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Celon Pharma

Positive clinical readouts boosting pipeline value

Buy
(Recent: Buy)

Target Price: 45.7 PLN
Upside potential: +85%

Recent market information regarding clinical Phase 2 readout for CPL'36 project (PDE10a inhibitor) allows for almost doubling the valuation of Celon Pharma's project from PLN 7.4 to 12.8 24 per share. The provided readouts confirmed the molecule's safety, efficiency and therapeutic effectiveness in the treatment of patients diagnosed with acute schizophrenia. Over the past 4 weeks, the presented data for the PDE10a project has been an additional factor enhancing the market sentiment towards the R&D pipeline. CLN reported very good results from the use of the JAK/ ROCK (CPL'116) inhibitor in the therapy of methotrexate-resistant RA. Capital transaction was also made with TANG Capital, enabling further development of the Falkieri project after almost 2 years of suspension. In our opinion, CLN currently has strong market momentum, related to the short-term commercialization potential of the CPL'36 and CPL'116 projects. We put forward the thesis that clinical data publication will be the signal for the market to see again the significant potential of Celon Pharma's R&D pipeline. This, with combination of novel generic market launches, prompts us to raise the valuation of the Celon Pharma with TP 12M share price of 45.7 PLN (+85% upside).

The market sentiment reverse after important clinial readouts. The 2022-2023 period for Celon Pharma was a period without important history. The company continued clinical trials for 4 of its main projects, a lot of new projects appeared in the Early Pipeline. In the segment of generic drugs, CLN recorded stable sales levels in the domestic market, while the export sales of Salmex recorded slight growth conditioned by entries into new sales markets in EU countries. However, this was not the newsflow expected by the market. This appeared in 2Q24. The company announced the registration of a new generic cardiac drug Zarixa, whose sales under reimbursement have been starting in the PL within last two months. Breakthrough information came from 3 main R&D projects, which in our opinion may reverse market sentiment, especially with the perspective of partnering agreements possible in 2024.

CPL'36 - possible best in class. The PDE10a inhibitor clinical readouts indicate a high therapeutic effect, especially at a dose of 40 mg (reduction of disease symptoms in the PANSS total scale 9.7-16.4). The compound also showed a good safety profile, which is important in the context of a large pool of adverse effects for drugs currently used for schizophrenia. Drugs available on the market, including risperidone (Vipharm), aripiprazole (Novartis) or olanzapine (Eli Lilly) are reported o reduce schizophrenia's symptoms in the PANSS scale by about 5-10 units (data cleaned of placebo readings), while CPL'36 effect was estimated for 9.7-16.4 (depending on the dose 20-40mg). The clinical effect of CPL'36 suggests a large strength of therapy effectiveness with a significantly smaller spectrum of serious adverse effects.

CPL'36: valuation impact of additional 280m PLN. In our current valuation, we valued the CPL'36 project at approx. 7.4 PLN/share (380m PLN). We believe that the presented results increase the chance of a faster partnering agreement (in 2024 vs previously assumed 2025) and confirm the possibility of a positive completion of phase II clinical trials, increasing the cumulative probability of success from 34% to 48%.

CPL'116: therapy chance for drug restistant Rhaumathoid arthritis. In June 2024, CLN provided preliminary results of the phase II clinical trial of CPL'116 in the treatment of metotrexat-resistance Rheumatid Arthritis (RA). CPL'116 improved the condition of patients in the DAS28-CRP scale in a dose-dependent manner, the primary endpoint was met in terms of statistical significance. The phase II clinical trial of the JAK/ROCK inhibitor shows promising results in both efficacy and safety. These results support the further clinical development of the drug, especially in the context of other autoimmune diseases with inflammatory and fibrotic factors, such as idiopathic pulmonary fibroses (IPF) or Rheumatoid arthritis-interstitial lung disease (RA-ILD).

CPL'116: impact of valuation increase 225m PLN and commercialisation window opening. We state that the CLN project shows good therapeutic potential, however, further studies, especially phase III, are necessary to fully confirm its efficacy and safety. If these results are confirmed, the drug may become a breakthrough solution in the treatment of RA and other autoimmune diseases. The presented results preliminarily confirm the possibility of a positive completion of the phase II clinical trials - we estimate the valuation impact of the information at approx. 4 PLN/share. The publication of clinical trial data should be a factor supporting the commercialization process. We put forward the thesis about the possibility of a commercialization agreement for the JAK/ROCK inhibitor project in 2024, in the scenario of global partnering, we assume upfront values in the range of 10-30 million EUR.

Tang Capital investment in Falkieri - option for project rebound. In May 2024, Tang Capital Management decided to invest USD10m to provide the further development of CLN's Falkieri project. Celon Pharma is contributing USD 20m, amounting to a total of USD 30m in funding over two years. Considering the completion of the second phase of clinical trials in 2021 and its lack of continuation so far, we perceive the Tang investment positively, as an option to get the project off the ground and ensure the implementation of the third phase of clinical trials. We rate the Tang's investment positively through the prism of obtaining further funds for the development of the Falkieri project. In our view, the experience of Tang Capital in the life sciences industry will be crucial for providing experience in commercialization on biotech market. We still state that project may e a case for partnering transaction due to market not addressed bipolar depression treatment. We assume a partnering transaction in the project at the earliest in 2027 with a biodollar value of approx. 110-130 million EUR.

Valuation. In the context of the presented clinical readouts, in our valuation of Celon Pharma's innovative projects segment, we are increasing the valuation of the CPL'116 and CPL'36 projects from PLN 7.4 / 6.4 per share to PLN 12.8 and 10.6 per share, respectively. The SOTP approach implies the 12M target price of Celon Pharma's shares at PLN 45.7, including 1) generic drug production – PLN 17.0 per share (DCF method); and 2) innovation projects – PLN 28.7 per share (rNPV method).

Risks. The positive early Phase 2 readouts for the CPL'36 and CPL'116 projects minimises the risk of project failure. However, despite the strong preconditions for Phase 2 full success, the final clinical data the projects is still burdened with risks related to the development of an innovative drug project.

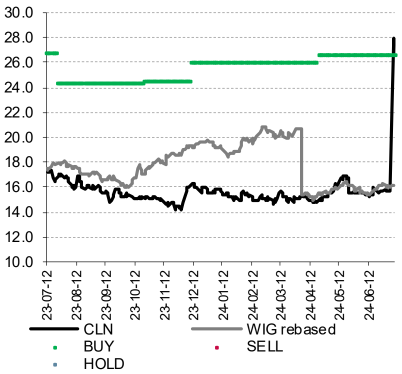
PLNm	2021	2022	2023	2024E	2025E	2026E
Revenues	199	195	217	240	274	291
EBITDA	31	7	23	24	31	69
EBIT	-10	-37	-27	-27	-20	15
Netprofit	-12	-39	-28	-20	-25	19
EPS(PLN)	-	-	-	-	-	0.3
P/E(x)	-	-	-	-	-	71.1
EV/EBITDA(x)	40.9	186.8	55.4	56.4	42.3	19.3
P/BV(x)	-	-	-	-	-	114.7
DY(%)	0.2%	1.2%	0.4%	0.6%	0.8%	0.8%

Source:Company, TrigonDM; revenues without partnering transactions

FACT SHEET

Ticker			CLN
Sector			MedTech & Biotech
Price (PLN)			45.10
52wk Range (PLN)			14 / 17.94
Number of share (m)			51.1
Market Cap (mPLN)			1,264
Free-float			33%
Avg Vol 3M (mPLN)			0.5
Price performance	1M	3M	1Y
	60.5%	65.4%	52.8%

RELATIVE SHARE PRICE PERFORMANCE



RECOMMENDATION HISTORY	Date	Price
Buy	11.12.2023	26
Buy	23.10.2023	25
Buy	24.07.2023	24
Buy	20.04.2023	27
Buy	07.12.2022	46
Buy	20.10.2022	46

SHAREHOLDERS	Share %
Glatton Sp. z o .o.	58.8%
Generali OFE	7.9%
Other	33.3%

IMPORTAND DATES

Rapot 1H24	18.09.2024
Raport 3Q24	20.11.2024

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Glossary of professional terms:

capitalisation – market price multiplied by the number of a company's shares

free float (%) – percentage of a company's shares held by shareholders with less than 5% of total voting rights attached to the shares, reduced by treasury shares held by the company

min/max 52 wks – lowest/highest share price over the previous 52 weeks

average turnover – average volume of share trading over the previous month

EBIT – operating profit

EBITDA – operating profit before depreciation and amortisation

adjusted profit – net profit adjusted for one-off items

CF – cash flow

CAPEX – sum of investment expenditures on fixed assets

OCF – cash generated through a company's operating activities

FCF – cash generated by a company after accounting for cash outflows to support its operations and maintain capital assets

ROA – rate of return on assets

ROE – rate of return on equity

ROIC – rate of return on invested capital

NWC – net working capital

cash conversion cycle – length of time it takes for a company to convert its cash investments in production inputs into cash revenue from sale of its products or services

gross profit margin – ratio of gross profit to net revenue

EBITDA margin – ratio of the sum of operating profit and depreciation/amortisation to net revenue

EBIT margin – ratio of operating profit to net revenue

net margin – ratio of net profit to net revenue

EPS – earnings per share

DPS – dividend per share

P/E – ratio of market price to earnings per share

P/BV – ratio of market price to book value per share

EV/EBITDA – ratio of a company's EV to EBITDA

EV – sum of a company's current capitalisation and net debt

DY – dividend yield, ratio of dividends paid to share price

RFR – risk free rate

WACC – weighted average cost of capital

Recommendations of the Brokerage House

Issuer – Celon Pharma S.A.

BUY – we expect the total return on an investment to reach at least 15%

HOLD – we expect the price of an investment to be largely stable, with potential upside of up to 15%

SELL – we expect negative total return on an investment of more than -0%

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Document prepared by: Katarzyna Kosiorek

Valuation methods used

The Discounted Cash Flow (DCF) method values a company by estimating its future cash flows and discounting them back to their present value.

- Advantages: future-oriented, flexible when it comes to assumptions, based on the intrinsic value of a company, widely accepted.
- Disadvantages: sensitivity to assumptions, complexity, subjectivity, doesn't consider market sentiment or short-term fluctuations.

The comparable valuation method values a company by comparing it to similar publicly traded companies.

- Advantages: simplicity, transparency, benchmarking, reflects current market valuations and investor sentiment.
- Disadvantages: lack of specificity, limited comparables, sensitive to market fluctuations, ignoring fundamental differences.

SOTP – sum-of-the-parts method, which consists in valuing a company by valuing its individual business lines separately and then summing them up.

Advantages: different valuation methods can be applied to diverse business lines; the approach is useful for assessing the value of a company e.g. in the case of planned acquisition or restructuring.

Disadvantages: the peer group for individual business lines is usually limited, the method does not adequately account for synergies between business segments.

Risk-adjusted net present value method (rNPV)

Advantages: accounting for probabilities assigned to future cash flows, providing a more realistic assessment of the present value of future cash flows and reflecting business-specific factors, especially in the case of innovative companies.

Disadvantages: subjectivity involved in the adoption of a discount rate, significant reliance on a number of assumptions, high level of complexity in the calculations and exclusion of qualitative factors from the valuation.

Discounted residual income method (DRI)

Advantages: valuation based on the excess of income over risk-adjusted opportunity cost to owners of capital, the method can be applied to companies that do not pay dividends or generate positive FCF.

Disadvantages: significant reliance on subjective judgements and assumptions, as well as sensitivity of the valuation to any changes in those variables.

Discounted dividend model (DDM)

Advantages: accounting for real cash flows to equity owners, the model works best for companies with a long history of dividend distribution.

Disadvantages: the method can be applied to dividend-paying companies only, it is not suitable for companies with a short history of dividend distribution.

Net asset value method (NAV)

Advantages: the approach is particularly relevant to holding companies with significant property, plant and equipment assets, the calculation of NAV is relatively straightforward.

Disadvantages: the method neglects future revenue or earnings potential and may not properly reflect the value of intangible assets.

Target multiple method

Advantages: the method can be applied to any company.

Disadvantages: it involves a high degree of subjectivity.

Replacement value method – it assesses the value of a company based on the costs of replacing its assets.

Advantages: the method is particularly relevant to companies with significant property, plant and equipment assets.

Disadvantages: it may be hard to capture the value of a company's intangible assets, reputation and market potential.

Liquidation value method – the sum of prices that the business would receive upon selling its individual assets on the open market.

Advantages: the method can capture the lowest threshold of a company's value.

Disadvantages: it may be hard to capture the value of a company's intangibles.

Basis of the valuation or methodology and the underlying assumptions used to evaluate the financial instrument or the issuer, or to set a price target for the financial instrument: discounted cashflow method (DCF) and adjusted net-present value (rNPV) method

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