**11.7**
Short-term Debt	0.0	0.0	0.0	0.0
Current Portion of Long-Term Debt				
Total Creditors	2.1	1.5	0.7	0.7
Other Current Liabilities	1.7	1.7	1.7	1.7
Total Current Liabilities	**3.8**	**3.1**	**2.3**	**2.4**
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	3.1	3.1	3.1	3.1
Total Liabilities	**6.9**	**6.2**	**5.4**	**5.5**
Shareholders' Equity	26.4	61.4	111.8	147.6
Minority Interests	0.0	0.0	0.0	0.0
Total Equity	**26.4**	**61.4**	**111.8**	**147.6**

Cash Flow

(A$m)	Jun-13F	Jun-14F	Jun-15F	Jun-16F
EBITDA	-9.03	35.73	72.71	50.04
Cash Flow from Invt. & Assoc.	0.00	0.00	0.00	0.00
Change In Working Capital	-6.04	-11.60	-8.87	6.67
(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	0.36	0.74	1.44	3.15
Tax Paid	0.00	0.00	-22.20	-15.91
Cashflow From Operations	**-14.70**	**24.87**	**43.07**	**43.95**
Capex	-0.41	-0.12	-0.15	-0.14
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	0.00	0.00	0.00	0.00
Cash Flow From Investing	**-0.41**	**-0.12**	**-0.15**	**-0.14**
Debt Raised/(repaid)	2.90	-24.76	-42.92	-43.81
Proceeds From Issue Of Shares	12.21	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	**15.11**	**-24.76**	**-42.92**	**-43.81**

Key Ratios

	Jun-13F	Jun-14F	Jun-15F	Jun-16F
Revenue Growth	4739%	224%	51%	(28%)
Operating EBITDA Growth	(36%)	N/A	103%	(31%)
Operating EBITDA Margin	(55%)	67%	90%	86%
Net Cash Per Share (A$)	0.03	0.11	0.25	0.38
BVPS (A$)	0.08	0.19	0.35	0.46
Gross Interest Cover	-66,307	216,875	451,006	307,472
Effective Tax Rate	0.0%	0.0%	30.5%	30.8%
Net Dividend Payout Ratio	0%	0%	0%	0%
Accounts Receivables Days	45.9	58.9	74.8	107.6
Inventory Days	N/A	N/A	N/A	N/A
Accounts Payables Days	N/A	N/A	N/A	N/A
ROIC (%)	(79%)	187%	174%	94%
ROCE (%)	(39.9%)	79.8%	83.9%	39.9%

SOURCE: RBS Morgans, COMPANY REPORTS

Catalysts to drive share price

1. Capital raising and RDY receipts

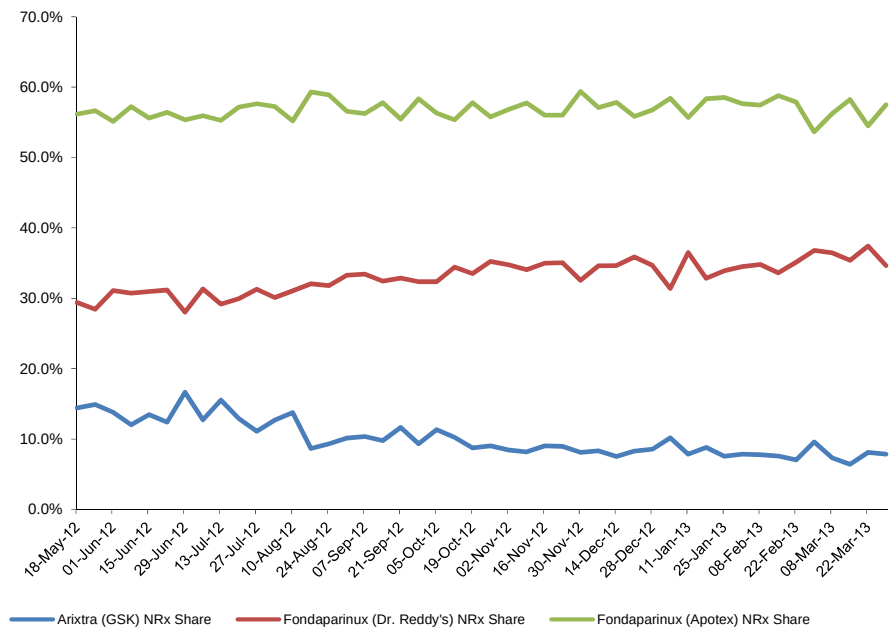
1.1 Funding successfully completed

Following the capital raising of A$12.95m we have updated our model and only minor dilution has resulted. No changes to forecasts were made. Our valuation and price target have reduced slightly to A$0.76 (was A$0.78).

1.2 Generics business growing

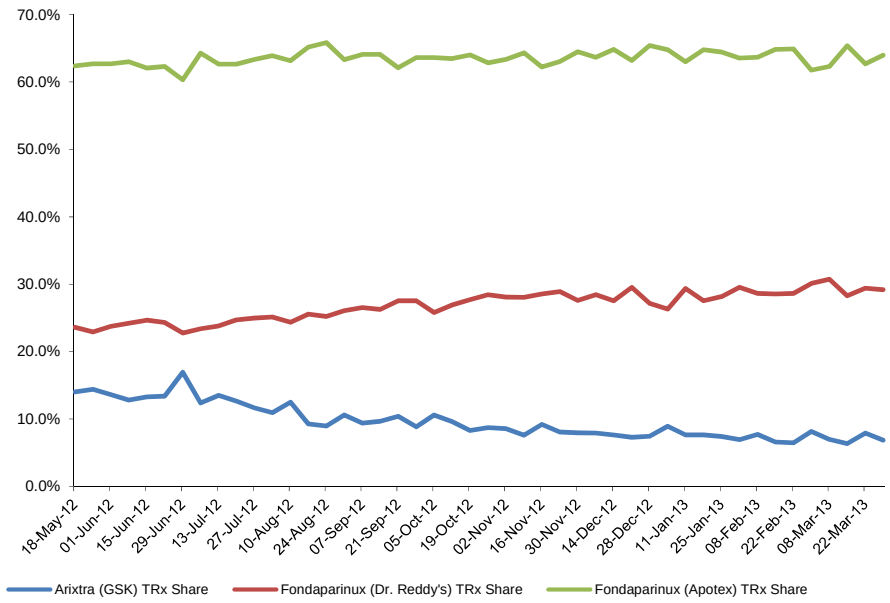
We have been following the weekly market share growth of the anticoagulant market which includes fondaparinux, marketed by Dr Reddy's. The charts below shows the solid growth that Dr Reddy's (NYSE: RDY) have been achieving over the last ten months. We are cautious about predicting significant quarterly increases in revenue from RDY as seasonality can cause lumpiness in receipts. In FY13 we are forecasting fondaparinux revenue of A$12.1m.

Chart 1: Fondaparinux NRx



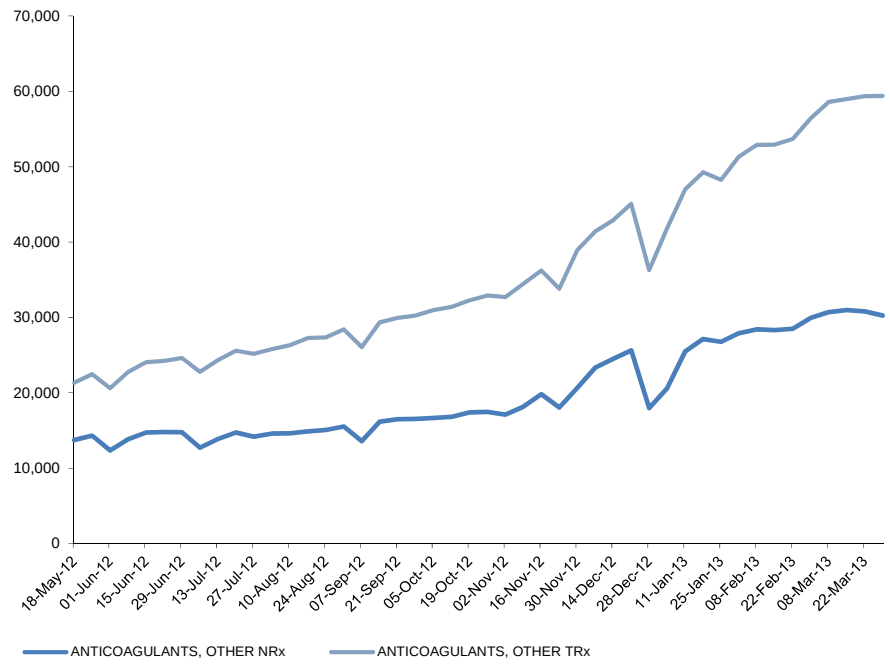
SOURCE: RBS Morgans, IMS

Chart 2: Fondaparinux TRx



SOURCE: RBS Morgans, IMS

Chart 3: Fondaparinux Market TRX and NRx



SOURCE: RBS Morgans, IMS

2. Recap On the Cancer Program

2.1 HyACT – revisiting the platform

ACL's HyACT technology utilises hyaluronic acid (HA) to target drugs to the tumour, which enhances delivery and retention of chemotherapeutic drugs and biologics at the site of the tumour. The technology is a receptor based targeted method of drug delivery that exploits the interaction between HA and its primary cell surface receptor, CD44.

2.2 What is hyaluronic acid (HA)?

HA is a key component of all the HyACT formulations. It is a naturally occurring polysaccharide that can be produced on an industrial scale (ie. GMP material is available at scale from bacterial fermentation), and is routinely used for various joint disorders, including osteoarthritis. The FDA has approved the use of HA during certain eye surgeries including cataract removal, corneal transplantation, and repair of a detached retina and other eye injuries.

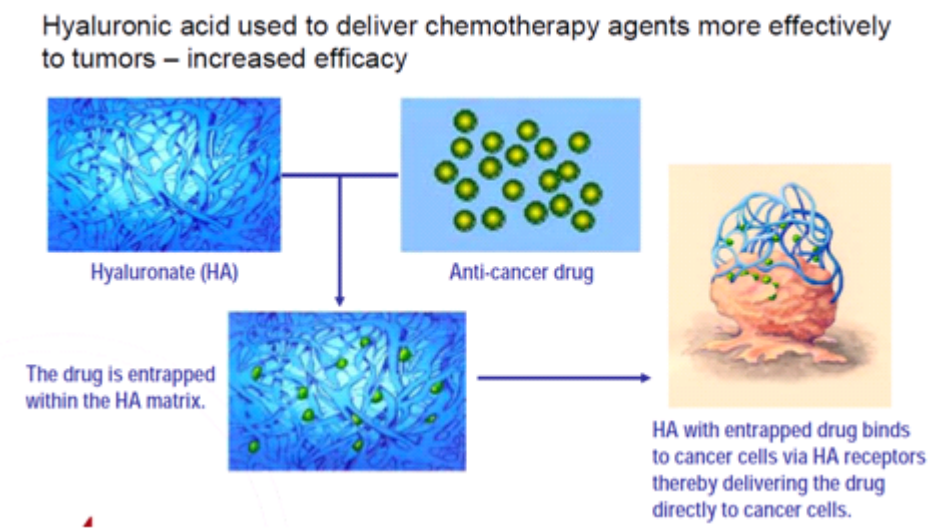
CD44 is the best characterised cell surface receptor for HA, and has been shown in numerous studies to be present in high levels in many prevalent solid tumour cancer types. More importantly, is generally not activated in healthy tissue. CD44 over-expression is associated with more aggressive, metastatic tumours and is also a marker for treatment-resistant cancer stem cells.

2.3 How does HyACT work?

In preclinical studies using multiple cancer drugs, HyACT has been shown to deliver more than double the dose of drug to the tumour compared with the drug injected alone. Pre-clinical research has indicated that this is due to an accumulation of the HyACT drug at the tumour site due to the over expression of activated CD44.

So broadly speaking, the HyACT platform exploits the links between HA and CD44, and CD44 and cancer, to target the delivery to chemotherapeutic drugs to the site of the tumour. The following two diagrams graphically depict this concept.

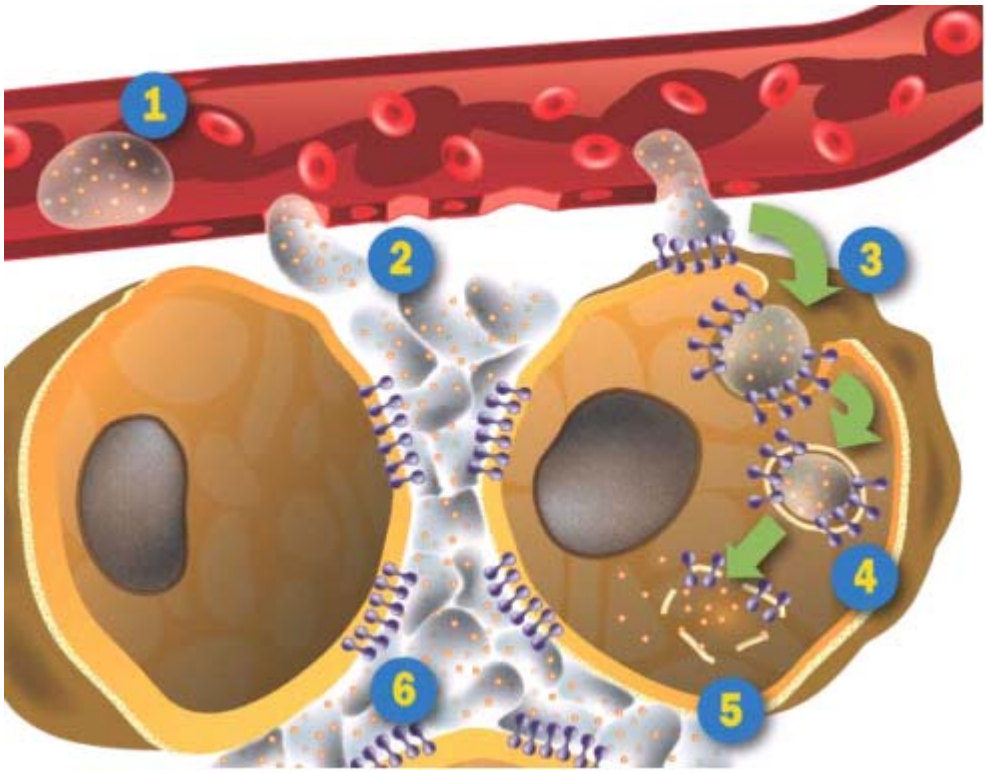
Figure 1: HyACT Technology Platform



Source: Company data

HA provides a means for transporting and directing anti-cancer agents to tumours. By combining chemotherapeutic drugs with hyaluronic acid, their cytotoxic activity is preferentially directed towards tumour cells and away from normal tissues, thereby effectively increasing the difference between effective and toxic levels of the drug.

Figure 2: HyACT mechanism of action



Source: Company data

HyACT-targeted drug delivery vehicle comprising HA and the chemotherapy drug of interest enter the bloodstream (1). HyACT-targeted drug accesses the tumour environment through leaky vasculature, which is typical of vessels that supply blood to tumours (2). The vesicles form a drug depot in the extracellular space of the tumour (3), while HA binds to activated CD44 and then is rapidly internalised into the tumour cells (4). As the drug-containing vesicle is transported into an intracellular vesicle, the hyaluronic acid is degraded and the drug is released within the cancer cell (5).

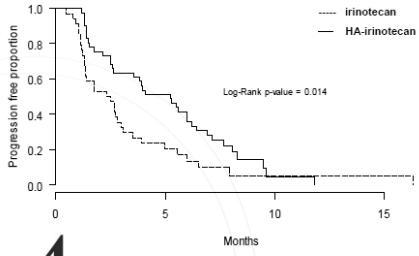
2.4 Positive Phase II results underpin confidence

In a randomized Phase II clinical trial of HA-Irinotecan compared with irinotecan alone, based on 76 patients with mCRC, HA-Irinotecan was able to double the progression free survival, or PFS, in mCRC patients (5.2 months for HA-Irinotecan versus 2.4 months for irinotecan alone). These clinically significant results validate the effectiveness of HyACT technology to improve the safety and efficacy of chemotherapeutic drugs (Table 2). This trial was completed in 2008.

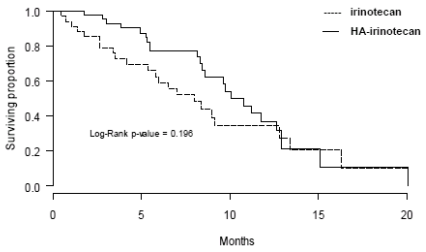
Table 2: HA-Irinotecan vs Irinotecan Phase II

- 76 patients, 2nd line mCRC, 350mg/m^2 irinotecan q3w vs 350mg/m^2 HA-Irinotecan q3w
  - Increase in disease control by RECIST (76% vs 46%, p=0.053)
  - Significant increase in progression-free survival (5.2 vs 2.4 months)
  - Trend towards increased overall survival (10.1 vs 8 months)

Progression-free survival (PFS)



Overall survival (OS)



Alchemia

16

www.alchemia.com.au

Source: Company data

2.5 Phase III finishes recruitment on time, now for the result

ACL has recruited 415 patients to its pivotal Phase III clinical trial of the Company's lead cancer drug, HA-Irinotecan for metastatic colorectal cancer. The primary endpoint will be reached when 350 patients have experienced disease progression. A statistical review of the available blinded data suggests ,that on average, patients on this trial are continuing treatment for longer than anticipated before their disease progresses. This is a positive trend and using this in the company's modelling suggests the endpoint is now likely to be met early in CY14.

The trial's primary endpoint is to demonstrate that HA-Irinotecan is superior, as indicated by an increase in Progression-Free Survival (PFS) of 6 weeks or more.

The Phase III protocol includes an 80-patient substudy being performed at selected study sites, to investigate the pharmacokinetic and cardiotoxicity of HA-Irinotecan. This substudy is optional and currently has 71 patients enrolled. To improve recruitment to this substudy, as well as to increase the power of the overall study, the Company has recruited a further 25 patients, bringing the total number of patients on the trial to 415. The addition of these patients does not affect the timing of the clinical trial endpoint where the PFS will still be reported in early CY14.

Assuming the results are positive, ACL will look to license or partner the program. We have assumed upfront and milestone payments will be received from a partner. Our model includes an upfront payment of A$20m in FY14 and a milestone payment of A$40m in FY15, before entering the market in FY16. We expect that ACL or its partner will pursue a 505 (b)(2) regulatory pathway given that HA-Irinotecan is a formulation of two previously approved products. This pathway tends to be more straight forward than a new chemical entity approval.

In addition to the Phase III trial, ACL is conducting an investigator-sponsored Phase II clinical trial for small cell lung cancer. If these trials are successful, ACL has the opportunity to expand the application of HA with other drugs.

QUEENSLAND	
BRISBANE	(07) 3334 4888
BUNDABERG	(07) 4153 1050
CAIRNS	(07) 4222 0555
CALOUNDRA	(07) 5491 5422
CAPALABA	(07) 3245 5466
CHERMSIDE	(07) 3350 9000
EDWARD STREET	(07) 3121 5677
EMERALD	(07) 4988 2777
GLADSTONE	(07) 4972 8000
GOLD COAST	(07) 5581 5777
IPSWICH	(07) 3202 3995
MACKAY	(07) 4957 3033
MILTON	(07) 3114 8600
NOOSA	(07) 5449 9511
REDCLIFFE	(07) 3897 3999
ROCKHAMPTON	(07) 4922 5855
SPRING HILL	(07) 3833 9333
SUNSHINE COAST	(07) 5479 2757
TOOWOOMBA	(07) 4639 1277
TOWNSVILLE	(07) 4725 5787
YEPPOON	(07) 4939 3021
NEW SOUTH WALES	
SYDNEY	(02) 8215 5055
ARMIDALE	(02) 6770 3300
BALLINA	(02) 6686 4144
BALMAIN	(02) 8755 3333
CHATSWOOD	(02) 8116 1700
COFFS HARBOUR	(02) 6651 5700
GOSFORD	(02) 4325 0884
HURSTVILLE	(02) 9570 5755
MERIMBULA	(02) 6495 2869
NEUTRAL BAY	(02) 8969 7500
NEWCASTLE	(02) 4926 4044
NEWPORT	(02) 9998 4200
ORANGE	(02) 5310 2111
PORT MACQUARIE	(02) 6583 1735
SCONE	(02) 6544 3144
SYDNEY – LEVEL 9	(02) 8215 5000
SYDNEY – LEVEL 33	(02) 8216 5111
SYDNEY – MACQUARIE STREET	(02) 9125 1788
SYDNEY – MACQUARIE STREET (Parramatta)	(02) 9615 4500
SYDNEY – REYNOLDS EQUITIES	(02) 9373 4452
WOLLONGONG	(02) 4227 3022
ACT	
CANBERRA	(02) 6232 4999
VICTORIA	
MELBOURNE	(03) 9947 4111
BRIGHTON	(03) 9519 3555
CAMBERWELL	(03) 9813 2945
CARLTON	(03) 9066 3200
FARRER HOUSE	(03) 8644 5488
GEELONG	(03) 5222 5128
RICHMOND	(03) 9916 4000
SOUTH YARRA	(03) 9098 8511
TRARALGON	(03) 5176 6055
WARRNAMBOOL	(03) 5559 1500
WESTERN AUSTRALIA	
PERTH	(08) 6462 1999
SOUTH AUSTRALIA	
ADELAIDE	(08) 8464 5000
NORWOOD	(08) 8461 2800
NORTHERN TERRITORY	
DARWIN	(08) 8981 9555
TASMANIA	
HOBART	(03) 6236 9000

DISCLAIMER
The information contained in this report is provided to you by RBS Morgans Limited as general advice only, and is made without consideration of an individual's relevant personal circumstances. RBS Morgans Limited ABN 49 010 669 726, its related bodies corporate, directors and officers, employees, authorised representatives and agents ("RBS Morgans") do not accept any liability for any loss or damage arising from or in connection with any action taken or not taken on the basis of information contained in this report, or for any errors or omissions contained within. It is recommended that any persons who wish to act upon this report consult with their RBS Morgans investment adviser before doing so. Those acting upon such information without advice do so entirely at their own risk.

This report was prepared as private communication to clients of RBS Morgans and is not intended for public circulation, publication or for use by any third party. The contents of this report may not be reproduced in whole or in part without the prior written consent of RBS Morgans. While this report is based on information from sources which RBS Morgans believes are reliable, its accuracy and completeness cannot be guaranteed. Any opinions expressed reflect RBS Morgans judgement at this date and are subject to change. RBS Morgans is under no obligation to provide revised assessments in the event of changed circumstances. This report does not constitute an offer or invitation to purchase any securities and should not be relied upon in connection with any contract or commitment whatsoever.

Although CIMB Securities (Australia) Limited ABN 84 002 768 701, its related bodies corporate, directors and officers, employees, authorised representatives and agents ("CIMB") may have been involved in the preparation of certain content for this Research Report, this Research Report constitutes general advice provided by RBS Morgans to the recipient of this report under its Australian financial services licence and RBS Morgans is solely responsible for the content of this report. CIMB do not accept any liability for any loss or damage arising from or in connection with any action taken or not taken on the basis of information contained in this report, or for any errors or omissions contained within.

DISCLOSURE OF INTEREST
RBS Morgans and CIMB may from time to time hold an interest in any security referred to in this report and may, as principal or agent, sell such interests. RBS Morgans or CIMB may previously have acted as manager or co-manager of a public offering of any such securities. RBS Morgans' affiliates or CIMB affiliates may provide or have provided banking services or corporate finance to the companies referred to in the report. The knowledge of affiliates concerning such services may not be reflected in this report. Each of RBS Morgans and CIMB advises that it may earn brokerage, commissions, fees or other benefits and advantages, direct or indirect, in connection with the making of a recommendation or a dealing by a client in these securities. Some or all of RBS Morgans' Authorised Representatives may be remunerated wholly or partly by way of commission.

STATUTORY DISCLOSURES
RBS Morgans Corporate Limited was the Lead Manager to the Alchemia Limited share placement and SPP in February 2013 and received fees in this regard. Analyst owns shares..

RECOMMENDATION STRUCTURE
For a full explanation of the recommendation structure, refer to our website at https://www.rbsmorgans.com/research_disclaimer.

If you no longer wish to receive RBS Morgans' publications please advise your local RBS Morgans office or write to RBS Morgans Limited, Reply Paid 202, Brisbane QLD 4001 and include your account details.