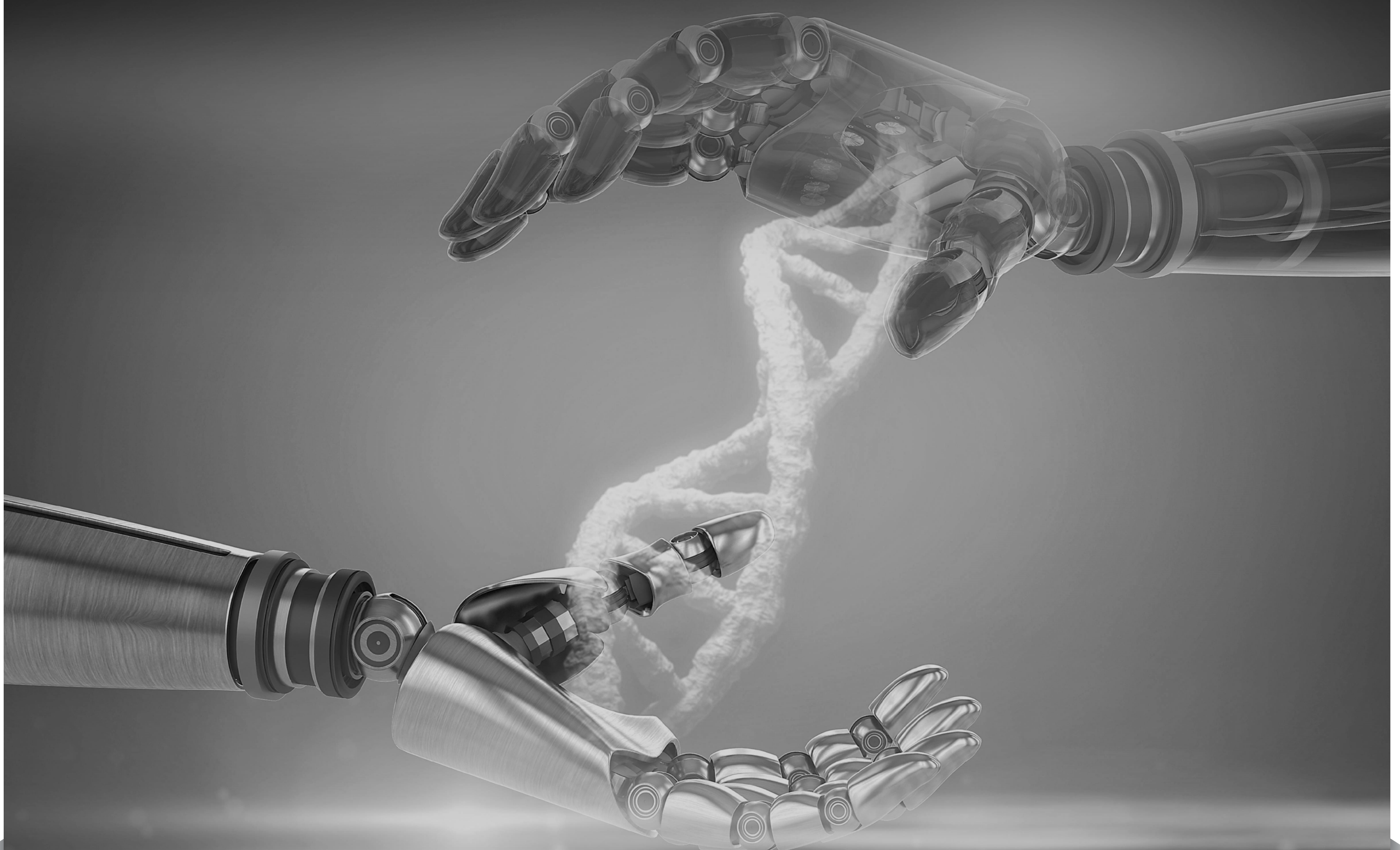
STOCKS DOWN UNDER

12 OCTOBER 2021

Emerging Stocks Down Under

> *Things are only impossible until they're not.*

- Jean-Luc Picard (Star Trek: The Next Generation character), American TV show



DIMERIX

Phase-racer

DELOREAN CORPORATION

Maybe this one can fly too

HERAMED

Filling the gap in pregnancy care

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Stocks Down Under rating: ★★★★

ASX: DXB
Market cap: A$93.1M

52-week range: A$0.175 / A$0.48
Share price: A$0.285

Melbourne-based Dimerix is a clinical stage biotech company using its lead drug candidate, DMX-200, as a treatment for life-threatening and difficult to treat kidney and lung diseases. With its proprietary technology also proving useful for COVID-19 respiratory illnesses, the company's lead drug is nearing market approval with multiple Phase 3 clinical trials anticipated this year.

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Market cap: A$35.8M

52-week range: A$0.18 / A$0.435
Share price: A$0.202

It may be named after a fast car, but the Perth renewable energy provider Delorean has seen its stock move very slowly after its April 2021 IPO. At that time, it peaked at $0.42 after a $14m raise at $0.20. The Australian government's lack of aggressive climate policy has meant renewable energy stocks in Australia haven't seen the same gains over the last year as some of their peers in Europe and the US. However, with strong international pressure, particularly from America's Biden Administration and COP26 (the next UN conference on climate change) coming up at the end of October, the times may be a' changin'…

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Share price chart

Source: Tradingview

Filling the unmet care gap

Dimerix is extremely busy developing new therapies to treat areas of unmet medical need, with clinical opportunities in Diabetic Kidney Disease (DKD) and Focal Segmental Glomerulosclerosis (FSGS), Chronic Obstructive Pulmonary Disease (COPD) and Acute Respiratory Distress Syndrome (ARDS). The emphasis on lung disease has also given way to a greater focus on respiratory complications from COVID-19.

DKD and FSGS, iterations of chronic kidney disease, are both serious conditions which, if left untreated, can cause end-stage renal failure with limited treatment options, such as dialysis or kidney transplant. A rare condition affecting around 210,000 patients globally, FSGS is an inflammatory that attacks the kidney's filtering units (the glomeruli) leading to scarring and permanent damage. The company is also giving greater precedence to respiratory diseases like ARDS – an acute lung condition where fluid leaks into the lungs. ARDS may be particularly severe in connection with COVID-19, with long-term damage associated with exaggerated inflammatory responses (known as a 'cytokine storm') and poor immune function.

The company's lead drug candidate, DMX-200, works to reduce the damage from inflammatory immune cells by blocking signalling and limiting further damage to the lungs, kidneys or other tissues. Instead of blocking one cell receptor, Dimerix's drug, identified using its Receptor-HIT (the HIT stands for 'heteromer investigation technology') platform, blocks pairs of receptors that interact with small molecule drugs to reduce

the inflammatory response (or cytokine storm) and aid binding. Because DMX-200 is essentially a blocker working to dial down the abnormal immune response (and often combined in clinicals trials with existing anti-inflammatory medications), the aim is to prevent inflammation rather than just treating existing damage for kidney and lung function.

On the right track

Some good planning on Dimerix's part has meant that it was able to spend the majority of 2020 continuing its clinical trials in WA up to Phases 2 and 3, with two Phase 3 trials in COVID-19 patients now underway and one Phase 3 clinical study into FSGS expected to commence this quarter.

The company has previously demonstrated DMX-200's benefit to patients with FSGS and kidney disease with a significant reduction in proteinuria (protein in urine indicative of kidney disease) suggesting a slowing in the progression of kidney failure. While the company hasn't put other trials (such as DKD, which is still in Phase 2) on the backburner, the emphasis on COVID-19 linked respiratory illnesses offers a faster chance of market approval for DMX-200 at a critical time. If the treatment proves to be effective in treating COVID-19 patients, that could lead to emergency use approval and, in turn, could lead to further clinical insights into DMX-200's effectiveness in treating ARDS and related lung diseases. So far, Dimerix has received an access pathway designation in the UK and remains eligible for accelerated approval in the US for FSGS.

Understandably, the two COVID-19 trials – separately focussing on respiratory complications (nicknamed 'Clarity') and community acquired pneumonia (CAP) – offer tremendous market potential, with one COVID-19 pneumonia treatment (Remdesivir) costing as much as US$3,120 a dose in the States. America's terrible medical costs notwithstanding, pre-COVID-19 pneumonia accounts for US$17bn in healthcare costs and non-COVID respiratory infections were responsible for 3 million deaths before the pandemic. Similarly, FSGS is a US$1bn addressable market with no FDA-approved therapies and roughly 20,000 of the 210,000 sufferers ending up with late-stage kidney disease. With no other global FSGS studies underway, we believe Dimerix has a unique window with its Phase 3 design.

What's the diagnosis

This company now has multiple long-term opportunities in kidney and lung treatments, but has not forgotten its earlier Phase 2a renal data from September 2020. It now plans DKD to design a longer study to observe albuminuria levels against possible longer-term effects of DMX-200. With so many clinical trials in the pipeline, Dimerix has managed to remain under budget despite higher R&D costs with a cash balance of $5.3m as of June 2021. In addition, the company just closed a $4m share placement on 1 October 2021. Now that it has flown through its COVID-19 study milestones, that extra funding will help the company move to recruitment for Phase 3 COVID-19 trials in India and Europe.

Not surprisingly, Dimerix's share price has been on a bender, dropping 53% in the past year to its current level of $0.285 after having reached $0.47 in September 2020 on the results of the Phase 2 CKD trials.

However, with so many Phase 3 leads nearing marketability (only COPD is still in the preclinical stage), we believe Dimerix is well worth paying attention to – especially as lung and kidney disease represents only a small area of unmet need given that the company uses its receptor-HIT technology for other serious illnesses. We think Dimerix a four star play.

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Four companies, one goal

The four companies that make up Delorean - Delorean Energy, CleanTech Energy, Biogass Renewables (yes, there's two of the letter 's' in that name) and Tekpro - between them control all elements of a renewable energy project. Biogass Renewables and Tekpro form the construction side, while Delorean Energy is responsible for project planning and management. CleanTech Energy completes the group, retailing the electricity, heat and gas. Currently, this is only to commercial customers in Western Australia, but with retail licences in both the Wholesale Energy Market (WEM) and National Energy Market (NEM), CleanTech are primed to expand.

Don't make the mistake of thinking of Delorean as a concept stock. The company enjoyed revenue of $27.9m in FY21 and its profit for the year was down from a profit of $3.4m in FY20 to a loss of $2.5m in FY21. The reason for this is simple, costs of sales increased 9.3%, while revenue decreased 10.6%. Unfortunately, management did not explain why revenue came down, but we are able to trace it back to the minor development and construction divisions. We believe this can be put down to COVID-19 delays and is unlikely to continue during FY22. The majority of Delorean's revenue comes from sale of energy and CleanTech saw an increase in contracted volume in Western Australia of 18% between April and July 2021.

The company currently only has one plant producing energy in Perth, but it has two under construction in South Australia and New Zealand, which began construction in 2019 and 2021. The Blue Lake Milling Bioenergy Plant in SA is expected to be commissioned imminently. Two more projects, Delorean Energy SA One (DESAO) and Delorean Energy Victoria One (DEVO) are Final Investment Decision (FID) ready. This means that those projects have raised the necessary capital to move ahead. When these come online in Q1 of 2023, we believe Delorean can significantly increase its revenue from electricity sales. Additionally, DESAO will be the first renewable gas-to-grid project in Australia providing Delorean with a new revenue stream.

Waste no more

How is this renewable energy largess possible? Delorean's plants utilise 'anaerobic digestion', a mature technology in widespread use across Europe and North America. Anaerobic digestion combines organic waste and microorganisms with no oxygen. This uses microorganisms' natural processes to produce gases like biomethane, used in cooking and heating, and hydrogen. It also produces heat, which can be pumped into houses. Delorean and its clients can also gain additional revenue through the sale of carbon credits under the government's Clean Energy Futures Scheme.

With climate change gaining more attention every year and governments worldwide making increasingly aggressive climate commitments, the writing is probably on the wall for fossil fuels. One could argue, however, that the Australian energy sector has so far avoided reading that wall, since only 19% of electricity came from renewables in 2019 compared with 42% in the UK in 2020.

However, this is likely to change soon with growing international pressure on our government and international markets gradually turning away from fossil fuels. Not only will this lead to increased market share for bioenergy and other renewables, we believe it will also likely attract considerable subsidies for Australian companies. Delorean received $602,542 worth of grants and tax incentives in FY20 and $2.6m during FY21. We believe this will likely continue to increase as policy shifts in Delorean's favour. It's worthwhile remembering that Australia has a Federal election around May of next year.

Back to the Future

Bioenergy in Australia is growing – it contributed 670 GWh in 1992-93, but 3,500 GWh by 2017-18. However, the uptake is much slower than solar and wind, which both have grown from almost zero to more than 10,000 GWh in 30 years and these are undoubtably going to be the largest generation methods in the future. Bioenergy also has vocal sceptics who believe it's not truly carbon neutral as it still produces CO_2 even if this CO_2 is offset by the growth of the plants and bacteria used to power it. Bioenergy has seen a stall in growth in Europe where regulators are turning against it in favour of other truly 'green' generation methods. This could happen in Australia in the future and could impact Delorean's growth.

However, bioenergy has the capability to produce several products that other renewable sources cannot: biomethane, transportation fuel and hydrogen. With energy intensive industries like shipping and aviation finding it harder to go electric due to the limitations of current batteries, we believe the need for renewable fuel will bring high demand.

Additionally, in its National Hydrogen Strategy, the Australian government has laid out that it aims for Australia to be a major exporter by 2030 and expects that demand for Australian hydrogen, apart from domestic demand, could be worth $10bn by 2040 alone. Delorean does not currently retail hydrogen but is exploring options to obtain a licence for CleanTech Energy. Delorean is also diversifying by considering acquisitions of small-scale renewable generation and storage assets through CleanTech Energy as part of Distributed Energy Resource strategy for FY22.

With revenue expected to stay steady in the next financial year, around $30m, projects coming online soon and an increasing number of revenue streams, we believe Delorean is poised to benefit from Australia's inevitable transition to renewable energy. Four stars.

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Share price chart

Source: Tradingview

Do-it-yourself monitoring

HeraMED believes it has a solution to today's episodic and visit-centric model of maternity care through a more personalised digital care platform. Apart from ensuring piece of mind for expectant mothers, the company aims to improve patient and practitioner satisfaction, improve clinical care and provide affordable and accessible digital tools at a time when telehealth technology is really taking off. This emphasis on accessible and affordable digital care is making waves with investors now that the company's share price reached a high of $0.30 after the announcement of some well-timed partnerships.

At the core of this solution is the company's HeraBEAT device, a TGA-approved foetal heart monitoring tool, which can be used at home. Integrated with the company's maternity care app, the device is designed to monitor and collect data through the HeraCARE platform to provide digital information to health care providers. In its 2020 clinical study with partner Joondalup Health Centre in Perth, HeraBEAT was found to accurately detect foetal heart beat in 81 patients 100% of the time, a successful trial which has provided an avenue for further commercialisation and partnership opportunities. HeraMED has now partnered with US-based Obstetrix Medical Group, a leader in maternity health, to run a pilot scheme with 100 mothers – and expects many more partnerships and adoptions to follow.

Support begins at home

As we've seen, COVID-19 has necessitated the fast-tracking of many digital health or telehealth platforms for diagnosis, monitoring and treatment. In HeraMED's case the goal is not to replace traditional care, but to improve outcomes in the aforementioned three areas. This is obviously important at a time when expectant mothers are looking to reduce hospital visits in a pandemic, but the company has several other reasons to fill the telehealth gap in maternity health. Even with the rapid adoption of telehealth platforms, HeraMED estimates that 82% of health providers do not have a digital pregnancy care program – a particular handicap for pregnant mothers in rural or remote locations or developing nations. As the standard of care in Australia for in-house visits averages around 14 check-ups (often more in high-risk pregnancies), HeraBEAT could effectively fit both in home and clinic settings.

While the partnership with Obstetrix will continue to validate HeraBEAT's clinical use, HeraMED is focussed on the broad adoption of its digital platform in several markets now that it has established partnerships in Australia, Israel and the US. And in the US, it now has the prestigious Mayo Clinic on board.

Given HeraBEAT's relative affordability compared to standard hospital tests - US$200 for the device along with a monthly US$50 software subscription – there is added potential to replace expensive machines with HeraBEAT as in the case of the company's partnership with Brazilian healthcare provider Hapvida. Servicing some 3.8 million people in Brazil, Haptiva has extended its contract with HeraMED where HeraBEAT devices are leased to hospitals alongside the HeraCARE platform. As the company estimates that each HeraBEAT licence generates US$500 per year (on top of the $200 cost), even a small hospital or clinic (around 1,000 licences) could generate US$750,000 in revenue a year, hence the widening scope of partnering with multiple health care providers.

Telehealth care is a runaway train

Having achieved many milestones over the last year, including the pilot study with Joondalup Health Campus (started 13 August 2021), HeraMED had little difficulty completing a $2.3m share placement at $0.09 per share to accelerate the commercial roll-out of both HeraBEAT and HeraCARE. With a cash balance of US$2.1m at the end of June 2021, the company is now set to capitalise on its commercial agreements with Joondalup and Haptiva as well as further operational pilot studies with Obstetrix, the Mayo Clinic and Sheba Medical, Israel's largest hospital.

While HeraMED has done a forceful job of driving attention to its platform, you could argue that the pandemic has presented the perfect opportunity for better access to affordable telehealth measures when some women (especially those from minority backgrounds) still experience lower standards of care.

There is also the added relevancy of the growing number of pregnant women with COVID-19 and the prevalence of the virus. While maternity health is an important issue at any time, HeraMED is another MedTech company demonstrating the growing benefit of telehealth care for patients and practitioners both clinically and financially.

While we are giving HeraMED four stars, be sure to check your risk profile first before investing in this one. With only $21,215 in revenue during 1HY21 and a gross profit of $13,071 the company is, for all intents and purposes, pre-revenue and still sits at the speculative end of the risk spectrum.

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