

Cyxone AB

Sweden / Biotechnology
 Nasdaq First North
 Bloomberg: CYXO SS
 ISIN: SE0007815428

Update on T20K and financials

RATING
BUY

PRICE TARGET
SEK 13.50

Return Potential 307.2%
 Risk Rating Speculative

T20K ENTERS PHASE I CLINICAL TRIAL IN EUROPE

Cyxone has announced that T20K, its prophylactic oral drug candidate for multiple sclerosis (MS), has progressed to a first-in-human, Phase I clinical trial. This is good news as the company has achieved a significant milestone and expanded its clinical pipeline. The study design has been approved by the Ethics Committee and Central Commission on Research Involving Human Subjects (CCMO) in the Netherlands. The double-blinded, single centre study in the Netherlands is designed to evaluate the level of T20K in the blood after administering one or two doses of the substance in healthy subjects and also investigate safety and tolerability. T20K will be administered to healthy male volunteers by intravenous infusion. The trial will be carried out in cooperation with the clinical research organization (CRO) QPS Netherlands. Cyxone has initiated the recruitment and screening of volunteers for the study. The first cohort will receive the initial T20K dose in July 2019. Completion of the study is planned for H2/19. Meanwhile, the Phase IIb study of lead drug candidate Rabeximod in rheumatoid arthritis (RA) is progressing as anticipated. However, we have revised down our 2019-2021 financial forecasts because Q1/19 results showed higher costs than anticipated. Following the achievement of the pipeline milestone and our slight projections downgrade, our SOTP valuation model produces an unchanged price target of SEK 13.50. We reiterate our Buy rating.

T20K's phase I study will start with intravenous infusion to comply with regulation and demonstrate the compound's free level in blood. T20K's very low level in the blood and straight migration to the immunoregulating organs are positive features for the compound's safety and efficacy profile. However, the regulatory authorities require that the company demonstrates a safe level of free T20K in human blood. Therefore the Phase I study uses an infusion application to identify a safe, free blood level of T20K. (p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2016	2017	2018	2019E	2020E	2021E
Revenue (SEK m)	0.02	0.00	0.00	0.05	89.05	0.05
Y-o-y growth	n.a.	n.a.	n.a.	n.a.	n.a.	-99.9%
EBIT (SEK m)	-4.16	-8.82	-15.43	-20.46	63.76	-31.45
EBIT margin	n.a.	n.a.	n.a.	n.a.	71.6%	n.a.
Net income (SEK m)	-4.16	-8.82	-15.43	-20.44	63.80	-31.42
EPS (diluted) (SEK)	-0.32	-0.50	-0.69	-0.48	1.33	-0.59
DPS (SEK)	0.00	0.00	0.00	0.00	0.00	0.00
FCF (SEK m)	-5.40	-11.37	-43.49	-45.67	36.54	-56.46
Net gearing	n.a.	n.a.	n.a.	-49.5%	-52.3%	-24.7%
Liquid assets (SEK m)	21.60	33.36	38.72	55.88	92.42	35.96

RISKS

Risks include, but are not limited to development, regulatory, competition and financing risks.

COMPANY PROFILE

Cyxone AB is a Swedish biotech company focused on the research and development of new drugs to treat autoimmune diseases. The company's proprietary discovery technology is generating drug candidates which belong to a new class of drugs called Cyclotides. Cyxone currently has one drug in a phase I trial for multiple sclerosis and a second drug at the phase II stage for rheumatoid arthritis.

MARKET DATA

As of 28 Jun 2019

Closing Price	SEK 3.32
Shares outstanding	37.46m
Market Capitalisation	SEK 124.17m
52-week Range	SEK 2.08 / 5.62
Avg. Volume (12 Months)	279,698

Multiples	2018	2019E	2020E
P/E	n.a.	n.a.	2.5
EV/Sales	n.a.	n.a.	1.1
EV/EBIT	n.a.	n.a.	1.5
Div. Yield	0.0%	0.0%	0.0%

STOCK OVERVIEW



COMPANY DATA

As of 31 Mar 2019

Liquid Assets	SEK 30.05m
Current Assets	SEK 30.59m
Intangible Assets	SEK 37.98m
Total Assets	SEK 68.57m
Current Liabilities	SEK 2.78m
Shareholders' Equity	SEK 65.79m

SHAREHOLDERS

Accequa AB	15.9%
OxyPharma AB	5.1%
Avanza Pension	5.1%
Nordnet Pensionsförsäkring	3.4%
Others	70.5%



Following positive results from the ongoing trial, the company will likely conduct a Phase Ib study in healthy volunteers, this time using the oral version of the compound which the company intends to commercialise later.

Based on new pre-clinical findings, Cyhone decided to strategically pursue development of T20K as a prophylactic MS drug Pre-clinical studies for T20K performed during 2018 provided new information on how the compound is absorbed and spreads in the body. Based on this new knowledge, the company believes that the product could be administered at low doses on a bi-weekly or even monthly regimen without causing toxicity in the body. Considering that T20K is a natural plant protein, the drug candidate would have an attractive profile for prophylactic use. As a result, Cyhone announced its decision to pursue development of T20K as a prophylactic agent. This is in our view positive news. There is currently no prophylactic product approved for MS. If successfully approved, patients would benefit at an earlier disease stage from the drug. Also, the addressed market could potentially be substantially larger. While promising, the drug candidate still has to prove successful through human studies.

Rabeximod's Phase IIb study in moderate to severe RA is on track In preparation for the Phase IIb study, the company is preparing the animal studies which will last 24 weeks in order to investigate toxicity during long term treatment. Since the Phase IIb study will investigate efficacy of the drug candidate over a longer period of 24 weeks (the previously pursued regimen was 12 weeks), the company requires new safety animal data for this new time period.

RECENT FINANCIAL RESULTS

EBIT and net income moderately below expectations Cyhone reported sales of SEK48k (FBe: SEK0; Q1/18: SEK0). The company achieved EBIT of SEK-4.8m (FBe: SEK-4.1m; Q1/18: SEK-2.7m), which was somewhat weaker than expected. Particularly the personnel expenses at SEK-1.1m were higher than anticipated (FBe: SEK450k; Q1/18: SEK430k). Net income came in at SEK-4.8m (FBe: SEK-4.1m; Q1/18: SEK-2.7m).

Figure 1: Reported Q1/19 figures vs. FB estimates

in SEK'000	Q1/19	Q1/19E	Delta	Q1/18	Delta
Revenue	48	0	-	0	-
EBIT	-4,762	-4,100	n.m.	-2,704	n.m.
margin	n.m.	n.m.	-	n.m.	-
Net income	-4,762	-4,110	n.m.	-2,747	n.m.
margin	n.m.	n.m.	-	n.m.	-

Source: First Berlin Equity Research, Cyhone AB

Solid cash position Cyhone reported cash of SEK30.0m (FY/18: SEK38.7m). The company conducted two capital increases in 2018 (the first one in the scope of the Rabeximod acquisition, and the second one to finance the Phase IIb Rabeximod study). Following these capital increases, Cyhone is well financed to bring Rabeximod and T20K through Phase IIb and Phase I respectively.

Revising forecasts following Q1/19 results In light of the higher personnel costs in Q1/19, we have fine-tuned our financial forecasts. These changes led to slightly lower operating result and net income in FY/19E - FY/21E. We have summarised the main changes in figure 2 below.

**Figure 2: Changes to our forecasts (KPIs)**

in SEK'000	2019E			2020E			2021E		
	old	new	Delta	old	new	Delta	old	new	Delta
Sales	0	48	-	0	50	-	0	50	-
Milestone & Upfront payments	0	0	-	89,000	89,000	0.0%	0	0	-
EBIT	-18,285	-20,462	-	65,895	63,757	-3.2%	-29,274	-31,455	-
Margin (%)	-	-	-	-	-	-	-	-	-
Net income	-18,263	-20,436	-	65,931	63,797	-3.2%	-29,241	-31,419	-
EPS diluted (\$)	-0.43	-0.48	-	1.37	1.33	-3.2%	-0.55	-0.59	-

Source: First Berlin Equity Research estimates

FY/18 EBIT and net income were also just below our forecasts due to higher OPEX, reinforcing our decision to lower our forecasts The company reported an EBIT of SEK-15.4m, compared to our estimate of SEK-13.9m (FY/17: SEK-8.8m). All OPEX positions showed slightly higher figures. Net income came in at SEK-13.9m (FBe: SEK-15.8m; FY/17: SEK-8.8m).



VALUATION MODEL

Buy recommendation at unchanged price target We continue to see significant value in Cyhone's main drug candidates Rabeximod and T20K. The company is making significant progress achieving value-enhancing milestones with its R&D pipeline, albeit with some delay. Based on the company's announcement, we have advanced T20K to Phase I in our SOTP valuation model thereby slightly increasing our valuation of the product. The announcement that Cyhone will pursue development of T20K as a prophylactic agent is also good news in our view. There is currently no prophylactic product approved for MS. Cyhone's Q1/19 financial results were somewhat below our expectations. Based on the results, we have slightly lowered our full year financial forecasts. Following the changes, our sum-of-the-parts valuation model yields an unchanged price target of SEK13.50. We reiterate our Buy recommendation.

Figure 3: "Sum-of-the-parts" (SOTP) valuation model

Compound	Project ¹⁾	Present Value (SEKM)	Patient Pop (K)	Treatment Cost (SEK)	Market Size (SEKM)	Market Share (%)	Peak Sales (SEKM)	PACME Margin ²⁾ (%)	Discount Factor (%)	Patent Life ³⁾ (years)	Time to Market (years)
Rabeximod	RA	SEK 483.9M	470K	106,800	50,196.0M	9%	8,461.5M	16%	21.5%	9	5
T20K	MS	SEK 240.6M	850K	213,600	181,560.0M	5%	12,711.4M	18%	21.5%	9	7
PACME PV		SEK 724.5M			231,756.0M		21,172.8M				
Costs PV ⁴⁾		SEK 175.0M									
NPV		SEK 549.5M									
Milestones PV		SEK 83.2M									
Net cash (pro-forma)		SEK 102.9M									
Fair Value		SEK 735.7M									
Share Count (fully diluted)		54,641K									
Price Target		SEK 13.50									

1) A project typically refers to a specific indication or, where necessary or relevant, a combination between indication and geographic market

2) PACME (Profit After Costs and Marketing Expenses) reflects the company's profit share on future revenues. This share may be derived in the form of royalties (outsourced marketing/manufacturing) or operating EBITDA margin (in-house model), or some mix of both (depending on the specific parameters of partnership agreements)

3) Remaining patent life after the point of approval

4) Includes company-level R&D, G&A, Financing Costs and CapEx; COGS and S&M are factored into the PACME margin for each project

Source: First Berlin Equity Research estimates



INCOME STATEMENT

All figures in SEK '000	2016	2017	2018	2019E	2020E	2021E
Revenue	21	0	1	48	50	50
Upfront & milestone payments	0	0	0	0	89,000	0
Total revenue	21	0	1	48	89,050	50
Personnel Costs	1,318	2,287	2,231	4,460	4,460	4,460
Other external costs	2,862	6,515	12,893	15,730	20,449	26,584
Depreciation & Amortization	0	22	311	320	384	461
Operating income (EBIT)	-4,159	-8,824	-15,434	-20,462	63,757	-31,455
Net financial result	-3	0	0	26	40	35
Pre-tax income (EBT)	-4,162	-8,824	-15,434	-20,436	63,797	-31,419
Income taxes	0	0	0	0	0	0
Net income / loss	-4,162	-8,824	-15,434	-20,436	63,797	-31,419
Diluted EPS	-0.32	-0.50	-0.69	-0.48	1.33	-0.59
Ratios						
EBIT-Margin on total revenue	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
EBITDA margin on total revenue	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Net Margin on total revenue	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Expenses as % of Revenues						
Personnel Costs	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Other external costs	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Y-Y Growth						
Total revenue	n.a.	n.a.	n.a.	n.a.	n.a.	-99.9%
Operating income	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Net income/ loss	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.



BALANCE SHEET

All figures in SEK '000	2016	2017	2018	2019E	2020E	2021E
Assets						
Current Assets, Total	21,964	33,499	39,268	56,488	93,088	36,692
Cash and Cash Equivalents	21,598	33,357	38,715	55,880	92,419	35,956
Accounts Receivable	366	142	553	608	669	736
Non-Current Assets, Total	1,597	7,565	36,402	62,779	91,222	117,692
Capitalised development costs	753	6,554	29,870	55,870	83,870	109,870
Other intangibles (patents, licenses)	844	1,011	6,532	6,909	7,352	7,822
Total Assets	23,561	41,064	75,670	119,266	184,309	154,383
Shareholders' Equity & Debt						
Current Liabilities, Total	730	3,932	5,121	6,317	7,563	9,056
Accounts Payable	398	3,079	4,026	4,831	5,797	6,957
Other current liabilities	332	853	1,095	1,486	1,765	2,099
Longterm Liabilities, Total	0	0	0	0	0	0
Shareholders Equity	22,831	37,132	70,549	112,950	176,747	145,327
Total Consolidated Equity and Debt	23,561	41,064	75,670	119,266	184,309	154,383
Ratios						
Current ratio (x)	30.09	8.52	7.67	8.94	12.31	4.05
Quick ratio (x)	30.09	8.52	7.67	8.94	12.31	4.05
Net gearing	n.a.	n.a.	n.a.	-49.5%	-52.3%	-24.7%
Book value per share (€)	1.77	2.09	3.14	2.64	3.67	2.72
Net debt	-21,598	-33,357	-38,715	-55,880	-92,419	-35,956
Equity ratio	96.9%	90.4%	93.2%	94.7%	95.9%	94.1%



CASH FLOW STATEMENT

All figures in SEK '000	2016	2017	2018	2019E	2020E	2021E
Net income	-4,162	-8,824	-15,434	-20,436	63,797	-31,419
Interest, net	3	0	0	-26	-40	-35
Tax provision	0	0	0	0	0	0
EBIT	-4,159	-8,824	-15,434	-20,462	63,757	-31,455
Depreciation and amortization	0	22	311	320	384	461
EBITDA	-4,159	-8,802	-15,123	-20,142	64,141	-30,994
Changes in Working Capital	366	3,426	778	1,141	1,185	1,427
Cash interest net	-3	0	0	26	40	35
Other Adjustments	0	0	0	0	0	0
Operating cash flow	-3,796	-5,376	-14,345	-18,975	65,366	-29,532
CapEx	-1,599	-5,990	-29,148	-26,697	-28,827	-26,931
Free cash flow	-5,395	-11,366	-43,493	-45,672	36,539	-56,463
Cash flow from investing	-1,599	-5,990	-29,148	-26,697	-28,827	-26,931
Debt Financing, net	0	0	0	0	0	0
Equity Financing, net	26,993	23,125	48,851	62,836	0	0
Cash flow from financing	26,993	23,125	48,851	62,836	0	0
Net cash flows	21,598	11,759	5,358	17,165	36,539	-56,463
Cash, start of the year	0	21,598	33,357	38,715	55,880	92,419
Cash, end of the year	21,598	33,357	38,715	55,880	92,419	35,956
Y-Y Growth						
Operating Cashflow	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Free cashflow	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
EBITDA/share	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

FIRST BERLIN RECOMMENDATION & PRICE TARGET HISTORY

Report No.:	Date of publication	Previous day closing price	Recommendation	Price target
Initial Report	30 October 2018	SEK2.09	Buy	SEK13.50
...	↓	↓	↓	↓
2	3 December 2018	SEK2.17	Buy	SEK13.50
3	Today	SEK3.32	Buy	SEK13.50

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Category		1	2
Current market capitalisation (in €)		0 - 2 billion	> 2 billion
Strong Buy ¹	An expected favourable price trend of:	> 50%	> 30%
Buy	An expected favourable price trend of:	> 25%	> 15%
Add	An expected favourable price trend of:	0% to 25%	0% to 15%
Reduce	An expected negative price trend of:	0% to -15%	0% to -10%
Sell	An expected negative price trend of:	< -15%	< -10%

¹ The expected price trend is in combination with sizable confidence in the quality and forecast security of management.

Our recommendation system places each company into one of two market capitalisation categories. Category 1 companies have a market capitalisation of €0 – €2 billion, and Category 2 companies have a market capitalisation of > €2 billion. The expected return thresholds underlying our recommendation system are lower for Category 2 companies than for Category 1 companies. This reflects the generally lower level of risk associated with higher market capitalisation companies.

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- key sources of information in the preparation of this research report
- valuation methods and principles
- sensitivity of valuation parameters

can be accessed through the following internet link: <http://firstberlin.com/disclaimer-english-link/>

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