

OncoArendi Therapeutics

Good dealmaker

OncoArendi's share price has risen 131% in the last 12M fueled by signing of a partnering agreement with Galapagos in the OATD-01/GLPG4716 project with an upfront payment of EUR 25m and biodollar value of EUR 295m. In 1Q21 OncoArendi's net cash came in at PLN 115m and the company announced a new platform focused on small molecules targeting mRNA as well as plans to in-license one new project and to launch a new programme within small molecules targeting proteins. We value the GLPG4716 project at PLN37.5/share and expect a minor milestone from Galapagos in 2022E. We expect OATD-02 to enter the clinic next year and a deal to be signed in the project in 2024E. We value the project at PLN10.4/share. We resume our coverage with a BUY rating and fair value of PLN 55/share.

GLPG4716/OATD-01 (idiopathic pulmonary fibrosis). The company's most advanced project is GLPG4716 outlicensed to Galapagos, a potential first-in-class chitinase inhibitor which has completed Phase 1 study in healthy volunteers and will now be tested in an additional drug-drug interaction study with nintedanib and pirfenidone in healthy subjects. We assume a 95% probability of the successful completion of the drug-drug interaction study. In 2022E, we forecast OncoArendi will receive a milestone of EUR 3m from Galapagos. We expect Phase 2 study in idiopathic pulmonary fibrosis (IPF) to be completed in 2024E and if the results are positive (probability of success: 39%) we assume OncoArendi will receive a milestone of EUR 12m.

OATD-02 (immunooncology). OATD-02, a potential best-in-class arginase (ARG1&2) inhibitor for the treatment of various cancers is currently in the final stages of preclinical development (IND enabling studies). While the first-in-class ARG1 inhibitor INCB001158 has shown disappointing results in solid tumors, we think OncoArendi's compound has a strong competitive advantage due to ARG2 inhibition and assume a 90% probability the project will enter Phase 1 study in 2022E. We assume that a partnering agreement is signed in 2024E after completion of Phase 1 (probability of success: 69%) – we assume an upfront payment of USD 30m, biodollar value of USD 208m.

Early-stage projects – potential upside to our valuation. According to our methodology, in our valuation we do not factor in projects without sufficient in vivo data. Therefore, we incorporate some costs and capex related to YKL40 antagonist, DUBs platform and the recently announced SMR platform, but do not include commercialization of these projects in our valuation. We note that according to OncoArendi's plans, a lead compound in the DUBs platform may be selected in 3Q21, while in vivo studies of YKL-40 in IPF and immuno-oncology are to be completed in 1Q22.

Figure 1. OncoArendi: Financial forecasts (PLNm)

	2019	2020	2021E	2022E	2023E	2024E
Revenues	2.0	124.9	2.9	15.0	8.9	99.8
Norm. EBITDA	-3.2	73.9	-10.9	-4.9	-13.0	40.7
Norm. net income	-2.7	64.3	-12.3	-1.4	-14.5	39.3
PER (x)	nm	9.6	nm	nm	nm	16.2
EV/EBITDA (x)	nm	6.8	nm	nm	nm	13.7

Source: Company, IPOPEMA Research

Biotechnology & Healthcare

OncoArendi Therapeutics

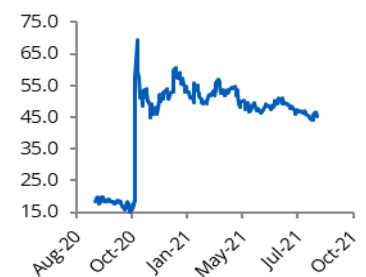
BUY

FV PLN 55

22% upside

Price as of 31 August 2021 PLN 45.25

Coverage resumption



Share data

Number of shares (m)	14.0
Market cap (EUR m)	135.0
12M avg daily volume (k)	46.5
12M avg daily turnover (EUR m)	0.5
12M high/low (PLN)	80.4/14.7
WIG weight	0.11%
Reuters	OAT.WA
Bloomberg	OAT.PW

Total performance

1M	-1.1%
3M	-2.1%
12M	+130.9%

Shareholders

Marcin Szumowski*, CEO	7.7%
Michał Sołowow (IPOPEMA 112 FIZAN)	29.7%
NN PTE	5.7%
Others	57.0%

*directly and indirectly

Analyst

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OncoArendi Therapeutics

BUY

FV PLN 55

Mkt Cap EUR 135m

Upside/downside +22%

Valuation multiples	2019	2020	2021E	2022E	2023E
P/E (x)	nm	9.6	nm	nm	nm
EV/EBITDA (x)	nm	6.8	nm	nm	nm
EV/Sales (x)	292.1	4.0	188.3	37.8	67.0
P/BV (x)	7.82	4.31	4.74	4.89	5.50
FCF yield (%)	-1%	16%	-3%	0%	0%
DY (%)	0%	0%	0%	0%	0%

Per share	2019	2020	2021E	2022E	2023E
No. of shares (m units)	13.7	13.7	14.0	14.1	14.1
EPS (PLN)	-0.2	4.7	-0.9	-0.1	-1.0
BVPS (PLN)	5.79	10.49	9.55	9.26	8.23
FCFPS (PLN)	-0.26	5.94	-1.12	0.00	0.00
DPS (PLN)	0.00	0.00	0.00	0.00	0.00

Change YoY (%)	2019	2020	2021E	2022E	2023E
Revenues	45.8%	6100.7%	-97.7%	419.9%	-40.5%
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	2019	2020	2021E	2022E	2023E
EBITDA margin (%)	-227.9%	59.2%	-457.2%	-47.8%	-146.4%
EBIT margin (%)	-239.6%	59.0%	-514.5%	-60.5%	-170.1%
Net margin (%)	-205.6%	51.5%	-504.4%	-24.4%	-163.0%
Net debt / EBITDA (x)	nm	-1.53	nm	nm	nm
Net debt / Equity (x)	-0.4	-0.8	-0.7	-0.5	-0.3
Net debt / Assets (x)	-0.4	-0.7	-0.6	-0.5	-0.3
ROE (%)	nm	57.8%	nm	nm	nm
ROA (%)	nm	53.8%	nm	nm	nm
ROIC (%)	nm	55.5%	nm	nm	nm

Forecasts (PLN m)	2019	2020	2021E	2022E	2023E
Revenues	2.0	124.9	2.9	15.0	8.9
Grants	2.0	2.0	2.9	1.8	2.1
Milestones	0.0	122.9	0.0	13.2	6.8
Other	0.0	0.0	0.0	0.0	0.0

P&L (PLNm)	2018	2019	2020	2021E	2022E	2023E
Revenues	1.4	2.0	124.9	2.9	15.0	8.9
HR costs	-2.5	-2.7	-7.9	-3.9	-5.8	-6.8
Stock option programme	-1.4	-1.4	0.0	-2.3	-2.3	0.0
Depreciation	-0.1	-0.2	-0.2	-1.7	-1.9	-2.1
Third party services	-1.4	-1.6	-4.3	-8.1	-13.4	-14.4
Taxes and fees	-0.3	-0.2	-0.2	-0.2	-0.2	-0.2
Other costs	-0.7	-0.6	-0.2	-0.3	-0.3	-0.3
Other operating line	0.0	0.0	0.0	0.0	0.0	0.0
EBITDA	-5.1	-4.6	73.9	-13.2	-7.2	-13.0
EBITDA adj.****	-3.7	-3.2	73.9	-10.9	-4.9	-13.0
EBIT	-5.1	-4.8	73.7	-14.8	-9.1	-15.1
Financial income (cost) net	0.7	0.7	0.0	0.3	0.4	0.6
Pre-tax profit	-4.4	-4.1	73.7	-14.5	-8.7	-14.5
Income tax	0.0	0.0	0.0	0.0	13.2	6.8
Net profit	-4.4	-4.1	64.3	-14.5	-3.7	-14.5
Net profit adj.****	-3.0	-2.7	64.3	-12.3	-1.4	-14.5

BALANCE SHEET (PLNm)	2018	2019	2020	2021E	2022E	2023E
Non-current assets	33.4	50.8	23.4	35.9	55.2	70.4
Goodwill and intangible assets	0.1	0.1	0.1	2.9	3.2	3.1
Unfinished R&D works**, ***	30.6	45.0	15.5	24.5	42.9	57.7
PP&E	2.7	5.8	7.9	8.5	9.1	9.6
Other non-current assets	0.0	0.0	0.0	0.0	0.0	0.0
Current assets	52.6	34.9	130.1	109.0	87.1	58.1
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	51.9	34.0	120.5	99.3	77.3	48.3
Other current assets	0.7	0.9	9.6	9.6	9.7	9.8
Total assets	86.0	85.7	153.5	144.9	142.3	128.6
Equity	81.9	79.1	143.4	133.8	130.2	115.7
Minorities	0.0	0.0	0.0	0.0	0.0	0.0
Non-current liabilities	0.6	2.9	4.4	4.4	4.4	4.4
Loans and borrowings	0.0	2.5	3.4	3.4	3.4	3.4
Other non-current liabilities	0.6	0.4	0.9	1.0	1.0	1.0
Current liabilities	3.5	3.6	3.4	4.4	5.3	6.1
Trade payables	2.6	1.9	0.8	1.5	2.5	2.7
Loans and borrowings	0.0	1.3	1.8	2.1	2.1	2.6
Other current liabilities	0.8	0.4	3.1	3.1	3.1	3.1
Equity & liabilities	86.0	85.7	153.5	144.9	142.3	128.6
Cash conversion cycle (days)	na	na	na	na	na	na
Gross debt (PLN m)	0.0	3.8	5.2	5.5	5.5	6.0
Net debt (PLN m)	-51.8	-30.2	-112.9	-91.5	-69.5	-40.0

CASH FLOW (PLNm)	2018	2019	2020	2021E	2022E	2023E
Operating cash flow adj.*	-4.9	-7.1	99.1	-14.2	-3.0	-15.0
Net income	-4.4	-4.1	64.3	-14.5	-3.7	-14.5
D&A	0.1	0.2	0.2	1.7	1.9	2.1
Change in WC	1.2	-1.3	-9.4	0.7	0.9	0.1
Change in grants	-1.4	-1.9	-1.9	-2.9	-1.8	-2.1
Other	-0.3	0.0	46.0	0.9	-0.3	-0.6
Investment cash flow adj.*	-27.4	-34.8	-33.2	-24.3	-27.0	-18.0
R&D expenditures	-25.9	-34.5	-31.1	-19.4	-24.6	-16.1
Change in PP&E	-1.5	-0.4	-2.1	-5.1	-2.7	-2.5
Other	0.0	0.0	0.0	0.3	0.4	0.6
Financial cash flow	70.9	24.1	20.4	17.4	7.9	4.0
Change in equity	55.2	0.0	0.0	5.0	0.0	0.0
Change in debt	0.0	1.1	-1.4	0.2	0.0	0.6
Interest paid	0.0	0.1	0.0	0.0	0.0	0.0
Dividend	0.0	0.0	0.0	0.0	0.0	0.0
Grants	15.7	23.0	21.9	12.1	7.9	3.5
Other	0.0	0.1	0.0	0.0	0.0	0.0
Change in cash	38.7	-17.8	86.4	-21.2	-22.0	-29.0
Cash as of eop	51.9	34.0	120.5	99.3	77.3	48.3

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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Polish biotech companies

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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%

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

Rating History – OncoArendi Therapeutics

Date	Recommendation	Fair Value	Price at recommendation	Author
2019-10-15	BUY	20	11.20	Beata Szparaga-Waśniewska
2020-12-08	Under review	na	47.50	na
2021-09-02	BUY	55	45.25	Beata Szparaga-Waśniewska