Cantargia Q2’22: Low Downside Risk at Present Valuation

Cantargia **Research Update** 2022-08-31 10:31 **Updated** 2022-08-31 15:14

The two main events during and after the second quarter were the positive results from ASCO 2022 and the rights issue. We also discuss Canakinumab's failure in lung cancer and the share's record low market valuation.

Richard Ramanius

Positive results at ASCO

Cantargia presented a positive update on nadunolimab at ASCO with new results from CANFOUR PDAC, CANFOUR NSCLC and CIRIFOUR, which lead us to increase our Base Case slightly.

Rights issue

The most important event after Q2 was the rights issue of SEK 250m, which was oversubscribed. The guarantor cost of SEK 8m is rather small, though it came at the disadvantage of a low subscription price. Total costs for the issue amount to around SEK 25m. So, the net cash obtained is around SEK 225m. The share has experienced a precipitous decline from the range SEK 15-17 the month before the rights issue, to around SEK 4-4.5 during the last days despite the issue being fully subscribed. However, the investment case has not changed. Now that the issue has been successfully completed, Cantargia is in a healthy financial position, with cash that should last two years. It is financed through several minor and major catalysts this and next year. Having a strong cash position is important, should we enter into a recession this winter, which seems likely.

Canakinumab

During the quarter, interesting new data from canakinumab’s CANOPY-1 trial were presented. After the end of the quarter, canakinumab presented negative topline results in CANOPY-A, which spells the demise of the drug in lung cancer.

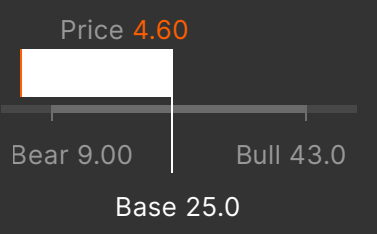
Key Financials

SEKm	2021	2022E	2023E	2024E
Revenues	0	0	0	813.75
Revenue Growth	N/A	N/A	N/A	N/A
EBITDA	-370	-407	-295	601
EBIT	-370	-407	-295	601
EBIT Margin	N/A	N/A	N/A	73.93%
Net Income	-324	-400	-236	601
EV/Revenue	N/A	N/A	N/A	-0.1
EV/EBIT	-2.64	-0.83	-1.86	-0.14

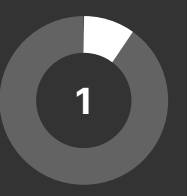
REDEYE

REDEYE QUALITY RATING

FAIR VALUE RANGE



TIMELINESS



KEY STATS

Market Cap	768.1 MSEK
Entprs. Value (EV)	209.3 MSEK
Net Debt	-558.8 MSEK
30 Day Avg Vol	1322 K
Shares Outstanding	100.1 M
EV / Sales	N/A
EV / EBIT	N/A
Price / Earnings	N/A
PEG	0.0
Dividend Yield	N/A

IMPORTANT INFORMATION

All information regarding limitation of liability and potential conflicts of interest can be found at the end of the report.

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Case

Cantargia is approaching a stage when finding a partner is logical

Cantargia is sponsoring several trials in various cancer indications to pinpoint the optimal indications to target and to document the breadth of nadunolimab. If the company can demonstrate good results across these indications—particularly in the upcoming or ongoing phase IIa arms in NSCLC (CANFOUR and CIRIFOUR)—it will reinforce its standing when negotiating a large licensing deal. Upcoming trial results set the company up for a potential large licensing deal in 2024. Cantargia may also choose to continue developing nadunolimab by itself, as two planned placebo-controlled phase II trials in PDAC (Precision Promise) and NSCLC will bring it closer towards the market. After the rights issue in mid-2022 that raised net SEK 225m, Cantargia has a respectable cash position that should last it to mid-2024 and past important catalysts.

Evidence

Cantargia has demonstrated excellent results in CANFOUR in pancreatic and lung cancer

Patients with non-small cell lung cancer (N=30) showed a response of 53 per cent, resulting in a median progression-free survival of 6.8 months and median OS of 13.7 months. In patients with pancreatic cancer (N=73), long-term responses or pseudoprogression have been observed, resulting in a median progression-free survival of 7.2 months and a median survival of 12.7 months. These are impressive results.

Supportive Analysis

Two phase II trials are already planned: • A pivotal phase II/III trial in PDAC in the US with up to 175 patients (plus a control group of comparable size) should be initiated in early 2023, due to conclude in 2027 at the latest. • A phase II trial with a control arm is planned in non-squamous NSCLC in 2023 (the details of which have not yet been communicated).

Challenge

The main risks for Cantargia are negative clinical outcomes...

...which we believe are somewhat unlikely in the short run thanks to the especially robust results already reported in PDAC and NSCLC. However, Cantargia has not conducted clinical trials with a placebo group. Patient conditions can vary substantially between the various trials, leading to widely differing outcomes. There is still a risk that the strong results obtained so far will prove less favorable in placebo-controlled conditions. We have seen other Swedish listed oncology companies that did not show a statistical improvement or had regulatory setbacks in phase II or III studies in 2021-2022 whose share prices collapsed by around 90 percent (e.g Oncopepties, Rhovac and Isofol). This is a risk in the upcoming phase II/III trial in PDAC and the phase IIb trial in NSCLC. Should one study fail, the risk would increase substantially in the other.

Challenge

Additional funding may be needed

Cantargia's planned phase IIb trial in lung cancer might need additional funding, depending on its size etc. Otherwise, the company should be funded to mid-2024. We believe that Cantargia will wait for results from several clinical trials to mature in 2023. Assuming outstanding results, negotiations with a partner might start in H2 2023 and lead to a deal in H1 2024. Additional funding might be needed if negotiation takes a longer period of time. It is also a good idea to have your future development plan funded when you enter into negotiations.

Valuation

Nadunolimab constitutes most of the value

The share price has collapsed following the rights issue of SEK 250m, even though it was fully subscribed, potentially catalyzed by Canakinumab's failure in lung cancer. At the same time, the world economy appears to approach a recession, with a deteriorating capital market. This may put a lid on a potential price recuperation. Still, the valuation is disconnected from fundamentals. You more or less pay for the cash position and get the company for free (though the cash will obviously be spent, eventually). Our Base Case of SEK 25 assumes a deal in 2024, with an upfront of USD 150m, milestones of USD 850m and royalties of 17.5 percent. The valuation is based on a sum-of-the-parts valuation of Cantargia’s indications. We expect nadunolimab to be an immunotherapy with broad application across various cancer types, with most sales in NSCLC and PDAC.

Discussion

For a discussion of the results presented at ASCO, read our note.

We also commented on the CANOPY-1 data in a note.

Despite what we believed were favorable conditions for canakinumab in the adjuvant setting, in August, Novartis reported that its IL-1β inhibitor, canakinumab, did not improve disease-free survival versus the control arm in CANOPY-A. It was a comparatively large trial with 1,382 patients diagnosed with stage II-IIIA and IIIB, i.e. non-metastatic, non-small cell lung cancer who were treated surgically and with adjuvant chemotherapy. This setting is similar, but not identical, to the CANTOS trial, in which the treatment group had a significantly lower mortality rate from lung cancer. Novartis had already failed to demonstrate an improvement against placebo in the metastatic setting (CANOPY 1 and 2, in first and second/third line metastatic NSCLC). We believed that Novartis would have a better shot at the earlier cancer stages, where there is less tumor-burden. However, adjuvant clinical trials are complicated to design. We will need to look at the full data before we can draw more definite conclusions as to the relevance for nadunolimab.

The topline result is in any case slightly negative for Cantargia, in that a positive result would have confirmed that IL-1β inhibition works in preventing cancer recurrence. However, one can certainly not draw any clear negative conclusions about nadunolimab's efficacy from this. There are substantial differences between the antibodies. Nadunolimab has two other modes of action (ADCC and IL-1α inhibition), which are likely synergetic with IL-1β inhibition, and it is being developed in a much more difficult setting, metastatic cancer, where it has already demonstrated promising results in two phase IIa arms in NSCLC and PDAC, showing that it can stand on its own merits. The ultimate failure of canakinumab, therefore, does not affect our valuation of Cantargia. The results from the CANOPY-1 trial presented by Novartis at the AACR 2022 actually showed some potentially meaningful results in PFS and OS in certain subgroups, for example an HR of 0.8 for OS in non-squamous patients and an HR as low as 0.58 for PFS in PD-L1 expression of >50%. Low inflammation, measured as hs-CRP, also led to a low hazard ratio in the canakinumab group vs. placebo, both in OS and PFS.

Canakinumab in cancer is not completely dead. Canakinumab+spartlizumab will also constitute one arm in Precision Promise in PDAC where it will compete against nadunolimab.

The large amount of data that Novartis has acquired in NSCLC, and the money they have been willing to spend on canakinumab’s trials, begs the obvious question of whether Novartis might not be interested in trying to acquire nadunolimab at some point. There might be some potential to harness the data generated from canakinumab’s trials when developing nadunolimab further.

Cantargia thus far has only generated data from a small set of patients (30) in NSCLC in a phase IIa trial with a mixed patient group receiving nadunolimab. Although the results are favorable and motivate further investigation, they are in fact early, due to the small size and the mixture of second-line patients, previously treated with a checkpoint inhibitor, and first-line patients. Cantargia will, in our opinion, likely need to present a larger dataset with better benchmarks in NSCLC to convince potential partners. This would complement the data in PDAC which are already quite good. This is in fact what is planned – two trials in non-squamous non-small cell lung cancer are ongoing or planned with potential readouts in 2023. The non-squamous subgroup is of particular interest. Another group of interest are patients with a high PD-L1 expression (who respond well to check-point inhibitors).

Valuation

We make some minor changes to our Base Case forecast. The most important change is that we now assume that nadunolimab will be out-licensed in 2024 instead of 2023. The cash position also decreases compared to our previous note. This leads to a Base Case of SEK 25 (26).

Cantargia sum-of-the-parts valuation										
Project	**Clinical Trial**	**Combination**	**Indication**	**LOA**	**Phase**	**Royalty**	**Peak sales (USDm)**	**Launch**	**NPV**	**NPV / share**
CAN04/ Nadunolimab	CANFOUR	Pemetrexed carboplatin/CS	NSCLC	16%	II	17,5%	600	2026		
	Precision Promise	Gemcitabin/nab-paclitaxel	Pancreas	36%	II	17,5%	1 500	2027		
	CAPAFOUR	FOLFIRINOX	Pancreas	15%	I	17,5%	600	2027		
	CIRIFOUR	PD-1 inhibitors	NSCLC, Solid tumors	14%	II	17,5%	1 900	2026		
	TRIFOUR	Carboplatin/gemcitabin	TNBC	8%	I	17,5%	400	2027		
	CESTAFOUR	Chemotherapy basket	NSCLC, Colon, Biliary	8%	I	17,5%	700	2027		
									4604	28
CAN10		Monotherapy	Systemic sclerosis	11%	Precl.		800	2029	362	2,2
Overhead (incl. taxes) (SEKm)									-1 318	-7,9
EV (SEKm)									3 648	
Net cash (SEKm)									575	3,4
Total value (SEKm)									**4 223**	**25**
Equity issue (SEKm), net										
Fully diluted (SEK)										

Many of our valuation assumptions are outlined in our previous research update, which you can find here.

We also make some new adjustments to our Bear Case. We still assume failure in NSCLC in this scenario. We now assume this would have a larger impact on the probability of approval in the PDAC indication as well and consequently lower the Bear Case likelihood of approval (LOA), which we believe is more realistic. This leads to a lower Bear Case of SEK 9. Our Bull Case is SEK 43.

The share has never been cheaper than it is now. In our opinion, it looks attractive for both short- and long-term investors, with a multitude of triggers that could move the share price in the short and medium term. A recession that may start to affect the market this fall and winter might be the greatest short-term risk, but Cantargia trades at such a low valuation now that we see a very small downside in the short term; a recession might rather cap the share price.

We have calculated the post-rights issue valuation assuming no share price decline, assuming a constant enterprise value (EV) (we have used the Q2 balance sheet for the cash position):

	Share price	No. Shares	Market Cap	Cash	EV	Cash Per share	EV per share
Before	15	100	1500	350	1150	3,5	11
After (pro forma)	10,2	167	1700	575	1150	3,4	6,9
Current	4,2	167	700	575	125	3,4	0,7

The EV before the rights issue was around SEK 1150m. In order to trade at the same EV now, the share price would have to be SEK 10.2. In the month before the rights issue, the share even traded at SEK 17, which would be equivalent to SEK 11.5 post-rights issue. Cash per share as of today amounts to around SEK 3.4 per share, while the enterprise value is only around SEK 100m. As a comparison, the loss carry forward (which could be said to represent total investments in the company until now) is around SEK 1.1bn. The share certainly trades at a rock-bottom market valuation right now.

The share traded at low levels even before the share issue, due to the biotech bear market and, perhaps, concerns about the cash burn and run rate. Now the run rate has been prolonged well into 2024. Biotech valuations have also improved somewhat this summer. Cantargia has several near-term catalysts that may improve the sentiment. If the share trades up, we believe that the next trading range could be around SEK 10-12, equivalent to the market valuation before the rights issue. This is still far below our Base Case of SEK 25. Near-term catalysts include:

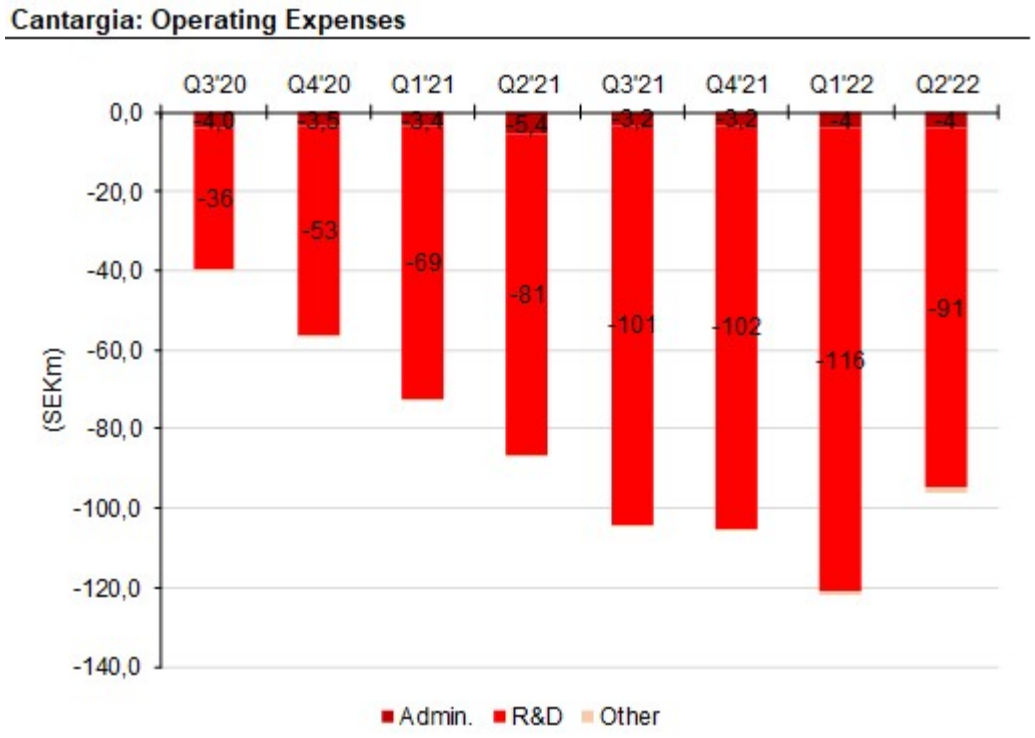
- CANFOUR – new updates with more details from the PDAC and NSCLC arms presented at ASCO, expected in Q1.
- CIRIFOUR – more complete results from the phase I trial in combination with pembrolizumab presented at ASCO, also expected around Q1.
- CAPAFOUR – first readout with 15 patients in the phase I part in PDAC with FOLFIRINOX; decision whether to start an expansion cohort with 15 additional patients.
- CESTAFOUR – first readout with 15 patients in three phase I studies; in NSCLC with docetaxel; in biliary tract cancer in combination with cisplatin/gemcitabine; in colon cancer in combination with FOLFOX; decide the most promising indication(s), and whether to initiate a phase IIa part with 40 patients.
- TRIFOUR – first readout from the phase I part in triple negative breast cancer in combination with carboplatin/gemcitabine, and decision whether to expand into a randomized phase II trial.
- New preclinical and translational results.

Only one or two of the indications in phase I will be selected for expansion into a phase II trial. Longer-term, we judge that the company is now in a financial position to reach important catalysts in 2023, from the trials mentioned above as well as two additional trials in NSCLC, which, assuming continuing excellent clinical results, could set the stage for a deal in early 2024.

Financials

Operating expenses, at SEK -96m, decreased somewhat compared to the previous three quarters. The cash flow was SEK -95m. The cash position was SEK 575m after the end of Q2 with the addition of the net proceeds from the rights issue. This should last the company until mid-2024. The burn rate should thus decrease in the following quarters, as Cantargia narrows down its focus to PDAC, NSCLC and a third or perhaps fourth main indication.

Cantargia: Operating Expenses



Source: Redeye Research

People: 3

Cantargia is led by an experienced and close-knit team. CEO Göran Forsberg has been involved in licensing agreements, providing critically important experience that will benefit Cantargia's future partner negotiations. Furthermore, four new members of the management team were recruited in 2020-2021 to support the expanded clinical development. We believe the board is solidly composed and includes members with different and complementary experience.

Business: 3

Pharmaceutical is a high-margin industry in which there is clear product protection via patents for companies' projects. It is generally a non-cyclical industry. For research companies like Cantargia the situation is different, with risks associated not just with clinical development but also with the (cyclical) stock market, where capital requirements are large and often handled via new issues.

Financials: 1

Cantargia has a solid cash position that should last until mid-2024. No revenue is expected before a potential exit, such a license deal.

SEKm	2020	2021	2022E	2023E	2024E
Revenues	0	0	0	0	813.75
Operating Expenses	173.95	370.27	407.82	295.93	212.12
EBITDA	-173	-370	-407	-295	601
Depreciation	0	0	0	0	0
Amortizations	0	0	0	0	0
Non Recurring Income Expense	0	0	0	0	0
EBIT	-170	-370	-407	-295	601
Shares in Associates	0	0	0	0	0
Net Financial Items	0	3	6	0	0
Exchange Rate Differences	0	0	0	0	0
EBT	-169	-366	-400	-295	601
Income Tax Expenses	0	-41	0	-59	0
Net Income	-169	-324	-400	-236	601
Cost of Revenue	0	0	0	0	0
Interest Expenses	0	0	0	0	0
Accounts Receivable	2.67	4.59	2.73	0	65.1
Average Inventories	0	0	0	0	0
Other Current Assets	6.83	26.71	33.88	0	16.27
Total Current Assets	912.87	590.69	415.57	167.54	883.1
Property, Plant and Equipment (Net)	5.26	3.1	3.1	3.1	3.1
Invested Capital	-8.35	-25.18	4.46	-20.86	-53.41
Goodwill	0	0	0	0	0
Right-of-Use Assets	0	0	0	0	0
Other Long Term Assets	0	0	0	0	0
Total Non-Current Assets	12.62	9.56	9.56	9.56	9.56
Total Assets	925.49	600.24	425.12	177.1	892.66
Short Term Debt	0	0.57	0.57	0.57	0.57

SEKm	2020	2021	2022E	2023E	2024E
Accounts Payable	10.68	34.51	8.15	0	97.65
Other Current Liabilities	19.79	31.53	33.54	30.42	46.7
Total Current Liabilities	30.47	66.61	42.27	30.99	144.92
Long Term Debt	3.11	0	25	25.2	25.2
Other Long Term Lease Liabilities	0	0.89	0.89	0.89	0.89
Shareholder's Equity	891.94	532.75	356.81	120.06	721.69
Non Controlling Interest	0	0	0	0	0
Total Liabilities and Equity	925.52	600.24	424.96	177.14	892.7
Cash Equivalents	903.37	559.39	378.96	167.54	801.73

Catalysts

There are several upcoming catalysts for Cantargia, both in the short and near term.

Readouts from CAPAFOUR, CESTAFOUR and TRIFOUR

We expect readouts from the ongoing trials in PDAC with FOLFIRINOX, in NSCLC with docetaxel, in biliary tract cancer, in colon cancer, and in triple negative breast cancer.

UPSIDE

Impact	Likelihood	Potential
Major	Possible (~50%)	**Major**

DOWNSIDE

Impact	Likelihood	Potential
Major	Unlikely (~25%)	**Moderate**

TIMEFRAME

0-6 months

Results in non-squamous NSCLC

Results from two trials in non-squamous NSCLC patients will likely report later in 2023. Recruitment of up to 40 non-squamous NSCLC patients, who will be given carboplatin+pemetrexed and nadonulimab, in CANFOUR started in February 2022. Recruitment will take place over 12-15 months and interim results should be available later in 2023. Another trial arm in non-squamous NSCLC, in CIRIFOUR, in combination with pembrolizumab and carboplatin + pemetrexed, is set to start in Q3 2022. Strong results from these two trials would complete the previously published data in NSCLC in CANFOUR and could bolster Cantargia's negotiating position.

UPSIDE

Impact	Likelihood	Potential
Major	Possible (~50%)	**Major**

DOWNSIDE

Impact	Likelihood	Potential
Major	Possible (~50%)	**Major**

TIMEFRAME

12-18 months

Partner for nadunolimab

We believe there is potential for a partner deal by H1 2024. By late 2023, there will be data available in several indications, with a substantial dataset from PDAC and NSCLC, which could form a strong base from which to negotiate a licensing deal, which could take six months. Even if a deal were to come later than this, the plan to take PDAC and NSCLC ahead is already set, with upcoming phase II/III trials in those indications.

UPSIDE

Impact	Likelihood	Potential
Major	Possible (~50%)	**Major**

DOWNSIDE

Impact	Likelihood	Potential
Major	Possible (~50%)	**Major**

TIMEFRAME

12-18 months

Redeye Rating and Background Definitions

Company Quality

Company Quality is based on a set of quality checks across three categories; PEOPLE, BUSINESS, FINANCE. These are the building blocks that enable a company to deliver sustained operational outperformance and attractive longterm earnings growth.

Each category is grouped into multiple sub-categories assessed by five checks. These are based on widely accepted and tested investment criteria and used by demonstrably successful investors and investment firms. Each sub-category may also include a complementary check that provides additional information to assist with investment decision-making.

If a check is successful, it is assigned a score of one point; the total successful checks are added to give a score for each sub-category. The overall score for a category is the average of all sub-category scores, based on a scale that ranges from 0 to 5 rounded up to the nearest whole number. The overall score for each category is then used to generate the size of the bar in the Company Quality graphic.

People

At the end of the day, people drive profits. Not numbers. Understanding the motivations of people behind a business is a significant part of understanding the long-term drive of the company. It all comes down to doing business with people you trust, or at least avoiding dealing with people of questionable character.
The People rating is based on quantitative scores in seven categories:

- Passion, Execution, Capital Allocation, Communication, Compensation, Ownership, and Board.

Business

If you don’t understand the competitive environment and don’t have a clear sense of how the business will engage customers, create value and consistently deliver that value at a profit, you won’t succeed as an investor. Knowing the business model inside out will provide you some level of certainty and reduce the risk when you buy a stock.
The Business rating is based on quantitative scores grouped into five sub-categories:

- Business Scalability, Market Structure, Value Proposition, Economic Moat, and Operational Risks.

Financials

Investing is part art, part science. Financial ratios make up most of the science. Ratios are used to evaluate the financial soundness of a business. Also, these ratios are key factors that will impact a company’s financial performance and valuation. However, you only need a few to determine whether a company is financially strong or weak.
The Financial rating is based on quantitative scores that are grouped into five separate categories:

- Earnings Power, Profit Margin, Growth Rate, Financial Health, and Earnings Quality.

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