

Australian Equity Research

16 November 2015

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BUY

unchanged

PRICE TARGET A\$1.12

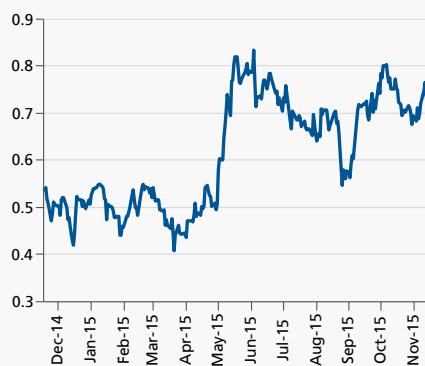
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Price (16-Nov) A\$0.91

Ticker SPL-ASX

52-Week Range (A\$):	0.41 - 0.85
Avg Daily Vol (000s) :	389.6
Market Cap (A\$M):	292
Shares Out. (M) :	320.5
Enterprise Value (A\$M):	266
Last Cash Balance (A\$M):	26.1
Last Quarter Cash Burn (A\$M):	(6.2)
Major Shareholders:	Allan Gray M&G Investments Acorn Capital Dow Chemical

FYE Jun	2015A	2016E	2017E	2018E
Sales (A\$M)	0.8	3.6	8.6	24.6
PBT (A\$M)	(19.0)	(12.4)↓	(2.1)↓	18.0↓
Previous	(19.0)	(7.9)	(0.2)	20.7
Net Income (A\$M)	(19.0)	(12.4)↓	(2.1)↓	18.0↓
Previous	(19.0)	(7.9)	(0.2)	20.7
EPS (AUC)	(5.91)↑	(3.88)↓	(0.66)↓	5.63↓
Previous	(5.94)	(2.49)	(0.08)	6.48
Cash Position (A\$M)	30.8	18.4	16.3	34.3



Source: FactSet

SPL is developing new pharmaceutical, agrochemical and industrial products based on its proprietary dendrimer polymer technology.

Company Update

Impressive preclinical data from targeted cancer drug

SPL has released impressive pre-clinical data from a targeted cancer drug that uses one of SPL's proprietary dendrimer polymers to link a toxic cancer drug with an antibody that specifically binds to cancer cells. In a mouse model of human cancer, SPL's targeted drug construct showed significantly greater cancer-killing activity than either the targeting antibody on its own or the marketed, targeted drug, Kadcyla. While experimental observations in animal models are often not replicated in human patients, in this case, the significantly improved activity compared with established human therapeutics (Herceptin and Kadcyla) is very encouraging. Furthermore, these data suggest that SPL's dendrimer polymers may provide useful scaffolds for building a number of targeted drug conjugates. We maintain our BUY recommendation for SPL with a A\$1.12 price target based on a 12-year discounted cash flow (13.4% discount rate, no terminal value).

High anti-tumour activity of targeted DEP conjugate (TDC) significant.

This study compared the anti-tumour activity of SPL's TDC (which uses the antibody Herceptin as a targeting agent), Roche's Kadcyla (an antibody drug conjugate (ADC) that combines Herceptin with a cytotoxic drug called DM1), and the therapeutic antibody Herceptin, against human tumour tissue that had been implanted in mice. Three, weekly doses of SPL's TDC resulted in significant reduction of the implanted tumour tissue which was maintained for over 60 days during which time all of the mice remained alive. In contrast, tumour tissue in mice treated with Kadcyla and Herceptin grew five-fold over 40 days and, by 50 days, all of the mice in these arms of the study had ceased to be.

Targeted drugs considered the 'golden bullet' for cancer therapy

The challenge with all cancer therapies is that the types of drugs that kill cancer cells are usually also toxic to healthy cells. Even when drugs are directed at specific areas of cancer cell biology, such as their higher frequency of cell division, administration of cancer drugs still often results in some collateral damage. The identification of antibodies that bind to proteins primarily found only on cancer has opened up the possibility of highly targeted approaches whereby the toxic cancer drugs are specifically delivered to cancer cells. Kadcyla and Adcetris are two of the more successful such targeted antibody drug conjugates (ADCs) which, according to SPL, generated over US \$1B in combined sales in 2014.

Potential to attract strong commercial interest

The robust anti-tumour activity of SPL's TDC compared with established ADC, is likely to attract commercial interest from pharma companies on its own. However, we believe the real value of these data will come from the potential to use dendrimer polymer scaffolds as the foundation for a range of TDCs. The regular structure of dendrimer polymers has a number of advantages in terms of manufacturing, consistency and amount of payload that can be loaded and delivered. With such promising data coming from initial animal studies, we expect a number of pharma and biotech companies will have an interest in accessing SPL's dendrimers to develop new, targeted cancer therapeutics.

FINANCIAL SUMMARY

Financial Performance

Year End	June	2014A	2015A	2016F	2017F	2018F	2019F	2020F	2021F	2022F
VivaGel Condoms royalty	\$M	-	0.3	0.7	1.4	2.4	4.7	6.8	9.6	12.6
BV prevention royalty	\$M	-	-	-	-	3.4	6.9	14.1	28.7	58.4
Drug delivery royalty	\$M	-	-	-	-	-	-	-	5.6	11.3
Agrochemicals royalty	\$M	-	-	-	1.5	3.8	7.5	11.3	13.5	15.0
Milestone payments	\$M	-	-	2.9	5.7	15.0	35.0	35.0	75.0	50.0
Other	\$M	0.3	0.6	-	-	-	-	-	-	-
Total product revenues	\$M	0.3	0.8	3.6	8.6	24.6	54.1	67.2	132.4	147.2
Interest revenue	\$M	1.0	0.9	0.5	0.8	1.5	1.8	1.8	1.8	1.8
Grants and tax rebates	\$M	4.7	0.0	3.9	4.0	3.2	2.9	0.9	0.7	0.5
Total revenue	\$M	6.0	1.7	8.0	13.4	29.2	58.8	69.8	134.9	149.4
R&D expenses	\$M	-11.0	-16.3	-16.0	-11.0	-6.5	-2.0	-1.5	-1.0	-0.5
Administration expenses	\$M	-4.9	-4.4	-4.4	-4.5	-4.7	-4.9	-5.0	-5.2	-5.4
Other expenses	\$M	-	-0.0	-	-	-	-	-	-	-
Total expenses	\$M	-15.9	-20.6	-20.4	-15.5	-11.2	-6.9	-6.5	-6.2	-5.9
Net profit before tax	\$M	-9.9	-19.0	-12.4	-2.1	18.0	51.9	63.3	128.6	143.5
Tax expense	\$M	-	-	-	-	-	-	-1.2	-38.6	-43.0
Net profit after tax	\$M	-9.9	-19.0	-12.4	-2.1	18.0	51.9	62.1	90.1	100.4
EPS (cps)	cps	-3.1	-5.9	-3.9	-0.7	5.6	16.2	19.4	28.1	31.3

Balance Sheet

Year End	June	2014A	2015A	2016F	2017F	2018F	2019F	2020F	2021F	2022F
Cash and cash equivalents	\$M	24.0	30.8	18.4	16.3	34.3	45.2	45.2	45.2	45.2
Other current assets	\$M	4.6	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2
Non-current assets	\$M	8.3	9.3	9.3	9.3	9.3	9.3	9.3	9.3	9.3
Total assets	\$M	36.9	44.4	31.9	29.8	47.9	58.7	58.7	58.7	58.7
Current borrowings	\$M	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other current liabilities	\$M	3.8	6.7	6.7	6.7	6.7	6.7	6.7	6.7	6.7
Non-current borrowings	\$M	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other non-current liabilities	\$M	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Totals liabilities	\$M	3.9	6.8	6.8	6.8	6.8	6.8	6.8	6.8	6.8
Net assets	\$M	33.0	37.6	25.1	23.0	41.0	51.9	51.9	51.9	51.9
Contributed equity	\$M	140.3	160.9	160.9	160.9	160.9	160.9	160.9	160.9	160.9
Reserves	\$M	4.9	7.9	7.9	7.9	7.9	7.9	7.9	7.9	7.9
Retained profit/ losses	\$M	-112.3	-131.2	-143.6	-145.8	-127.7	-116.8	-116.8	-116.8	-116.8
Total equity	\$M	33.0	37.6	25.1	23.0	41.0	51.9	51.9	51.9	51.9

Cash Flow

Year End	June	2014A	2015A	2016F	2017F	2018F	2019F	2020F	2021F	2022F
Cash received from products & service	\$M	0.4	0.5	3.6	8.6	24.6	54.1	67.2	132.4	147.2
Payments to suppliers	\$M	-16.1	-19.3	-20.4	-15.5	-11.2	-6.9	-6.5	-6.2	-5.9
Net interest	\$M	1.2	1.0	0.5	0.8	1.5	1.8	1.8	1.8	1.8
Grants and rebates	\$M	4.7	4.2	3.9	4.0	3.2	2.9	0.9	0.7	0.5
Net tax	\$M	-	-	-	-	-	-	-1.2	-38.6	-43.0
Cash from operations	\$M	-9.8	-13.6	-12.4	-2.1	18.0	51.9	62.1	90.1	100.4
Cash from investing activities	\$M	-0.3	-0.7	-	-	-	-	-	-	-
Net cash from issue of shares	\$M	0.2	20.5	-	-	-	-	-	-	-
Net cash from borrowing	\$M	-	-	-	-	-	-	-	-	-
Dividends paid	\$M	-	-	-	-	-	-41.0	-62.1	-90.1	-100.4
Other financing cash flows	\$M	-0.0	-0.0	-	-	-	-	-	-	-
Cash from financing activities	\$M	0.2	20.5	-	-	-	-41.0	-62.1	-90.1	-100.4
Net increase / decrease in cash	\$M	-9.9	6.2	-12.4	-2.1	18.0	10.9	-	-	-
Cash at beginning of the year	\$M	33.8	24.0	30.8	18.4	16.3	34.3	45.2	45.2	45.2
Exchange rates	\$M	0.0	0.6	-	-	-	-	-	-	-
Cash at end of year	\$M	24.0	30.8	18.4	16.3	34.3	45.2	45.2	45.2	45.2

Valuation

Risk free rate	%		4.6%
Market premium	%		5.5%
Beta	x		1.6
Discount rate	%		13.4%
Forecast period	years		16
12-month price target	\$		\$1.12
Current price	\$		\$0.91
Return	%		23%

SOURCE: Company reports and Canaccord Genuity estimates

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Target Price / Valuation Methodology:

Starpharma Holdings Limited - SPL

Our price target is based on a 12-year discounted cash flow valuation (13.4% WACC, 1.6 beta, no TGR) of risk-adjusted royalty and milestone payments that SPL may receive from products developed using its proprietary dendrimer polymer technology.

Risks to achieving Target Price / Valuation:

Starpharma Holdings Limited - SPL

A significant proportion of our valuation is based on commercial development of VivaGel which is currently in Phase-3 clinical trials for the treatment of bacterial vaginosis. If these trial fail to achieve a clinically meaningful benefit, it will have a significant impact on our valuation. Similarly, the value of the dendrimer formulation technology requires those products to successfully complete several clinical trials and secure regulatory approvals. Finally, the commercial development of most of SPL product is based on current and future partnerships. If the company is unable to secure these, or they are secured on financial terms different to what we have forecast, or the partner does not effectively proceed with commercialising SPL's products, it will impact on the valuation of SPL.

Distribution of Ratings:

Global Stock Ratings (as of 11/16/15)

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	581	61.03%	32.36%
Hold	282	29.62%	12.41%
Sell	30	3.15%	6.67%
Speculative Buy	59	6.20%	59.32%
	952*	100.0%	

*Total includes stocks that are Under Review

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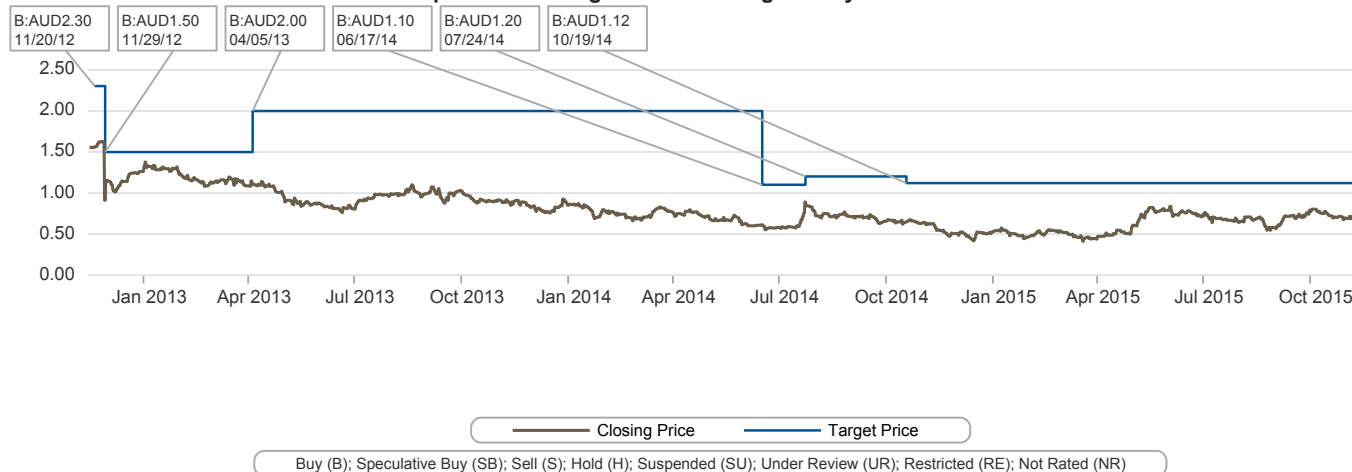
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