

Wednesday, 17 January 2024 | update

## Molecure: buy (maintained)

MOC PW; MOCP.WA | Biotechnology, Poland

### Delay in OATD-01 Incorporated Into our Valuation

**Molecure during trading hours on Tuesday informed that its application to start Phase 2 of OATD-01 in sarcoidosis had been rejected by the Polish Office for Registration of Medicinal Products (URPL). In our view, the URPL's decision will result in a six-month delay in the OATD-01 project.**

**After taking this into account along with lower yields, we lower our target price for Molecure from PLN 37 to PLN 34 per share, implying 89% upside. Molecure remains one of our top picks in biotechnology as we believe a deal in the OATD-01 project is likely regardless of the delay in Phase 2 given new data explaining the mechanism of action.**

### OATD-01 – a negative decision regarding the start of Phase 2 is issued in Poland

On January 16 Molecure announced that the Polish Office for Registration of Medicinal Products (URPL) had rejected its application to start a Phase 2 study of OATD-01 in sarcoidosis. The URPL's decision means the study cannot be initiated in the EU or Norway. One of the reasons behind the rejection was the effective dose of radiation in the planned PET/CT imaging (required for the assumed end point in the study). Molecure is analyzing scenarios that will allow it to resubmit the application in the EU.

In the US, the process of preparing the clinical study is running smoothly, and the Company is finalizing the stage of contracting the last clinical sites, Molecure informed. Also, the British MHRA has approved the Company's clinical trial application.

Valuation-wise, we assume the rejected application will result in a delay of approx. six months and we now assume the Phase 2 study in sarcoidosis will be completed in 2026 vs. 2025 previously. As a result, we reduce our valuation of the project from PLN 15 to PLN 13 per share. We continue to believe a deal in the OATD-01 project is likely and could be signed this year given the new data explaining the mechanism of action of the compound in fibrosis. We assume Molecure will sign a deal with an upfront payment of USD 25m and biodollar value of USD 295m.

### Lower yields support biotech valuations

The US yield curve has shifted c. 0.5ppt lower in the last two months, leading biotech indices to outperform the broad market by c. 10ppt. The lower US RFR has a positive impact on our valuation of PLN 2/share.

### rNPV-based Target Price down from PLN 37 to PLN 34 per share

Our rNPV model points to a target price of PLN 34/share, including OATD-01, valued at PLN 13/share, OATD-02 at PLN 10/share and the DUBs platform valued at PLN 5/share.

The main risks to our valuation include an equity issue. With net cash of PLN 80m in 3Q, we believe Molecure has sufficient funding until mid-2024 unless new grants are obtained, or a partnering deal is signed. The Company has applied for two grants from FENG (PLN 16m for OATD-01, PLN 40m for a project in fibrosis), and has submitted two NIH grant applications of USD 2.2m. Decisions regarding the potential grants are expected in 1Q24.

current price*	PLN 18.00
target price	PLN 34.00
mCap	PLN 303m
free float	PLN 206m
ADTV (3M)	PLN 0.3m

\*Price as of January 16, 2024, 5:00 PM

### Shareholder structure

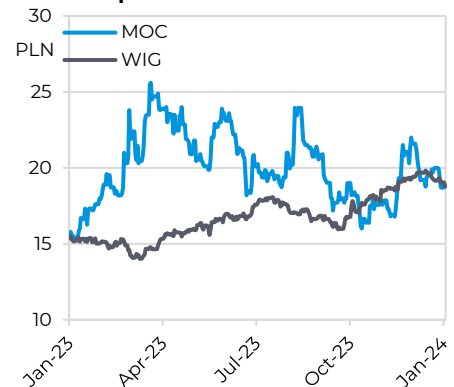
Marcin Szumowski, CEO*	7.0%
Michał Sołowow (indirectly)	24.9%
NN PTE	8.6%
Others	59.5%

\*Directly and indirectly

### About Molecure

Molecure is a biotechnology company developing first-in class or best-in-class small-molecule innovative drugs. OATD-01 project – a potential first-in-class CHIT1 inhibitor is to enter Phase 2 in sarcoidosis in the coming weeks, while OATD-02 – a potential first-in-class arginase inhibitor is currently in Phase 1 in solid tumors.

### MOC share price vs. WIG Index



company	target price		recommendation	
	new	old	new	old
Molecure	34.00	37.00	buy	buy

company	current price	target price	upside
Molecure	18.00	34.00	+88.9%

forecast update	2023E	2024E	2025E
	EBITDA	0%	nm
EBIT	0%	nm	nm
net profit	0%	nm	nm
net cash	0%	+40.4%	-10.9%

(PLN m)	2021	2022	2023E	2024E	2025E
Revenues	1.2	1.6	1.5	52.7	16.2
Norm. EBITDA	-10.6	-15.2	-19.5	2.7	-21.6
Norm. Net income	-10.8	-14.8	-17.4	-0.1	-23.8
Net Cash	96.0	59.2	59.9	51.7	19.8
P/E (x)	nm	nm	nm	nm	nm
EV/EBITDA (x)	nm	nm	nm	92	nm

Source: Molecure, mBank, E - mBank estimates

### Analyst:

Beata Szparaga-Waśniewska, CFA  
Equity Analyst, Expert  
+48 510 929 021  
[beata.szparaga-wasniewska@mbank.pl](mailto:beata.szparaga-wasniewska@mbank.pl)



**List of abbreviations and ratios used by mBank:**

**EV** (Enterprise Value) – Equity Value + Net Debt; **EBIT** – Earnings Before Interest and Taxes; **EBITDA** – EBIT + Depreciation & Amortisation; **Net Debt** – Borrowings + Debt Securities + Interest-Bearing Loans - Cash and Cash Equivalents; **P/E** (Price/Earnings) – Price Per Share Divided by Earnings Per Share; **P/CE** (Price to Cash Earnings) – Price Per Share Divided by Earnings + Depreciation & Amortisation; **P/B** (Price to Book Value) – Price Per Share Divided by Book Value Per Share; **P/CF** (Price to Cash Flow) – Price Divided by Cash Flow from Operations; **ROE** (Return on Equity) – Earnings Divided by Shareholders' Equity; **ROCE** (Return on Capital Employed) – EBIT x (Average Assets - Current Liabilities); **ROIC** (Return on Invested Capital) – EBIT x (1-Tax Rate) / (Average Equity + Minority Interest + Net Debt); **FCFF** (Free Cash Flow to Firm) – Cash Flow from Operations - CAPEX - Lease Payments; **FCFE** (Free Cash Flow to Equity) – Free Cash Flow to Firm - Net Interest Expense (incl. Debt + Leases)  
**EBITDA margin** – EBITDA/Sales

**OVERWEIGHT (OW)** – a rating which indicates that we expect a stock to outperform the broad market  
**NEUTRAL (N)** – a rating which indicates that we expect the stock to perform in line with the broad market  
**UNDERWEIGHT (UW)** – a rating which indicates that we expect the stock to underperform the broad market

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**Economic profits** – discounting of future economic profits; the weak point is high sensitivity to changes in the assumptions made in the valuation model.

**Discounted Dividends (DDM)** – discounting of future dividends; the weak point is high sensitivity to changes in the assumptions as to future dividends made in the valuation model.

**NAV** - valuation based on equity value, one of the most frequently used method in case of developing companies; the weak point of the method is that it does not factor in future changes in revenue/profits of a company.

**mBank issued the following recommendations for Molecure in the 12 months prior to this publication:**

**Molecure (Beata Szparaga-Waśniewska)**

Rating	buy
Rating date	2023-11-28
Target price (PLN)	37.00
Price on rating day	16.78

**mBank S.A.**

Prosta 18  
00-850 Warszawa  
<http://www.mbank.pl/>

**Research Department**

Kamil Kliszcz  
director  
+48 667 770 837  
[kamil.klischcz@mbank.pl](mailto:kamil.klischcz@mbank.pl)  
energy, power generation

Michał Konarski  
+48 515 025 640  
[michal.konarski@mbank.pl](mailto:michal.konarski@mbank.pl)  
banks, financials

Paweł Szpigiel  
+48 509 603 258  
[pawel.szpigiel@mbank.pl](mailto:pawel.szpigiel@mbank.pl)  
media, IT, telco, e-commerce

Piotr Poniatowski  
+48 509 603 046  
[piotr.poniatowski@mbank.pl](mailto:piotr.poniatowski@mbank.pl)  
gaming

Mikołaj Lemańczyk, CFA  
+48 501 663 511  
[mikolaj.lemanczyk@mbank.pl](mailto:mikolaj.lemanczyk@mbank.pl)  
banks, financials

Janusz Pięta  
+48 506 065 659  
[janusz.pieta@mbank.pl](mailto:janusz.pieta@mbank.pl)  
retail, e-commerce

Mateusz Krupa, CFA  
+48 571 608 973  
[mateusz.krupa@mbank.pl](mailto:mateusz.krupa@mbank.pl)  
strategy

Beata Szparaga-Waśniewska, CFA  
+48 510 929 021  
[beata.szparaga-wasniewska@mbank.pl](mailto:beata.szparaga-wasniewska@mbank.pl)  
biotechnology, healthcare

Konrad Anuszkiewicz, CFA  
+48 510 478 019  
[konrad.anuszkiewicz@mbank.pl](mailto:konrad.anuszkiewicz@mbank.pl)  
industrials, mining

**Sales and Trading**

**Traders**

Piotr Gawron  
director  
+48 698 832 853 | +48 22 697 48 95  
[piotr.gawron@mbank.pl](mailto:piotr.gawron@mbank.pl)

Paweł Cylkowski  
+48 503 684 130 | +48 22 697 47 31  
[pawel.cylkowski@mbank.pl](mailto:pawel.cylkowski@mbank.pl)

Piotr Brożyna  
+48 512 756 702 | +48 22 697 48 47  
[piotr.brozyna@mbank.pl](mailto:piotr.brozyna@mbank.pl)

Andrzej Kowalczyk  
+48 789 868 634 | +48 22 697 47 44  
[andrzej.kowalczyk@mbank.pl](mailto:andrzej.kowalczyk@mbank.pl)

Andrzej Sychowski  
+48 605 848 003 | +48 22 697 48 46  
[andrzej.sychowski@mbank.pl](mailto:andrzej.sychowski@mbank.pl)

Łukasz Płaska  
+48 784 449 962 | +48 22 697 47 90  
[lukasz.plaska@mbank.pl](mailto:lukasz.plaska@mbank.pl)

Karol Kułaj  
+48 509 602 984 | +48 22 697 49 85  
[karol.kulaj@mbank.pl](mailto:karol.kulaj@mbank.pl)

**Sales, Foreign Markets**

Marzena Łempicka-Wilim  
deputy director  
+48 696 427 249 | +48 22 697 48 82  
[marzena.lempicka-wilim@mbank.pl](mailto:marzena.lempicka-wilim@mbank.pl)

**Private Client Sales**

Maciej Sokołowski  
director  
[maciej.sokolowski@mbank.pl](mailto:maciej.sokolowski@mbank.pl)

Jarosław Banasiak  
deputy director  
[jaroslaw.banasiak@mbank.pl](mailto:jaroslaw.banasiak@mbank.pl)