

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	\$48.5M
Free float (%)	77.74
12-month high/low	\$0.097/\$0.032
Average Daily Turnover (\$m)	0.033
% S&P/ASX200	0.00
DDM Ranking	0
% All Ordinaries	N/A
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

Source: FactSet, EverBlu Capital

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

Share price performance



Source: FactSet, EverBlu Capital

Proprietary genetic strains contain industry high levels of THC and CBD

On 26th February 2019, MGC Pharmaceuticals Ltd (MXC) announced independent verification and validation of its premium grade THC and CBD genetic strains with the following highlights:

- New University of Ljubljana laboratory test results have confirmed and validated MXC's proprietary genetic strains containing industry high levels of THC and CBD;
- These results are significant on a global cannabis industry scale, and will deliver material implications for the yields of future cultivations and delivering low operating costs for the Company's commercial operation to be constructed in Malta;
- High percentages of THC and CBD have been extracted and verified from MXC's proprietary strains:
 - MXC-THC-10/3 (high THC);
 - MXC-THC-81/5 (high CBD);
 - MXC-THC-40/3 (high THC);
 - MXCTHC-40/2 (equal THC CBD);
- From these strains, MXC will be able to extract high amounts of API per kilogram of raw materials, to extract cost effective and affordable phytomedicines;
- Additionally, the high-quality strains allowed MXC to substantially improve the chemical substance of its original genetic strain;
- An additional breeding round will be conducted as part of the genetics registration in the EU to demonstrate the stability of the strains; and
- MXC will keep shareholders updated on its botanical breeding program with the Biotechnical Faculty botanical research program.

MXC-10:

- MXC-10 contains over 35% THC and low CBD (<0.5%) and is the highest potency offering of any of MXC's products launched to date.

MXC-81:

- This strain now contains over 20% CBD and low THC (<1%) as compared with 10% CBD and low THC (<1%), as was achieved in 2015.

MXC Co-founder and MD, Roby Zomer commented:

"We are pleased to have further validation of the recent findings by the University of Ljubljana validating the important results for the MGC Botanic division. These results are important for us and our development as a pharmaceutical company working towards bring a plethora of premium medicinal cannabis medications to market."

"Such high quantities of THC and CBD means we can scale up production while streamlining operations due to the cost effective nature of the yield."

Earnings Changes

The update confirms that MXC's proprietary genetic strains contain industry high levels of THC and CBD. This is consistent with our existing assumptions on MXC's strain potency and yield. Hence, we do not expect any significant earnings revisions.

We are retaining our 12-month price target of \$0.11/sh 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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NR – The investment rating and price target have been temporarily suspended. Such suspensions are in compliance with applicable regulations and/or EverBlu Capital policies.

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Buy	41.2%	(6.1% of stocks with recommendations are EverBlu clients)
Speculative Buy	1.4%	(100.0% of stocks with recommendations are EverBlu clients)
Hold	28.1%	(0.0% of stocks with recommendations are EverBlu clients)
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