

## MGC Pharmaceuticals Ltd

### Pharmaceuticals

#### BUY

**MXC A\$0.04**

**TARGET PRICE A\$0.11**

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	1,212.8M
Market Capitalisation	\$47.3 M
Free float (%)	77.74
12-month high/low	\$0.12/\$0.032
Average Daily Turnover (\$m)	0.03
% S&P/ASX200	0.00
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	4.6	6.1	18.9
EBITDA (\$M)	-8.5	-0.9	0.3	10.6
Adjusted NPAT (\$M)	-8.9	-1.3	-0.5	9.6
Reported EPS (c)	-0.63	-0.09	-0.03	0.67
Adjusted EPS (c - FD)	-0.63	-0.09	-0.03	0.67
Adjusted EPS growth (%)	N/A	N/A	N/A	N/A
Adjusted P/E (x)	N/A	N/A	N/A	5.8
Dividend (c/sh)	-	-	-	0.5
Gross yield (%)	-	-	-	12.9
Net yield (%)	-	-	-	12.9
ROIC (%)	N/A	N/A	N/A	41.1

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

#### Share price performance



Source: FactSet, EverBlu Capital

## "Positive results from all scientific and cultivation projects underway within Europe"

On 1 February 2019, MGC Pharmaceuticals Ltd (MXC) provided an update on operations within the MGC Botanic division with the following highlights:

- The 2018 crop, planted on MXC's 1,100m<sup>2</sup> Czech Republic glasshouse facility has been cultivated using cannabis genetics and has achieved all necessary milestones for harvest;
  - The crop has been harvested yielding 700kg of biomass, 30% more flowers than pcp;
  - Crop is currently in storage in the Czech Republic, for imminent transportation to MXC's extraction facility in Ljubljana, Slovenia;
- During 2019 MXC will start to move the cultivation activities from the Czech Republic to its new facility which will be built in Malta and will take the knowledge and propriety data which has been collected over the past 3 years and will implement this on a large commercial cultivation scale;
- MXC's botanical research team and the University of Slovenia biotechnology team have successfully developed a new proprietary genetic strain; MXC-10;
  - This strain contains over 35% THC and low CBD (<1%), allowing MXC to yield high amounts of API per kg of raw material and create the most cost effective and affordable Phytomedicines;
- The successful harvest enabled MXC to significantly improve the chemical substance of its original genetic strain; MXC-85;
  - This strain now contains 20% CBD and low (<1%) THC in comparison to 10% CBD and low THC (<1%) achieved in 2015; and
- MXC is now completing the EU registration process for both new strains as well as MXC-402 and MXC-403, both newly developed wide spectrum Cannabinoids profile variants.

MXC Co-founder and MD, Roby Zomer commented:

*"It is with great pleasure we announce that we have successfully completed our 2018 harvest. The harvest has yielded 30% more flowers than in 2017 and we are excited to begin the extraction process."*

*"Successfully developing a proprietary, high THC strain over 35% THC, allows the Company to produce high yield of API per kg of raw material to create the most cost effective and affordable Phytomedicines."*

#### Earnings Changes

The update indicates that MXC's extraction facility in Ljubljana, Slovenia was not previously extracting phytocannabinoids and will begin doing this from now onwards. This suggests that MXC's contracts with Lenis and Mikro+Polo will be delayed until 2020 when construction of the Malta facility is complete.

Hence, we now expect that MXC will not make any significant profit until FY21.

We are updating our 12 month price target to \$0.11/share and retaining our BUY recommendation. The price target is underpinned by our DDM valuation.

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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.

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