

**Australian Equity Research**  
 14 June 2017

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**BUY**

unchanged

**PRICE TARGET** A\$1.00

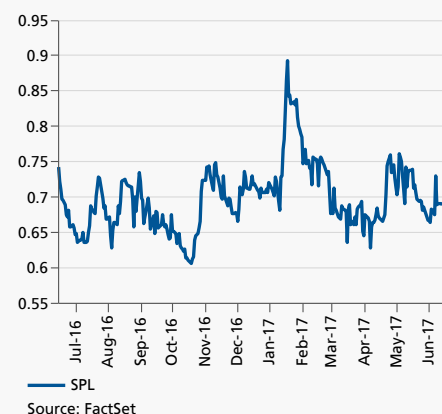
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Price (14-Jun) A\$0.73

Ticker SPL-ASX

52-Week Range (A\$):	0.59 - 0.88
Avg Daily Vol (000s) :	364.5
Market Cap (M) (A\$M):	271
Shares Out. (M) :	368.6
Enterprise Value (A\$M):	241
Last Cash Balance (A\$M):	29.7
Last Quarter Cash Burn (A\$M):	5.8
Major Shareholders:	Allan Gray Australia M&G Investments Fidelity Investment

FYE Jun	2015A	2016A	2017E	2018E
Sales (A\$M)	0.8	3.8	37.5↑	9.1↓
Previous	-	-	8.0	21.9
PBT (A\$M)	(19.0)	(22.7)	16.2↑	(10.0)↓
Previous	-	-	(13.3)	2.9
Net Income (A\$M)	(19.0)	(22.7)	16.2↑	(10.0)↓
Previous	-	-	(13.3)	2.9
EPS (AUC)	(5.14)	(6.15)	4.4↑	(2.70)↓
Previous	-	-	(3.63)	0.8
Cash Position (A\$M)	30.8	46.0	62.2	52.2
Previous	-	-	32.6	35.5



Priced as of close of business 14 June 2017

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

**Estimates Revised****Grass is greener****Investment Perspective**

SPL has sold its agrichemicals business, including the Priostar dendrimer technology it acquired from The Dow Chemical Company in 2006, to Agrium Inc. for A\$35M in an all-cash deal. We see this as a very positive move as it provides SPL with a strong balance sheet, including A\$60M in cash, with which to accelerate the development of its drug delivery portfolio. While there are a number of commercially attractive opportunities to enhance agrichemicals using dendrimers, the development time frames and low royalties rates associated with agrichemical products meant it was going to be some time before they would make a contribution to SPL's value and the magnitude of the contribution was likely to be quite small. By contrast, the ability of dendrimers to significantly improve the safety and efficacy profile of several cancer drugs has now been demonstrated in mouse models and is further supported by data available from the Phase-1 clinical trial of DEP-docetaxel. We believe that the drug delivery applications of dendrimers offer the greatest potential to generate value for SPL shareholders and thus represent a better area for the company to deploy its resources and capital. With an anticipated acceleration of SPL's drug delivery program and the potential for US regulatory approvals and commercial revenue from VivaGel for bacterial vaginosis in the pipeline, we maintain our BUY recommendation for SPL with a price target of A\$1.00 (12-year DCF, 13.4% discount rate, no terminal value).

**Key Points**

**Clean deal provides cash to accelerate drug delivery.** We see this deal as exchanging an asset that was some time from delivering any meaningful value, for cash to invest in an application of SPL's technology that has much greater commercial potential. We believe SPL has rightly opted for an outright sale of its agrichemicals business for \$35M cash rather than settle for a lower cash amount and a future royalty stream (that would most likely be modest, take time, and may never materialise). Our DCF valuation for SPL included \$23M for agrichemicals. Given the \$12M net difference between our valuation and the cash consideration, we have not increased our price target. However, we believe the company is in a much stronger position to generate value from its assets as a result of this transaction.

**Of mice and men.** Last week SPL reported that attaching the cancer drug irinotecan to one of its dendrimers significantly improved the drug's efficacy and safety profile in a mouse model of human colon cancer. While the predictive value of these models is usually considered moderate, we believe it is much greater in situations in which an established drug is compared with a modified version of the same drug. The company has reported significant improvements in safety and efficacy for six drugs from its internal program (docetaxel, doxorubicin, oxaliplatin herceptin-targeted construct, cabazitaxel and irinotecan) and we expect AstraZeneca has had similar results from its dendrimer enhanced drugs. SPL has also reported that no cases of neutropenia or hair loss have been seen in its Phase-1 trial of DEP-docetaxel. With this consistent, positive data, we believe getting more of these candidates into the clinic will open up opportunities for SPL to license out multiple drug candidates under attractive commercial terms.

## FINANCIAL SUMMARY

## Financial Performance

Year End	June	2014A	2015A	2016A	2017F	2018F	2019F	2020F	2021F	2022F
VivaGel Condoms royalty	\$M	-	0.3	0.1	-	0.9	2.0	3.6	5.1	8.4
VivaGel - BV royalties	\$M	-	-	-	-	0.7	3.5	7.1	14.4	29.2
Drug delivery royalty	\$M	-	-	-	-	-	-	-	5.6	11.3
Agrochemicals royalty	\$M	-	-	-	-	-	-	-	-	-
Milestone payments	\$M	-	-	2.9	37.5	7.5	15.0	35.0	50.0	50.0
Other	\$M	0.3	0.6	0.9	-	-	-	-	-	-
<b>Total product revenues</b>	<b>\$M</b>	<b>0.3</b>	<b>0.8</b>	<b>3.8</b>	<b>37.5</b>	<b>9.1</b>	<b>20.5</b>	<b>45.7</b>	<b>75.1</b>	<b>98.8</b>
Interest revenue	\$M	1.0	0.9	0.7	0.8	1.5	1.8	1.8	1.8	1.8
Grants and tax rebates	\$M	4.7	0.0	0.1	4.0	6.3	6.5	5.4	4.3	0.5
<b>Total revenue</b>	<b>\$M</b>	<b>6.0</b>	<b>1.7</b>	<b>4.6</b>	<b>42.3</b>	<b>16.9</b>	<b>28.8</b>	<b>52.8</b>	<b>81.1</b>	<b>101.0</b>
R&D expenses	\$M	-11.0	-16.3	-22.2	-20.0	-20.5	-18.0	-9.5	-1.0	-0.5
Administration expenses	\$M	-4.9	-4.4	-5.1	-6.1	-6.3	-6.5	-6.8	-7.0	-7.3
Other expenses	\$M	-	-0.0	-0.0	-	-	-	-	-	-
<b>Total expenses</b>	<b>\$M</b>	<b>-15.9</b>	<b>-20.6</b>	<b>-27.3</b>	<b>-26.1</b>	<b>-26.8</b>	<b>-24.5</b>	<b>-16.3</b>	<b>-8.0</b>	<b>-7.8</b>
<b>Net profit before tax</b>	<b>\$M</b>	<b>-9.9</b>	<b>-19.0</b>	<b>-22.7</b>	<b>16.2</b>	<b>-10.0</b>	<b>4.2</b>	<b>36.6</b>	<b>73.1</b>	<b>93.3</b>
Tax expense	\$M	-	-	-	-	-	-	-	-	-25.3
<b>Net profit after tax</b>	<b>\$M</b>	<b>-9.9</b>	<b>-19.0</b>	<b>-22.7</b>	<b>16.2</b>	<b>-10.0</b>	<b>4.2</b>	<b>36.6</b>	<b>73.1</b>	<b>68.0</b>
EPS (cps)	cps	-2.7	-5.1	-6.2	4.4	-2.7	1.1	9.9	19.8	18.4

## Balance Sheet

Year End	June	2014A	2015A	2016F	2017F	2018F	2019F	2020F	2021F	2022F
Cash and cash equivalents	\$M	24.0	30.8	46.0	62.2	52.2	56.4	66.3	66.3	66.3
Other current assets	\$M	4.6	4.2	4.3	4.3	4.3	4.3	4.3	4.3	4.3
Non-current assets	\$M	8.3	9.3	8.8	8.8	8.8	8.8	8.8	8.8	8.8
<b>Total assets</b>	<b>\$M</b>	<b>36.9</b>	<b>44.4</b>	<b>59.0</b>	<b>75.2</b>	<b>65.3</b>	<b>69.5</b>	<b>79.4</b>	<b>79.4</b>	<b>79.4</b>
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	9.6	9.6	9.6	9.6	9.6	9.6	9.6
Non-current borrowings	\$M	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
<b>Totals liabilities</b>	<b>\$M</b>	<b>3.9</b>	<b>6.8</b>	<b>9.6</b>	<b>9.6</b>	<b>9.6</b>	<b>9.6</b>	<b>9.6</b>	<b>9.6</b>	<b>9.6</b>
<b>Net assets</b>	<b>\$M</b>	<b>33.0</b>	<b>37.6</b>	<b>49.4</b>	<b>65.6</b>	<b>55.7</b>	<b>59.9</b>	<b>69.7</b>	<b>69.7</b>	<b>69.7</b>
Contributed equity	\$M	140.3	160.9	193.5	193.5	193.5	193.5	193.5	193.5	193.5
Reserves	\$M	4.9	7.9	9.8	9.8	9.8	9.8	9.8	9.8	9.8
Retained profit/ losses	\$M	-112.3	-131.2	-153.9	-137.7	-147.6	-143.4	-133.6	-133.6	-133.6
<b>Total equity</b>	<b>\$M</b>	<b>33.0</b>	<b>37.6</b>	<b>49.4</b>	<b>65.6</b>	<b>55.7</b>	<b>59.9</b>	<b>69.7</b>	<b>69.7</b>	<b>69.7</b>

## Cash Flow

Year End	June	2014A	2015A	2016F	2017F	2018F	2019F	2020F	2021F	2022F
Cash received from products & service	\$M	0.4	0.5	4.1	37.5	9.1	20.5	45.7	75.1	98.8
Payments to suppliers	\$M	-16.1	-19.3	-26.0	-26.1	-26.8	-24.5	-16.3	-8.0	-7.8
Net interest	\$M	1.2	1.0	0.7	0.8	1.5	1.8	1.8	1.8	1.8
Grants and rebates	\$M	4.7	4.2	3.4	4.0	6.3	6.5	5.4	4.3	0.5
Net tax	\$M	-	-	-	-	-	-	-	-	-25.3
<b>Cash from operations</b>	<b>\$M</b>	<b>-9.8</b>	<b>-13.6</b>	<b>-17.8</b>	<b>16.2</b>	<b>-10.0</b>	<b>4.2</b>	<b>36.6</b>	<b>73.1</b>	<b>68.0</b>
<b>Cash from investing activities</b>	<b>\$M</b>	<b>-0.3</b>	<b>-0.7</b>	<b>0.0</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Net cash from issue of shares	\$M	0.2	20.5	32.6	-	-	-	-	-	-
Net cash from borrowing	\$M	-	-	-	-	-	-	-	-	-
Dividends paid	\$M	-	-	-	-	-	-	-26.7	-73.1	-68.0
Other financing cash flows	\$M	-0.0	-0.0	-0.0	-	-	-	-	-	-
<b>Cash from financing activities</b>	<b>\$M</b>	<b>0.2</b>	<b>20.5</b>	<b>32.6</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-26.7</b>	<b>-73.1</b>	<b>-68.0</b>
Net increase / decrease in cash	\$M	-9.9	6.2	14.8	16.2	-10.0	4.2	9.8	-	-
Cash at beginning of the year	\$M	33.8	24.0	30.8	46.0	62.2	52.2	56.4	66.3	66.3
Exchange rates	\$M	0.0	0.6	0.3	-	-	-	-	-	-
<b>Cash at end of year</b>	<b>\$M</b>	<b>24.0</b>	<b>30.8</b>	<b>46.0</b>	<b>62.2</b>	<b>52.2</b>	<b>56.4</b>	<b>66.3</b>	<b>66.3</b>	<b>66.3</b>

## Valuation

Risk free rate	%	4.6%
Market premium	%	5.5%
Beta	x	1.6
Discount rate	%	13.4%
Forecast period	years	12
12-month price target	\$	\$1.00
Current price	\$	\$0.74
Return	%	36%

SOURCE: Company reports and Canaccord Genuity estimates

## Appendix: Important Disclosures

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### Investment Recommendation

Date and time of first dissemination: June 14, 2017, 00:31 ET

Date and time of production: June 14, 2017, 00:31 ET

### 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 06/13/17)

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	575	60.98%	39.83%
Hold	272	28.84%	20.22%
Sell	26	2.76%	15.38%
Speculative Buy	70	7.42%	70.00%
	943*	100.0%	

\*Total includes stocks that are Under Review

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**Starpharma Holdings Limited Rating History as of 06/12/2017**

Buy (B); Speculative Buy (SB); Sell (S); Hold (H); Suspended (SU); Under Review (UR); Restricted (RE); Not Rated (NR)

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