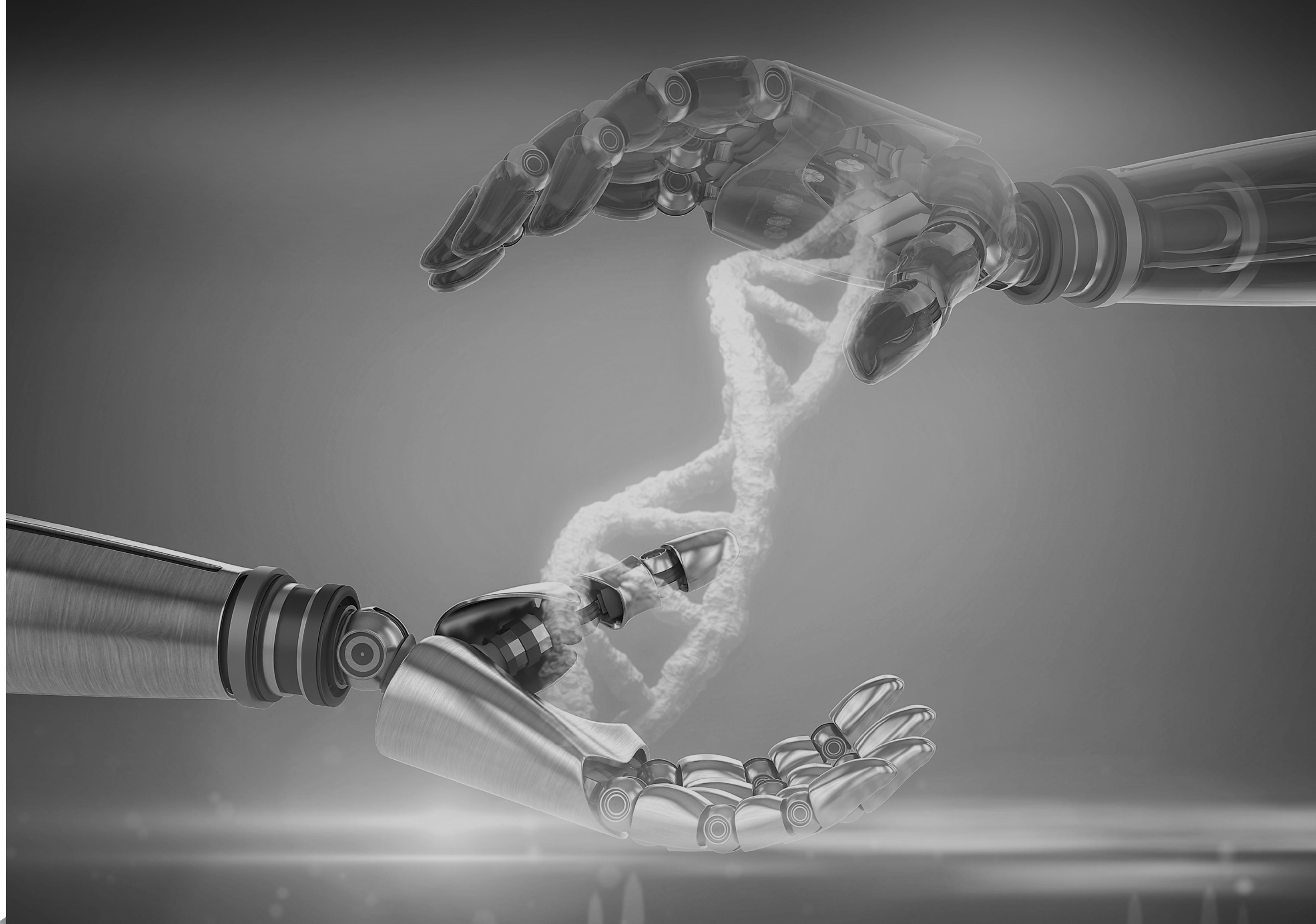
STOCKS DOWN UNDER

16 AUG 2022

Emerging Stocks Down Under

Many who try to do bold things find out it's not about money or technology, it's about the regulatory hurdles.

- Peter Diamandis (b. 1961), Chairman of the X Prize Foundation



TELIX PHARMACEUTICALS

Hitting the ground running

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Stocks Down Under rating: ★★★★

ASX: TLX
Market cap: A$2.4BN

52-week range: A$3.55 / A$8.82
Share price: A$7.66

This week in Emerging Stocks Down Under we turn our attention to another Biotech that went on a run in the 18 months after the Corona Crash, then retreated but has risen again on the back of good news. Telix Pharmaceuticals (ASX: TLX), unlike Imugene (ASX: IMU), has finally got a product on the market, a prostate cancer imaging diagnostic called Illuccix. And its second quarter of sales saw a jump of roughly 10x.

Share price chart

Source: Tradingview

A Biotech that's actually made it

Many ASX Biotechs have been listed for years and years without much to show for it. This isn't the case with Telix Pharmaceuticals. It only listed in 2017 at 65c a share, valuing it at $150m and making it the biggest Biotech IPO since CSL's privatisation. Now the stock is over $7 a share and is capitalised at over $2bn. How did it achieve this growth?

The answer is Telix's prostate cancer imaging agent, called Illuccix. Yes, the company is developing other products, but let's just focus on Illucix for now. Illucix is a radioactive piece of Gallium (Element No. 21) that helps surgeons effectively operate on prostate cancer patients, or to potentially prevent recurrence of prostate cancer. It works by lighting up elevated serum prostate-specific antigens (PSA), a protein that gets overproduced in prostate cancer. As Telix boss Dr Chris Behrenbruch explained to the AFR last year, with Illuccix you can ensure you're doing the correct level of surgery and radiation, and can potentially detect specs of cancer elsewhere in the body as well.

As good as the product sounds, Telix had to take it through clinical trials and regulatory approval. Well, it did just that, obtaining approval from the FDA at the end of 2021. Australian approval has been granted too and European and Canadian regulatory approval is looming, but the USA is the company's primary focus. In 2QCY22, the company made A$22.5m in Illuccix sales, $19.3m of which came from the USA in the first ten weeks following commercial sales. Judging by the share price reaction, investors believe the sky is the limit.

Investor expectations should be tempered

Shareholders do have a lot to look forward to in the future. Now that the hard work is done with getting Illucix to market, money is coming through the door. Inevitably, Telix will seek regulatory approval for Illuccix in other jurisdictions. Success with the FDA, the world's most stringent medical regulator, will give confidence that it can make it elsewhere too. Indeed Telix has been approved by the TGA and is under review in 17 additional jurisdictions including Europe, the UK, Canada, Brazil and Korea. There are several other Biotechs that have gained approval in dozens of countries, but that just can't seem to crack the US – Cyclopharm (ASX: CYC) being one prominent example.

Still, a company is always a riskier proposition with just one product. Telix does have more ideas up its sleeve, working on a second product for imaging renal cancers. This product, TLX250-CDX, just completed a Phase III study and results are expected by the end of this calendar year. But realistically, we cannot expect the company's sales growth to be as fast as it was last quarter (a ten-fold gain) forever, barring when new products enter the market.

And we also note Telix's books could be in better shape, notwithstanding they could be worse. Telix is not yet profitable and we think that is the primary reason for the stock halving in the first half of CY22. It recorded $25.8m in net operating cash outflows. Admittedly, this is down from $33.6m in the previous quarter and the company has incurred significant one-off costs this year. This included an $8.9m one-off upfront license fee payment and build-out costs related to its manufacturing facility.

The company's cash reserves of $122.6m look healthy at first glance, but the company's own estimates assume this will only be enough for roughly 5.5 quarters (~16 months) before more capital is required. However, this assumes no progress is made on its cash burn or that revenues do not rise. And there just might be some progress soon.

Profitability in FY24

Looking to consensus estimates, EBITDA profitability is forecast for FY24. This means it could well be a roll of the dice as to whether or not capital is required, although the effect won't be as dilutive if sales continue to rise. Revenue and EBITDA expectations in FY24 are for $313.9m and $72.9m respectively, well ahead of the $7.6m and -/- $70.7m in revenue and EBITDA for FY23. EBITDA is expected to more than double in FY25 to $157m. The company's EV/EBITDA and P/E multiples for FY24 are 30.1x and 44.3x P/E, arguably high for a loss-making Biotech, but justifiable if it can reach these targets.

Ultimately, Telix Pharmaceuticals is riskier than a company such as CSL (ASX: CSL) that has been selling products for generations. But Telix has been significant de-risked, in our view, having guided a product past clinical trials, past regulators and onto the market – something that can't be said for many other ASX Biotechs in the last five years.

Assuming Illuccix can continue to grow in the US, it's four stars from us, even before you consider that there could be more markets for Illuccix or more products in the future.

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