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Circadian Technologies Limited CIR

08 Apr 2011 | Ceasing coverage

Recommendation: **Ceasing coverage**

Note: --



\$ Price	--	--	--	6/07	6/08	6/09	6/10
	(a)	(a)	(a)	(a)	(a)	(a)	(a)
NPAT	--	--	--	-16.5	-1.1	-9.9	-9.8
EPS	--	--	--	-40.8	-2.9	-22.2	-21.6
EPS % Chg	--	--	--	--	--	--	--
DPS	--	--	--	0.0	0.0	0.0	0.0
Franking %	--	--	--	--	--	--	--
Div yield %	--	--	--	0.0	0.0	0.0	0.0
P/E	--	--	--	0.0	0.0	0.0	0.0

Fair Value (\$)	--
Morningstar Style Box	
Moat Rating	None
Business Risk	--
Mkt Cap (\$m)	\$35.00
Previous Close	\$0.75
52 Wk \$ High/Low	\$0.78 / \$0.50
ROE (2010/06)	-30.8
Net Interest Cover	6.94%
Ex-Dividend	04 Feb 2005
Payable	24 Feb 2005
Company Beta	0.64
Sector Beta	0.65

Investment Rating

Ceased coverage.

Result Description

- We cease coverage of CIR due to Morningstar's focus on established businesses with at least some degree of earnings predictability.

Impact

- That said, our view of CIR is unchanged. While the stock is unequivocally speculative we still see significant upside potential. As of today (7 April 2011) our recommendation triggers with the Speculative qualification would be Buy below \$0.80, Accumulate to \$1.20, Reduce above \$2.00 and Sell above \$3.20.
- A number of Australian medical R&D companies have developed technologies to the point they now attract serious attention from major pharmaceutical and larger biotech companies looking to replenish depleting drug pipelines.

Recommendation Impact (Last Updated: 08 Apr 2011)

Cease coverage

Event Analysis

CIR's vast patent estate primarily relates to the use of antibodies to suppress growth factors implicated in blood and lymph vessel generation in cancer and eye disease.

Latest achievement is launch in the US of a diagnostic test for LAM, a relatively rare degenerative lung disease that affects some women. The test distinguishes the disease from other lung diseases with similar symptoms. CIR expects royalties of 'a couple of million dollars or more' per year in the short-term and potentially much more in the medium to

longer term. This is by no means a company maker but provides valuable endorsement of CIR's technology platform.

CIR also hopes to launch through Healthscope before the end of 2011 a diagnostic for Cancers of Unknown Origin in Australia, NZ, Malaysia and Singapore. Management hopes to generate royalties in the range \$5m-\$15m after the product launches in major markets over the next one to two years.

CIR also made important strategic progress in February when Chugai Pharmaceutical of Japan (part of the Hoffman Le Roche Group) granted CIR worldwide rights to the Japanese company's VEGF-D intellectual property portfolio. This removes a potential competitor in the space, simplifying product development and IP licensing strategies. While the exact terms of the agreement are confidential, the licence fees are 'relatively modest and the upfront fee relatively small', easily covered by cash reserves.

CIR also extended expiry of important patent groups from 2017/2018 to September 2023 in the US. This adds significant value to any successfully developed product. Without it, theoretical product life may have been insufficient to justify the expense of clinical trials. In Europe CIR obtained extension of a similar patent, but only to 2019.

The greatest potential of the technology lies in cancer treatment. The company is having 'serious discussions' on a co-development partnership. Animal studies suggest potentially valuable opportunities to complement/supplement existing monoclonal antibody drugs (mAbs) such as Avastin, in particular by inhibiting lymphangiogenesis, the method by which some cancers spread via the lymphatic system, something existing mAbs do not target. While development is largely still at pre-clinical stage, mAbs as a class are well understood and animal studies strongly predictive of the effects of such drugs in humans. So some partnering deals in this class of drug have occurred relatively early. Following successful Phase 1 human trials, comparable molecules have generated upfront payments similar to CIR's market capitalisation.

CIR has already licensed components of the technology to US biotech ImClone, a subsidiary of pharmaceutical giant Eli Lilly. ImClone recently began Phase 1 human studies in patients with solid tumours. CIR will earn licence fees and royalties on potential future product sales.

The company hopes to begin clinical trials within the next year of another antibody, VGX-100. This follows promising animal studies in mouse models of prostate, ovarian and lung cancer. The inhibition by 55% of cancer spread (metastasis) in the prostate model is particularly significant. Inhibition in humans would represent a major advantage over existing antibody therapies. Metastasis is one the features that makes cancer so deadly.

This report appeared on www.morningstar.com.au

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