Cantargia Q3 2023: TRIFOUR and CAN10 are the Value Drivers

Cantargia **Research Update** 2023-11-13 07:10 **Updated** 2023-11-13 07:16

Redeye comments on Cantargia's third quarter report. In the next twelve months, the most obvious value drivers of the share are the phase II study in breast cancer (TRIFOUR) and the first clinical study of CAN10 intended for inflammatory diseases.

Richard Ramanius

Nadunolimab

New results from the monotherapy pancreatic cancer patients in CANFOUR were presented. IL1RAP high patients had more than twice the overall survival of IL1RAPlow patients; the same is true for median progression-free survival, though the data set is very small (17 patients). A new positive readout from TRIFOUR (breast cancer) was presented in October. The objective response had increased to 60% so Cantargia will proceed with the full recruitment of the study, which will have a placebo-controlled group. Results from this study late in 2024 will be a major catalyst for Cantargia. A phase IIb pancreatic cancer trial, PANFOUR, is under planning and could start in 2024 but it will need additional funding. The CIRIFOUR and CESTAFOUR studies are being wrapped up and results will be presented after the databases are locked.

CAN10

CAN10 entered phase I in September. It is a safety study, but some psoriasis patients will also be recruited. Autoimmune and inflammatory disease is a large and attractive pharmaceutical area with some of the world's best-selling drugs (e.g. Humira, Stelara and Dupixent), so the sales potential could be substantial, even if Cantargia is focusing on smaller indications initially (systemic sclerosis and heart inflammation) as a faster way to the market.

New base case SEK18

In October, after Q3, Cantargia raised around SEK60m in a directed share issue, which we add to the cash position and increase the number of shares outstanding. We added acute myeloid leukaemia to the pipeline, which is an investigator-sponsored study in the US, i.e. Cantargia does not have to fund it (it will have to supply nadunolimab). We have increased the WACC to 14%, increased the timeline of nadunolimab in pancreatic cancer and reduced the expected upfront payment from out-licensing nadunolimab. This results in a new base case of SEK18 (SEK20).

Key financials

SEKm	2021	2022	2023E	2024E	2025E
Revenues	-	-	-	-	881
Revenue Growth	N/A	N/A	N/A	N/A	N/A
EBITDA	(370)	(382)	(295)	(192)	592
EBIT	(370)	(382)	(295)	(192)	592
EBIT Margin	N/A	N/A	N/A	N/A	67.2%
Net Income	(367)	(372)	(283)	(272)	(1,536)
EV/Revenue	N/A	N/A	N/A	N/A	2.8
EV/EBIT	(2.6)	(0.2)	(2.2)	(4.8)	4.1

REDEYE

REDEYE QUALITY RATING

3	3	0
People	Business	Financials

FAIR VALUE RANGE

Price 3.61

Bear 8.00 | Bull 32.0

Base 20.0

TIMELINESS

4

KEY STATS

Market Cap	663.1 MSEK
Entprs. Value (EV)	509.5 MSEK
Net Debt (2023e)	-153.5 MSEK
30 Day Avg Vol	507 K
Shares Outstanding	183.7M
Price / Earnings	N/A
PEG	0.0
Dividend Yield	N/A

Data from 2023-11-13 07:16

IMPORTANT INFORMATION

All information regarding limitation of liability and potential conflicts of interest can be found at the end of the report.

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Investment thesis

Case

Two studies, a phase II in breast cancer with nadunolimab and phase I with CAN10 will drive the share short-term

Cantargia's main candidate, nadunolimab (CAN10), has demonstrated impressive overall response rates in three cancer indications. In particular, it has impressive overall and progression-free survival in pancreatic cancer. Nadunolimab acts on inflammatory pathways and has demonstrated synergy with chemotherapy. In the short term, the company is financed until readouts with CAN10 in a phase I study in inflammatory diseases with up to 80 participants in H2 2024. The phase II study in triple-negative breast cancer (TRIFOUR, n=100) will also have a topline readout in H2 2024. It is the first placebo-controlled study. These studies will drive the share and could potentially set the company up for a licensing deal in cancer, as placebo-controlled results will finally be available. Readouts from three other cancer studies will be available in 2024 together with analyses of biomarkers from studies conducted in lung cancer. Cantargia has a cash position that should last until early 2025.

Evidence

Results in phase IIa CANFOUR in pancreatic and lung cancer are superior to historical controls

Patients with non-small cell lung cancer (n=30) showed a response of 53% versus 22-28% in historical controls, resulting in a median progression-free survival (PFS) of 6.8 months and median overall survival (OS) of 13.7 months. Furthermore, there were two complete responses. In patients with pancreatic cancer (n=73), long-term responses or pseudoprogression have been observed, resulting in a median PFS of 7.2 months and an OS of 12.9 months vs an OS of 8.5 months in historical controls. IL1RAP-high patients had an OS of 14.2 vs 10.6 for IL1RAP-low showing nadunolimab engages its target. Furthermore, an ORR of 60% was demonstrated in the phase I part of TRIFOUR (n=15), which is twice that of historical figures.

Challenge

Negative placebo controlled clinical outcomes are a risk

Cantargia has not conducted clinical trials with a placebo group. There is a risk that the strong results obtained so far will prove less favorable in controlled conditions.

Challenge

Additional cash potentially needed

According to management, the company is funded until 2025. This means results from the triple-negative breast cancer study could be available before more cash is needed which might provide foundations for a deal in 2024 or early 2025. Otherwise, money will have to be raised to move the pipeline forward. The phase IIb study in pancreatic cancer is not funded.

Valuation

Low valuation despite convincing results

The tough environment for biotech shares has contributed to a low valuation, as has the delayed development in pancreatic cancer (a pivotal trial was cancelled this year). Our fully diluted Base Case of SEK18 assumes a deal with nadunolimab in 2025, with an upfront of USD 100m, milestones of USD 900m and royalties of 17.5 percent. CAN10 in inflammatory diseases also contributes to the valuation.

Quality Rating

People: 3

Cantargia is led by an experienced and close-knit team. CEO Göran Forsberg has been involved in licensing agreements, providing critically important experience that will benefit Cantargia's future partner negotiations. We believe the board is solidly composed and includes members with different and complementary experience.

Business: 3

Pharmaceuticals is a high-margin industry in which there is clear product protection via patents for companies' projects. It is generally a non-cyclical industry. For research companies like Cantargia the situation is different, with risks associated not just with clinical development but also with the (cyclical) stock market, where capital requirements are large and often handled via new issues.

Financials: 0

Cantargia's cash position that should last until 2025, if no new programs are started. No revenue is expected before a potential exit, such as a licensing deal.

Events since our last comment

A phase II study in pancreatic cancer is planned for early 2024, but how it is to be funded is remains to be disclosed. A rights issue would not be shareholder friendly in the current macro-environment, but there are many other potential alternatives. If no funding is obtained, Cantargia will not be able to initiate the study. We have not included costs for this trial in our forecast. Cantargia will also present the next steps in its second main indication, lung cancer, next year.

Since our last update, we have commented on some press releases in our research notes:

We commented on the new IL1RAP data from nadunolimab monotherapy patients and from CANFOUR (in combination with chemotherapy). Is important that high IL1RAP levels correlated with KRAS mutations, which are well known to cause pancreatic cancer. This suggests that IL1RAP is involved in disease progression.

We commented on the new results in breast cancer. The ORR of 60% is twice that of what is expected. For this reason there is no need for an interim readout. The whole topline data will be presented late in 2024.

We have also recorded several interviews with CEO Göran Forsberg (in Swedish):

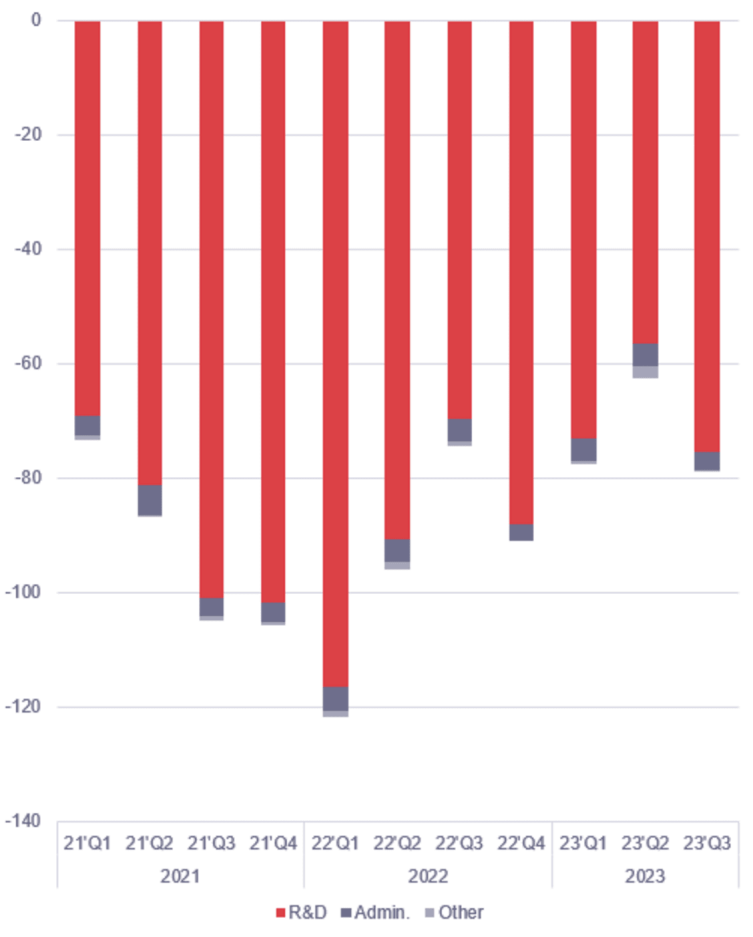
About CAN10 and the start of its phase I study.

About the new AARC results about nadunolimab's monotherapy results in pancreatic cancer.

About the most recent readout from TRIFOUR.

Financial results

Costs increased compared to Q2, at SEK79m, which was mainly related to the start of the phase I study with CAN10. The cash flow was SEK-86m leading to a cash position of SEK200m. In Q4, SEK59m was raised before costs. Our pro-forma cash position is SEK255m. Cantargia has guided for this to last into 2025. This means costs will have to decrease in the next quarters, unless the PANFOUR program starts, but it will need additional funding. Since TRIFOUR is conducted together with the GEICAM patient organisation, costs for this trial are lower than they would have been under a contract research organization. Furthermore, costs related to the old trials are decreasing as only CANFOUR still has patients on treatment, except for some compassionate use cases. This explains why costs will be lower in 2024 compared to 2021-2023.



Valuation

We added acute myeloid leukaemia and myelodysplastic syndrome to the pipeline.

We have added one year to the development timeline of pancreatic cancer (Pancreatic Phase IIb and CAPAFOUR) and lung cancer (CIRIFOUR). We have reduced the peak sales estimate in lung cancer (Lung Phase IIb, previously CIRIFOUR). We now assume no sales in the first line of treatment in NSCLC.

We have decreased the expected upfront payment to USD100m (USD150m), as the negotiating power of smaller biotech companies has decreased in a market where funding is more difficult. In our bull case, the upfront is USD200m (300) while it is USD40m (60) in our bear case.

We have increased the WACC to 14% (13.5%) because of an increase in the risk-free rate. We have also increased the USD/SEK exchange rate to 10.5.

Our pro-forma cash position includes the cash from the share issue. We use the new number of shares (184m) when calculating value per share.

Cantargia sum-of-the-parts valuation

Project	Clinical Trial	Combination	Indication	LOA	Phase	Royalty	Peak sales (USDm)	Launch	NPV	NPV / share
CAN04/	Phase IIb trial	Gemcitabin/nab-paclitaxel	Pancreas	41%	II	17.5%	1600	2029		14.4
nadunolimab	CAPAFOUR	FOLFIRINOX	Pancreas	12%	I	17.5%	700	2030		1.6
	CIRIFOUR	PD-1 inhibitors	NSCLC	18%	II	17.5%	1200	2029		4.7
	TRIFOUR	Carboplatin/gemcitabin	TNBC	16%	I	17.5%	500	2028		2.1
	CESTAFOUR	Chemotherapy basket	NSCLC, Colon, Biliary	9%	I	17.5%	700	2029		1.0
	AML	VEN–AZA	Leukemia (AML)	7%	I	17.5%	700	2029		1.0
									4547	25
CAN10		Monotherapy	Systemic sclerosis	11%	I		700	2030	588	3.2
Overhead (incl. taxes) (SEKm)									-1267	-6.9
EV (SEKm)									3869	
Net cash (SEKm)									255	1.4
Total value (SEKm)									**4124**	**22**
Equity issue (SEKm), net									175	
Fully diluted (SEK)										**18**

Source: Redeye Research, SEK/USD=10.5

Our bull case is SEK30 while our bear case is SEK8.

Financials

Income statement

SEKm	2021	2022	2023E	2024E	2025E
Revenues	-	-	-	-	881
Cost of Revenue	-	-	-	-	-
Operating Expenses	370	382	295	192	289
EBITDA	(370)	(382)	(295)	(192)	592
Depreciation	-	-	-	-	-
Amortizations	-	-	-	-	-
EBIT	(370)	(382)	(295)	(192)	592
Shares in Associates	-	-	-	-	-
Interest Expenses	0	2	3	80	2,128
Net Financial Items	4	10	12	(80)	(2,128)
EBT	(367)	(372)	(283)	(272)	(1,536)
Income Tax Expenses	-	-	-	-	-
Net Income	(367)	(372)	(283)	(272)	(1,536)

Balance sheet

Assets

Non-current assets

SEKm	2021	2022	2023E	2024E	2025E
Property, Plant and Equipment (Net)	3	7	7	7	7
Goodwill	-	-	(0)	0	0
Intangible Assets	6	6	6	6	6
Right-of-Use Assets	-	-	-	-	-
Other Non-Current Assets	-	-	34	-	-
Total Non-Current Assets	10	13	46	13	13

Current assets

SEKm	2021	2022	2023E	2024E	2025E
Inventories	-	-	-	-	-
Accounts Receivable	5	2	-	-	70
Other Current Assets	27	33	-	-	18
Cash Equivalents	559	427	199	151	(1,350)
Total Current Assets	591	462	199	151	(1,262)
Total Assets	600	475	245	164	(1,249)

Equity and Liabilities

Equity

SEKm	2021	2022	2023E	2024E	2025E
Non Controlling Interest	-	-	-	-	-
Shareholder's Equity	533	390	166	118	(1,418)

Non-current liabilities

SEKm	2021	2022	2023E	2024E	2025E
Long Term Debt	-	-	-	-	-
Long Term Lease Liabilities	-	-	-	-	-
Other Non-Current Lease Liabilities	1	0	0	2	2
Total Non-Current Liabilities	1	0	0	2	2

Current liabilities

SEKm	2021	2022	2023E	2024E	2025E
Short Term Debt	1	0	0	0	0
Short Term Lease Liabilities	-	-	-	0	0
Accounts Payable	35	38	24	-	106
Other Current Liabilities	32	47	55	44	62
Total Current Liabilities	67	85	80	44	168
Total Liabilities and Equity	600	475	245	164	(1,249)

Cash flow

SEKm	2021	2022	2023E	2024E	2025E
Operating Cash Flow	(346)	(359)	(287)	(272)	(1,501)
Investing Cash Flow	(0)	(7)	-	-	-
Financing Cash Flow	-	224	59	225	-

Rating definitions

Company Quality

Company Quality is based on a set of quality checks across three categories; PEOPLE, BUSINESS, FINANCE. These are the building blocks that enable a company to deliver sustained operational outperformance and attractive longterm earnings growth.

Each category is grouped into multiple sub-categories assessed by five checks. These are based on widely accepted and tested investment criteria and used by demonstrably successful investors and investment firms. Each sub-category may also include a complementary check that provides additional information to assist with investment decision-making.

If a check is successful, it is assigned a score of one point; the total successful checks are added to give a score for each sub-category. The overall score for a category is the average of all sub-category scores, based on a scale that ranges from 0 to 5 rounded up to the nearest whole number. The overall score for each category is then used to generate the size of the bar in the Company Quality graphic.

People

At the end of the day, people drive profits. Not numbers. Understanding the motivations of people behind a business is a significant part of understanding the long-term drive of the company. It all comes down to doing business with people you trust, or at least avoiding dealing with people of questionable character.
The People rating is based on quantitative scores in seven categories:

- Passion, Execution, Capital Allocation, Communication, Compensation, Ownership, and Board.

Business

If you don’t understand the competitive environment and don’t have a clear sense of how the business will engage customers, create value and consistently deliver that value at a profit, you won’t succeed as an investor. Knowing the business model inside out will provide you some level of certainty and reduce the risk when you buy a stock.
The Business rating is based on quantitative scores grouped into five sub-categories:

- Business Scalability, Market Structure, Value Proposition, Economic Moat, and Operational Risks.

Financials

Investing is part art, part science. Financial ratios make up most of the science. Ratios are used to evaluate the financial soundness of a business. Also, these ratios are key factors that will impact a company’s financial performance and valuation. However, you only need a few to determine whether a company is financially strong or weak.
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- Earnings Power, Profit Margin, Growth Rate, Financial Health, and Earnings Quality.

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