

Morning Note

3 December 2009

Phytopharm (PYM)

Buy

Data

Price	15p
Target price	30p
Market cap	£14.2m
EV	£(7.1)m
Net cash Forecast	£21.3m
Index	FTSE SmallCap
Sector	Pharmaceuticals & Biotechnology

Stats (prior to changes)

Source: Company accounts, KBC Peel Hunt estimates

Y/E Sep	2008A	2009A	2010E	2011E
Sales (£m)	2.6	0.9	0.1	0.1
R&D (£m)	(4.2)	(3.9)	(6.0)	(6.0)
Adj PBT (£m)	(2.5)	(4.2)	(7.3)	(7.3)
Adj EPS (p)	(3.0)	(4.1)	(1.9)	(1.9)
EPS growth (%)	n/a	n/a	n/a	n/a
PER (x)	n/a	n/a	n/a	n/a
EV/EBITDA (x)	n/a	n/a	n/a	n/a

Changes to forecasts

Source: Company accounts, KBC Peel Hunt estimates

Y/E Sep	2010E	2010E
	Old	New
Adj PBT (£m)	(7.3)	nc
Adj EPS (p)	(1.9)	nc
DPS (p)	0.0	nc

Performance

Source: Reuters



Analyst

Paul Cuddon +44 (0) 20 7418 8877
Paul.Cuddon@kbcpeelhunt.com

Finals, placing and open offer for £24.1m

Raising development capital to fund Phase 2 trials for Cogane in the treatment of Parkinson's disease will allow the company to build on impressive pre-clinical data. Success in Phase 2 will help realise full value for shareholders. Our TP is adjusted to 30p post dilution, although it could reach 60p by 2012. Buy.

Placing and open offer to fund development capital. The group is raising £24.1m net via a placing and open offer at 10p per share, adding to the £3.9m cash on the balance sheet at 30 September 2009. The cash is intended to fund Phase 2 proof of concept trials for Cogane in Parkinson's disease, R&D staffing, general corporate and working capital expenses, and strengthen and protect the IP portfolio. We estimate the company is now financed into 2013. FY results were largely in line.

Cogane the stand-out asset. The positive developments seen with Cogane over the last six weeks, more than offset the loss of Hoodia. Cogane proved successful in the gold standard pre-clinical model of Parkinson's disease and has proved both safe and generally well tolerated in Phase Ib human studies in healthy volunteers and Parkinson's patients. Leading Parkinson's disease scientists have stated that Cogane has the potential to be the first drug to reverse Parkinson's disease progression. Cogane is thought to offer a different mechanism of action to all other symptomatic treatments by inducing neurotrophic factors, and could be a blockbuster.

Next stage of development well under way. Work is nearing completion to select a clinical research organisation to conduct the Cogane proof of concept and dose range-finding clinical study. This is expected to commence in 2010 and report in 2012. More data is expected to be presented at a major neuroscience conference in Miami this month.

Significant upside potential. In light of the dilution, our TP is reduced to 30p. We justify this relative upgrade on the basis the company now has the cash to complete Phase 2 studies for Cogane, and could secure a more lucrative deal for Cogane than would have been possible on our previous cash forecasts. Our current TP represents a substantial premium to the placing price and, if Cogane proves successful in Phase 2 trials bettering Boehringer Ingelheim's blockbuster Parkinson's drug, Mirapex, we could be looking at a 60p TP. This would equate to a >£200m valuation.

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