



Biotech Daily

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Daily news on ASX-listed biotechnology companies

Dr Boreham's Crucible: Medical Marijuana

By TIM BOREHAM

Medlab Clinical (MDC) 80c market cap \$78m
MMJ Phytotech (MMJ) 22c market cap \$41m
MGC Pharmaceuticals (MXC) 4c market cap \$28m
Botanix (BOT) 4.6c market cap \$11m
Zelda Therapeutics (ZLD) 3c market cap \$10m
Creso Pharma (CPH) 23c market cap \$8m
Auscann (AC8) not yet listed
Esense-Lab (ESE) not yet listed

Whoopee! Local investors are now spoiled for choice when it comes to exposure to the listed medical marijuana sector, which didn't even exist two years ago.

But how much of the stash on offer should punters inhale? The sector shows great promise, as exemplified by the Turnbull government's decision last year to legalise clinical use under strict conditions.

But like a carefree 1970s Nimbin hippie, the sector still has much growing-up to do and it's hard to get to the nub (or should that be bud?) of the companies' shifting strategies.

The ASX roll call of pure-play pot stocks now amounts to four: pioneer MMJ Phytotech, MGC Pharmaceuticals and the recently listed Zelda Therapeutics and Creso Pharma.

Another, Esense-Lab (ESE) was due to list on Jan 13, but as yet has not penetrated the deep fog of the ASX listing process. Esense's shtick is the phytochemical profiling of targeted plants, including not just cannabis but ginseng, saffron, sandalwood and "other rare medicinal plants and species".

Multi-pronged biologics house Medlab Clinical (MDC) in November received assent from local authorities to import cannabis from Canada, for the use in clinical trials on cancer patients suffering “intractable” cancer pain.

We'll also throw in Cellmid (CDY), which is assessing its midkine (growth factor) portfolio for the treatment of conditions such as chronic kidney disease, heart failure and cancers (as well as balding).

Collaborative pre-clinical (animal) studies carried out in Spain suggest that when combined with medical cannabis, midkine halts the spread of an aggressive brain cancer called glioblastoma.

Auscann (AC8), another pure pot play, is due to list in February by way of a back-door listing with TW Holdings.

The sector is as tight as an expertly-rolled reefer: biotech veteran Dr Stewart Washer heads up Zelda, which has close ties with Auscann. Dr Washer also sits on the Auscann board, which is chaired by his father (and former Federal Member of the House of Representatives) Dr Mal Washer.

Creso chair Boaz Wachtel used to run Phytotech, which merged with MMJ shortly after its pioneer listing in January 2015.

We'll take it as read that cannabis is a globally proven remedy for a variety of ailments including epilepsy, AIDS/HIV, multiple sclerosis, anxiety and depression and, of course, cancer pain relief.

Some treatments revolve around the psychoactive component THC, but most players stress the goodness of the cannabinoids (CBDs) which are not high inducing.

Adding to the clinical credibility, Rich-Lister Barry Lambert and his wife Joy last year donated \$33 million to the Sydney University for further research into the use of cannabis to treat childhood epilepsy.

Last year's Narcotics Drugs Amendment Bill opened the way for medical-grade cannabis to be made available to needy patients, as well as for research. Much of the practical implementation is up to the states, with NSW and Queensland also moving down the legalisation path - but oh so cautiously. Victoria has legalized medical marijuana for certain conditions and the State Government has grown its own and turned it into a standardized medication for children with epilepsy.

Therapeutic Goods Administration consent is also needed and that poses another regulatory overlay.

Given the novelty, it's impossible to define the potential size of the local market. In a marketing “white paper” commissioned by MGC, the University of Sydney last year took a stab and valued the local market at a theoretical \$60 million a year, based on the Canadian experience.

Despite that, Australia remains a relatively small market (familiar story?) with most of the players emphasising a global strategy.

Israel (a renown medical research centre) and Canada (where medical pot has long been legal) feature heavily in the corporate narratives.

For instance, Auscann gets supply from Canopy Growth Corp, the world's biggest grower. The company also has a joint venture with licenced Chilean grower Fundacion Daya.

Probably wisely, the companies are honing specific targets rather touting their potions and devices as a cure-all.

Zelda's repertoire includes eczema and sleep disorders. The company also recently entered research collaboration with Curtin University for a stand-alone treatment for pancreatic cancer.

Creso is focused on animal health and this month claimed first European Union approval for two CBD-based animal feed additives, while Botanix back-doored into Bone Medical for its novel transdermal drug delivery technology Permetrex for prescription products for skin diseases including acne, psoriasis and atopic dermatitis.

In the US, Medical Marijuana Inc subsidiary Kannaway LLC claims to be the first "hemp lifestyle network" to offer CBD botanical products. The Kannaway Gold product is all-natural – isn't all non-synthetic cannabis? – and "packaged pure with no other ingredients or additives".

The new premium hemp oil is decarboxylated (shed of carbon dioxide) to maximize CBD content and put through an additional filtration process to remove the hemp oil's excess waxes, chlorophyll and plant material, giving the oil its golden colour and refined taste.

MGC meanwhile is targeting the skin care market. The company is in clinical studies with human volunteers in Slovenia and is targeting sales in the third quarter of 2017.

On listing, Phytotech claimed to be the "first multinational, vertically integrated medical cannabis company".

The company's Swiss subsidiary Satipharm describes its micro gel capsules – to be sold as a dietary supplement -- as the "only medical cannabis produced to have demonstrated safety in a clinical trial program". The MMJ Phytotech story has become complicated because it has entered into a deal to sell its United Greenery Holdings and Satipharm subsidiaries to listed Canadian company Harvest One, of which MMJ owns 60 percent.

MMJ last week received a pointed ASX query over the alleged tardy timing of the release of an announcement that Harvest One has increased its proposed capital raising to fund the transaction, from \$C15 million to \$C25 million.

MMJ conceded that while it could have been more responsive, any delay was "administrative in nature only". According to MMJ's response, "the company has acted to ensure more timely information flow in future".

To date, the dope companies have taken great care to distance them from the recreational sector, which will always be shrouded by controversy despite public opinion consistently favouring legalization.

But with Canada pondering legalizing non-medical use, MMJ is now targeting “direct supply to the Canadian medicinal AND recreational markets”.

Across the border, the wave of state-based liberalization is in danger of being wound back, with Donald Trump’s attorney general Jeff Sessions opining that “good people don’t smoke marijuana”.

Even if they don’t inhale.

PERFORMANCE

Pot punters haven’t exactly done their dough, with all of the listed stocks trading above the price at which they initially raised capital (bear in mind that MMJ, MGC and Auscann were back-door listings).

Riding the novelty wave, Phytotech shares almost quadrupled in the days after listing, but are now just above their issue price of 20c a share.

Zelda investors who weighed in at 2.5c are well ahead – the shares trade around 3c – but those who exited at December’s peak of 4.4c were astutely aware that a high never lasts.

Creso shares bounded from their 20c issue price in October last year to a “high” of 36c, but now trade around 23c.

Medlab Clinical has been the star performer, listing at 20c in July 2015 and now trading at 80c.

DR BOREHAM’S VERDICT:

Picking the likely winners and losers out of this pot-pourri of stocks is almost impossible, given the lack of historical market information and the companies’ wildly varying strategies.

Despite the reasonable on-market performance valuations remain low, with the two biggest, Medlab and MMJ, commanding \$80 million and \$40 million market capitalisations, respectively.

We suspect the ones that develop properly clinical validated products and delivery systems will prevail, although we can’t see any of them being troubled by the need for a dividend policy in the next few years.

The companies that merely sell the weed with little value adding will be competing in a highly commoditised market.

MMJ Phytotech has the benefit of its 60 percent exposure to a Canadian grower with two established brands.

The US website Marijuanastocks.com lists close to 100 listed medicinal and recreational listed suppliers, with alluring names such as Totally Hemp Crazy and Mountain High Acquisitions.

Then again, there's the risk that too much of a clinical focus will result in too much sophistry, with needy patients priced out of the official market and back to the illicit reefers and backyard bong.

By all means take a punt, preferably with a handful of stocks to mitigate the risk.

Just don't call it sober investing.

**** Disclosure: Dr Boreham is not a qualified medical practitioner and does not possess a doctorate of any sort. Nor is he a licenced financial adviser.***

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