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August 16, 2022

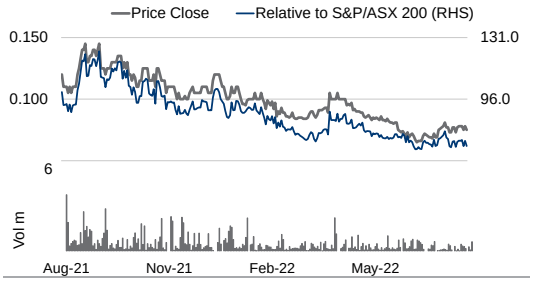
SPECULATIVE BUY (no change)

Stock code:	PXS AU
Price:	A$0.075
12-month target price:	A$0.25
Previous target price:	A$0.58
Up/downside to target price:	233.3%
Dividend yield:	0.0%
12-month TSR*:	233.3%
Market cap:	A$41.18m
Average daily turnover:	A$0.02m
Index inclusion:	N/A

** Total stock return – Up/downside to target price + 12-month forward dividend yield.*

Price performance

(%)	1M	3M	12M	3Y
Absolute	4.2	-12.8	-28.6	-61.5
Rel ASX/S&P200	-2.7	-12.6	-21.2	-71.7



Source: Bloomberg

Financial summary

	Jun-22A	Jun-23F	Jun-24F	Jun-25F
Revenue (A$m)	15.76	15.00	10.48	18.48
EBITDA Norm (A$m)	-12.01	-13.72	-18.69	-14.41
Net Profit (A$m)	-1.94	-15.48	-20.72	-16.39
EPS Norm (A$)	-0.004	-0.025	-0.028	-0.019
EPS Growth Norm (%)	-40%	554%	11%	-32%
P/E Norm (x)	NA	NA	NA	NA
DPS (A$)	0.000	0.000	0.000	0.000
Dividend Yield (%)	0%	0%	0%	0%
EV/EBITDA (x)	NA	NA	NA	NA
Gearing (Net Debt/EBITDA)	0.74	0.61	0.42	1.03

Source: Company data, Morgans estimates

Related research

PXS (SPEC BUY - TP A$0.58) - 12 Apr 2022

Sector report - 17 Mar 2022

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Analyst(s) own shares in the following stocks mentioned in this report:

– Pharmaxis

Pharmaxis

Building up its short-term cash position

- PXS has finished the year in a sound financial position of A$8.9m after recording sales of A$7.4m. This cash position was boosted by the receipt of A$7m from the exercise of the option by Aptar Pharma to acquire the Pharmaxis Orbital technology.
- Key catalysts are the outcome of current clinical trials underway for Myelofibrosis (MF), Hepatocellular cancer (liver cancer) and hypertrophic and keloid scarring. Important data is expected over the next six to nine months.
- We have made some forecast changes mainly around the timing of a licensing transaction for the MF program which we now assume to be in FY26 (was FY25). The changes see our DCF valuation and target price reduce to A$0.25 (from A$0.58). Speculative Buy rating maintained.

Event

- PXS posted its 4Q22 and FY22 (unaudited) result. Underlying revenues were up 11.1% to A$7.4m. This comprised A$5.8m in Bronchitol sales and A$1.6m in Aridol sales. Other income included a A$2.0m distributor appointment fee and a $340k fee received in relation to granting an option over the Orbital device.
- Segmental results were represented by: drug development costs of A$4.9m; respiratory operational outflow of A$1.3m; and corporate overhead of A$4.1m. This resulted in an EBITDA loss of A$10.2m for FY22.
- The net loss after tax was A$1.9m, due primarily to the inclusion of a positive financing cost of A$13.8m. It relates to a recalculation of the liability as a result of the reduction in projected Bronchitol sales.
- PXS has a cash balance of A$8.9m at 30 June 2022. Post balance date, PXS received a A$7.0m fee relating to Aptar's option exercise, and expects to receive A$5.0m as a R&D tax incentive in 2Q23. This places PXS in a sound cash position.

Recap of operations

- PXS has two approved respiratory products, Bronchitol and Aridol, which are partnered across geographies and generated sales of A$7.4m in FY22.
- PXS has a broad portfolio of drug candidates leveraging its proprietary platform and expertise in amine oxidases, critical enzymes that either directly or indirectly influence many cells and tissues, and thus offer broad potential applications to treat several diseases.
- Lead drug candidate PXS-5505 is targeting Myelofibrosis (MF), a rare myeloproliferative cancer where fibrous tissue builds up inside bone marrow replacing normal tissue, a market opportunity estimated by PXS to be ~US$1bn. It has shown good tolerability, with no severe side effects reported, and encouragingly, a good dose-response profile.

Forecast and valuation update

- We have made a modest upgrade to our FY23 forecast reflecting the receipt of the option from Aptar of A$7.0m, although offset by lower Bronchitol sales. These lower Bronchitol sales flow through to FY24. In FY25 we originally assumed the MF program would be licensed out, but with the slower recruitment we have moved this licensing assumption to FY26. We have not assumed any licensing revenue from the scarring program which is potential upside to our forecasts.
- Given the changes to forecasts, our DCF based valuation has fallen to A$0.25 from A$0.58. We set our target price at the same level.

Investment view

- We maintain a Speculative Buy recommendation. An investment in PXS is suitable only for investors with a higher risk profile.

Price catalysts

- Key upcoming milestones include the results of the established scarring and Myelofibrosis trials which are due in the next six to nine months.

Risks

- Delays in trial recruitment and failure to meet clinical endpoints.

Pharmaxis

as at August 16, 2022

Rating	SPECULATIVE BUY	Price (A$):	0.075
Market cap (A$m):	41.18	12-month target price (A$):	0.25
Shares outstanding (m):	548.9	Up/downside to target price (%):	233.3
Free float (%):	100.0	Dividend yield (%):	0.0

Company description

Pharmaxis (PXS) engages in the research, development, and commercialisation of healthcare products for the treatment of fibrotic and inflammatory diseases worldwide. The company operates through two segments, Mannitol Respiratory Business and New Drug Development. It offers Bronchitol, an inhaled dry powder for the treatment of cystic fibrosis; and Aridol, an airways inflammation test that is used to assist in diagnosing and managing asthma. The company's product pipeline consists of amine oxidase inhibitors comprising semicarbazide-sensitive amine oxidase for neuro inflammatory conditions such as Parkinson's Disease; selective lysyl oxidase like inhibitors targeting chronic fibrotic diseases, such as pulmonary fibrosis, kidney fibrosis, and cardiac fibrosis; and pan-lysyl oxidase inhibitors targeting myelofibrosis and other cancers, and scarring.

Market considerations

Myelofibrosis

Commercial Opportunity

- Current standard of care; revenue ~US$1b per annum

Hepatocellular Carcinoma (HCC)

- **Commercial Opportunity**
  - Drugs market currently worth ~US$2bn with rising incidence forecasted to drive growth to ~US$7bn by 2027

Hypertrophic and keloid scarring

- Commercial Opportunity
  - Total scar treatment market in 2019 exceeded US$19b. Keloid and hypertrophic scar segment ~US$3.5b

Source: Company

Near-term milestones (CY22)

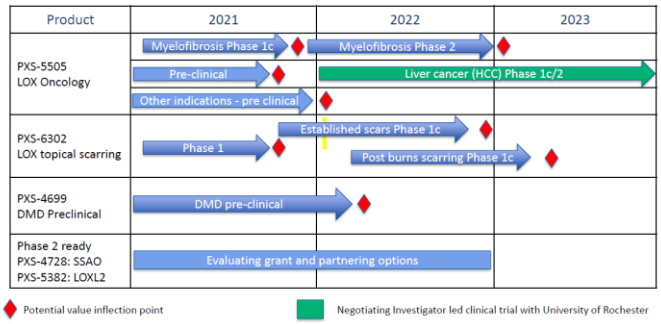
Complete recruitment of clinical trials for Myelofibrosis, established scars and burns.

Efficacy results of PXS-5505 in Phase 1/2a trial in Myelofibrosis (expected 1QCY23) and of PXS-6302 trial Phase Ic trial in established scars (4QCY22) and burns (1HCY23).

Sales in Mannitol respiratory business.

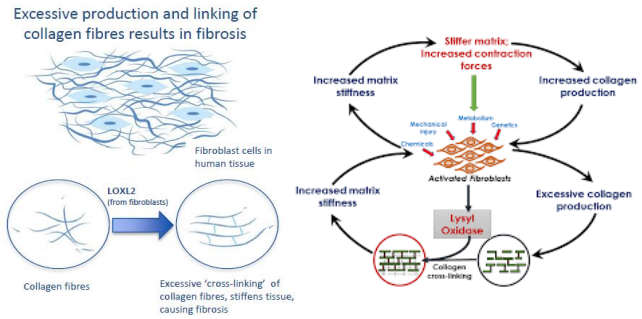
Source: Morgans, Company

Expected product pipeline timelines



Source: Company

Mechanism of action



Source: Company

Product Pipeline

Disease/target	Drug	Status
Cystic fibrosis	Bronchitol	Approved
Asthma	Aridol	Approved
Neuro inflammation (SSAO inhibitor)	PXS-4728	Phase 2
Myelofibrosis (oral pan-LOX inhibitor)	PXS-5505	Phase 2a commenced
Liver cancer (oral pan-LOX inhibitor)	PXS-5505	Phase 1c/2a
Scarring (Topical pan-LOX inhibitor)	PXS-6302	Phase 1c
Chronic fibrotic diseases (LOXL2 inhibitor)	PXS-5382	Phase 1 completed
Duchenne Muscular Dystrophy (dual SSAO/MAOB inhibitor)	PXS-4699	Pre-clinical

Source: Company

Key drivers / risks

Key Drivers

Licensing deal value for late stage assets

Clinical progression for oral pan-LOX (PXS-5505) and topical pan-LOX (PXS-6302)

Potential partnership

Key risks:

Trial risks

Lower than expected Mannitol sales which is linked to COVID

COVID related impacts on recruitment for clinical trials

Funding risk

Alternative Therapies

Source: Morgans, Company

Figure 1: Financial summary

Pharmaxis

Income statement	2021A	2022A	2023F	2024F	2025F
Divisional sales	23.7	15.8	15.0	10.0	18.0
Milestone payments	0.0	0.0	0.0	0.0	0.0
R&D rebates + other	0.0	0.0	0.0	0.5	0.5
Total revenue	**23.7**	**15.8**	**15.0**	**10.5**	**18.5**
EBITDA	**0.2**	**-12.0**	**-13.7**	**-18.7**	**-14.4**
Associate income	0.0	0.0	0.0	0.0	0.0
Depreciation	3.2	3.2	1.9	2.2	2.1
EBITA	-3.0	-15.2	-15.7	-20.9	-16.5
Amortisation/impairment	0.0	0.0	0.0	0.0	0.0
EBIT	**-3.0**	**-15.2**	**-15.7**	**-20.9**	**-16.5**
EBIT(incl associate profit)	-3.0	-15.2	-15.7	-20.9	-16.5
Net interest expense/FX	-0.4	-0.1	-13.3	-0.2	-0.2
Pre-tax profit	-2.9	-1.9	-15.5	-20.7	-16.4
Income tax expense	0.0	0.0	0.0	0.0	0.0
After-tax profit	-2.9	-1.9	-15.5	-20.7	-16.4
Minority interests	0.0	0.0	0.0	0.0	0.0
NPAT	**-2.9**	**-1.9**	**-15.5**	**-20.7**	**-16.4**
Significant items	0.0	0.0	0.0	0.0	0.0
NPAT post abnormals	-2.9	-1.9	-15.5	-20.7	-16.4

Cash flow statement	2021A	2022A	2023F	2024F	2025F
EBITDA	0.2	-12.0	-13.7	-18.7	-14.4
Other cash items	0.0	0.0	0.0	0.0	0.0
Net interest (pd)/rec	0.1	13.3	0.2	0.2	0.2
Taxes paid	0.0	0.0	0.0	0.0	0.0
Change in working capital	2.8	-14.4	3.7	1.2	-1.7
Cash flow from ops (1)	**3.1**	**-13.1**	**-9.9**	**-17.3**	**-15.9**
Capex (2)	-0.3	-3.2	-3.2	-1.9	-2.2
Disposals/(acquisitions)	0.0	0.0	0.0	0.0	0.0
Other investing cash flow	-0.3	0.0	0.0	0.0	0.0
Cash flow from invest (3)	**-0.6**	**-3.2**	**-3.2**	**-1.9**	**-2.2**
Incr/(decr) in equity	4.1	6.7	12.5	18.8	25.0
Incr/(decr) in debt	0.0	0.0	0.0	0.0	0.0
Ordinary dividend paid	0.0	0.0	0.0	0.0	0.0
Preferred dividends (4)	0.0	0.0	0.0	0.0	0.0
Other financing cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from fin (5)	**4.1**	**6.7**	**12.5**	**18.8**	**25.0**
Forex and disc ops (6)	0.0	0.0	0.0	0.0	0.0
Inc/(decr) cash (1+3+5+6)	6.5	-9.6	-0.6	-0.5	6.9
Equity FCF (1+2+4)	2.7	-16.3	-13.1	-19.2	-18.1

Balance sheet	2021A	2022A	2023F	2024F	2025F
Cash & deposits	18.7	8.9	8.3	7.9	14.8
Trade debtors	3.9	3.2	2.5	1.7	3.0
Inventory	3.6	2.3	1.5	1.0	1.8
Investments	0.0	0.0	0.0	0.0	0.0
Goodwill	0.0	0.0	0.0	0.0	0.0
Other intangible assets	1.1	1.1	1.1	1.1	1.1
Fixed assets	6.2	3.2	4.5	4.3	4.3
Other assets	0.0	1.5	1.5	1.5	1.5
Total assets	33.6	25.2	24.3	22.4	31.4
Short-term borrowings	0.0	0.0	0.0	0.0	0.0
Trade payables	3.8	1.5	3.5	3.6	4.1
Long-term borrowings	0.0	0.0	0.0	0.0	0.0
Provisions	2.1	2.4	2.4	2.4	2.4
Other liabilities	24.9	10.5	10.5	10.5	10.5
Total liabilities	30.7	14.4	16.5	16.5	17.0
Share capital	371.4	376.1	373.1	371.1	379.7
Other reserves	22.6	22.6	22.6	22.6	22.6
Retained earnings	-391.2	-387.9	-387.9	-387.9	-387.9
Other equity	0.0	0.0	0.0	0.0	0.0
Total equity	2.8	10.8	7.8	5.9	14.5
Minority interest	0.0	0.0	0.0	0.0	0.0
Total shareholders' equit	2.8	10.8	7.8	5.9	14.5
Total liabilities & SE	**33.6**	**25.2**	**24.3**	**22.4**	**31.4**

Closing price (A$)	0.08	Price target (A$)	0.25
Valuation metrics			
Methodology -DCF-PER Comp		Target Price	$0.25
DCF valuation inputs			
Rf	3.50%		
Rm-Rf	5.50%		
Beta	1.40		
CAPM (Rf+Beta(Rm-Rf))	10.9%		
E/EV*Ke+D/EV*Kd(1-t)		NPV cash flow (A$m)	197.0
Equity (E/EV)	97.6%	Minority interest (A$m)	0.0
Debt (D/EV)	2.5%	Net debt (A$m)	0.0
Interest rate	5.00%	Investments (A$m)	0.0
Tax rate (t)	30.0%	Equity market value (A$m)	197.0
WACC	10.9%	Diluted no. of shares (m)	798.9
		DCF valuation	$0.25

Multiples	2021A	2022A	2023F	2024F	2025F
Enterprise value (A$m)	41.2	51.0	51.6	52.0	45.1
EV/Sales (x)	1.7	3.2	3.4	5.2	2.5
EV/EBITDA (x)	226.4	-4.2	-3.8	-2.8	-3.1
EV/EBIT (x)	-13.9	-3.3	-3.3	-2.5	-2.7
PE (pre-goodwill) (x)	-11.7	-21.2	-3.3	-2.9	-4.2
PEG (pre-goodwill) (x)	na	-0.3	-0.1	0.0	0.1

At target price	2021A	2022A	2023F	2024F	2025F
EV/EBITDA (x)	-13.9	-3.3	-3.3	-2.5	-2.7
PE (pre-goodwill) (x)	-38.5	-69.6	-10.7	-9.5	-13.9

Per share data	2021A	2022A	2023F	2024F	2025F
No. shares	455.6	548.9	673.9	798.9	923.9
EPS (cps)	-0.6	-0.4	-2.3	-2.6	-1.8
EPS (normalised) (c)	-0.6	-0.4	-2.3	-2.6	-1.8
Dividend per share (c)	0.0	0.0	0.0	0.0	0.0
Dividend payout ratio (%)	0.0%	0.0%	0.0%	0.0%	0.0%
Dividend yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%

Growth ratios	2021A	2022A	2023F	2024F	2025F
Sales growth		-33.5%	-4.8%	-33.3%	80.0%
Operating cost growth		18.2%	3.4%	-0.1%	13.0%
EBITDA growth		-413.4%	-2.7%	-33.4%	20.8%
EBITA growth		-413.4%	-2.7%	-33.4%	20.8%
EBIT growth		-413.4%	-2.7%	-33.4%	20.8%
NPAT growth		33.4%	-696.3%	-33.8%	20.9%
Pre-goodwill NPAT growth		33.4%	-696.3%	-33.8%	20.9%
Pre-goodwill EPS growth			33.4%	-696.3%	-33.8%
Normalised EPS growth			33.4%	-696.3%	-33.8%

Operating performance	2021A	2022A	2023F	2024F	2025F
Asset turnover (%)	17.2	13.4	15.2	10.7	16.7
EBITDA margin (%)	0.8	-76.2	-91.5	-186.9	-80.0
EBIT margin (%)	-12.5	-96.8	-104.4	-208.8	-91.9
Net profit margin (%)	-12.3	-12.3	-103.2	-207.2	-91.1
Return on net assets (%)	-104.4	-141.1	-200.0	-356.3	-114.4
Net debt (A$m)	-18.7	-8.9	-8.3	-7.9	-14.8
Net debt/equity (%)	-657.7	-82.7	-106.6	-134.6	-102.2
Net interest/EBIT cover (x)		-305.0	-1.2	-116.8	-99.2

Source: Morgans estimates, company data

Changes to forecasts

The main change to forecasts is to delay the licensing of the LOX program to FY26 from FY25.

Figure 2: Changes to forecasts

	Prev-F23	New-FY23F	% change	Prev-FY24	New-FY24	% change	Prev-FY25	New-FY25	% Change
Revenue	13.5	15.0	11.3%	18.5	10.5	-43.3%	55.1	18.5	-66.5%
EBITDA	-14.9	-13.7	7.6%	-12.8	-18.7	-45.9%	15.2	-14.4	-194.7%
NPAT	-17.7	-15.5	12.4%	-15.5	-20.7	-33.9%	12.2	-16.4	-234.0%
EPS	-2.6	-2.3	12.4%	-2.3	-2.6	-12.9%	1.8	-1.8	-197.8%

Source: Morgans estimates, company data

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