

October 6, 2023

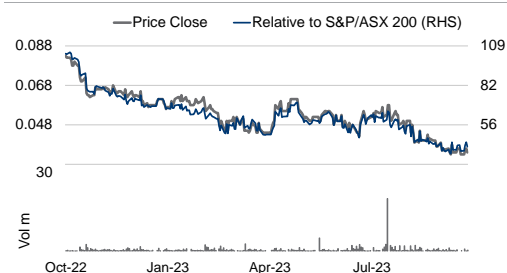
SPECULATIVE BUY (no change)

Stock code:	PXS AU
Price:	A\$0.034
12-month target price:	A\$0.17
Previous target price:	A\$0.13
Up/downside to target price:	400.0%
Dividend yield:	0.0%
12-month TSR*:	400.0%
Market cap:	A\$24.55m
Average daily turnover:	A\$0.04m
Index inclusion:	N/A

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

Price performance

(%)	1M	3M	12M	3Y
Absolute	-15.0	-32.0	-58.0	-59.5
Rel ASX/S&P200	-9.8	-27.6	-59.7	-76.2



Source: IRESS

Financial summary

	Jun-23A	Jun-24F	Jun-25F	Jun-26F
Revenue (A\$m)	19.19	9.31	4.68	39.70
EBITDA Norm (A\$m)	-9.54	-7.56	-10.16	17.43
Net Profit (A\$m)	-11.27	-8.38	-11.09	16.84
EPS Norm (A\$)	-0.018	-0.010	-0.011	0.016
EPS Growth Norm (%)	359%	-42%	10%	
P/E Norm (x)	NA	NA	NA	2.11
DPS (A\$)	0.000	0.000	0.000	0.000
Dividend Yield (%)	0%	0%	0%	0%
Franking	NA	NA	NA	NA
EV/EBITDA (x)	NA	NA	NA	-0.008
Gearing (Net Debt/EBITDA)	0.97	1.61	2.68	-2.05

Source: Company data, Morgans estimates

Related research

[PXS \(SPEC BUY - TP A\\$0.13\) - 22 Aug 2023](#)
[PXS \(SPEC BUY - TP A\\$0.24\) - 15 Feb 2023](#)

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

– Pharmaxis

Pharmaxis

Restructured to smaller, more agile drug developer

- PXS has restructured, jettisoning its mannitol respiratory business to Arna Pharma, downsizing its Board and rebadging to Syntara.
- While no upfront fee was received for the mannitol business, there are nominal exit costs and PXS stands to collect royalties for eight years on not only associated sales, but also for all products produced at a new Arna Pharma facility.
- Importantly, the total cost base is cut in half, with additional savings expected post separation, extending the cash runway.
- We see multiple near-term catalysts across a strong and growing pipeline for a now smaller and more agile clinical-stage drug developer.
- Our target price increases to A\$0.17 (from A\$0.13). Speculative Buy maintained.

Event

- PXS has announced a major restructuring, jettisoning its mannitol respiratory business to Arna Pharma, resizing its Board and rebadging itself to Syntara, a clinical-stage drug development company primarily focusing on treatments for blood related cancers.

Analysis

- Arna Pharma is acquiring the mannitol respiratory business at nil upfront cost, with closing expected before the end of Oct-23 subsequent to the company taking over the day to day operations.
- PXS is responsible for certain operational costs during an eight-month transition period ending upon the expiration of its May-24 manufacturing facility lease. However, most costs will be reimbursed by Arna Pharma, with management estimating net exit costs of less than A\$1m.
- PXS stands to receive royalties on operating profits of mannitol products (ie Aridol and Bronchitol in the high-single digits) as well as on other Arna Pharma products (mid-single digits) manufactured at a new Sydney facility for a period of eight years.
- Core expenses (ex-external trial and drug development costs) are forecast to decline by more than 60% (from A\$23m to A\$9m), with additional savings to be realised post separation.
- The Board was also downsized and is under new leadership, with current Chair Malcolm McComas (11 years with the company) succeeded by current director Dr Kathleen Metters, and non-executive director Neil Graham (three years with the company) stepping down, but with no changes to the existing management team.
- Re-badged as Syntara, management classified the company as a more “agile clinical-stage drug developer”, focused on first and best in class disease modifying drugs underpinned by an integrated drug discovery engine well versed in amine oxidase chemistry and biology and a pipeline of assets targeting fibrosis and inflammation.

Forecast and valuation update

- We have adjusted FY24/25/26 forecasts accordingly and continue to assume a licensing agreement (FY26) for lead PXS-5505.
- We have maintained A\$10m in additional funding in FY24, with our DCF based valuation increasing to A\$0.17 (from A\$0.13). We have set our target price at the same level.

Investment view

- We believe PXS is developing a portfolio of unique clinical compounds which have demonstrated promising activity across a broad range of diseases and conditions (eg cancers (myelofibrosis, myelodysplastic syndrome, liver and pancreatic); neurological (Parkinson’s disease); and skin scarring (established and postsurgical). We use a DCF based valuation methodology to derive a target price of A\$0.17. We have a Speculative Buy recommendation.

Price catalysts

- Start three clinical studies before YE23; report Myelofibrosis Ph 2 trial Nov-23.

Risks

- Financial, regulatory and developmental.

Pharmaxis

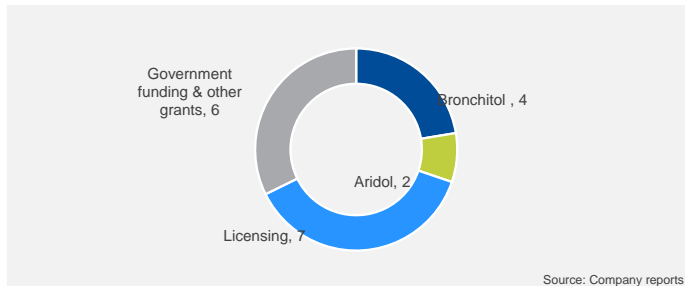
SPECULATIVE BUY

as at October 6, 2023

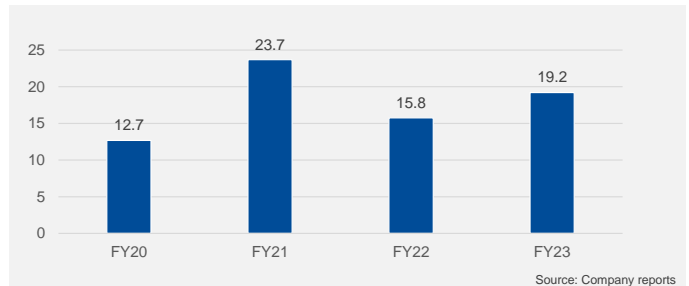
Price (A\$):	0.034	12-month target price (A\$):	0.17
Market cap (A\$m):	24.55	Up/downside to target price (%):	400.0
Free float (%):	100.0	Dividend yield (%):	0.0
Index inclusion:	N/A	12-month TSR (%):	400.0

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.

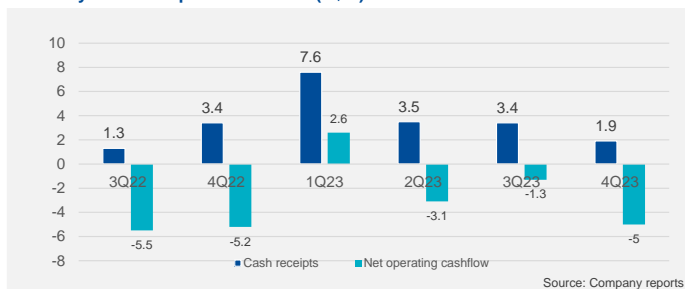
Revenue by segment (A\$m) - FY23



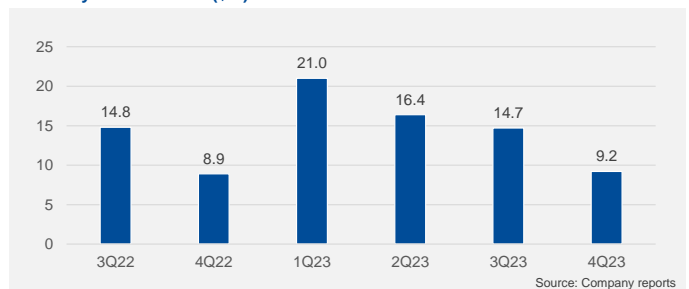
Historical revenue (A\$m)



Quarterly cash receipts and outflow (A\$m)



Quarterly cash balance (\$m)



Bull points

Major milestones approach

PXS-5505 Myelofibrosis Phase 2a trial combination trail to start recruiting late calendar 2023

PXS-6302 - established scarring - Phase 1c - extended with UWA and Prof Fiona Wood - start late calendar 2023

PXS-6302 - scar prevention post surgery - first patient 2Q24



Bear points

Lower sales growth

Sales of bronchitol slower than expected

Clinical trial not meet endpoints

PXS-5505 myelofibrosis Phase 2a fails to be clinically meaningful

PXS -6302 established scarring Phase 1c study does not meet primary endpoint



Environmental, Social and Governance

ESG
Exposure
Management



Exposure

There is little reporting of the company's environmental impact, although given the mechanical nature of the device, it would be fair to assume limited material and ongoing exposure to environmental or social sustainability risk

Management

PXS have policies in place to ensure human rights and labour risks through its Code of Conduct and Modern Slavery Policy. There is limited representation of females on the board (~17%).

Source: Morgans

Figure 1: Financial summary

Pharmaxis						Closing price (A\$)	0.04	Price target (A\$)	0.17		
Income statement	2022A	2023A	2024F	2025F	2026F	Valuation metrics					
Divisional sales	15.8	19.2	8.8	4.2	4.6	Methodology -DCF-PER Comp					
Milestone payments	0.0	0.0	0.0	0.0	30.0	DCF valuation inputs					
R&D rebates + other	0.0	0.0	0.5	0.5	3.6	Rf	3.50%				
Total revenue	15.8	19.2	9.4	4.7	38.2	Rm-Rf	5.50%				
EBITDA	-12.0	-9.5	-7.6	-10.2	17.4	Beta	1.40				
Associate income	0.0	0.0	0.0	0.0	0.0	CAPM (Rf+Beta(Rm-Rf))					
Depreciation	3.2	1.8	1.0	1.2	1.1	E/EV*Ke+D/EV*Kd(1-t)					
EBITA	-15.2	-11.4	-8.6	-11.3	16.3	Equity (E/EV)	97.6%		NPV cash flow (A\$m)	125.5	
Amortisation/impairment	0.0	0.0	0.0	0.0	0.0	Debt (D/EV)	2.5%		Minority interest (A\$m)	0.0	
EBIT	-15.2	-11.4	-8.6	-11.3	16.3	Interest rate	5.00%		Investments (A\$m)	0.0	
EBIT (incl associate profit)	-15.2	-11.4	-8.6	-11.3	16.3	Tax rate (t)	30.0%		Equity market value (A\$m)	125.5	
Net interest expense/FX	-13.3	-0.1	-0.2	-0.2	-0.5	WACC	10.9%		Diluted no. of shares (m)	720.5	
Pre-tax profit	-1.9	-11.3	-8.4	-11.1	16.8	DCF valuation					
Income tax expense	0.0	0.0	0.0	0.0	0.0						
After-tax profit	-1.9	-11.3	-8.4	-11.1	16.8	Multiples					
Minority interests	0.0	0.0	0.0	0.0	0.0	Enterprise value (A\$m)	10.1	19.9	19.6	16.6	1.6
NPAT	-1.9	-11.3	-8.4	-11.1	16.8	EV/Sales (x)	0.4	1.3	1.0	1.9	0.4
Significant items	0.0	0.0	0.0	0.0	0.0	EV/EBITDA (x)	55.5	-1.7	-2.1	-2.2	-0.2
NPAT post abnormals	-1.9	-11.3	-8.4	-11.1	16.8	EV/EBIT (x)	-3.4	-1.3	-1.7	-1.9	-0.1
Cash flow statement						PE (pre-goodwill) (x)	-6.2	-11.3	-2.6	-4.4	-3.8
EBITDA	-12.0	-9.5	-7.6	-10.2	17.4	PEG (pre-goodwill) (x)	na	-0.1	-0.1	0.0	-0.1
Other cash items	0.0	0.0	0.0	0.0	0.0	At target price					
Net interest (pd)/rec	13.3	0.1	0.2	0.2	0.5	EV/EBITDA (x)	-3.4	-1.3	-1.7	-1.9	-0.1
Taxes paid	0.0	0.0	0.0	0.0	0.0	PE (pre-goodwill) (x)	-27.2	-49.2	-11.1	-19.1	-16.4
Change in working capital	-14.4	3.9	2.2	1.0	-8.3	Per share data					
Cash flow from ops (1)	-13.1	-5.5	-5.2	-8.9	9.6	No. shares	455.6	548.9	720.5	920.5	1045.5
Capex (2)	-3.2	-3.2	-1.8	-1.0	-1.2	EPS (cps)	-0.6	-0.4	-1.6	-0.9	-1.1
Disposals/(acquisitions)	0.0	0.0	0.0	0.0	0.0	EPS (normalised) (c)	-0.6	-0.4	-1.6	-0.9	-1.1
Other investing cash flow	0.0	0.0	0.0	0.0	0.0	Dividend per share (c)	0.0	0.0	0.0	0.0	0.0
Cash flow from invest (3)	-3.2	-3.2	-1.8	-1.0	-1.2	Dividend payout ratio (%)	0.0%	0.0%	0.0%	0.0%	0.0%
Incr/(decr) in equity	6.7	7.0	10.0	25.0	0.0	Dividend yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%
Incr/(decr) in debt	0.0	0.0	0.0	0.0	0.0	Growth ratios					
Ordinary dividend paid	0.0	0.0	0.0	0.0	0.0	Sales growth	-33.5%	21.8%	-54.0%	-52.5%	
Preferred dividends (4)	0.0	0.0	0.0	0.0	0.0	Operating cost growth	18.2%	3.5%	-42.9%	-12.4%	
Other financing cash flow	0.0	0.0	0.0	0.0	0.0	EBITDA growth	-413.4%	25.3%	24.8%	-32.3%	
Cash flow from fin (5)	6.7	7.0	10.0	25.0	0.0	EBITA growth	-413.4%	25.3%	24.8%	-32.3%	
Forex and disc ops (6)	0.0	0.0	0.0	0.0	0.0	EBIT growth	-413.4%	25.3%	24.8%	-32.3%	
Inc/(decr) cash (1+3+5+6)	-9.6	-1.8	2.9	15.1	8.5	NPAT growth	33.4%	-479.9%	25.7%	-32.3%	
Equity FCF (1+2+4)	-16.3	-8.8	-7.1	-9.9	8.5	Pre-goodwill NPAT growth	33.4%	-479.9%	25.7%	-32.3%	
Balance sheet						Pre-goodwill EPS growth	33.4%	-479.9%	25.7%		
Cash & deposits	8.9	9.2	12.2	27.2	35.7	Normalised EPS growth	33.4%	-479.9%	25.7%		
Trade debtors	3.2	3.6	1.5	0.8	6.5	Operating performance					
Inventory	2.3	1.6	0.9	0.5	4.0	Asset turnover (%)	17.2	13.4	19.7	9.2	3.4
Investments	0.0	0.0	0.0	0.0	0.0	EBITDA margin (%)	0.8	-76.2	-49.7	-85.6	-241.9
Goodwill	0.0	0.0	0.0	0.0	0.0	EBIT margin (%)	-12.5	-96.8	-59.4	-97.0	-269.8
Other intangible assets	1.1	1.1	1.1	1.1	1.1	Net profit margin (%)	-12.3	-12.3	-58.7	-94.9	-264.0
Fixed assets	3.2	1.6	2.4	2.3	2.3	Return on net assets (%)	-104.4	-141.1	-119.1	-76.6	-45.2
Other assets	1.5	1.1	1.1	1.1	1.1	Net debt (A\$m)	-18.7	-8.9	-9.2	-12.2	-27.2
Total assets	25.2	23.5	24.5	38.1	55.9	Net debt/equity (%)	-657.7	-82.7	-96.5	-108.9	-108.5
Short-term borrowings	0.0	0.0	0.0	0.0	0.0	Net interest/EBIT cover (x)	-1.1	-97.3	-46.4	-46.5	
Trade payables	1.5	2.7	2.1	1.8	2.7						
Long-term borrowings	0.0	0.0	0.0	0.0	0.0						
Provisions	2.4	2.6	2.6	2.6	2.6						
Other liabilities	10.5	8.6	8.6	8.6	8.6						
Total liabilities	14.4	13.9	13.3	13.0	14.0						
Share capital	376.1	371.8	373.4	387.3	404.2						
Other reserves	22.6	22.6	22.6	22.6	22.6						
Retained earnings	-387.9	-384.9	-384.9	-384.9	-384.9						
Other equity	0.0	0.0	0.0	0.0	0.0						
Total equity	10.8	9.6	11.2	25.1	41.9						
Minority interest	0.0	0.0	0.0	0.0	0.0						
Total shareholders' equity	10.8	9.6	11.2	25.1	41.9						
Total liabilities & SE	25.2	23.5	24.5	38.1	55.9						

Source: Morgans estimates, company data

Changes to forecasts

We have adjusted FY24-26 forecasts to account for the exit of the mannitol business and new cost base. We continue to assume a licensing transaction is completed in FY26.

Figure 2: Forecast changes

	Prev-FY24	New-FY24	% change	Prev-FY24	New-FY25	% Change	Prev-FY26	New-FY26	% Change
Revenue	10.5	9.3	-11.1%	18.5	4.7	-74.7%	58.1	39.7	-74.7%
EBITDA	-18.7	-7.6	59.6%	-14.5	-10.2	-29.7%	15.7	17.4	-29.7%
NPAT	-19.6	-8.4	57.1%	-15.6	-11.1	28.8%	14.7	16.8	28.8%
EPS	-2.2	-0.9	58.7%	-1.5	-1.1	31.1%	1.5	1.6	31.1%

Source: Morgans estimates, company data

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Morgans Corporate Limited was Joint Lead Manager to the Placement of shares in Pharmaxis Limited in October 2022 and received fees in this regard.; Morgans Corporate Limited was a Joint Lead Manager to the Placement of shares in EBR Systems Inc. in June 2023 and received fees in this regard.

Recommendation structure: For a full explanation of the recommendation structure, refer to our website at morgans.com.au/research_disclaimer

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