Cantargia Q2 2023: CAN10 Approaching the Clinic

Cantargia **Research Update** 2023-08-23 07:00 **Updated** 2023-08-23 07:06

Redeye comments on Cantargia's second quarter report 2023. An application to start a clinical trial with the second project, CAN10, was submitted and approved since our last update.

Richard Ramanius

Nadunolimab

Since our last update, Cantargia reported a favourable outcome of a legal process in Europe concerning the patent EP3293202, encompassing properties similar to nadunolimab, which was upheld. The patent now protects variations of amino acids of up to 10% of nadunolimab. This means any company that continues the development of IL1RAP targeting antibodies similar to nadunolimab will have to make a deal with Cantargia before launching such a product.

CAN10

In August, Cantargia received regulatory approval in Germany to start its phase I trial of CAN10. The first person should be dosed in September. It will be a comparatively large trial with up to 80 patients, involving healthy volunteers for the single ascending dose (SAD) and multiple ascending dose parts and up to 16 psoriasis patients in a following proof-of-concept part. Cantargia will thus be able to learn much about CAN10 from this trial, not just about safety, biomarkers and pharmacokinetics but gain information from biopsies from psoriasis patients about the mechanism of action.

New base case 19

We make minor changes to our base case. The lower cash position and lower share price, which affects our dilution calculation, lead to a dully diluted base case of SEK19 (SEK20). Cash will last until mid-2024 but the company has the option to reduce investments so it last until 2025.

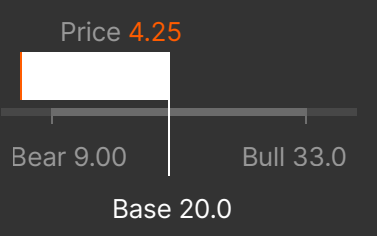
Key financials

SEKm	2020	2021	2022	2023E	2024E
Revenues	-	-	-	-	-
Revenue Growth	N/A	N/A	N/A	N/A	N/A
EBITDA	(174)	(370)	(382)	(289)	(302)
EBIT	(171)	(370)	(382)	(289)	(302)
EBIT Margin	N/A	N/A	N/A	N/A	N/A
Net Income	(170)	(367)	(372)	(269)	(302)
EV/Revenue	N/A	N/A	N/A	N/A	N/A
EV/EBIT	(26.0)	(2.6)	(0.2)	(2.1)	(3.5)

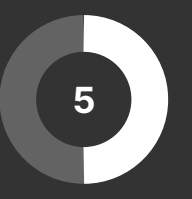
REDEYE

REDEYE QUALITY RATING

FAIR VALUE RANGE



TIMELINESS



KEY STATS

Market Cap	**709.0 MSEK**
Entprs. Value (EV)	**555.5 MSEK**
Net Debt (2023e)	**-153.5 MSEK**
30 Day Avg Vol	**1684 K**
Shares Outstanding	**167.0M**
Price / Earnings	**N/A**
PEG	**0.0**
Dividend Yield	**N/A**

Data from 2023-08-23 07:06

IMPORTANT INFORMATION

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Table of contents

Investment thesis

Case

Two phase IIb studies in pancreatic and breast cancer will drive the share

Cantargia has sponsored several other trials in various cancer indications to pinpoint the optimal indications to target and to document the breadth of nadunolimab (an anti-IL1RAP antibody). Results from these trials, including IL1RAP biomarkers, will be available in 2023. Nadunolimab acts on inflammatory pathways and has demonstrated synergy with chemotherapy. Cantargia is sponsoring two controlled phase IIb trials, one in pancreatic cancer set to begin in early 2024 (n=150-200) with topline data in 2025 and one in triple-negative breast cancer (TRIFOUR, n=100) with a first interim readout in Q4 2023 from at least 28 patients (14 in each arm). Convincing results in PDAC might open the doors for an accelerated approval and set the company up for a large licensing deal in 2025 or earlier. Cantargia analyses biomarkers from studies conducted in lung cancer before deciding the path forward in this indication. Cantargia has a cash position that should last until mid-2024. A second candidate, CAN10, will enter a phase I study with up to 80 participants in inflammatory diseases in 2023.

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 50% was demonstrated in the phase I part of TRIFOUR (n=12), which is 20% better than 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 funding likely needed

The company is funded until mid-2024. We believe Cantargia may want to wait for results from the phase IIb trial in pancreatic cancer that should be available in 2025 before signing a deal. We judge it likely that some additional funding (~SEK225m) will be needed for this. However, results from the triple-negative breast cancer study will be available earlier and might provide foundations for a deal in 2024.

Valuation

Low valuation despite convincing results

Despite convincing clinical results, which suggest nadunolimab could be a new versatile immunotherapy, the market valuation of Cantargia is still very low compared to the fundamental project values. The tough environment for biotech shares has contributed to this. Our fully diluted Base Case of SEK19 assumes a deal with nadunolimab in 2025, with an upfront of USD 150m, milestones of USD 850m 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 has a solid cash position that should last until mid-2024. No revenue is expected before a potential exit, such as a licensing deal.

Discussion

Since our last update, new positive results from CANFOUR were presented in non-small cell lung cancer (nadunolimab+chemotherapy). In particular, two patients achieved a complete response, one of them after nine months of monotherapy with nadunolimab after terminating chemotherapy, which strongly suggests that nadunolimab alone can have efficacy (potentially after treatment with other drugs). The expansion cohort receiving carboplatin/pemetrexed in addition to nadunolimab is fully recruited with ten patients who demonstrated favourable safety. Analysis of biomarkers in non-small cell lung cancer patients is ongoing to identify subgroups with better responses. In particular, a correlation between IL1RAP expression and clinical benefit would be positive for the investment case. Other proteins will also be measured from all patients to get a clue as to which ones work together. Special consideration will be given to investigating what sets the two full responders apart from the rest. We already know that they had progressed on PD-1 inhibitors, had low PD-L1 and had non-squamous NSCLC.

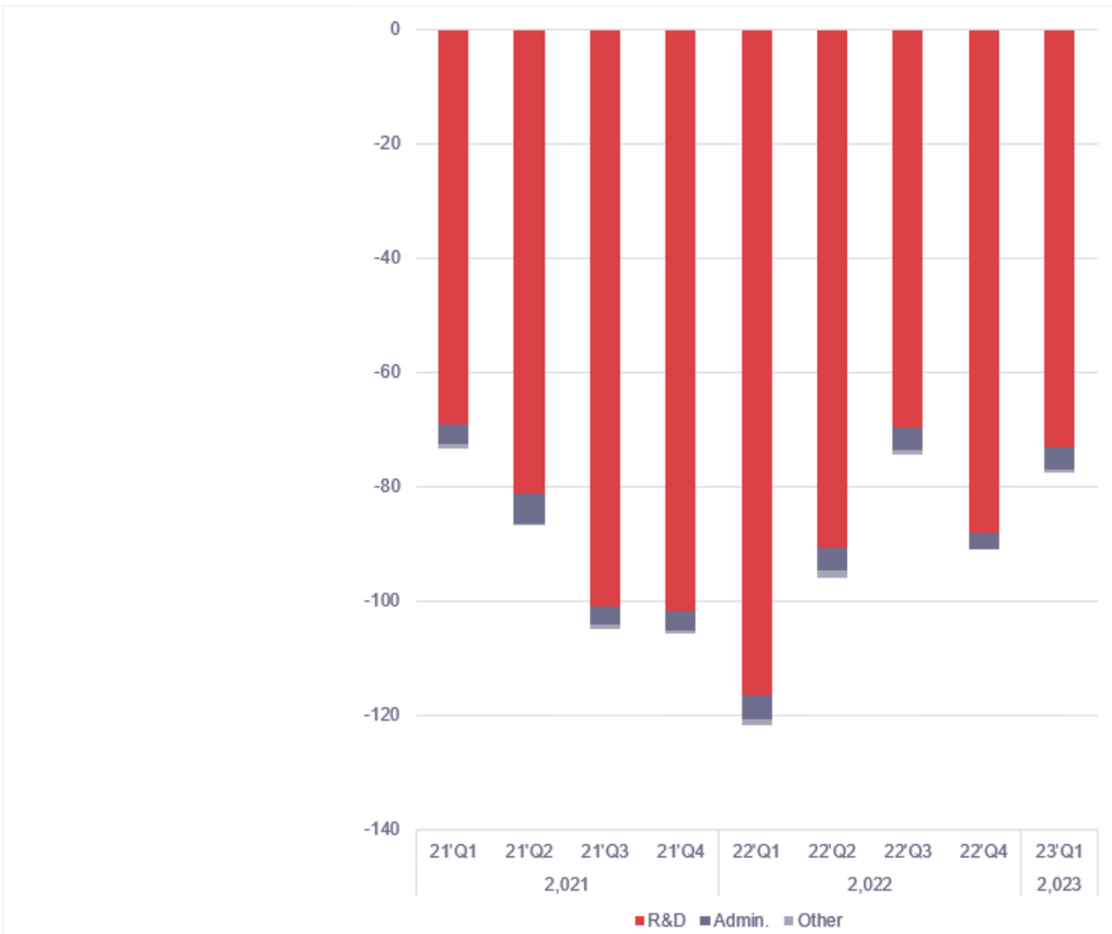
New or updated results from three trials initiated in previous years, CIRIFOUR, CAPAFOUR and CESTAFOUR, which explore nadunolimab with various combinations, including checkpoint inhibitors in CIRIFOUR, are expected by H2 2023. These trials could give us more clues as to nadunolimab's treatment scope. IL1RAP is expressed in many cancers, and to a larger extent on tumour-associated cells and the stroma, which implies that nadunolimab could provide benefit in many types of cancer.

A major catalyst in H2 will be the readout from TRIFOUR (triple-negative breast cancer). At least 14 patients from each arm will have been recruited, or 28 in total. It is a futility analysis deciding whether to continue the study or not. Most patients in this readout will likely be from the second line. However, as Trodelvy (a new antibody drug conjugate) is approved in this setting and gaining traction, future enrolment might include more first-line patients.

A second catalyst will be the application to start the phase IIb trial in pancreatic cancer, combining nadunolimab with gemcitabine/nab-paclitaxel. It will contain at least three arms, with two different doses, and distinguish between high and low expression of IL1RAP, whose assay will be concurrently improved.

Financial results

Operating costs in Q1 decreased to SEK63m compared to SEK78m in the first quarter. The change in cash and cash equivalents was SEK-66m. Costs have decreased because the large number of studies initiated in 2022 and earlier are fully recruited (except for the triple-negative breast cancer study).



The cash equivalent position (including investments) was SEK287m (SEK353m in Q1), which Cantargia expects to last until mid-2024 with current plans. However, if capital markets continue being challenging, it can reprioritise among its non-clinical and CMC programs in order to prolong this by at least two quarters. This means the cash position could last into 2025. However, the PDAC trial is not fully financed, so we expect some new type of financing to be in place before it begins, unless a partner can be found willing to finance it.

Valuation

We do not make any major changes to our valuation in this update. A lower share price leading to more assumed dilution and a lower cash position result in a reduction of the base case by SEK1 to SEK19 (SEK20), with a valuation range of SEK8-SEK31 in our bear and bull cases.

We maintain our valuation of nadunolimab in non-small cell lung cancer together wid PD-1 inhibitors, but we will likely need to redefine the patient population in lung cancer once we know how Cantargia intends to take the project forward.

Financials

Income statement

SEKm	2020	2021	2022	2023E	2024E
Revenues	-	-	-	-	-
Cost of Revenue	-	-	-	-	-
Operating Expenses	174	370	382	289	302
EBITDA	(174)	(370)	(382)	(289)	(302)
Depreciation	-	-	-	-	-
Amortizations	-	-	-	-	-
EBIT	(171)	(370)	(382)	(289)	(302)
Shares in Associates	-	-	-	-	-
Interest Expenses	0.46	0	2	0	0.08
Net Financial Items	1	4	10	20	(0)
EBT	(170)	(367)	(372)	(269)	(302)
Income Tax Expenses	-	-	-	-	-
Net Income	(170)	(367)	(372)	(269)	(302)

Balance sheet

Assets

Non-current assets

SEKm	2020	2021	2022	2023E	2024E
Property, Plant and Equipment (Net)	5	3	7	7	7
Goodwill	0.02	-	-	(0)	0.04
Intangible Assets	7	6	6	6	6
Right-of-Use Assets	-	-	-	-	-
Other Non-Current Assets	-	-	-	34	-
Total Non-Current Assets	13	10	13	46	13

Current assets

SEKm	2020	2021	2022	2023E	2024E
Inventories	-	-	-	-	-
Accounts Receivable	3	5	2	-	-
Other Current Assets	7	27	33	-	-
Cash Equivalents	903	559	427	154	76
Total Current Assets	913	591	462	154	76
Total Assets	926	600	475	200	89

Equity and Liabilities

Equity

SEKm	2020	2021	2022	2023E	2024E
Non Controlling Interest	-	-	-	-	-
Shareholder's Equity	892	533	390	121	43

Non-current liabilities

SEKm	2020	2021	2022	2023E	2024E
Long Term Debt	3	-	-	-	-
Long Term Lease Liabilities	-	-	-	-	-
Other Non-Current Lease Liabilities	-	1	0.02	0.02	2
Total Non-Current Liabilities	3	1	0.02	0.02	2

Current liabilities

SEKm	2020	2021	2022	2023E	2024E
Short Term Debt	-	1	0.34	0.34	0.34
Short Term Lease Liabilities	-	-	-	-	0.04
Accounts Payable	11	35	38	46	-
Other Current Liabilities	20	32	47	24	44
Total Current Liabilities	30	67	85	69	44
Total Liabilities and Equity	926	600	475	190	89

Cash flow

SEKm	2020	2021	2022	2023E	2024E
Operating Cash Flow	(156)	(346)	(359)	(273)	(302)
Investing Cash Flow	(9)	(0)	(7)	-	-
Financing Cash Flow	919	-	224	-	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.
The Financial rating is based on quantitative scores that are grouped into five separate categories:

- Earnings Power, Profit Margin, Growth Rate, Financial Health, and Earnings Quality.

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