

Cellmid Limited (ASX:CDY)

Validated cancer diagnostic kit gives potential to enter US\$45bn market ...

First ever validated midkine blood test completed. The MK Elisa test will be used for an accurate measurement of midkine in blood. Midkine levels in humans are elevated in most cancers. The MK Elisa test can potentially detect cancer as early as stage 0 which greatly increases the chance of survival. The test can also detect midkine in animals, making it useful for the veterinary market. Cellmid is currently applying for regulatory approvals to satisfy EU consumer safety and health requirements, which is the next step in becoming the 'gold' standard as a diagnostic kit in the US\$45bn cancer diagnostic market. At first the product will only be available to the research market and will be used for Cellmid's in-house diagnostic programs including the previously mentioned CK3000 program being conducted in Japan.

Midkine to be tested for cosmeceutical products. Cellmid intends to use its midkine IP and technology for testing a treatment for hair loss. The first step will be pre-clinical trials with the possibility of getting a product on the market within 3-4 years. 52 million people use hair loss products annually in the USA, spending US\$1-2 billion. To fund the trials, Cellmid has created a wholly owned subsidiary, Advangen International Pty Ltd, and signed distribution rights covering Australia/NZ and EU/USA for the sale of hair growth products developed in Japan. These products have sold 500,000 units during the past two years in Japan. A website will be launched next month to facilitate product sales to a global audience, while also being sold through hairdressers in Australia and New Zealand (see pictures page 3).

In vivo testing on two monoclonal antibodies completed. An independent Swiss based firm has conducted the first phase of Cellmid's antibody evaluation program. These tests were completed on lab rats injected with rheumatoid arthritis and multiple sclerosis. Both antibodies decreased disease severity in multiple sclerosis by reducing inflammatory cell infiltration of the spinal cord. At the same time the number of regulatory T-cells increased significantly.

We have increased our valuation by 7.4% to 14.5 cents. Cellmid will start selling Advangen hair products from next month. We estimate the target market to be females between ages 40-59 and males 30-59. There are currently 8.26m people within this target market in Australia and we estimate a 15% usage rate of hair loss products within this target market. Further we estimate a 1% market penetration and customers using two products from the current range. By our estimates margins to Cellmid are \$13 if sold in the store and \$69 if sold over the internet. New Zealand and a global audience has the potential to significantly increase sales. We retain our 'speculative buy' recommendation

14-11-2010

Target: \$0.145

Spec Buy

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Board of Directors

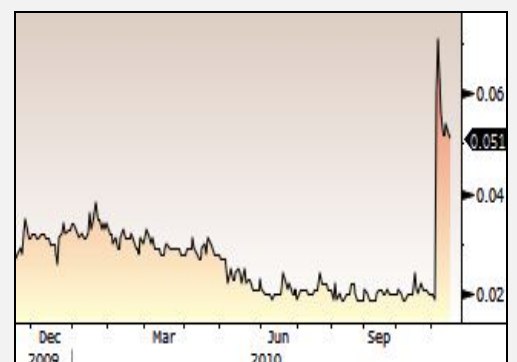
Chairman	Dr David King
Managing Director	Maria Halasz
Director	Koichiro Koike
Director	Robin Beaumont

Major Shareholders

Cell Signals	10.11%
Top 20 holders	43.2%

Share Data

Sector	Biotech
Market Cap	\$16.63m
Share price	\$0.051
Shares on issue	325m
Options on issue	33.2m
Avg. Daily Value Traded (30 days)	\$400k



CDY Daily Chart
Source: Bloomberg

Table 1: Updated earnings estimate in AUD millions

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
CS5000											
Market size	\$19.5	\$20.1	\$20.7	\$21.3	\$21.9	\$22.6	\$23.3	\$24.0	\$24.7	\$25.4	\$26.2
Market growth		3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Market penetration				20.0%	50.0%	70.0%	90.0%	100.0%	100.0%	100.0%	100.0%
Revenue				\$4.26	\$10.97	\$15.82	\$20.96	\$23.98	\$24.70	\$25.44	\$26.21
Probability				15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%
Risked revenue				\$0.64	\$1.65	\$2.37	\$3.14	\$3.60	\$3.71	\$3.82	\$3.93
(Japan only)											
Market size	\$50.0	\$51.5	\$53.0	\$54.6	\$56.3	\$58.0	\$59.7	\$61.5	\$63.3	\$65.2	\$67.2
Market growth		3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Market penetration				20.0%	50.0%	70.0%	90.0%	100.0%	100.0%	100.0%	100.0%
Revenue				\$10.93	\$28.14	\$40.57	\$53.73	\$61.49	\$63.34	\$65.24	\$67.20
Probability				15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%
Risked revenue				\$1.64	\$4.22	\$6.09	\$8.06	\$9.22	\$9.50	\$9.79	\$10.08
Market size	\$500.0	\$515.0	\$530.5	\$546.4	\$562.8	\$579.6	\$597.0	\$614.9	\$633.4	\$652.4	\$672.0
Market growth		3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Market penetration							10.0%	20.0%	23.0%	25.0%	30.0%
Revenue							\$59.7	\$123.0	\$145.7	\$163.1	\$201.6
Probability							10.0%	10.0%	10.0%	10.0%	10.0%
Risked revenue							\$5.97	\$12.30	\$14.57	\$16.31	\$20.16
Royalty							7.0%	7.0%	7.0%	7.0%	7.0%
Revenue to CDY							\$0.42	\$0.86	\$1.02	\$1.14	\$1.41
Market size	\$500.0	\$515.0	\$530.5	\$546.4	\$562.8	\$579.6	\$597.0	\$614.9	\$633.4	\$652.4	\$672.0
Market growth		3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Market penetration							10.0%	20.0%	23.0%	25.0%	30.0%
Revenue							\$59.70	\$122.99	\$145.68	\$163.10	\$201.59
Probability							10.0%	10.0%	10.0%	10.0%	10.0%
Risked Revenue							\$5.97	\$12.30	\$14.57	\$16.31	\$20.16
Royalty							7.0%	7.0%	7.0%	7.0%	7.0%
Revenue to CDY							\$0.42	\$0.86	\$1.02	\$1.14	\$1.41
Market size	\$3,000.0	\$3,090.0	\$3,182.7	\$3,278.2	\$3,376.5	\$3,477.8	\$3,582.2	\$3,689.6	\$3,800.3	\$3,914.3	\$4,031.7
Market growth		3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Market penetration							10.0%	20.0%	23.0%	25.0%	30.0%
Revenue							\$358.22	\$737.92	\$874.07	\$978.58	\$1,209.52
Probability							10.0%	10.0%	10.0%	10.0%	10.0%
Risked Revenue							\$35.82	\$73.79	\$87.41	\$97.86	\$120.95
Royalty							7.0%	7.0%	7.0%	7.0%	7.0%
Revenue to CDY							\$2.51	\$5.17	\$6.12	\$6.85	\$8.47

(USA market)											
# of dogs tested		1000	1857	2475	3301	4401	4632	4876	5133	5403	
Market size		85	157.8	210.41	280.55	374.06	393.75	414.48	436.29	459.25	
Market growth			185.0%	25.0%	25.0%	25.0%	5.0%	5.0%	5.0%	5.0%	
Market penetration		10.0%	20.0%	25.0%	35.0%	40.0%	50.0%	55.0%	60.0%	70.0%	
Revenue		8.5	31.56	52.6025	98.1925	149.624	196.875	227.964	261.774	321.475	
Probability		80.0%	80.0%	70.0%	70.0%	70.0%	70.0%	60.0%	60.0%	60.0%	
Risked Revenue		6.8	25.248	36.82175	68.73475	104.7368	137.8125	136.7784	157.0644	192.885	
Royalty		8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	
Revenue to CDY		\$0.544	\$2.020	\$2.946	\$5.499	\$8.379	\$11.025	\$10.942	\$12.565	\$15.431	
Market size (millions)	1.24	1.25	1.27	1.29	1.30	1.32	1.33	1.35	1.36	1.38	1.40
Market growth	1.20%	1.20%	1.20%	1.20%	1.20%	1.20%	1.20%	1.20%	1.20%	1.20%	1.20%
Market penetration	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%
Items sold @ \$13 margin	6200	6274	6350	6426	6503	6581	6660	6740	6821	6903	6985
Items sold @ \$69 margin	6200	6274	6350	6426	6503	6581	6660	6740	6821	6903	6985
Revenue to CDY	\$0.508	\$0.514	\$0.520	\$0.526	\$0.533	\$0.539	\$0.546	\$0.552	\$0.559	\$0.566	\$0.572
Revenue to CDY (2nd product)	\$0.508	\$0.514	\$0.520	\$0.526	\$0.533	\$0.539	\$0.546	\$0.552	\$0.559	\$0.566	\$0.572
Total Revenue	\$1.02	\$1.03	\$1.04	\$1.05	\$1.07	\$1.08	\$1.09	\$1.11	\$1.12	\$1.13	\$1.15
Marketing expenses			\$0.139	\$0.146	\$0.153	\$0.161	\$0.169	\$0.177	\$0.186	\$0.195	\$0.205
Management & Admin			\$0.266	\$0.279	\$0.293	\$0.308	\$0.323	\$0.339	\$0.356	\$0.374	\$0.393
R&D Expenses			\$0.702	\$0.702	\$0.702	\$0.702	\$0.702	\$0.702	\$0.702	\$0.702	\$0.702
Travel expenses	\$0.199	\$0.205	\$0.211	\$0.217	\$0.224	\$0.231	\$0.238	\$0.245	\$0.252	\$0.260	\$0.267
Occupancy	\$0.101	\$0.104	\$0.107	\$0.110	\$0.114	\$0.117	\$0.121	\$0.124	\$0.128	\$0.132	\$0.136
Total	\$0.300	\$0.309	\$1.425	\$1.455	\$1.486	\$1.519	\$1.552	\$1.587	\$1.624	\$1.662	\$1.703
Total Revenue	\$1.02	\$1.03	\$2.63	\$5.35	\$9.88	\$15.04	\$24.02	\$31.84	\$33.42	\$36.43	\$41.88
NPBT	\$0.72	\$0.72	\$1.20	\$3.90	\$8.39	\$13.52	\$22.47	\$30.25	\$31.80	\$34.77	\$40.17
Tax at 30%	\$0.72	\$0.72	\$0.84	\$2.73	\$5.88	\$9.46	\$15.73	\$21.18	\$22.26	\$24.34	\$28.12
Discount factor		0.869	0.756	0.657	0.571	0.497	0.432	0.375	0.326	0.284	0.247
Discounted cash flow	\$0.72	\$0.63	\$0.64	\$1.79	\$3.36	\$4.70	\$6.80	\$7.96	\$7.28	\$6.92	\$6.95
Total NPV			\$47.74								
Shares			326.581								
NPV/share			\$0.146								

Source: Wise-owl

The Bulls & The Bears



The Bulls Say

- MK Elisa validation is an important milestone to enter the lucrative cancer diagnostics market.
- If gold standard is achieved for its cancer diagnostic kit, it would put the company on a global map.
- Midkine to be tested for the hair loss market and sales of market ready hair loss products are expected to fund the majority of the research and development fees .
- Pre-clinical results and beginning of phase I trials in cancer therapeutics may trigger a re-rating in Cellmid.
- Extensive validation studies have confirmed that midkine is an effective early marker for cancer with short term market opportunities.
- Valuation of 14.5 cents suggests further upside with hair loss revenue imminent.



The Bears Say

- Future trial results on the company's antibody programs may not meet expectations.
- Companies with whom Cellmid signs out-licensing agreements to may not have the same priority compared to the being research was kept in-house.
- Midkine and its role in cancer diagnostic is still in the early stages of being accepted in the global scientific community.
- Trials may run longer than expected which may end up costing the company more and delay revenues.
- MK Elisa may not achieve the desired standard required for diagnostic programs.

Figure 1: Advangen shampoo and Women's and Men's scalp lotion.



Analysts

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Wise-owl.com recommendation system

Care has been taken to define the level of risk to return associated with a particular company. Our recommendation ranking system is as follows:

Spec Buy

We forecast strong earnings growth or value creation that may achieve a return well above that of the broader market. These companies also carry a higher than normal level of risk.

Buy

Companies with 'Buy' recommendations have been cash flow positive for some time and have a moderate to low risk profile. We expect these to outperform the broader market.

Hold

A sound well managed company that may achieve market performance or less, perhaps due to an overvalued share price, broader sector issues, or internal challenges.

Sell

Risk is high and upside low or very difficult to determine. We expect a strong underperformance relative to the market and see better opportunities elsewhere.

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