

iX Biopharma Ltd

Product and capacity momentum



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SINGAPORE | HEALTHCARE | UPDATE

- Potential application of Wafermine has extended further, from treatment of acute pain to depression and now to Complex Regional Pain Syndrome (CRPS).
- Wafer capacity expansion in Australia is on track to commence in July 2021. It will cater to demand for Entity nutraceuticals in China and Xativa medicinal cannabis in Australia.
- IXBIO announced a rights issue at S\$0.20 per share at 7 rights for every 100 shares held. The TERP is S\$0.237. Funds are for manufacturing and marketing activities.
- Our BUY recommendation and DCF (WACC 10%) TP of S\$0.445 are unchanged. Expanding the use of core WaferiX drug delivery technology and capacity ramp-up to meet rising demand for its products are expected to provide stock catalysts.

The news

1. On 17 May, IXBIO said the US FDA has granted the company an orphan drug designation for the treatment of patients with CRPS with ketamine.
2. On 2 June, IXBIO further announced that it is set to expand its wafer production capacity at its Australian facility by six times. Commercial production will commence in July 2021.
3. On 8 June, IXBIO announced a 7 for 100 rights issue of 48.81mn at S\$0.20 per share to raise S\$9.56mn. The funds are for the manufacturing and marketing activities of the company.

What this means

1) CRPS is a chronic pain usually triggered by surgery or traumatic injury. There is no approved drug for its treatment currently, which in severe cases can result in chronic and profound disability. The FDA grants special orphan status to support the development of medicines for rare diseases that affect fewer than 200,000 people in the US. Because the medical conditions are so rare, orphan drugs would not be profitable to produce without government assistance. Benefits of orphan status include a shorter timeframe for drug approval, tax credits and research grants. IXBIO can undertake a pilot study and immediately move onto Phase 3 trials. Reviews by the authorities are faster and fewer clinical-trial subjects are required. Once approved, IXBIO can enjoy 7-year market exclusivity and possibly higher drug pricing. To recap, ketamine is a drug used since 1970 as an anaesthetic for pain relief. It is administered intravenously. In contrast, Wafermine releases ketamine sublingually or below the tongue. Sublingual medicines are easier to administer and avail a high bioavailability of the drug. With this announcement, the potential application of Wafermine can widen further from the treatment of acute pain to depression and now CRPS.

2) Once the equipment is installed at its facility in Australia, a few batches would need to be produced for validation and Good Manufacturing Practice certification. The new capacity has been factored into our forecasts. It is earmarked to meet rising demand for Entity and Xativa products. Entity is gaining traction in China from platforms such as Tmall Global and JD Worldwide. Xativa is the world's first freeze-dried sublingual medicinal cannabis wafer. Xativa has been approved as a prescription medicine under Australia's Special Access Scheme and Authorised Prescriber Scheme. Doctors prescribe it for pain relief, inflammation and improving sleep quality.

Recommendation

Maintain BUY with an unchanged DCF TP of S\$0.445 (before rights) or S\$0.428 (post rights). Catalysts include any out-licensing deal for Wafermine Phase 3 clinical trials, revenue contributions from Entity and Xativa and the commercialisation of Wafersil for the treatment of male erectile dysfunction in China.

BUY (Maintained)

LAST CLOSE PRICE	SGD 0.240
FORECAST DIV	SGD 0.000
TARGET PRICE	SGD 0.445
TOTAL RETURN	85.4%

COMPANY DATA

BLOOMBERG CODE	IXBIO SP
O/S SHARES (MN) :	698
MARKET CAP (USD mn / SGD mn) :	126.3 / 167.5
52 - WK HI/LO (SGD) :	0.350 / 0.210
3M Average Daily T/O (mn) :	1.36

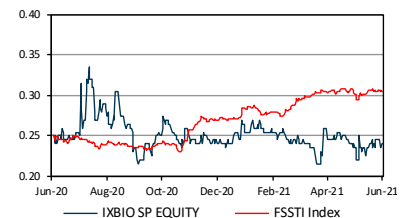
MAJOR SHAREHOLDERS

LEE YIP HANG	26.2%
HRT CORPORATION PTE LTD	8.9%
NARULLA JASPAL SINGH	5.8%

PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	0.0	(2.0)	(4.0)
STI RETURN	0.7	3.1	21.3

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)	(2.1)	(1.6)	(1.3)	1.1
P/B (x)	7.5	15.3	8.2	6.0
DPS (Cents)	-	-	-	-
Div Yield	-	-	-	-
ROE	-14.6%	-103.3%	-43.7%	27.1%

Source: Company, PSR

VALUATION METHOD

DCF @ WACC = 10.0%, g = 2.0%

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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)
CFE					
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

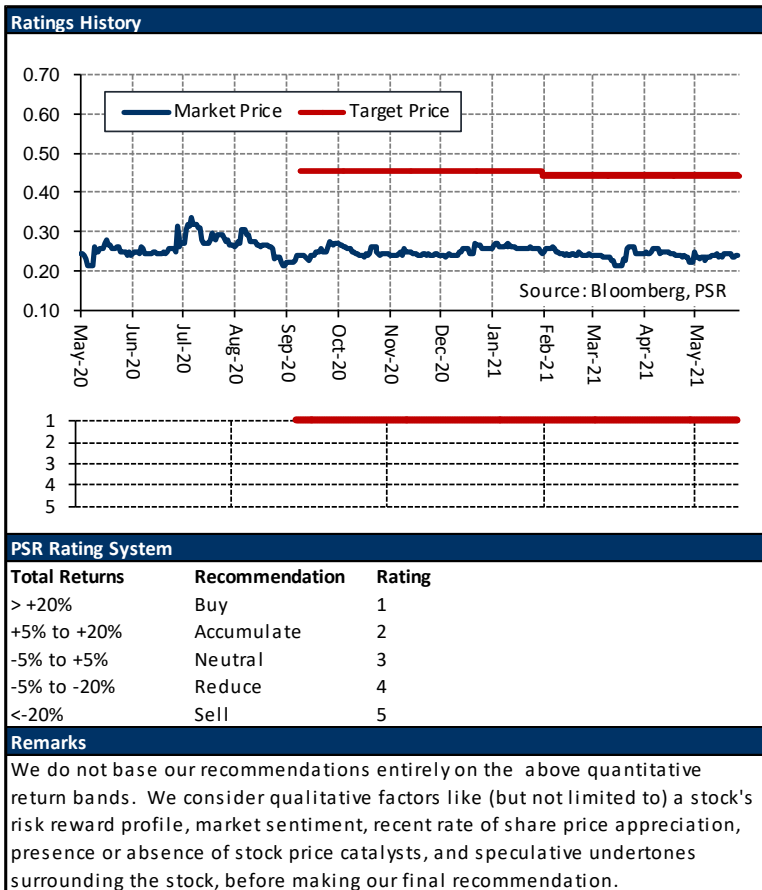
Y/E Jun	FY18	FY19	FY20	FY21e	FY22e
P/E (x)	-	-	-	-	22.0
P/B (x)	7.2	7.5	15.3	8.2	6.0
EV/EBITDA (x)	-10.4	-457.6	-15.6	-20.6	16.0

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



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