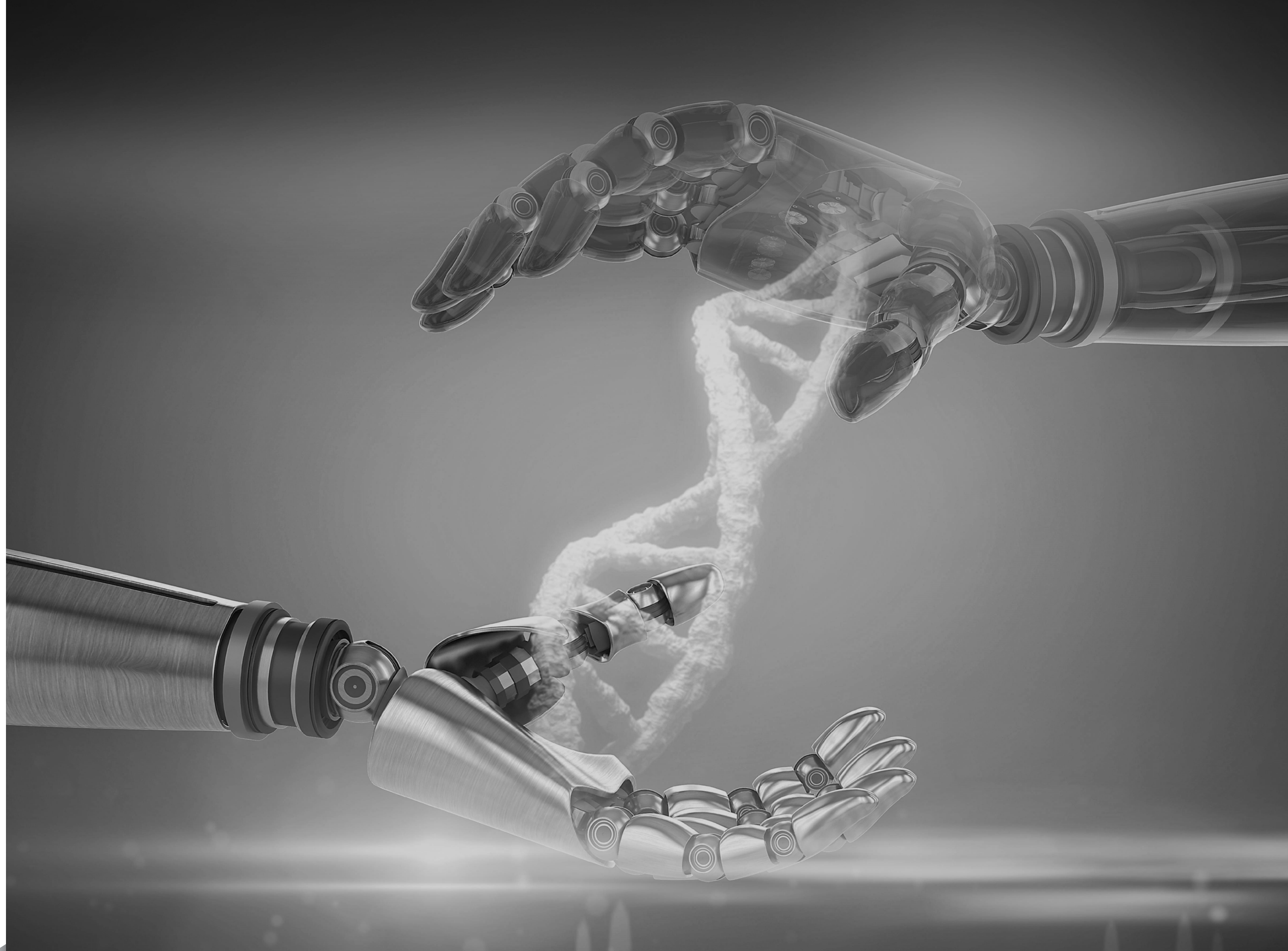
STOCKS DOWN UNDER

6 SEP 2022

Emerging Stocks Down Under

"People will forget what you said, what you did, but people will never forget how you made them feel."

- Maya Angelou (1928-2014), Writer and civil rights activist



MEDLAB CLINICAL

Too many downside risks

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Stocks Down Under rating: ★★

ASX: MDC
Market cap: A$31.6M

52-week range: A$0.086 / A$30.00
Share price: A$13.60

Medlab Clinical (ASX: MDC) is one of the most unique biotechs on the ASX. It is rare to have a company that has advanced a treatment to Phase 3 and even more so for a company that has a cannabis-based treatment, but Medlab has done this. Still, it has not eliminated all uncertainty surrounding itself, including funding and a potential listing on NASDAQ.

Share price chart

Source: Tradingview

Improving drug delivery

MedLab was founded in 2012 and listed in 2015. Back in those days, when Medlab was a probiotics company, cannabis wasn't that exciting, at least on ASX. The cannabis pivot came later. One thing that was exciting about Medlab in 2015 was the company's management, with MedLab founders Michael and Sean Hall having run several companies before, including a couple that had been sold to Blackmores. The elder Hall, Michael, remains Non-Executive Chairman, while his son Sean is CEO and Executive Director, alongside three other independent directors.

Today, this company's flagship technology is NanoCelle, which helps standardize and optimize drug delivery. It does so by breaking molecules down to nano-sized water-soluble particles, done through a buccal route. This involves the solution being placed against the cheek and being absorbed into the bloodstream. In doing so, the particles and bypass the first-pass metabolism (that lies in the gastrointestinal effect), which regrades medicinal compounds and reduces their effects when they first enter the bloodstream and can cause harmful side-effects as a reaction to those compounds. NanoCelle is patented and protected in all Western regions (North America, Western Europe, Australia and New Zealand) until 2036.

Medlab's two main products are NanaBis and NanoCBD. NanaBis is a cannabis oil extract, while NanoCBD is a hemp oil extract. NanoCBD is at an earlier stage but NanaBis is more progressed. Medlab also offers numerous supplements and nutraceutical products used to treat a variety of conditions and can use

NanoCelle for delivery – promising more absorption. The most prominent of these new products is MDC2000 which is currently being put to the test against depression. Finally, the company offers a virtual clinic where prospective patients can schedule a free consultation (or an extended paid one) to determine if any of Medlab's products could help them.

Six upcoming catalysts

We last covered Medlab in October 2021, and we gave it 3 stars. Our view was that whilst traders could make some profits, longer-term investors would feel safer waiting on how the Phase 3 trials for NanaBis went, especially because a dilutive capital raising was a realistic possibility. We also outlined the progress made since it first listed. To briefly re-state here, the company's most exciting prospect is a Phase 3 trial for NanaBis and we think that is the company's future.

As of 30 June 2022, it had $5.2m of cash in the bank with $3.4m in cash burn for the quarter, operating revenue was just $1.2m. As it divests and licenses out the nutraceuticals business, it expects monthly cash burn to drop below $1m and estimates $12m in R&D over the next 3 years.

In a recent investor presentation, Medlab listed six short-term catalysts. Two of these are related to NanoCBD and NanaBis. Three others were patent extensions, ongoing & developing partnering activities across NanoCelle, and MDC2000. The last of these was a future listing on the NASDAQ. To be clear, Medlab is not walking away from the ASX or Australia but sees common sense in being dual listed with the US being the largest global biotech market. To prepare for this, it undertook a 150 to 1 share consolidation and has told shareholders a sophisticated capital raise will occur.

Not all catalysts are positive

In our view the latter reason is the key downside of this stock and why we think it is two stars. Of course, in listing in the US it can gain access to what is arguably a better quality of investor in terms of Life Sciences sophistication, but that is no guarantee it will attract them – just ask Avita Medical (ASX: AVH). And the funding will likely be dilutive to shareholders. We also note that unlike many other ASX companies at Phase III stage, Medlab has exposure to cannabis, so will no doubt ride the booms and busts of the recreational market – booms triggered by deregulation with busts triggered by consequential market supply gluts. That's despite Medlab having nothing to do with the recreational cannabis market, and in certain investor and media dealings not wanting to be known as a cannabis company at all. Be this as it may, we cannot completely disassociate Medlab from the broader market for cannabis-related stocks.

We might up our rating on the company if either or both of the following things happens. First, it is successful as it has promised to be in cutting its cash burn, and second, if it can put off its NASDAQ listing and capital raising until after it has passed Phase 3. Till then it's two stars.

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