

Molecure

OATD-01 is back at the starting point

We reinstate our coverage of Molecure with a HOLD recommendation and set our FV at PLN 17.0 per share (implying 6% upside). The decision to terminate the OATD-01 partnering agreement by Galapagos was a major disappointment for the market on top of the overall weakness of the biotech sector in recent months. Although Molecure is close to an important milestone in OATD-02 development and is still cash rich (net cash over PLN 80m), we see a share issue risk because the company will not be able to finance two parallel clinical trials from its own resources. In our opinion, this risk together with the uncertainty over the outlook for OATD-01 limits the growth potential of the share price, although, on the other hand, it should be remembered that a partnering window in the OATD-02 project is opening and the chances of partnering in this project are growing.

Galapagos terminated OATD-01 partnering. Molecure has obtained all rights to OATD-01, but the decision to terminate the partnering agreement will weigh on OATD-01 in the near future, causing difficulties in obtaining a new partnering contract on favorable terms or receiving a grant. We expect OATD-01 Phase 2 clinical trials in Sarcoidosis to commence next year and to last until 2025E. We assume a partnering contract in 2025E based on the Phase 2 clinical trial results, with an upfront payment of USD 45m. We assume the success probability at 10% due to uncertainty surrounding Galapagos' termination of the contract. The possible success of Phase 2 clinical trials may remove a large discount from the valuation of OATD-01 and unlock a large transaction potential.

OATD-02 close to entering clinical trials. Molecure has applied for authorization to start the OATD-02 Phase 1 clinical trial. We assume the probability of entering the first phase of clinical trials in 4Q22 at 90%; its success should increase the valuation by approximately PLN 1.1ps. The study is to be conducted in 3-4 centers in Poland and is to cover 30-40 patients. We assume the cost of the trial at USD 5m. We assume that a partnering agreement will be signed in 2024E after the completion of Phase 1 (cumulative probability of success: 69%).

Share issue risk. The termination of the partnering with Galapagos complicated Molecure's financial plan. Instead of receiving milestone payments in the OATD-01 project, the company will have to conduct and finance two parallel OATD-01 clinical trials (phase 2) and OATD-02 (phase 1) for a total of over PLN 70m. The company itself admits that in the most negative scenario - i.e. without any co-financing or subsidies - the company has secured financial resources until the end of 2023. In our opinion, there are three possible scenarios for obtaining financing: early OATD-02 partnering, venture debt financing and a new share issue.

Figure 1. Molecure financial forecasts summary

PLN m	2019	2020	2021	2022E	2023E	2024E
Revenues	2.0	124.9	1.2	2.1	2.8	103.0
EBITDA	-4.6	73.9	-13.5	-19.8	-23.6	31.9
Adj. EBITDA	-3.2	73.9	-10.6	-19.8	-23.6	31.9
EBIT	-4.8	73.7	-13.8	-20.1	-24.0	31.5
Net profit	-4.1	68.0	-13.6	-20.1	-18.4	31.3
EPS (PLN)	-0.3	5.0	-1.0	-1.4	-1.3	2.2
DPS (PLN)	0.0	0.0	0.0	0.0	0.0	0.0
EV/EBITDA (x)	n.m.	1.4	n.m.	n.m.	n.m.	6.0
P/E (x)	n.m.	3.2	n.m.	n.m.	n.m.	7.2

Source: Company, IPOPEMA Research

Biotechnology

Molecure

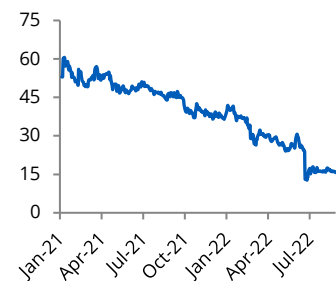
HOLD

FV PLN 17.0

6% upside

Price as of 29 August 2022 PLN 16.0

Company update



Share data

Number of shares (m)	14.1
Market cap (EUR m)	47.0
12M avg daily volume (k)	12.6
12M avg daily turnover (EUR m)	0.1
12M high/low (PLN)	47.60/12.04
WIG weight (%)	0.05%
Reuters	MOC.WA
Bloomberg	MOC.PW

Total performance

1M	-0.2%
3M	-39.6%
12M	-65.5%

Shareholders (% of equity)

Mr. Michał Sołowow (Black Forest SICAV)	30.0%
Mr. Marcin Szumowski	7.7%
NN pension fund	5.6%
Others	56.0%

Analyst

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Molecure

HOLD

FV PLN 17

Mkt Cap EUR 47m

Upside/downside +6%

Valuation multiples	2020	2021	2022E	2023E	2024E
P/E (x)	3.2	n.m.	n.m.	n.m.	7.2
EV/EBITDA (x)	1.4	n.m.	n.m.	n.m.	6.0
EV/Sales (x)	0.8	110.0	80.1	76.9	1.9
P/BV (x)	1.49	1.59	1.86	2.19	1.68
FCF yield (%)	73%	-10%	0%	0%	0%
DY (%)	0%	0%	0%	0%	0%

Per share	2020	2021	2022E	2023E	2024E
No. of shares (m units)	13.7	14.0	14.1	14.1	14.1
EPS (PLN)	5.0	-0.8	-1.4	-1.3	2.2
BVPS (PLN)	10.76	10.07	8.61	7.30	9.52
FCFPS (PLN)	5.67	-0.93	0.00	0.00	0.00
DPS (PLN)	0.00	0.00	0.00	0.00	0.00

Change YoY (%)	2020	2021	2022E	2023E	2024E
Revenues	6100.7%	-99.1%	77.4%	35.1%	3581.6%
EBITDA	nm	nm	nm	nm	nm
EBITDA adj.	nm	nm	nm	nm	nm
EBIT	nm	nm	nm	nm	nm
Net profit adj.	nm	nm	nm	nm	nm

Leverage and return	2020	2021	2022E	2023E	2024E
EBITDA margin (%)	59%	-1153%	-955%	-843%	31%
EBIT margin (%)	59%	-1179%	-971%	-856%	31%
Net margin (%)	54%	-1168%	-971%	-659%	30%
Net debt / EBITDA (x)	-1.53	nm	nm	nm	-1.04
Net debt / Equity (x)	-0.8	-0.7	-0.5	-0.1	-0.2
Net debt / Assets (x)	-0.7	-0.6	-0.4	-0.1	-0.2
ROE (%)	60.1%	nm	nm	nm	26.4%
ROA (%)	56.0%	nm	nm	nm	23.2%
ROIC (%)	57.8%	nm	nm	nm	25.1%

Forecasts (PLN m)	2020	2021	2022E	2023E	2024E
Revenues	124.9	1.2	2.1	2.8	103.0
Grants	2.0	1.2	2.1	2.8	4.3
Milestones	122.9	0.0	0.0	0.0	98.8
Other	0.0	0.0	0.0	0.0	0.0

P&L (PLNm)	2019	2020	2021	2022E	2023E	2024E
Revenues	2.0	124.9	1.2	2.1	2.8	103.0
HR costs	-2.7	-7.9	-5.0	-6.9	-8.6	-12.6
Stock option programme	-1.4	0.0	-2.8	0.0	0.0	0.0
Depreciation	-0.2	-0.2	-0.3	-0.3	-0.4	-0.4
Third party services	-1.6	-4.3	-4.0	-14.4	-17.2	-12.6
Taxes and fees	-0.2	-0.2	0.0	0.0	0.0	0.0
Other costs	-0.6	-0.2	-0.3	-0.3	-0.4	-0.4
Other operating line	0.0	0.0	0.3	0.0	0.0	0.0
EBITDA	-4.6	73.9	-13.5	-19.8	-23.6	31.9
EBITDA adj.****	-3.2	73.9	-10.6	-19.8	-23.6	31.9
EBIT	-4.8	73.7	-13.8	-20.1	-24.0	31.5
Financial income (cost) net	0.7	-0.1	0.1	0.0	-0.2	-0.2
Pre-tax profit	-4.1	73.7	-13.6	-20.1	-24.1	31.3
Income tax	0.0	-5.7	0.0	0.0	5.7	0.0
Net profit	-4.1	68.0	-13.6	-20.1	-18.4	31.3
Net profit adj.****	-2.7	68.0	-10.8	-20.1	-18.4	31.3

BALANCE SHEET (PLNm)	2019	2020	2021	2022E	2023E	2024E
Non-current assets	50.8	23.4	35.6	57.1	89.2	94.9
Goodwill and intangible assets	0.1	0.1	0.1	0.1	0.3	0.4
Unfinished R&D works**, ***	45.0	15.5	25.6	46.1	77.3	82.2
PP&E	5.8	7.9	10.0	10.9	11.6	12.3
Other non-current assets	0.0	0.0	0.0	0.0	0.0	0.0
Current assets	34.9	133.8	115.9	78.9	30.4	55.0
Inventories	0.0	0.0	0.0	0.0	0.0	0.0
Trade receivables	0.0	0.0	0.0	0.0	0.0	0.0
Cash and equivalents	34.0	120.5	102.0	65.0	16.4	40.9
Other current assets	0.9	13.3	13.9	14.0	14.1	14.1
Total assets	85.7	157.2	151.6	136.0	119.6	149.9
Equity	79.1	147.1	141.1	121.0	102.6	133.9
Minorities	0.0	0.0	0.0	0.0	0.0	0.0
Non-current liabilities	2.9	4.4	5.4	5.4	5.4	5.4
Loans and borrowings	2.5	3.4	4.2	4.2	4.2	4.2
Other non-current liabilities	0.4	0.9	1.2	1.2	1.2	1.2
Current liabilities	3.6	3.4	4.7	9.3	11.3	10.2
Trade payables	1.9	0.8	2.0	6.9	8.2	6.1
Loans and borrowings	1.3	1.8	1.8	1.4	2.1	3.3
Other current liabilities	0.4	3.1	1.3	1.3	1.3	1.3
Equity & liabilities	85.7	157.2	151.6	136.0	119.6	149.9
Cash conversion cycle (days)	na	na	na	na	na	na
Gross debt (PLN m)	3.8	5.2	6.0	5.6	6.3	7.5
Net debt (PLN m)	-30.2	-112.9	-95.7	-59.0	-9.7	-33.0

CASH FLOW (PLNm)	2019	2020	2021	2022E	2023E	2024E
Operating cash flow adj.*	-7.1	95.7	-10.9	-16.3	-18.5	71.7
Net income	-4.1	68.0	-13.6	-20.1	-18.4	31.3
D&A	0.2	0.2	0.3	0.3	0.4	0.4
Change in WC	-1.3	-13.1	0.7	4.8	1.2	-2.2
Change in grants	-1.9	-1.9	-1.2	-2.1	-2.8	-4.3
Other	0.0	42.6	2.9	0.7	1.1	46.5
Investment cash flow adj.*	-34.8	-29.7	-21.4	-33.1	-43.0	-60.5
R&D expenditures	-34.5	-27.7	-19.0	-31.2	-40.7	-58.0
Change in PP&E	-0.4	-2.1	-2.5	-2.6	-2.8	-3.0
Other	0.0	0.0	0.0	0.7	0.5	0.5
Financial cash flow	24.1	20.4	13.9	12.3	12.3	13.3
Change in equity	0.0	0.0	4.8	0.0	0.0	0.0
Change in debt	1.1	-1.4	0.7	-0.4	0.7	1.1
Interest paid	0.1	0.0	0.1	0.0	0.0	0.0
Dividend	0.0	0.0	0.0	0.0	0.0	0.0
Grants	23.0	21.9	8.2	12.7	11.6	12.2
Other	0.1	0.0	0.1	0.0	0.0	0.0
Change in cash	-17.8	86.5	-18.5	-37.1	-49.2	24.5
Cash as of eoP	34.0	120.5	102.0	65.0	15.7	40.2

Source: Company data, IPOPEMA Research, ****adj. for stock option program costs; **net after grants, ***R&D expenditure and grants are capitalized in assets

*we included the payment from Galapagos in 2020 operating cash flow, and adjusted the company's investment cash flow accordingly

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NII – Net interest income – interest income minus interest expense.

Net F&C – Net fee and commission income – fee and commission income minus fee and commission expense.

LLP – loan loss provisions – an expense set aside as an allowance for bad loans.

NPL – non-performing loan – loans that are in default or close to be in default.

Cost/Income – operating expenses divided by total banking revenue.

ROE – return on equity – net income (or adjusted net income) divided by the average shareholders' equity.

ROA – return on assets – net income (or adjusted net income) divided by the average assets.

EBIT – earnings before interests and tax.

EBITDA – earnings before interests, tax, depreciation and amortization.

EPS – earnings per share – the net income (or adjusted net income) divided by the number of shares outstanding.

P/E – price to earnings ratio – price divided by earnings per share.

PEG – P/E ratio divided by the annual EPS growth, usually over a certain period of time.

CAGR – compound annual growth rate.

BVPS – book value per share, the book value of the Company's equity divided by the number of shares outstanding.

P/BV – price to book value - price divided by the BVPS.

DPS – dividend per share – dividend of a given year divided by the number of shares outstanding.

DY – dividend yield – dividend of a given year divided by the current price.

DDM – dividend discount model – a fundamental method of valuation based on the assumption that the value of stock equals the sum of all discounted future dividends.

FV – Fair Value, calculated based on valuation methods outlined in the document.

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Hold	In between (and including) -10% and 10%
Sell	Below -10%

IPOPEMA Research - Distribution by rating category (April 1 – June 30, 2022)

	Number	%
Buy	19	76%
Hold	6	24%
Sell	0	0%
Total	25	100%

Rating History – Molecure

Date	Recommendation	Fair Value	Price at recommendation	Author
15/10/2019	BUY	PLN 20.0	PLN 11.20	Beata Szparaga-Waśniewska
08/12/2020	Under review	n.a.	PLN 47.50	Beata Szparaga-Waśniewska
02/09/2021	BUY	PLN 55.0	PLN 45.25	Beata Szparaga-Waśniewska
13/12/2021	BUY	PLN 55.0	PLN 39.3	Beata Szparaga-Waśniewska
06/04/2022	Under review	n.a.	PLN 23.85	Beata Szparaga-Waśniewska
31/08/2022	HOLD	PLN 17.0	PLN 16.0	Łukasz Kosiarski