

Cyxone AB

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

H1/20
 results

RATING
BUY

PRICE TARGET
SEK 12.70

Return Potential 73.7%
 Risk Rating Speculative

H1/20 RESULTS IN LINE WITH OUR ESTIMATES

Cyxone published H1/20 results which were roughly in line with our expectations. EBIT amounted to SEK -24.4m – in line with our estimate of SEK -23.5m (H1/19: SEK -13.4m). The two main R&D programmes, Rabeximod for rheumatoid arthritis (RA) and T20K for multiple sclerosis (MS), are progressing as scheduled. On 10 June, the company filed four patent applications to expand IP protection of the lead drug candidate Rabeximod. To strengthen its drug development expertise, the company hired Christin Arrhenius Bokedal as Head of Development as well as Dr Maarten Kraan and Professor Rikard Holmdahl both as Senior Scientific Advisors. In connection with the recent licensing agreement for the development of a new COVID-19 treatment, Cyxone raised SEK 0.9m from an investor related to the licensors network. Based on unchanged estimates, we reiterate our price target of SEK 12.70 and our Buy rating.

The company is in the process of analysing results of Rabeximod's toxicology studies Animal studies lasting six months to investigate toxicity during long term treatment have been completed, and the analysis of the data is underway. We anticipate that Cyxone will publish the results by Q3 or Q4 2020, ahead of the initiation of the phase IIb trial planned to start by Q1/21.

Four patent applications for Rabeximod filed Management confirmed that the four patent filings from 10 June involving recent innovations in manufacturing and formulation processes are related to Rabeximod. This is good news. These patents can potentially strengthen Rabeximod's IP by providing a patent protection and market exclusivity of 20 years.

Results available from the additional preclinical studies being conducted on T20K confirm stability of the drug candidate The latest in-vitro and in-vivo preclinical studies investigating the substance's dissolving and absorption properties in the gastrointestinal tract have been positive.

(p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2017	2018	2019	2020E	2021E	2022E
Revenue (SEK m)	0.00	0.00	0.03	0.03	0.03	178.03
Y-o-y growth	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
EBIT (SEK m)	-8.82	-31.78	-35.17	-42.78	-47.52	129.92
EBIT margin	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Net income (SEK m)	-8.82	-31.78	-35.17	-42.78	-47.52	129.92
EPS (diluted) (SEK)	-0.50	-1.41	-0.86	-0.87	-0.89	2.26
DPS (SEK)	0.00	0.00	0.00	0.00	0.00	0.00
FCF (SEK m)	-11.37	-43.49	-36.22	-40.98	-45.86	131.39
Net gearing	n.a.	n.a.	-86.1%	-71.7%	-71.8%	-96.7%
Liquid assets (SEK m)	33.36	38.72	61.76	20.77	16.57	147.97

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 07 Sep 2020

Closing Price	SEK 7.31
Shares outstanding	49.28m
Market Capitalisation	SEK 360.26m
52-week Range	SEK 2.85 / 8.00
Avg. Volume (12 Months)	254,941

Multiples	2019	2020E	2021E
P/E	n.a.	n.a.	n.a.
EV/Sales	n.a.	n.a.	n.a.
EV/EBIT	n.a.	n.a.	n.a.
Div. Yield	0.0%	0.0%	0.0%

STOCK OVERVIEW



COMPANY DATA

As of 30 Jun 2020

Liquid Assets	SEK 40.63m
Current Assets	SEK 41.68m
Intangible Assets	SEK 11.00m
Total Assets	SEK 53.64m
Current Liabilities	SEK 6.27m
Shareholders' Equity	SEK 47.37m

SHAREHOLDERS

Accequa AB	12.2%
Avanza Pension	6.6%
Jan Ivar Nordqvist	4.2%
OxyPharma AB	3.9%
Others	53.4%



The drug candidate has demonstrated high stability which is essential for its intended oral administration. Further ongoing preclinical and formulation studies are in progress.

H1/20 Sales, EBIT and net income roughly as anticipated Cyxone generated no sales and achieved EBIT of SEK -24.4m (FBe: SEK -23.5m; H1/19: SEK -13.4m), roughly in line with our expectations. Net income for the period also amounted to SEK -24.4m (FBe: SEK -23.5m; H1/19: SEK -13.4m).

Figure 1: P&L H1/20 reported figures vs. FB estimates and H1/19 (KPIs)

in SEK'000	H1/20	H1/20E	Delta	H1/19	Delta
Revenue	0	0	-	0	-
EBIT	-24,370	-23,500	n.m.	-13,412	n.m.
<i>margin</i>	<i>n.m.</i>	<i>n.m.</i>	-	<i>n.m.</i>	-
Net income	-24,370	-23,500	n.m.	-13,412	n.m.
<i>margin</i>	<i>n.m.</i>	<i>n.m.</i>	-	<i>n.m.</i>	-

Source: First Berlin Equity Research, Cyxone AB

Cash position at SEK 40.6m (FY/19: SEK 61.8m) The cash decline chiefly reflects the development activity carried out with Rabeximod and T20K. Total equity dropped to SEK 47.4m (FY/19: SEK 71.7m) mainly due to the net loss in the period.

First small placement raising SEK 0.9m to finance development of the new COVID-19 programme took place in July In connection with the agreement with the inventor Kalev Kask to jointly develop a COVID-19 treatment, the company placed 202.3k shares with an investor related to Mr Kask at a price of SEK 4.45. We note that the deal gives Dr Kask or an investor designated by him the option to buy up to further 4.7m Cyxone shares until 1 October 2020 at a subscription price starting at SEK 4.45. If the option is fully exercised, the stock placement could provide Cyxone with additional funds of up to SEK 20.9m.

Appointment of three drug development experts To maximise success chances of its development programmes, the company has strengthened its drug development expertise by hiring three experienced scientists. Ms Christin Arrhenius Bokedal will join Cyxone in October as Head of Development. She has many years of experience in the pharmaceutical industry, with a focus on project management, regulatory affairs, medical affairs and quality assurance. Dr Maarten Kraan has joined Cyxone's Senior Scientific Advisory Board (SSAB) to focus on the development of the lead RA drug candidate Rabeximod. He has a PhD in immunology (Leiden University) and extensive clinical trial experience in rheumatology. He has held several management positions related to drug research, clinical development and regulatory affairs in pharmaceutical companies in Europe and the US. Professor Rikard Holmdahl has also joined Cyxone's SSAB. He will support the development of both lead drug candidates. Professor Holmdahl is a well-known academic expert in MS and RA, who was involved in the early development of Rabeximod at OxyPharma.

Buy recommendation and SEK 12.70 price target reiterated Given management's update on the pipeline and the reported financial results, we believe Cyxone is on track with its main drug candidates Rabeximod and T20K. We anticipate significant pipeline news flow during the next months (e.g. preclinical toxicology results on Rabeximod, update on the filing for approval of Rabeximod's phase IIb study protocol, further details on the four Rabeximod patents filed in June, update on the design and the filing for approval of T20K's phase Ib study protocol, further details on the new COVID-19 programme), which could have a positive impact on the stock. We reiterate our Buy recommendation and SEK 12.70 price target.



VALUATION MODEL

Figure 2: “Sum-of-the-parts” valuation model

Compound Project ¹⁾	Present Value	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 PV⁴⁾	SEK 180.4M									
NPV	SEK 544.1M									
Milestones PV	SEK 82.4M									
Net cash (pro-forma)	SEK 86.2M									
Fair Value	SEK 712.7M									
Share Count (fully diluted)	56,117K									
Price Target	SEK 12.70									

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



INCOME STATEMENT

All figures in SEK '000	2017	2018	2019	2020E	2021E	2022E
Revenue & other income	0	1	27	30	30	30
Upfront & milestone payments	0	0	0	0	0	178,000
Total revenue & other income	0	1	27	30	30	178,030
Personnel Costs	2,287	2,231	5,252	5,515	5,570	5,626
Other external costs	6,515	28,597	28,010	35,292	39,880	40,279
Depreciation & Amortization	22	956	1,794	1,864	1,957	2,055
Operating income (EBIT)	-8,824	-31,783	-35,165	-42,781	-47,522	129,922
Net financial result	0	0	0	0	0	0
Pre-tax income (EBT)	-8,824	-31,784	-35,165	-42,781	-47,522	129,921
Income taxes	0	0	0	0	0	0
Net income / loss	-8,824	-31,784	-35,165	-42,781	-47,522	129,921
Diluted EPS	-0.50	-1.41	-0.86	-0.87	-0.87	2.16
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 & other income	n.a.	n.a.	n.a.	12.9%	0.0%	n.a.
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	2017	2018	2019	2020E	2021E	2022E
Assets						
Current Assets, Total	33,499	39,268	62,420	21,501	17,369	148,851
Cash and Cash Equivalents	33,357	38,715	61,756	20,771	16,565	147,968
Accounts Receivable & others	142	553	664	730	803	884
Non-Current Assets, Total	7,565	13,498	12,696	11,131	9,674	8,419
Capitalised development costs*	6,554	0	0	0	0	0
Other intangibles (patents, licenses)	1,011	13,498	11,741	10,176	8,719	7,464
Other Assets	0	0	955	955	955	955
Total Assets	41,064	52,766	75,115	32,632	27,043	157,270
Shareholders' Equity & Debt						
Current Liabilities, Total	3,932	5,121	3,378	3,677	3,959	4,265
Accounts Payable	3,079	4,026	1,694	1,711	1,797	1,887
Other current liabilities	853	1,095	1,684	1,965	2,162	2,378
Longterm Liabilities, Total	0	0	0	0	0	0
Shareholders Equity	37,132	47,645	71,737	28,956	23,084	153,005
Total Consolidated Equity and Debt	41,064	52,766	75,115	32,632	27,043	157,270
Ratios						
Current ratio (x)	8.52	7.67	18.48	5.85	4.39	34.90
Quick ratio (x)	8.52	7.67	18.48	5.85	4.39	34.90
Net gearing	n.a.	n.a.	-86.1%	-71.7%	-71.8%	-96.7%
Book value per share (€)	2.09	2.12	1.75	0.59	0.43	2.66
Net debt	-33,357	-38,715	-61,756	-20,771	-16,565	-147,968
Equity ratio	90.4%	90.3%	95.5%	88.7%	85.4%	97.3%

*The company stopped capitalising development costs at the financial statement of FY/19; FY/18 figures were also adjusted retroactively.



CASH FLOW STATEMENT

All figures in SEK '000	2017	2018	2019	2020E	2021E	2022E
Net income	-8,824	-31,784	-35,165	-42,781	-47,522	129,921
Interest, net	0	0	0	0	0	0
Tax provision	0	0	0	0	0	0
EBIT	-8,824	-31,783	-35,165	-42,781	-47,522	129,922
Depreciation and amortization	22	956	1,794	1,864	1,957	2,055
EBITDA	-8,802	-30,827	-33,371	-40,917	-45,564	131,977
Changes in working capital & others	3,426	778	-1,854	232	209	209
Cash interest net	0	0	-1	0	0	0
Other Adjustments	0	0	0	0	0	0
Operating cash flow	-5,376	-30,049	-35,226	-40,685	-45,355	132,186
CapEx	-5,990	-13,444	-991	-300	-500	-800
Free cash flow	-11,366	-43,493	-36,216	-40,985	-45,855	131,386
Cash flow from investing	-5,990	-13,444	-991	-300	-500	-800
Debt Financing, net	0	0	0	0	0	0
Equity Financing, net	23,125	48,851	59,257	0	41,650	0
Cash flow from financing	23,125	48,851	59,257	0	41,650	0
Net cash flows	11,759	5,358	23,041	-40,985	-4,205	131,386
Cash, start of the year	21,598	33,357	38,715	61,756	20,771	16,565
Cash, end of the year	33,357	38,715	61,756	20,771	16,565	147,968
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.

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ASSET VALUATION SYSTEM

First Berlin's system for asset valuation is divided into an asset recommendation and a risk assessment.

ASSET RECOMMENDATION

The recommendations determined in accordance with the share price trend anticipated by First Berlin in the respectively indicated investment period are as follows:

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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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	1 July 2019	SEK3.32	Buy	SEK13.50
4	6 September 2019	SEK5.75	Buy	SEK13.50
5	26 June 2020	SEK6.79	Buy	SEK12.70
6	Today	SEK7.31	Buy	SEK12.70

INVESTMENT HORIZON

Unless otherwise stated in the financial analysis, the ratings refer to an investment period of twelve months.

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At the time of publication of this financial analysis it is not certain whether, when and on what occasion an update will be provided. In general First Berlin strives to review the financial analysis for its topicality and, if required, to update it in a very timely manner in connection with the reporting obligations of the analysed company or on the occasion of ad hoc notifications.

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- key sources of information in the preparation of this research report
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