Mesoblast – QuickView

22 March 2013

Investment summary: Little margin for risk

Mesoblast's current valuation assumes a high probability of success for its stem cell technology, but it does hold the leadership position in this field. A proposed large Phase III study of Revascor in congestive heart failure (CHF), which is to be fully funded by co-development partner Teva, holds promise of both validating the company's mesenchymal precursor cell (MPC) platform and moving stem cell therapeutics closer to commercial reality in the US. However, an EV of A$1.59bn, when compared to peers, belies the risk of any clinical trial setbacks and potential competition from rival approaches to indications being targeted.

Revascor to enter Phase III in congestive heart failure

A planned Phase III trial of lead product Revascor in 1,700 patients with CHF should start in 2013, with co-development partner Teva bearing all costs. Early data is positive but limited. A 60-patient Phase II trial examining the safety and efficacy of three doses of Revascor showed patients treated with a single intra-cardiac injection of the highest dose had no hospitalisation events for decompensated heart failure or cardiac-related deaths, over a mean follow-up period approaching three years.

Stem cell therapy - promising but risky

Despite the potential of engineered stem cell therapies to address major unmet needs, the technology is unproven and there remains considerable clinical and regulatory risk. The FDA is yet to approve such a treatment.

Multiple clinical programmes - single technology platform

The recent A$170m capital raising extends the cash runway for funding of multiple clinical programmes (six Phase II, five preclinical) through to 2016, based on its current US$65m pa burn rate, during which time clinical data should be reported. In addition to cardiovascular indications, clinical trials are also targeting degenerative disc disease, type-2 diabetes and wet age-related macular degeneration (AMD). Although this portfolio approach provides multiple shots at goal, clinical risk inherent in each trial is compounded overall by the use of a single technology platform.

Valuation: Assumes high probability of clinical success

An EV of A$1.59bn, based on net cash of A$332m (March 2013, including A$170m raising), assumes a high probability of success across a development pipeline built on a single technology platform with limited clinical efficacy data to date. By comparison, Osiris, which has the, albeit niche, allogenic stem cell therapy Prochymal (remestemcel-L) approved in Canada in 2012, has an EV of US$338m.

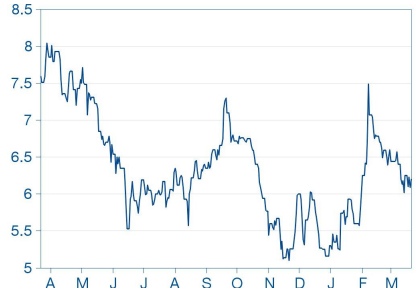
Consensus estimates

Year End	Revenue (A$m)	PBT (A$m)	EPS (c)	DPS (c)	P/E (x)	Yield (%)
12/11	14.6	92.2	41.8	0.0	N/A	N/A
12/12	27.7	(48.7)	(25.2)	0.0	N/A	N/A
12/13e	17.0	(62.4)	(22.1)	0.0	N/A	N/A
12/14e	16.6	(75.1)	(27.6)	0.0	N/A	N/A

Source: Bloomberg

Price	A$6.2
Market cap	A$1,951m

Share price graph



Share details

Code	MSB
Listing	ASX
Sector	Pharma & biotech
Shares in issue	314.8m

Business

Mesoblast is an ASX-listed biotechnology company with a large R&D pipeline built on a proprietary stem cell technology. Mesoblast is developing allogenic cell therapies based on mesenchymal precursor cells in the areas of cardiovascular disease, diabetes, oncology, eye disease and orthopaedic diseases.

Bull

- Strong financial position.
- Intellectual property/patent position.
- Teva co-development of Revascor.

Bear

- Single platform technology.
- Clinical development/regulatory risk.
- Competitive landscape.

Analysts

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