

Cyxone AB

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

H1/19 results &
 pipeline news

RATING
BUY

PRICE TARGET
SEK 13.50

Return Potential 134.8%
 Risk Rating Speculative

H1/19 RESULTS AS EXPECTED; SUCCESSFUL PHASE I STUDY ON T20K

Cyxone has published H1/19 results which were close to our expectations. EBIT came in at SEK-9.1m, in line with our estimate of SEK-9.2m (H1/18: SEK-6.5m). In addition, the two main R&D programmes, T20K for multiple sclerosis (MS) and Rabeximod for rheumatoid arthritis (RA) are progressing as anticipated. The company announced the successful completion of the first-in-man Phase Ia study with T20K. As requested by the regulatory authorities, this study used an intravenous (i.v.) infusion. The study demonstrated that T20K is safe for human use, and free circulation of the drug candidate in the blood does not cause unwanted side effects. This is very good news. The company is now authorised to proceed with the investigation of the target oral formulation within the scope of a Phase Ib study. Cyxone has also applied to the regulatory authority in Poland for permission to initiate a Phase IIb study of Rabeximod. Feedback was positive. Applications in up to eight European countries will follow during the next six months. Patient recruitment is planned to start in H1 2020. Based on unchanged estimates, we reiterate our price target of SEK13.50 and our Buy rating.

T20K's phase I study demonstrated a positive safety and tolerability profile
 The phase I study administered an i.v. infusion of T20K at a very low dose of 0.005 mg per kilo to a cohort of 8 healthy male volunteers. This cohort was sufficient to determine the amount of substance in the blood and the pharmacokinetic values (i.e. fate of the substance). The subjects showed no adverse side effects and the drug candidate was well tolerated. This is very good news considering that the amount of substance administered i.v. to the volunteers was well above the level that a targeted oral formulation would deliver to the blood. The efficacy of oral administration of T20K is based on its direct migration to the immunoregulating organs. This results in very low levels of the substance reaching the blood. Based on the positive safety data, we expect that the company will intensify discussions with the regulatory authorities to prepare the design of the Phase Ib study with the target oral formulation. (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 (SEKm)	-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 05 Sep 2019
Closing Price	SEK 5.75
Shares outstanding	37.46m
Market Capitalisation	SEK 215.38m
52-week Range	SEK 2.08 / 9.07
Avg. Volume (12 Months)	469,382

Multiples	2018	2019E	2020E
P/E	n.a.	n.a.	4.4
EV/Sales	197127.4	4106.8	2.2
EV/EBIT	n.a.	n.a.	3.1
Div. Yield	0.0%	0.0%	0.0%

STOCK OVERVIEW



COMPANY DATA

	As of 30 Jun 2019
Liquid Assets	SEK 23.87m
Current Assets	SEK 24.34m
Intangible Assets	SEK 39.82m
Total Assets	SEK 65.11m
Current Liabilities	SEK 3.69m
Shareholders' Equity	SEK 61.42m

SHAREHOLDERS

Accequa AB	30.2%
OxyPharma AB	9.7%
Avanza Pension	3.5%
Nordnet Pensionsförsäkring	3.2%
Others	53.3%



Preparations for Rabeximod's Phase IIb study in moderate to severe RA are underway; recruitment expected to start in H1 2020

The company has applied to the Polish regulatory authority's Central Ethics Committee (CEC) for permission to initiate a Phase IIb study with Rabeximod. Feedback was positive, which suggests that the company's documentation dossier is solid. Over the next six months the company will file applications in up to eight additional European countries, including Estonia, Ukraine, Georgia and the Netherlands. The company has also appointed the clinical research organization (CRO) EGeen Inc to carry out clinical trials in Eastern Europe. The CRO Sourcia has been appointed to conduct trials in Western Europe. Patient recruitment is expected to start in H1 2020. The company will additionally carry out animal studies which will last 6 months in order to investigate toxicity during long term treatment. This study is being prepared and will commence at the latest at the same time as the human Phase IIb study.

Scientific team strengthened

Cyxone has expanded its scientific team by hiring Dr. Malin Berthold as manager of the drug portfolio. Her main goal will be to ensure smooth development of both lead drug candidates, Rabeximod and T20K. She will coordinate activities with the CROs, toxicology laboratories, drug material providers, analysis laboratories, etc. She has extensive experience in the life science field, ranging from managerial and project leader roles in pre-clinical research to consulting for small and medium sized pharmaceutical companies, as well as senior scientific advisor roles in global marketing and medical affairs at global companies. As a result, she brings to Cyxone valuable expertise in pharmacology, preclinical and clinical studies required for further pipeline development.

H1/19 financial results roughly as projected

Cyxone generated sales and other income of SEK36k (FBe: SEK48k; H1/18: SEK0), and achieved EBIT of SEK-9.1m (FBe: SEK-9.2m; H1/18: SEK-6.5m), roughly in line with our expectations. Net income for the period amounted to SEK-9.1m (FBe: SEK-9.2m; H1/18: SEK-6.5m).

Figure 1: P&L H1/19 reported figures vs. FB estimates and H1/18 (KPIs)

in SEK'000	H1/19	H1/19E	Delta	H1/18	Delta
Revenue	36	48	-	0	-
EBIT	-9,070	-9,200	n.m.	-6,515	n.m.
margin	n.m.	n.m.	-	n.m.	-
Net income	-9,129	-9,210	n.m.	-6,503	n.m.
margin	n.m.	n.m.	-	n.m.	-

Source: First Berlin Equity Research, Cyxone AB

Cash position down to SEK20.5m (FY/18: SEK33.5m), but we expect a substantial increase by up to SEK95.0m in September 2019 due to conversion of warrants

Cyxone's cash position declined to SEK23.9m (FY/18: SEK38.7m), chiefly because of pipeline development. In H1/19, free cash flow from operations amounted to SEK-14.8m (H1/18:-15.5m). However, we anticipate that the company's cash position will increase by up to SEK95.0m in September 2019 due to warrant conversion. The company has 17.7m warrants outstanding from the capital increase conducted in October last year. These warrants entitle the holders to subscribe to new shares during the period 2-11 September 2019 at a 25% discount to the weighted average share price during the period 19-30 August 2019. Based on an average price of SEK7.16, the subscription price has been fixed at SEK5.37 per share. In view of this discount, we anticipate almost all warrants will be converted.



Buy rating and price target confirmed Cyxone's H1/19 financial results came in roughly as expected. The lead drug candidates T20K and Rabeximod have also achieved relevant milestones recently and we see positive prospects for their forthcoming clinical studies. Based on unchanged estimates, our sum-of-the-parts valuation model still yields a price target for Cyxone of SEK13.50. We reiterate our Buy rating.

VALUATION MODEL

Figure 2: "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	27 June 2019	SEK3.20	Buy	SEK13.50
4	Today	SEK5.75	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.

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

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