Biotech Daily

Friday July 7, 2017

Daily news on ASX-listed biotechnology companies

*** ASX, BIOTECH DOWN: ATCOR UP 11%, PSIVIDA DOWN 11%**

*** DR BOREHAM'S CRUCIBLE: CSL**

*** LBT SHARE PLAN RAISES $500k OF HOPED-FOR $3m**

*** ELLEX BLAMES FOREIGN EXCHANGE FOR 1.6% REVENUE FALL**

*** COMPUMEDICS 'RESTRUCTURE' 12% REVENUE WARNING**

*** ADMEDUS TAKES CARDIOCEL 3D TO US EXPANDED ACCESS PROGRAM**

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*** HYDROPONICS 'CANNABIS LICENCE' TRADING HALT**

*** ADVISOR DR STEPHEN ADDIS BELOW 5% IN MEDIBIO**

MARKET REPORT

The Australian stock market fell 0.96 percent on Friday July 7, 2017 with the ASX200 down 55.2 points to 5,703.6 points.

Nine of the Biotech Daily Top 40 stocks were up, 16 fell, 13 traded unchanged and two were untraded. All three Big Caps fell.

Atcor was the best, up 0.4 cents or 11.4 percent to 3.9 cents with 174,000 shares traded.

Benitec climbed 7.4 percent; Acrux was up 4.35 percent; Bionomics improved 3.2 percent; Airxpanders, Starpharma and Viralytics rose more than two percent; with Mesoblast and Pharmaxis up more than one percent.

Psivida led the falls, down 32 cents or 11.35 percent to $2.50 with 5,475 shares traded, followed by Compumedics down 11.1 percent to 56 cents with 1.9 million shares traded and Ellex down 10.2 percent to 96.5 cents with 1.1 million shares traded.

Osprey lost 6.7 percent; Cellmid, Nanosonics and Neuren fell more than three percent; CSL, Sirtex and Polynovo shed more than two percent; Admedus, Cochlear, Impedimed, Orthocell, Prana, Resmed and Universal Biosensors were down by more than one percent; with Opthea and Pro Medicus down by less than one percent.

[DR BOREHAM'S CRUCIBLE: CSL]

By TIM BOREHAM

ASX Code: CSL

Market cap: $60.9 billion

Share price: $134.17

Chief executive officer: Paul Perreault

Board: Prof John Shine (chairman), Paul Perreault, John Akehurst, David Antice, Bruce Brook, Dr Megan Clark, Marie McDonald, Christine O'Reilly, Maurice Renshaw, Dr Tadataka 'Tachi' Yamada

Financials (first half to Dec 31, 2016): revenue $US3.68 billion (up 17%), earnings before interest taxation depreciation and amortization $US1.254 billion (up 37%), net profit $US805.5 million (up 12%), earnings per share $US1.764 (up 14%), dividend 64 US cents (up 10%).

Major shareholders (as of 2016 annual report *): HSBC Custody Nominees (27%), JP Morgan Nominees 15%, National Nominees (9.75%)

***** Blackrock Group and CBA have since declared stakes of around 5%.

Ever since its proposed $US3 billion acquisition of US plasma rival Talecris almost a decade ago, CSL has faced perceived growth issues and questions about what to do with its pot of excess cash (the answer, in the main, has been rolling share buy-backs).

It's a nice problem to have. Still, like frustrated footy fans, investors called for CSL to Just Do Something and in 2015 CSL Did Just That, outlaying $US275 million for the flu vaccine business of global giant Novartis.

Last month, the big blood company followed up by paying a chunky $US352 million for an 80 percent share in Chinese plasma company Wuhan Zhong Yuan Rui de Biological Production (Ruide to friends).

For the time being the other 20 percent will be retained by the Shanghai-listed Humanwell (the mob who bought Ansell's condom division recently).

We all know that China is a difficult market. In this case that's not for the usual reasons of transparency, but because of a cultural aversion on the part of many eligible donors to give up their claret.

Having said that, it's the second biggest plasma market behind the US, mainly for albumin products used for critical care including fluid resuscitation.

CSL cites the Chinese plasma market at $US3.3 billion, with around 7,100 tonnes collected annually. The Chinese population is 1.38 billion, give or take a few hundred million.

The plasma market in the US (320 million people) is worth $US8.6 billion annually, with around 31,000 tonnes collected each year.

CSL has not exactly ignored China and is currently the biggest albumin importer with a 16 percent market share. But the Ruide purchase delivers a manufacturing facility, four collection centres and – for the time being at least – the support of Humanwell.

China is the fastest growing market for immunoglobulin products, used to treat ailments including immune-deficiencies, Guillain-Barre syndrome, Kawasaki disease, AIDS/HIV and measles.

Despite the ginormous potential, Ruide won't move the revenue dial for CSL for some time: it turns over $US30 million compared with the greater CSL annual revenues of $US6.6 billion.

Beefing up the business is likely to require more capital expenditure in plasma centres, manufacturing and sales and marketing.

The Magic Pudding continues to deliver

CSL's business is split between Behring (aka The Magic Pudding) and Seqirus, previously Bio-CSL.

Seqirus, which is Latin for 'here's another silly confected company name', in essence is the merged 'flu divisions of CSL and Novartis. Seqirus lost $US205 million last year, but Mr Perreault says the business should break even this year.

Influenza shots have been integral to the CSL story since the company was founded as the government-owned Commonwealth Serum Laboratories in 1916. CSL dosed Allied soldiers with 'flu vaccines and penicillin in World War Two; and helped stave off the Spanish 'flu after the Great War.

But these heroic acts were still not enough to sway Her Majesty to pen a congratulatory telegram for CSL's centenary celebrations last year (obviously the Crown jewels don't include a wad of CSL scrip).

CSL spends a poultice on research and development - more than $US600 million last year - and has had regular clinical and regulatory wins on both sides of the business.

Last month the US Food and Drug Administration approved Behring's Haegarda, a subcutaneous therapy for hereditary angioedema. We hadn't heard of it either, but it's a rare and potentially swelling condition affecting about one in every 25,000 people.

CSL also announced positive test results for CSL212 a so-called apoliprotein to prevent recurrence of secondary heart attacks.

CSL: The $400 share

The sixth biggest ASX-listed stock, CSL has been a favorite of retail investors amid the boring banks and supermarket stocks that dominate the top 10.

CSL shares hover at close to the June 23 record of $143. Bearing in mind CSL split its shares three ways in 2007, the shares should really be worth more than $400 (unlike their US counterparts, Aussie investors are uncomfortable with large-denomination shares).

Maiden aunts who subscribed at $2.30 a share in the 1994 privatisation and ASX-listing are never short of visits from long-lost relatives.

On our sums, every $1,000 invested in the float is worth roughly $270,000. But let’s hope for the sake of Great Aunt Dora’s rapacious relatives that she didn’t lose her nerve and sell when the stock dropped to as low as $2.25 a couple of months after listing.

CSL is one of those stocks that looks perennially expensive: it trades on a current price-earnings multiple of around 35 times (falling to 30 times in the current financial year, based on management guidance of a an 18-20 percent profit uplift).

But the company has an ingrained habit of expanding earnings per share, aided and abetted by share buy-backs (which will continue despite the debt-funded Ruide purchase).

CSL investors will be regularly unsettled by competitor activity. For instance, a number of rivals will outline haemophilia treatment data at the International Society on Thrombosis and Haemostasis annual shindig which kicks off in Berlin his weekend.

Haemophilia products account for 16 percent of CSL’s sales and the company estimates two new treatments could generate revenue of $US700 million to $US1 billion within five years.

Dr Boreham’s diagnosis:

While $US350 million is a meaty sum in yuan or greenbacks, the Chinese venture won’t break the (blood) bank and appears a measured approach to tackling the Middle Kingdom.

CSL and its plasma rivals will continue to engage in skirmishes over particular products and pricing. But the ultimate supportive truth for the stock is that plasma is critical to sustaining life, so an underlying increase in demand is guaranteed. In the words of one fund manager, the plasma game is “economically insensitive”.

A profitable Seqirus would also be a useful shot in the arm for earnings.

Disclosure: Dr Boreham is not a qualified medical practitioner and does not possess a doctorate of any sort. The author owns CSL shares, but acquired them well North of $2 and sadly there is no Great Aunt Dora in his life.

LBT INNOVATIONS

LBT says its share plan at 26 cents a share has raised $500,000 of the hoped-for $3,000,000 (BD: May 23, 2017).
LBT said that 57 shareholders applied for shares in the plan.
The company said that the funds would be used for the commercialization of its automated plate assessment system, or APAS.
LBT was unchanged at 27.5 cents.

ELLEX MEDICAL LASERS

Ellex says that total group unaudited sales for the 12 months to June 30, 2017 were $71.7 million, down 1.6 percent on the previous year's revenue.
Last year, Ellex said that revenue for the 12 months to June 30, 2016 was $72,913,000 "again, the highest in the history of the company" taking the net profit after tax up 80.2 percent to $3,027,000 (BD: Aug 29, 2016).
The company said that it had "strong Itrack sales growth" of $8.2 million for the year to June 30, 2017.
Ellex said it was impacted by the foreign exchange movement of the Australian Dollar with 90 percent of its revenue denominated in foreign currency.
The company said that appreciation in the Australia dollar against the US dollar and the Euro reduced revenue by $2.3 million, offset by a $400,000 gain against the Japanese Yen.
Ellex fell 11 cents or 10.2 percent to 96.5 cents with 1.1 million shares traded.

COMPUMEDICS

Compumedics says it expects sales for the 12 months to June 30, 2017 to fall by 12 percent to $33 million due to "restructure activities".
Compumedics said that restructuring was "in its core capital equipment business, primarily related to its management and sales force in the US" resulting in lower than expected sales for the year to June 30, 2017.
The company said it was "continuing to expand and strengthen its US sales force to fully exploit the new range of low-cost devices [it] has to sell".
Compumedics said that with the rebuilding and recruitment phase underway, the company expected the US business "to contribute strongly to overall group performance" in the year to June 30, 2018.
Compumedics fell seven cents or 11.1 percent to 56 cents with 1.9 million shares traded.

ADMEDUS

Admedus it is "moving from its pre-market program to an expanded access program" for its Cardiocel 3D bovine heart patch to gather case data before its US launch.
Admedus said it was working in four reference US centres, which would increase to 10 by the time of the launch later this year.
Admedus chief executive officer Wayne Paterson said that progress "has been excellent and the current user feedback from our surgeons is extremely promising".
Admedus fell 0.5 cents or 1.6 percent to 30 cents.

RACE ONCOLOGY

Race has requested a trading halt "pending an announcement regarding a proposed joint venture agreement".
Trading will resume on July 11, 2017 or on an earlier announcement.
Race last traded at 23 cents.

THE HYDROPONICS COMPANY

Hydroponics has requested a trading halt "pending an announcement to the market regarding the medicinal cannabis research licence issued to … Canndeo".
Hydroponics said that Canndeo was a wholly owned subsidiary and the licence was related to the Australian Office of Drug Control.
Trading will resume on Jul 11, 2017 or on an earlier announcement.
Hydroponics last traded at 31.5 cents.

MEDIBIO

Medibio advisor Dr Stephen Addis says he has sold shares to below the five percent substantial shareholder mark in Medibio.
In 2015, Medibio said it had appointed an advisory board including Dr Addis.
Biotech Daily has been unable to find a becoming substantial shareholder statement from Dr Addis who said he previously filed one on April 2, 2015.
Today, Dr Addis said that between May 1 and July 4, 2017 he sold 4,979,000 shares for $1,611,512 or 32.4 cents a share.
Medibio fell one cent or 2.8 percent to 35 cents.