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Daily news on ASX-listed biotechnology companies

Dr Boreham's Crucible: Bio-Bargains

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Avita Medical (AVH): share price $2.30, market cap $287 million, revenue* $19.3 million, up 37 percent. 12-month share movement **-57%**

Atomo Diagnostics (AT1): share price 12.5 cents, market cap $71 million, revenue* $5.34 million, up 17 percent. 12-month share movement **-50%**

Alcidion (ALC): share price 19.5 cents, market cap $254 million, revenue* $12.9 million, up 16 percent. 12-month share movement **-36%**

Compumedics (CMP): share price 30 cents, market cap $53 million, revenue* $16.7 million, down 7.0 percent. 12-month share movement **-35%**

Medical Developments (MVP): share price $3.86, market cap $278 million, revenue* $9.9 million, down 23 percent. 12-month share movement down **-25%**

Pharmaxis (PXS): share price 8.5 cents, market cap $48 million, revenue* $5.8 million, up 88 percent. 12-month share movement **+6%** 6-months **-35%**

Polynovo (PNV): share price $1.10, market cap $748 million, revenue* $18.15 million up 42%, 12-month movement **-59%**

Volpara Health Technologies (VHT): share price 88 cents, market cap $232 million, annual recurring revenue at December 31, 2021 $28.1 million up 47 percent. 12-month share movement **-33%**
(* Revenue data is for the six months to December 31, 2021, except Volpara.)

The indiscriminate pull-back in valuations across the world's biotechnology sector has created opportunities for patient investors willing to sift through the wreckage for quality companies selling at deep discounts.

The biotech sell down is a global phenomenon, driven in part by the broader attack on speculative technology stocks sensitive to high interest rates. In most cases the red ink is driven by this general sentiment, not specific company news.

In the US, investment bank Jeffries recently cited 30 stocks of more than $US100 million market valuation that were trading below cash backing.

We can’t quite find such bargains on the ASX, but many local biotechs look to be selling for a proverbial song.

Before investors start trilling, they should be aware that some of the shares were over-bought during the pandemic, so they’re coming off an unjustified level in the first place. This is especially the case with speculative drug developers in early trial stages that are running out of cash.

Over the last year, the Nasdaq Biotechnology Index has lost around 12 percent and up about one percent over six months.

In the year to February 28, 2022, the market capitalization of Biotech Daily’s Top 40 Index (BDI-40) stocks fell 12 percent to a collective $16.6 billion – the lowest point since September 30, 2020.

The index also declined 26 percent in January and February.

In adversity lies opportunity

So what lies in the ASX biotech bargain bin?

While our evaluation criteria are flexible, the companies need to have existing revenue, adequate cash and preferably are profit-making. We’ll also sneak in some especially promising pre-revenue plays at the pointy end of drug development.

Because the company starts with ‘A’, what better place to start than the spray-on skin developer **Avita Medical (AVH)**, which has lost 60 percent of its value over the last year.

Listed on the ASX and the Nasdaq, Avita has a $US104 million ($A140 million) cash balance, which means it is trading on an enterprise value (market cap less cash) of around $150 million.

At its peak in early 2020 the stock was worth $16 compared to today’s $2.00.

Avita reported revenue of $US14 million for the six months to December 31, 2021, up 37 percent and mainly from its approved chronic burns indication. The company is eyeing US Food and Drug Administration assent for the bigger markets for vitiligo and soft tissue injuries.

“The fundamentals of the company … have only improved since we were a $1 billion market cap company,” says Avita chief Dr Mike Perry.

Fair enough! We also note that while the many broking analysts covering the stock are generally supportive, Wilsons’ Dr Shane Story warns that profitability for Avita “is still several years distant and [the company is] likely to require further capital raising(s)”.

Still on the ‘As’, **Atomo Diagnostics (AT1)** has surfed the extraordinary demand for Covid rapid antigen tests (RATs), with revenue for the December 2021 half climbing 53 percent and a buoyant March quarter expected.

Terrific! But over the last six months Atomo shares have lost 60 percent of their value and the company is now valued at less than $70 million, including $15.8 million of cash.

Admittedly, there’s a question mark over future RAT volumes and pricing. But with Covid not going away in a hurry RAT demand should be ongoing, while Atomo’s platform is also relevant for detecting other conditions such as HIV and sexually transmitted infections (STIs).

If fickle market sentiment is enough to ‘do your head in’, it’s time to be hooked up to one of the brain monitoring devices pioneered by the Melbourne based neuro-diagnostic house **Compumedics (CMP)**.

In the December half, Compumedics notched up revenue of $16.7 million, down seven percent and a net profit of $287,000, down 78 percent. Both numbers were Covid-affected.

However, the company attracted record new orders of $27 million, which bodes well for management’s confidence that the full year underlying profit will be at least as good as last year’s $2.6 million.

With Compumedics shares falling by almost one-third over the last year, the company is valued at not much more than $50 million.

Having commercialized the analgesic Penthrox – a.k.a. the Green Whistle - **Medical Developments (MVP)** is due for some first-line relief valuation wise, in the wake of a painful sell down over the last 12 months.

Emerging from the Covid-induced lull, the company reported half-year revenue of $9.9 million (down 23 percent) and a $7.3 million loss.

At its zenith in February 2020, Medical Development was valued at $780 million but is now worth well under $300 million, backed by $28 million of cash.

The Green Whistle has been administered to seven million patients in multiple countries - with the glaring exception of the US.

But this might change after the FDA last month removed a ‘clinical hold’ from the company’s planned phase III trial, which would back a marketing application.

Also on our value radar is hospital informatics provider **Alcidion (ALC)**, which notched up $12.9 million of revenue in the December half, up 16 percent. The company also has $27.1 million of contracted revenue for the full year to June 2022.

The acquisitive Alcidion has seen its valuation almost halve over the last year. In April 2021 the company raised $18.4 million at 38 cents apiece, to fund the purchase of British rival Extramed.

As of December 2021, Alcidion held $18.9 million of cash, so the company is hardly a hospital case.

Turning to diagnostics, investors evidently aren't heeding the 'breast is best' given the market's roughing-up of breast imaging outfit **Volpara Health Technologies (VHT)**.

This is despite Volpara's success at commercializing multiple products.

Volpara's flagship product 'Density' is an algorithmic tool to measure breast density and thus identify at-risk women for more frequent examinations. The company also has subscription-based tools to improve practice management.

The Auckland based, but US-oriented, Volpara managed customer receipts of $NZ7 million ($7.5 million) for the December 2021 quarter, up 50 percent, with operating outflows slightly decreasing to $3.6 million.

With a March 31 balance date, the company has also reiterated revenue expectations of $NZ25 million for the 2021-'22 year, 25 percent higher than previously.

So Volpara is by no means going backwards, but its share price is not much higher than its April 2016 listing price of 50 cents.

With $NZ21 million in the kutty, er, kitty, Volpara is well cashed up, too.

Another with solid revenue and a tumbling share price is **Polynovo (PNV)** which is commercializing its Novosorb BTM matrix for deep burns skin repair, with a host of other indication opportunities. Polynovo's revenue surged 42 percent in the December half to $18.15 million, while the share price tanked.

There are many other revenue-producing stocks pounded by the market, including **Mesoblast (MSB)** and **Starpharma (SPL)**, to name but two.

A veteran ASX battler, drug developer **Pharmaxis (PXS)** generated $5.8 million of revenue in the December half, up 88 percent. This derived mainly from its approved Bronchitol therapy for cystic fibrosis.

However, the upside to Pharmaxis is all about its clinical studies for fibrotic and inflammatory conditions.

The company currently has four trials on the go, including an adjunct liver cancer therapy, a scar prevention treatment and a breakthrough drug for myelofibrosis.

Even though Pharmaxis lost $8.9 million - a halving of the previous deficit – the company has $21 million of cash, compared with a market cap of just under $50 million. At times, the company has traded below cash backing.

Pharmaxis shares have lost one-third of their value over six months, although remain slightly higher year-on-year.

Up-and-comers going cheap

Meanwhile, there are plenty of intriguing valuations among the non-revenue stocks although most present a binary outcome. In other words, their drug either works or it doesn’t.

For the ASX and Nasdaq listed brain cancer drug developer **Kazia Therapeutics (KZA)**, it’s a case of getting flogged as a reward for entering late-stage trials.

Unusually, Kazia is conducting a phase III trial of its glioblastoma drug paxalisib collectively via a collective program called GBM Agile (GBM is shorthand for the glioblastoma).

Formerly known as GDC-0084, paxalisib tackles the glioblastoma multiforme variant which accounts for about 15 percent of all brain cancers.

Paxalisib aside, four other drugs are being trialled via the GBM Agile platform, which is independent of any particular company.

Kazia shares have lost about one third of their value over the last 12 months and the company is now valued at $122 million, including $15 million of cash.

Shares in kidney and respiratory drug play **Dimerix (DXB)** have almost halved in value over the last six months, despite the company entering phase III trials for focal segmental glomerular sclerosis and Covid respiratory and pneumonia indications.

Dimerix is also well down the track with a potential drug for diabetic kidney disease. No promises of course, but surely this one should be worth more than its current $56 million that includes $16 million of cash?

With a $1.3 billlion market cap, radiopharmaceuticals house **Telix Pharmaceuticals (TLX)** does not look cheap at face value, even though the stock is 24 percent cheaper than six months ago (despite Tuesday’s virile 10 percent bounce).

But the Telix story becomes compelling given that in late 2021 the company won FDA approval for its prostate cancer imaging product, Illucix (which is also approved here).

The company is also at phase III stage with a kidney cancer imaging program.

Beyond that, the company strives for prostate cancer and brain cancer therapies and has a busy slate of 18 studies across eight indications.

The company has $189 million of cash after a recent $175 million placement and generated modest early revenue of $4.9 million in calendar 2021.

Given the intensity of its activities, the company also burnt through $80 million.

Still on radiotherapies, **Clarity Pharmaceuticals (CU6)** is a ‘mini me’ version of Telix, in that it focuses on deploying isotopes in an innovate way to test and treat tumors.

Clarity’s key targets are prostate and breast cancers and childhood glioblastoma.

Clarity listed in August last year having raised $92 million - then the biggest ASX biotech IPO in history.

The stock is now trading at less than half of the $1.40 listing price, despite news of a 150-patient phase I/II prostate imaging trial sponsored by Nebraska’s Urology Cancer Centre and GU Research.

But the real ‘poor man’s Telix’ status applies to **Radiopharm Thernanostics (RAD)**, which is also trading at less than half of its November 2021 listing price.

Backed by biotech sector rock star Paul Hopper, Radiopharm plays in the field of low energy radio-isotopes that allow physicians to ‘see’ and measure distance in the body.

Valued at a mere $32 million, Radiopharm also has an oncology focus.

The developer of a left-ventricle heart device, **EBR Systems (EBR)** listed in November last year after raising $110 million - a fresh ASX biotech record.

Once again, the shares have almost halved in value since.

EBR is developing an implantable system for left ventricle pacing stimulation, which is a harder nut to crack than the more common right ventricle devices.

EBR’s $160 million market cap is supported by $107 million of cash - an ungenerous enterprise value for a device that the heart device majors are likely to take a keen interest in.

Finally, the revenue producing **Universal Biosensors (UBI)** hasn’t actually lost ground but the shares still look cheap as the company pursues expanded uses for its test strip devices initially based on blood pinprick samples.

Universal Biosensors has developed a one-stop test for vignerons to test the levels of sulphur dioxide and malic acid in their wine batches.

The company also recently won assent for Xprecia Stride, its blood coagulation monitor.

The company’s current $150 million valuation is supported by $18 million of cash.

Health warning

Just as there are many tales in the Windy City, there are numerous undervalued biotech stories … and these are just some of them.

Being cheap does not guarantee success and life sciences remains a high-risk game. However, the risk to investors is mitigated when they're not buying at peak levels.

Finally, your columnist's musings are just - musings - and they should not be misconstrued as financial advice.

Disclosure: Dr Boreham is not a qualified medical practitioner and does not possess a doctorate of any sort. He is also not a licenced financial adviser. Readers should consult a properly qualified expert and ignore them, too.