

Starpharma Holdings

SPL AU / SPL.AX

FLASH NOTE

➤ **Market Cap**
US\$203.8m
A\$218.1m

➤ **Avg Daily Turnover**
US\$0.49m
A\$0.52m

➤ **Free Float**
80.1%
280.9 m shares

Current **A\$0.77**
Target ➤ **A\$1.40**
Prev. Target **A\$1.40**
Up/Downside **82.4%**

STOCK RATING

ADD

HOLD

REDUCE

CIMB Analyst(s)



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Share price info

Share price perf. (%)	1M	3M	12M
Relative	27.7	5.3	-31.7
Absolute	31.9	7.7	-20.3

Major shareholders	% held
Allan Gray	12.4
Prudential	12.0
Acron Capital	11.6

4Q14 cash utilisation in line

SPL's quarterly cash burn was in line with our expectations, with a cash balance supporting operations beyond the next 18 months. While shares have recovered off lows, we believe momentum can continue, underpinned by ongoing developmental progress and numerous upcoming catalysts. We make no changes to our FY14 estimated net loss of A\$9.3m and continue to forecast bottom-line profitability in 2016. Our risk-adjusted DCF valuation remains unchanged at A\$1.40 and we maintain an Add rating.

What Happened ➤

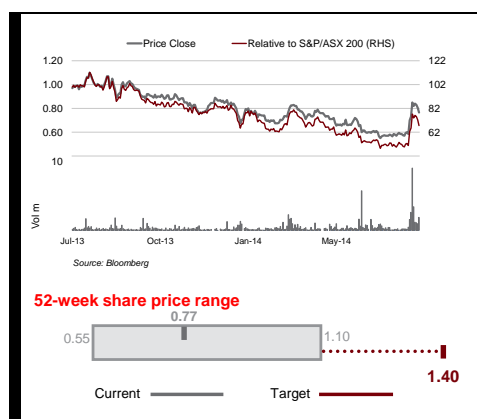
SPL reported 4Q14 operating cash flow burn of A\$3.9m (+A\$1.6m yoy), with revenue of A\$50k (-A\$16k yoy) and opex of A\$4.2m (+A\$1.53m yoy). FY14 cash utilisation increased 8% yoy to A\$9.9m, as lighter grant/licensing revenues (A\$394k, -A\$82k yoy) were somewhat offset by lower expenditures (A\$16.1m, -6.6% yoy) and 3Q14 receipt of a A\$4.7m R&D tax incentive refund. The cash balance stands at A\$24.0m exiting FY14.

What We Think ➤

While SPL's quarterly report highlights its modest cash burn and solid cash position, we do see cash utilisation increasing in line with developmental efforts. We highlight numerous upcoming catalysts to support share appreciation, including: 1) advancing VivaGel in bacterial vaginosis (starting a Phase 3 program for the prevention of recurrence and filing for a symptomatic relief claim in ex-US geographies); 2) complete Phase 1 testing of its dendrimer-docetaxel cancer treatment; 3) VivaGel-coated condoms launched by licensee Ansell (in Australia) and Okamoto (in Japan); 4) progressing dendrimers for crop protection applications across both internal and external programs; and 5) inking additional partnering arrangements.

What You Should Do ➤

We continue to view the risk/reward favourably, with shares trading on an EV of about A\$175m, which seems unjustified for a company we see as having commercially approved product, a broad, well-balanced, multi-product candidate portfolio, upcoming catalysts and a solid cash position.



Financial Summary

	Jun-12A	Jun-13A	Jun-14F	Jun-15F	Jun-16F
Revenue (A\$m)	1.09	0.91	1.62	3.13	9.36
Operating EBITDA (A\$m)	-14.17	-5.64	-9.48	-6.59	1.82
Net Profit (A\$m)	-13.08	-5.13	-9.32	-6.83	0.84
Normalised EPS (A\$)	(0.049)	(0.018)	(0.033)	(0.024)	0.003
Normalised EPS Growth	53.7%	(63.0%)	83.4%	(26.7%)	NA
FD Normalised P/E (x)	NA	NA	NA	NA	357.3
DPS (A\$)	-	-	-	-	-
Dividend Yield	0%	0%	0%	0%	0%
EV/EBITDA (x)	NA	NA	NA	NA	114.8
P/FCFE (x)	NA	NA	NA	NA	NA
Net Gearing	(87.7%)	(73.4%)	(61.6%)	(32.7%)	(14.7%)
P/BV (x)	4.42	4.68	5.89	7.29	4.02
ROE	(34.3%)	(10.8%)	(22.6%)	(20.7%)	2.0%
Normalised EPS/consensus EPS (x)			0.92	0.62	-0.74

SOURCE: CIMB, COMPANY REPORTS

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Profit & Loss

(A\$m)	Jun-13A	Jun-14F	Jun-15F	Jun-16F
Total Net Revenues	0.96	1.78	3.29	9.56
Gross Profit	0.96	1.56	3.05	9.31
Operating EBITDA	-5.64	-9.48	-6.59	1.82
Depreciation And Amortisation	-1.05	-1.05	-1.05	-1.05
Operating EBIT	-6.69	-10.53	-7.64	0.77
Financial Income/(Expense)	1.57	1.21	0.80	0.34
Pretax Income/(Loss) from Assoc.	0.00	0.00	0.00	0.00
Non-Operating Income/(Expense)	0.00	0.00	0.00	0.00
Profit Before Tax (pre-EI)	-5.13	-9.32	-6.83	1.11
Exceptional Items				
Pre-tax Profit	-5.13	-9.32	-6.83	1.11
Taxation	0.00	0.00	0.00	-0.27
Exceptional Income - post-tax	0.00	0.00	0.00	0.00
Profit After Tax	-5.13	-9.32	-6.83	0.84
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	-5.13	-9.32	-6.83	0.84
Normalised Net Profit	-5.13	-9.32	-6.83	0.84
Fully Diluted Normalised Profit	-5.13	-9.32	-6.83	0.84

Balance Sheet

(A\$m)	Jun-13A	Jun-14F	Jun-15F	Jun-16F
Total Cash And Equivalents	33.84	22.56	9.74	8.06
Total Debtors	5.49	9.31	18.94	58.47
Inventories	0.00	0.00	0.00	0.00
Total Other Current Assets	0.00	0.00	0.00	0.00
Total Current Assets	39.33	31.86	28.68	66.53
Fixed Assets	0.41	0.43	0.46	0.48
Total Investments	0.00	0.00	0.00	0.00
Intangible Assets	8.81	7.95	7.09	6.23
Total Other Non-Current Assets	0.00	0.00	0.00	0.00
Total Non-current Assets	9.22	8.38	7.55	6.71
Short-term Debt	0.03	0.03	0.03	0.03
Current Portion of Long-Term Debt	0.00	0.00	0.00	0.00
Total Creditors	1.70	2.87	5.85	18.06
Other Current Liabilities	0.74	0.74	0.74	0.74
Total Current Liabilities	2.46	3.64	6.61	18.82
Total Long-term Debt	0.08	0.08	0.08	0.08
Hybrid Debt - Debt Component				
Total Other Non-Current Liabilities	0.05	0.05	0.05	0.05
Total Non-current Liabilities	0.12	0.12	0.12	0.12
Total Provisions	0.00	0.00	0.00	0.00
Total Liabilities	2.58	3.76	6.73	18.94
Shareholders' Equity	45.97	36.48	29.49	54.30
Minority Interests	0.00	0.00	0.00	0.00
Total Equity	45.97	36.48	29.49	54.30

Cash Flow

(A\$m)	Jun-13A	Jun-14F	Jun-15F	Jun-16F
EBITDA	-5.64	-9.48	-6.59	1.82
Cash Flow from Inv. & Assoc.	0.00	0.00	0.00	0.00
Change In Working Capital	-6.24	-2.64	-6.66	-27.33
(Incr)/Decr in Total Provisions	0.00	0.00	0.00	0.00
Other Non-Cash (Income)/Expense	0.00	0.00	0.00	0.00
Other Operating Cashflow	0.53	0.00	0.00	0.00
Net Interest (Paid)/Received	1.60	1.21	0.80	0.34
Tax Paid	0.00	0.00	0.00	-0.27
Cashflow From Operations	-9.75	-10.91	-12.44	-25.44
Capex	-0.16	-0.21	-0.21	-0.21
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	-0.16	-0.21	-0.21	-0.21
Debt Raised/(repaid)	-0.05	0.00	0.00	0.00
Proceeds From Issue Of Shares	0.88	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	0.15	0.00	0.00	0.00
Cash Flow From Financing	0.98	0.00	0.00	0.00
Total Cash Generated	-8.92	-11.12	-12.65	-25.65
Free Cashflow To Equity	-9.95	-11.12	-12.65	-25.65
Free Cashflow To Firm	-11.50	-12.33	-13.46	-26.00

Key Ratios

	Jun-13A	Jun-14F	Jun-15F	Jun-16F
Revenue Growth	(16%)	78%	93%	199%
Operating EBITDA Growth	(60.2%)	68.0%	(30.6%)	NA
Operating EBITDA Margin	(620%)	(586%)	(211%)	19%
Net Cash Per Share (A\$)	0.12	0.08	0.03	0.03
BVPS (A\$)	0.16	0.13	0.10	0.19
Gross Interest Cover	N/A	-1,915	-1,388	139
Effective Tax Rate	0.0%	0.0%	0.0%	24.6%
Net Dividend Payout Ratio	NA	NA	NA	NA
Accounts Receivables Days	1,513	1,670	1,649	1,514
Inventory Days	N/A	-	-	-
Accounts Payables Days	N/A	3,777	6,798	17,619
ROIC (%)	(77%)	(60%)	(38%)	3%
ROCE (%)	(10.8%)	(22.5%)	(20.6%)	2.7%

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Description:	Excellent	Very Good	Good	N/A	

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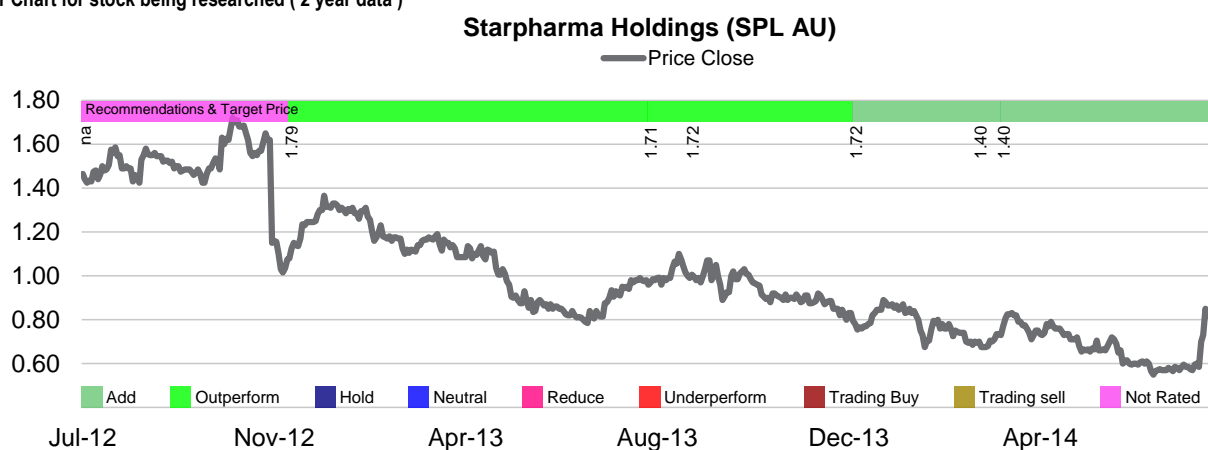
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Distribution of stock ratings and investment banking clients for quarter ended on 30 June 2014		
1467 companies under coverage for quarter ended on 30 June 2014		
	Rating Distribution (%)	Investment Banking clients (%)
Outperform/Buy/Trading Buy/Add	58.9%	7.2%
Neutral/Hold	27.9%	3.9%
Underperform/Sell/Trading Sell/Reduce	13.2%	1.0%

Spitzer Chart for stock being researched (2 year data)



As at the time of publishing this report CIMB is phasing in an absolute recommendation structure for stocks (Framework #1). Please refer to all frameworks for a definition of any recommendations stated in this report.

CIMB Recommendation Framework #1

Stock Ratings	Definition
Add	The stock's total return is expected to exceed 10% over the next 12 months.
Hold	The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
Reduce	The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock.

Stock price targets have an investment horizon of 12 months.

Sector Ratings	Definition
Overweight	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.
Country Ratings	Definition
Overweight	An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
Neutral	A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
Underweight	An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.

CIMB Stock Recommendation Framework #2 *

Outperform	The stock's total return is expected to exceed a relevant benchmark's total return by 5% or more over the next 12 months.
Neutral	The stock's total return is expected to be within +/-5% of a relevant benchmark's total return.
Underperform	The stock's total return is expected to be below a relevant benchmark's total return by 5% or more over the next 12 months.
Trading Buy	The stock's total return is expected to exceed a relevant benchmark's total return by 3% or more over the next 3 months.

Trading Sell

The stock's total return is expected to be below a relevant benchmark's total return by 3% or more over the next 3 months.

** This framework only applies to stocks listed on the Singapore Stock Exchange, Bursa Malaysia, Stock Exchange of Thailand, Jakarta Stock Exchange, Australian Securities Exchange, Taiwan Stock Exchange and National Stock Exchange of India/Bombay Stock Exchange. Occasionally, it is permitted for the total expected returns to be temporarily outside the prescribed ranges due to extreme market volatility or other justifiable company or industry-specific reasons.*
CIMB Research Pte Ltd (Co. Reg. No. 198701620M)

CIMB Stock Recommendation Framework #3 **

Outperform	Expected positive total returns of 10% or more over the next 12 months.
Neutral	Expected total returns of between -10% and +10% over the next 12 months.
Underperform	Expected negative total returns of 10% or more over the next 12 months.
Trading Buy	Expected positive total returns of 10% or more over the next 3 months.
Trading Sell	Expected negative total returns of 10% or more over the next 3 months.

*** This framework only applies to stocks listed on the Korea Exchange, Hong Kong Stock Exchange and China listings on the Singapore Stock Exchange. Occasionally, it is permitted for the total expected returns to be temporarily outside the prescribed ranges due to extreme market volatility or other justifiable company or industry-specific reasons.*

Corporate Governance Report of Thai Listed Companies (CGR), CG Rating by the Thai Institute of Directors Association (IOD) in 2013.

AAV – Good, ADVANC - Excellent, AMATA - Very Good, ANAN – Good, AOT - Excellent, AP - Very Good, BANPU - Excellent, BAY - Excellent, BBL - Excellent, BCH – Good, BCP - Excellent, BEC - Very Good, BGH - not available, BJC – Very Good, BH - Very Good, BIGC - Very Good, BTS - Excellent, CCET – Very Good, CENTEL – Very Good, CK - Excellent, CPALL - Very Good, CPF – Excellent, CPN - Excellent, DELTA - Very Good, DTAC - Excellent, EGCO – Excellent, GLOBAL - Good, GLOW - Very Good, GRAMMY – Excellent, HANA - Excellent, HEMRAJ - Excellent, HMPRO - Very Good, INTUCH – Excellent, ITD – Very Good, IVL - Excellent, JAS – Very Good, KAMART – not available, KBANK - Excellent, KKP – Excellent, KTB - Excellent, LH - Very Good, LPN - Excellent, MAJOR – Very Good, MAKRO – Very Good, MCOT - Excellent, MEGA – not available, MINT - Excellent, PS - Excellent, PSL - Excellent, PTT - Excellent, PTTGC - Excellent, PTTEP - Excellent, QH - Excellent, RATCH - Excellent, ROBINS - Excellent, RS – Excellent, SAMART – Excellent, SC – Excellent, SCB - Excellent, SCC - Excellent, SCCC - Very Good, SIRI – Very Good, SPALI - Excellent, STA - Good, STEC - Very Good, TCAP - Excellent, THAI - Excellent, THCOM – Excellent, TICON – Very Good, TISCO - Excellent, TMB - Excellent, TOP - Excellent, TRUE - Excellent, TTW – Excellent, TUF - Very Good, VGI – Excellent, WORK – Good.