

MGC Pharmaceuticals Ltd

Pharmaceuticals

BUY

MXC A\$0.044

TARGET PRICE A\$0.085

MGC Pharmaceuticals Ltd (MXC) is a European based specialist medical cannabis biopharma company with many years of technical, clinical and commercial experience in the medical cannabis industry. MXC's founders were key figures in the global medical cannabis industry and the core business strategy is to be a global leader in phytocannabinoid-based medicine within the biopharmaceutical medical markets in Europe, Australasia and North America.

Company Data

Number of shares	1212.8M
Market Capitalisation	\$48.5 M
Free float (%)	77.74
12-month high/low	\$0.12/\$0.032
Average Daily Turnover (\$m)	0.0991
% S&P/ASX200	0.001
DDM Ranking	N/A
% All Ordinaries	0.003
GICS Industry Group	Non-Energy

Source: FactSet, EverBlu Capital

Earnings Summary (AUD)

Year end June	2018A	2019F	2020F	2021F
Revenue (\$M)	0.3	10.2	17.3	20.3
EBITDA (\$M)	-8.5	3.6	9.3	11.7
Adjusted NPAT (\$M)	-8.9	3.2	8.5	10.9
Reported EPS (c)	-0.6	0.2	0.6	0.8
Adjusted EPS (c - FD)	-0.6	0.226	0.597	0.762
Adjusted EPS growth (%)	0.1	-1.4	1.6	0.3
Adjusted P/E (x)	-10.1	27.9	10.6	8.3
Dividend (c/sh)	-	-	0.1	0.6
Gross yield (%)	-	-	1.9	9.1
Net yield (%)	-	-	1.9	9.1
ROIC (%)	N/A	13.6	27.1	30.3

EverBlu Capital contributes all company estimates to Bloomberg, Thomson Reuters, FactSet, Nucleus195 and Capital IQ.

Share price performance



Source: FactSet, EverBlu Capital

“We expect 2019 to deliver significantly more growth and ongoing development”

On 22 January 2019, MGC Pharmaceuticals Ltd (MXC) announced the achievement of numerous milestones, with the following highlights:

- Received formal approval by the TGA for their TGO93 Declaration Form, informing that their CTN (Clinical Trial Notification) has been processed and is now available in the Clinical Trials Repository;
- This approval allows MGC to initiate its Phase IIB Clinical Trial on Dementia and Alzheimer patients with UNDA in WA, and start the recruitment of patients, using its second GMP certified IMP (investigative medicinal product) CogniCann;
 - Receipt of TGA approval signals the start of patient recruitment and the 16-week trial remains on track to commence in H12019;
- MXC received a permit from the Slovenian Ministry of Health granting it permission to operate its Phytocannabinoid extraction at its Manufacturing Facility in Ljubljana, for the purposes of:
 - Development of new formulations with Phytocannabinoids coming from different genetics to gain different and new natural API;
 - Development of own Phytocannabinoids (THC, CBD, etc) active ingredient API from cannabis plants;
 - Optimization and validation of the extraction and isolation process with the purpose of control and understanding of all components;
- MXC received SME qualification from the European Medicines Agency (EMA) for all of the company's Phytomedicines, this qualification provides MXC with a number of uses, namely:
 - MXC has access to EMA's SME user guide, designed to help enterprises navigate regulatory requirements and incentives available throughout a medicine's product lifecycle;
 - The guide also provides an overview of procedures to support R&D initiatives and explains the requirements to successfully obtain marketing authorisation;
 - SME registration allows MXC to apply for scientific advice, drug evaluation and registration of CannEpil, CogniCann and all other phytomedicines currently under development;
 - This is in addition to the opportunity to obtain fee reductions of up to 100% during the evaluation and registration of priority medicines (PRIME);
- MXC's Senior Management and Scientific Advisory board are in the final stages to present at the CannaPaed Symposium 2019, for the second time on the 25th of January.

MXC Executive Chairman, Brett Mitchell states: *“The achievement of these major milestones by our team demonstrates significant progress on MXC's pathway to commercialisation and is testament to the Board's commitment to building a strong, vertically integrated company under its seed-to-pharma strategy. We are now one of the leaders in Europe in our sector.”*

Earnings Changes

The TGA approval confirms that MXC remains on track to commence its CogniCann Phase II Trial in 1HFY19. Additionally, the permit from the Slovenian Ministry of Health and SME qualification from EMA are in line with the company's seed-to-pharma strategy. Hence, at this stage we have made no significant earnings revisions.

We are retaining our 12 month price target of \$0.085/share and our BUY recommendation. The price target is underpinned by our DDM valuation.

This Research Report has been prepared by Russell Wright ("Mr Wright") in his capacity as an Authorised Representative (AR: 422117) and issued (in Australia) by EverBlu Capital Pty Ltd (ABN 23 612 793 683) (AFS Licence No. 499 601) ("EverBlu Capital") and remains the property of EverBlu Capital Pty Ltd. No material contained in this Research may be reproduced or distributed, except as allowed by the Copyright Act, without the prior written approval of EverBlu Capital. This Research Report is subject to the disclosures and restrictions set out below.

Analyst Certification

The research analyst(s) identified on the cover of this report individually certify that in respect of each security or issuer that the research analyst covers that: this report accurately reflects his or her personal views about any and all of the subject issuer(s) or securities; and no part of the research analyst's compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or views expressed by the research analyst(s) in this report.

EverBlu Capital provides research services to its client. Mr Wright is General Manager of Research and has over twenty (26) years' experience in the financial services industry, particularly in financial analysis and research report writing. Mr Wright joined the EverBlu team in 2017 where he has been involved in the research and publication of reports. Prior to this Mr Wright worked at a number of entities where he held Director/Head of Research and General Manager of Research positions. Mr Wright holds a Bachelor of Mathematics (Honours) from Edinburgh University and has completed the SDIA Accreditation Program (RG146) through DeakinPrime.

General Disclosure

EverBlu Capital and its associates (as defined in Chapter 1 of the Corporations Act 2001), officers, directors, employees and agents, from time to time, may own or have positions in securities of the company(ies) covered in this report and may trade in the securities mentioned either as principal or agent or may be materially interested in such securities.

EverBlu Capital does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

EverBlu Capital provides research on all ASX200 stocks as well as on other sectors (i.e. artificial intelligence, crypto currencies, food, healthcare, marijuana, mining, payment platforms and technologies) and/or entities which EverBlu Capital considers to be of interest to both EverBlu Capital's clients and the broader financial markets.

Disclaimer & Warning

This report may contain general advice or recommendations which, while believed to be accurate at the time of publication, are not appropriate for all persons or accounts. This report does not purport to contain all the information that a prospective investor may require. Before making an investment or trading decision, the recipient must consider market developments subsequent to the date of this document, and whether the advice is appropriate in light of his or her financial circumstances or seek further advice on its appropriateness or should form his/her own independent view given the person's investment objectives, financial situation and particular needs regarding any securities or Financial Products mentioned herein. Information in this document has been obtained from sources believed to be true but neither EverBlu Capital nor its associates make any recommendation or warranty concerning the Financial Products or the accuracy, or reliability or completeness of the information or the performance of the companies referred to in this document. Past performance is not indicative of future performance. This document is not an offer, invitation, solicitation or recommendation with respect to the subscription for, purchase or sale of any Financial Product, and neither this document or anything in it shall form the basis of any contract or commitment. Although every attempt has been made to verify the accuracy of the information contained in the document, liability for any errors or omissions (except any statutory liability which cannot be excluded) is specifically excluded by EverBlu Capital, its associates, officers, directors, employees and agents. The securities of such company(ies) may not be eligible for sale in all jurisdictions or to all categories of investors.

Analysts' Compensation: The research analysts responsible for the preparation of this report receive compensation based upon various factors, including the quality and accuracy of the analyst(s) research, client evaluation feedback, independent survey rankings and overall firm revenues, which include revenues from, among other business units and corporate finance.

Other International Investors: International investors outside the US, UK, UAE or Canada are encouraged to contact their local regulatory authorities to determine whether any restrictions apply to their ability to purchase this investment and should seek their own advice

Recipient Representations/Warranties: By accepting this report, the recipient represents and warrants that he or she is entitled to receive such report in accordance with the restrictions set out in this document and agrees to be bound by the limitations contained herein. Any failure to comply with these limitations may constitute a violation of law.

Meanings of EverBlu Capital Stock Ratings

Buy – Describes stocks that we expect to provide a total return (price appreciation plus net yield) of 15% or more within a 12-month period.

Hold – Describes stocks that are neither a buy nor underperform.

Underperform – Describes stocks that we expect to provide a total return (price appreciation plus net yield) of less than minus 10% within a 12-month period.

NR – The investment rating and price target have been temporarily suspended. Such suspensions are in compliance with applicable regulations and/or EverBlu Capital policies.

Speculative Buy – Describes stocks we research with a positive bias, whose company fundamentals and/or financials are being covered, but for which there is insufficient information for EverBlu Capital to assign a Buy or Underperform rating.

Free Float (float / current shares outstanding) *100 – This float figure is the number of shares that are available to the public and is calculated by subtracting the shares held by insiders and those deemed to be stagnant shareholders. Stagnant holders include ESOP's, ESOT's, QUEST's, employee benefit trusts, founding shareholder equity stake plus senior management equity stake, corporations not actively managing money, venture capital companies and shares held by Governments.

22 January 2019

Russell Wright | T:+61 2 8249 0008 | E:russell.wright@everblucapital.com

Valuation Methodology

EverBlu Capital's methodology for assigning stock and credit ratings may include the following: market capitalisation, maturity, growth/value, volatility and expected total return over the next 12 months. The price targets are based on several methodologies, which may include, but are not restricted to, analyses of peer comparisons, market risk, growth rate, revenue stream, discounted cash flow (DCF), EBITDA, EPS, cash flow (CF), free cash flow (FCF), EV/EBITDA, P/E, PE/growth, P/CF, P/FCF, premium (discount)/average group EV/EBITDA, premium (discount)/average group P/E, sum of parts, net asset value, discounted dividend model (DDM), franking credits and return on equity (ROE) over the next 12 months.

Conflicts of Interest

EverBlu Capital declares that it received financial compensation from MGC Pharmaceuticals Limited for the preparation of this report. Investors should consider this report as a single factor in making their investment decision and should consider the information provided in light of their own personal circumstances and needs.

The author Russell Wright made contact with MGC Pharmaceuticals Limited for the preparation of this report for the verification of facts. EverBlu Capital and its associates also declare that they deal in securities as part of their financial services business and consequently may have a relevant interest in the securities recommended herein (if any). This may include providing equity capital market services to the issuing company, holding a position in the securities or acting as principal or agent and as such may effect transactions not consistent with the recommendation (if any) in this report. EverBlu Capital and its associates therefore may benefit from any increase in the price of those securities. EverBlu and its associates may earn brokerage fees, commissions, other benefits as well as fees or advantages as a result of a transaction arising from any advice mentioned in publications to clients.

EverBlu Capital Recommendation Proportions

Buy	42.2%	(5.9% of stocks with recommendations are EverBlu clients)
Speculative Buy	1.4%	(100.0% of stocks with recommendations are EverBlu clients)
Hold	26.4%	(0.0% of stocks with recommendations are EverBlu clients)
Underperform	30.0%	(0.0% of stocks with recommendations are EverBlu clients)