

iX Biopharma Ltd.

Delayed profitability

SINGAPORE | HEALTHCARE | 1H21 Results

- Net loss narrowed 51% YoY to S\$2.8mn in 1H21 to beat expectations by 63% on FX gains of S\$2.2mn – without which results would have missed by 25%.
- Revenue almost tripled on strong demand for specialty pharmaceutical and nutraceutical products.
- Gross margins improved, though still negative as shipment of an integral component for a 5-6-fold increase in production capacity has been delayed till end-FY21.
- Wafermine out-licensing deal remains in sight, though progress has been impeded by border closures.
- Maintain BUY with a lower DCF target price (WACC 10%) of S\$0.445 from S\$0.455 as turnaround has been deferred to FY22e. We cut FY21e earnings by S\$9.5mn, with loss of S\$1.5mn from delayed capacity increase and S\$8mn from deferred out-licensing deal.

Results at a glance

SGD '000	1H21	1H20	YoY	Comments
Specialty pharmaceutical	342	161	112%	Sales doubled, but were limited as the main Australian market, Melbourne, remained in consistent lockdown.
Nutraceuticals	488	133	267%	Growth contributed by strong demand for company's skincare supplement LumeniX as well as anti-aging NAD products restoriX and metaboliX in China through JD.com and Tmall.
Revenue	830	294	182%	
Cost of sales	(987)	(689)	43%	COGS rose in line with sales, but to lesser extent due to high fixed costs.
Gross profit	(157)	(395)	(60%)	Yet to achieve economies of scale due to delay in installation of additional capacity.
Other income	924	438	111%	Received S\$619k in R&D tax incentive.
Research and development	(1,291)	(1,237)	4%	
Sales and marketing	(1,095)	(1,191)	(8%)	
General and administrative	(3,265)	(3,093)	6%	An additional S\$300k of share-based payment expense was recorded in 1H21.
Others	2,072	(287)	n.m.	Other income held up due to currency translation effect from the appreciation of AUD.
Profit/(loss) before tax	(2,812)	(5,765)	(51%)	
Income tax expense	(1)	-	n.m.	
Profit, net of tax	(2,813)	(5,765)	(51%)	

Source: Company, PSR

The Positive

+ Strong demand for products

Revenue was up 182% YoY from S\$294k to S\$830k in 1H21. Excluding one-off out-licensing fees of S\$150k in 4Q20, quarterly run rates of S\$415k in 1H21 were comparable to the S\$410k in 4Q20.

Specialty pharmaceutical revenue grew 112%. Growth could have been better if not for on-off lockdowns in Melbourne, which affected footfall in pharmacies and sales to clinics. The company was also unable to conduct training for its newly-launched medicinal cannabis wafer, Xativa.

Nutraceutical revenue skyrocketed 267% to S\$488k YoY, supercharged by online sales on their JD.com and Tmall platforms. Demand for its skincare supplement, LumeniX and anti-ageing NAD (nicotinamide adenine dinucleotide) products, MetaboliX and RestoriX, continued to climb. Reception of its NAD products is encouraging as they are non-wafer products whose production is not affected by a shortage of freeze dryers.



19 February 2021

BUY (Maintained)

LAST CLOSE PRICE	SGD 0.245
FORECAST DIV	SGD 0.000
TARGET PRICE	SGD 0.445
TOTAL RETURN	81.6%

COMPANY DATA

BLOOMBERG CODE	IXBIO SP
O/S SHARES (MN)	697
MARKET CAP (USD mn / SGD mn)	128.5 / 170.7
52 - WK HI/LO (SGD)	0.350 / 0.130
3M Average Daily T/O (mn)	1.47

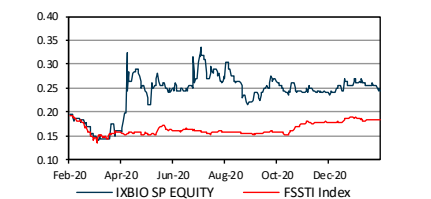
MAJOR SHAREHOLDERS (%)

LEE YIP HANG	26.5%
HRT CORPORATION PTE LTD	9.1%
NARULLA JASPAL SINGH	5.9%

PRICE PERFORMANCE (%)

	1M TH	3M TH	1Y R
COMPANY	(2.0)	2.0	27.6
STI RETURN	(2.6)	5.5	(5.3)

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Jun, (S\$ '000)	FY19	FY20	FY21e	FY22e
Revenue	671	985	1,640	12,838
EBITDA	(303)	(9,582)	(7,320)	9,275
NPAT	(2,991)	(10,499)	(8,900)	7,574
EPS (S\$ Cents)	(0.5)	(1.6)	(1.3)	1.1
P/E (x)	-	-	-	22.4
P/B (x)	7.7	15.6	8.3	6.1
Div Yield	-	-	-	-
ROE	-14.6%	-103.3%	-43.7%	27.1%

Source: Company Data

VALUATION METHOD

DCF @ WACC = 10.0%, g = 2.0%

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The Negative

- Negative margins

Gross margin was -16% in 1H21, an improvement from the -57% a year ago. While demand for its wafer products remained robust, a shortage of production capacity did not help operating margins. Planned installation of additional freeze dryers that will increase wafer production by 5-6-fold has been delayed by COVID-19 supply-chain disruptions to April this year.

Outlook

COVID-19 disruptions

Apart from the delayed installation of additional production capacity, the timeline for a Wafermine out-licensing deal continues to hinge on border restrictions in Australia. While iX has received interest from potential partners, in-person meetings remain non-viable. Due diligence, including visits to production plants in Australia, could not be completed.

The disruptions will slow down iX's business turnaround that was previously expected by FY21. Nevertheless, with vaccine rollout in Australia soon, we are confident that deal-making and production expansion can resume by early FY22.

WaferiX's intellectual property remains the jewel in the crown

R&D costs rose 4% YoY as the company continued to develop its medicinal cannabis range in preparation for more extensive commercialisation once the business environment improves.

With its extensive patents granted around the world, iX stands to unlock value from its WaferiX technology in the future. It can pursue out-licensing deals beyond existing products under its belt, including the technology itself for new product development.

Recommendation

Maintain BUY with a lower target price of S\$0.445 from S\$0.455. We cut FY21e earnings by S\$9.5mn to reflect a sales loss of S\$1.5mn as a result of delays in capacity installation. We also defer the S\$8mn from the potential out-licensing deal to FY22. While many business plans have been put on hold by the COVID-19 pandemic, the company should be on the cusp of profitability once the disruptions are over.

Financials

Income Statement

Y/E Jun, S\$'000	FY18	FY19	FY20	FY21e	FY22e
Revenue	246	671	985	1,640	12,838
Cost of sales	(493)	(1,200)	(1,572)	(1,703)	(3,943)
Gross profit/(loss)	(247)	(529)	(587)	(63)	8,895
Other income	1,773	759	1,047	1,005	8,923
Out-licensing	-	-	-	-	8,000
Expense					
Research and development	(8,031)	(3,765)	(2,499)	(1,874)	(1,499)
Sales and marketing	(1,691)	(2,024)	(2,260)	(2,437)	(2,604)
General and administrative	(5,704)	(5,821)	(6,346)	(5,322)	(5,943)
Others	(1,085)	(1,656)	384	-	-
Finance expense	(250)	(232)	(238)	(209)	(199)
Profit/(loss) before tax	(15,235)	(13,268)	(10,499)	(8,900)	7,574
Income tax (expense)/credit	(52)	22	-	-	-
Profit/(loss) after tax	(15,287)	(13,246)	(10,499)	(8,900)	7,574
Discontinued operation					
(Loss)/profit, net of tax	193	(94)	-	-	-
Gain on disposal	-	10,349	-	-	-
Profit/(loss)	193	10,255	-	-	-
Total gains/loss	(15,094)	(2,991)	(10,499)	(8,900)	7,574

Per share data

Y/E Jun, SG cents	FY18	FY19	FY20	FY21e	FY22e
EPS, continuing operations	(2.4)	(2.1)	(1.6)	(1.3)	1.1
EPS, discontinued operations	0	1.6	-	-	-
BVPS	3.4	3.2	1.6	2.9	4.0

Cash Flows

Y/E Jun, S\$'000	FY18	FY19	FY20	FY21e	FY22e
CFO					
Profit/(loss) before tax	(15,094)	(2,991)	(10,499)	(8,900)	7,574
Adjustments	1,532	(7,209)	1,090	10,506	1,726
Working capital changes	3,144	(3,890)	260	213	(3,361)
Operating cash flow	(10,418)	(14,090)	(9,149)	1,818	5,939
Net operating cash flow	(8,362)	(13,901)	(8,320)	1,818)	5,939
CFI					
CAPEX, net	(1,118)	(1,534)	(984)	(1,352)	(2,638)
Acquisition of subsidiaries	-	-	-	-	-
Others	(68)	11,278	(10)	-	-
Net investing cash flow	(1,186)	9,744)	(994)	(1,352)	(2,638)
CFF					
Proceeds from issuance of shares	-	-	-	10,183	-
Loans, net of repayments	(248)	(1,577)	(826)	(784)	(763)
Net financing cash flow	(248)	(1,577)	(826)	9,399)	(763)
Net change in cash	(9,796)	(5,734)	(10,140)	9,865)	2,538)
CCE, end	20,666)	14,709)	4,470)	14,335)	16,873)
Less: Bank deposits pledged	(400)	(1,163)	(1,193)	(1,193)	(1,193)
Cash & cash equivalents	21,066)	15,872)	5,663)	15,528)	18,066)

Source: Company, PSR Estimates

Balance Sheet

Y/E Jun, S\$'000	FY18	FY19	FY20	FY21e	FY22e
ASSETS					
Deposits - operating lease	-	81	105	-	-
Intangible assets	865	460	447	353	308
PPE	8,096	7,636	8,026	8,487	10,046
Right of use assets	-	-	261	630	252
Total non-current assets	24,113)	18,509)	8,143)	18,030)	25,503)
Cash & cash equivalents	21,066	15,872	5,663	15,528	18,066
Trade & other receivables	2,033	1,425	1,300	1,199	5,668
Other current assets	486	362	297	243	201
Inventories	528	850	883	1,060	1,569
Total current assets	24,113)	18,509)	8,143)	18,030)	25,503)
Total assets	33,074)	26,686)	16,982)	27,501)	36,109)
LIABILITIES					
Lease liabilities	-	-	19	399	23
Borrowings	4,254	3,620	3,438	3,266	3,103
Others	168	36	60	48	54
Total non-current liabilities	4,422)	3,656)	3,517)	3,713)	3,180)
Trade and other payables	6,776	2,310	2,824	2,967	4,535
Lease liabilities	-	-	245	245	245
Borrowings	285	211	216	214	214
Others	71	10	12	11	12
Total current liabilities	7,132)	2,531)	3,297)	3,437)	5,005)
Total liabilities	11,554)	6,187)	6,814)	7,150)	8,185)
EQUITY					
Share capital	71,129	71,525	72,251	82,434	82,434
Other reserves	637	2,211	1,653	10,553	10,553
Retaining earnings/ (accumulated losses)	(50,246)	(53,237)	(63,736)	(72,636)	(65,063)
Total equity	21,520)	20,499)	10,168)	20,351)	27,925)

Valuation Ratios

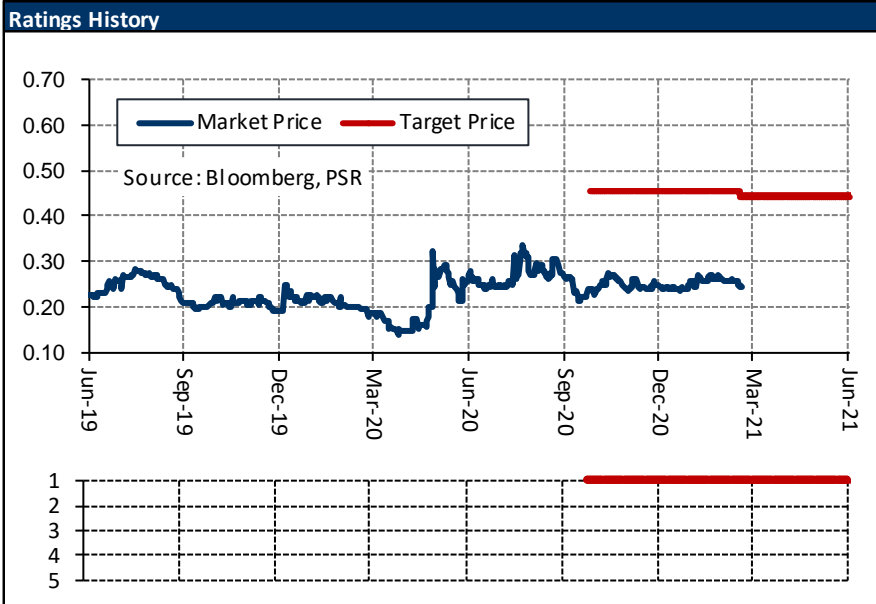
Y/E Jun	FY18	FY19	FY20	FY21e	FY22e
P/E (x)	-	-	-	-	22.4
P/B (x)	7.3	7.7	15.6	8.3	6.1
EV/EBITDA (x)	-10.6	-468.2	-16.0	-21.1	16.4

Growth & Margins

	FY18	FY19	FY20	FY21e	FY22e
Growth					
Revenue	-96%	173%	47%	66%	683%
Gross profit/loss	-111%	114%	11%	-89%	n.m.
EBITDA	106%	-98%	3062%	-24%	n.m.
Net profit/loss	104%	-80%	251%	-15%	n.m.
Margins					
Gross margin	-100%	-79%	-60%	-4%	69%
EBITDA margin	-5204%	-45%	-973%	-446%	72%
Net profit margin	-6136%	-446%	-1066%	-543%	59%

Key Ratios

	FY18	FY19	FY20	FY21e	FY22e
ROE	-70.1%	-14.6%	-103.3%	-43.7%	27.1%
ROA	-45.6%	-11.2%	-61.8%	-32.4%	21.0%
Net gearing (x)	Net cash	Net cash	Net cash	Net cash	Net cash



PSR Rating System

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce	4
<-20%	Sell	5

Remarks

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation.

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