

TARGOVAX

Q1 a non-event

Targovax's Q1 report was a non-event. The operating loss for the quarter was in line with our expectations. During Q1 (and after the quarter as well), the company has reported some interesting data from its ongoing clinical trials. We have only made marginal adjustments to our forecasts and reiterate our BUY recommendation and NOK31 target price.

Operating loss in line with our expectations. Targovax reported an operating loss in Q1 of cNOK34m, compared to our estimate of a loss of cNOK38m. The loss increased from cNOK27m YOY. We had forecast a loss of cNOK38m for Q1. The main deviation in the P&L was in the "Other operating expenses" line and "External R&D expenses". These lines tend to fluctuate somewhat before quarters depending on the activities in the ongoing and planned clinical trials. At the end of the quarter the company had cash at hand amounting to cNOK229m, compared to our estimate of cNOK226m.

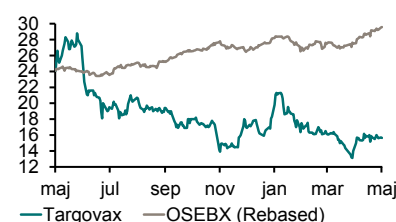
Clinical data during (and after) the quarter. During the quarter, the company reported immune activation data from the first four patients in the ONCOS-102 trial in refractory melanoma patients. The company saw both systemic and lesional immune activation in CPI refractory patients. Targovax also announced that the safety lead-in part of the MPM trial with ONCOS-102 was completed without any safety concerns. Later (after the end of the quarter), the company also announced that it has seen promising signs of efficacy in the initial phase of the MPM trial. It stated that three out of 6 patients responded. However, only one patient had a PR while two patients had SD. As one normally does not classify SD as a clinical response, one could argue about the terminology. As these patients normally have a rather bleak prognosis and usually die within 12 months, we would argue that SD is clinically meaningful for these patients and the CBR – Clinical Benefit Ratio (i.e. CR+PR+SD) of 50% is a very interesting signal in the MPM trial.

Reiterate BUY recommendation and NOK31 target price. We have only made marginal changes to our operating loss forecast for this year and kept our forecasts for the coming year constant. We reiterate our BUY recommendation for the shares and reiterate our NOK31 target price.

BUY

TP: NOK31.0

TRVX versus OSEBX (12m)



Source: Factset

SUMMARY

Recommendation (prev.)	BUY (BUY)
Share price (NOK)	15.6
Target price (previous) (NOK)	31.0 (31.0)
Upside/downside potential (%)	98
Tickers	TRVX NO, TRVX.OL

CAPITAL STRUCTURE

No. of shares (m)	52.6
Market cap. (NOKm)	823
NIBD adj end-2018e (NOKm)	-295
Enterprise value adj (NOKm)	527
Net debt/EBITDA adj (x)	-3.21

SHARE PRICE PERFORMANCE

Abs. 1/3/12m (%)	12/-9/-35
Rel. 1/3/12m (%)	4/-19/-58
High/Low 12m (NOK)	29/13

Source: Company, DNB Markets (estimates)

NEXT EVENT

Q2 2018 report	23/08/2018
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Year-end Dec	2014	2015	2016	2017	2018e	2019e	2020e
Revenue (NOKm)	0	0	0	0	247	20	69
EBITDA adj (NOKm)	-18	-90	-120	-120	92	-160	-71
EBIT adj (NOKm)	-18	-90	-120	-120	92	-161	-71
PTP (NOKm)	-18	-90	-123	-123	92	-161	-71
EPS rep (NOK)	-1.87	-3.42	-2.90	-2.32	1.75	-3.05	-1.35
Revenue growth (%)	-80.1	101.4	-74.7	0.0	667129.7	-92.0	250.0
EBITDA margin adj (%)	nm	nm	nm	nm	37.2	nm	nm
EV/Sales adj (x)	nm	nm	nm	nm	2.14	34.82	10.97
EV/EBITDA adj (x)	nm	nm	nm	nm	5.7	nm	nm
EV/EBIT adj (x)	nm	nm	nm	nm	5.8	nm	nm
ROE (%)	nm	nm	nm	nm	17.6	nm	nm

Source: Company (historical figures), DNB Markets (estimates)

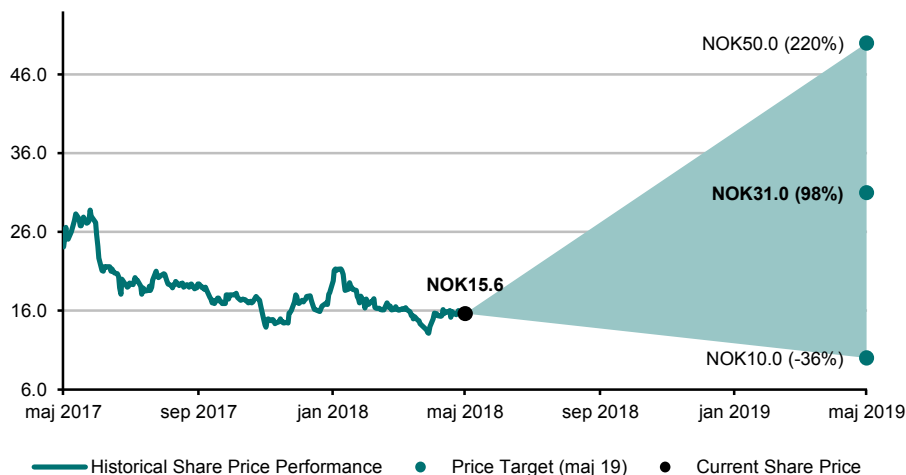
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Investment case overview

Share price performance, DNB Markets' target price, bear- and bull-case scenarios



Source: FactSet, DNB Markets

Downside risks to our investment case

- The main risk at this stage is a delay in the clinical development plan.
- Unexpected results from ongoing/planned clinical trials (mainly related to lack of expected product efficacy or worse side effects) are also a risk, in our view.
- We believe Targovax will need additional financing from its owners, and there is always a risk that capital will not be available when needed or on acceptable terms, we believe.

Source: DNB Markets

DNB Markets investment case and how we differ from consensus

- We expect Targovax to out-license its products (around phase II) and not to take any of its products or indications to the market on its own.
- We believe a deal with a large pharma company is possible in 2018.
- In our base-case scenario we have a c5–10% LOA for the products, as they are still at a very early stage.

Source: DNB Markets

Target price methodology

- We continue to base our target price on a SOTP NPV model, as we usually do for this type of company. Our model includes our forecasts for launch dates, drug pricing, probability of reaching the market, etc. The NPV is calculated using a WACC of 10%.
- Our bull-case fair value is based on a higher peak penetration for the company's cancer vaccines.
- Our bear-case fair value is based on lower peak market penetration assumptions for the cancer vaccines.

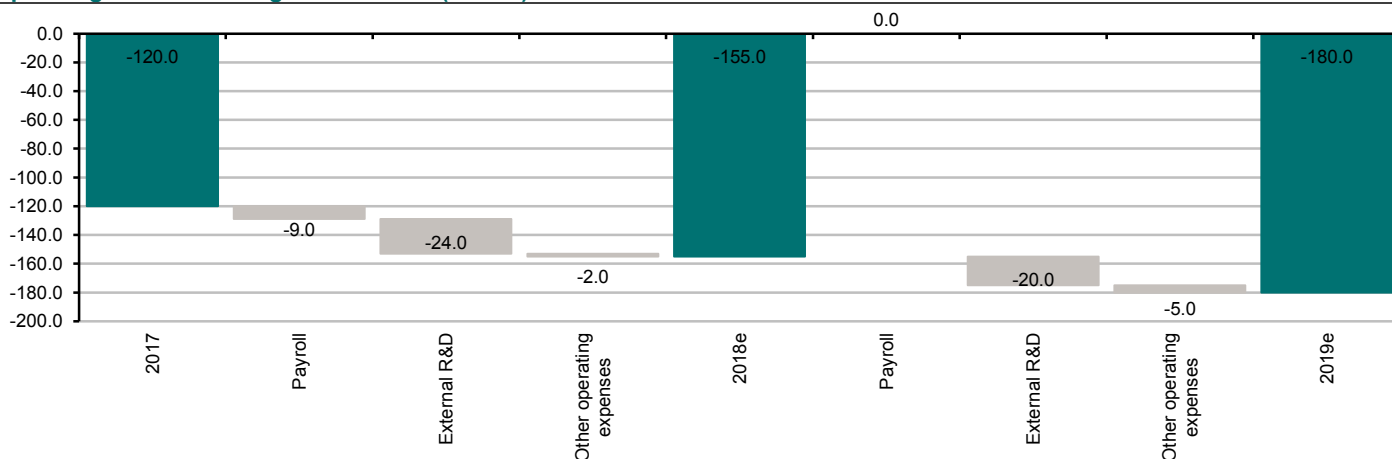
Source: DNB Markets

Upside risks to our investment case

- Our base-case scenario includes a 'standard' regulatory process. If clinical efficacy in some trials is higher than we expect, Targovax could well get an expedited review and hence its drugs could reach the market sooner than we expect.
- Targovax could strike an out-licensing deal sooner – and on better terms – than we expect. This would be positive and leave it financially stronger than we assume in our forecasts.

Source: DNB Markets

Operating cost base bridge 2017–2019e (NOKm)



Source: DNB Markets (forecasts), company (historical data)

Forecast changes – P&L

(NOKm)	New			Old			Change		
	2018e	2019e	2020e	2018e	2019e	2020e	2018e	2019e	2020e
Revenues	247	20	69	247	20	69	0	0	0
Cost of sales	0	0	0		0	0		0	0
Gross profit	247	20	69	247	20	69	0	0	0
Operating expenses	-155	-180	-140	-152	-180	-140	-3	0	0
EBITDA	92	-160	-71	95	-160	-71	-3	0	0
EBITDA adj	92	-160	-71	95	-160	-71	-3	0	0
EBITDA margin (%)	37.2	nm	nm	38.4	-811.4	-102.5	-1.2	nm	nm
Depreciation	0	0	0		0	0		0	0
EBITA	92	-161	-71	95	-161	-71	-3	0	0
EBIT	92	-161	-71	95	-161	-71	-3	0	0
EBIT adj	92	-161	-71	95	-161	-71	-3	0	0
Net interest	0	0	0		0	0		0	0
Net financial items	0	0	0		0	0		0	0
PBT	92	-161	-71	95	-161	-71	-3	0	0
Taxes	0	0	0		0	0		0	0
Net profit	92	-161	-71	95	-161	-71	-3	0	0
Adjustments to net profit	0	0	0	0	0	0	0	0	0
Net profit adj	92	-161	-71	95	-161	-71	-3	0	0
<i>Per share data (NOK)</i>									
EPS	1.75	-3.05	-1.35	1.80	-3.05	-1.35	-0.06	0.00	0.00
<i>Other key metrics (%)</i>									
Revenue growth	667129.7	-92.0	250.0	667129.7	-92.0	250.0	0.0	0.0	0.0
EBIT adj growth	nm	nm	nm	-178.7	-269.7	-55.7	nm	nm	nm
EPS adj growth	nm	nm	nm	nm	nm	nm	nm	nm	nm
Capex	-2	-3	-3		-3	-3		0	0
OpFCF	90	-163	-74	93	-163	-74	-3	0	0
Working capital	-15	-15	-15	-15	-15	-15	0	0	0
NIBD adj	-295	-135	-64	-298	-138	-67	3	3	3

Source: DNB Markets

Quarterly numbers

(NOKm)	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Q1 2018e	Q2 2018e	Q3 2018e	Q4 2018e	Q1 2019e
Revenues	0	0	0	0	0	0	0	0	0	0	0
Cost of sales	0	0	0	0	0	0	0	0	0	0	0
Gross profit	0	0	0	0	0	0	0	0	0	0	0
Operating expenses	-25	-31	-27	-34	-27	-32	-34	-40	-40	-40	-45
EBITDA	-25	-31	-27	-34	-27	-32	-34	-40	-40	-40	-45
Depreciation	0	0	0	0	0	0	0	0	0	0	0
EBITA	-25	-31	-27	-34	-26	-32	-33	-40	-40	-40	-45
EBIT	-25	-31	-27	-34	-26	-32	-33	-40	-40	-40	-45
Net interest	-1	-1	0	0	-2	0	-1	0	0	0	0
Net financial items	-1	-1	0	0	-2	0	-1	0	0	0	0
PBT	-26	-32	-27	-34	-28	-32	-35	-40	-40	-40	-45
Taxes	0	0	0	0	0	0	0	0	0	0	0
Net profit	-26	-32	-27	-34	-28	-32	-35	-40	-40	-40	-45
Adjustments to net profit	0	0	0	0	0	0	0	0	0	0	0
Net profit adj	-26	-32	-27	-34	-28	-32	-35	-40	-40	-40	-45
<i>Per share data (NOK)</i>											
EPS	-0.61	-0.76	-0.65	-0.80	-0.54	-0.62	-0.66	-0.76	-0.76	-0.76	-0.86
<i>Growth and margins (%)</i>											
Revenues, QOQ growth	nm	-87.9	50.0	0.0	250.0	-76.2	20.0	nm	nm	nm	nm
Revenues, YOY growth	-77.1	nm	nm	nm	-36.4	25.0	0.0	nm	nm	nm	nm
EPS adj, YOY growth	nm	nm	nm	nm	nm	nm	nm	nm	nm	nm	nm
Gross margin	100.0	100.0	100.0	100.0	100.0	100.0	100.0	nm	nm	nm	nm
EBITDA adj margin	nm	nm	nm	nm	nm	nm	nm	nm	nm	nm	nm
Depreciation/revenues	221.2	1775.0	1183.3	1166.7	357.1	1500.0	1316.7	nm	nm	nm	nm
EBIT adj margin	nm	nm	nm	nm	nm	nm	nm	nm	nm	nm	nm
Net profit margin	nm	nm	nm	nm	nm	nm	nm	nm	nm	nm	nm

Source: Company (historical figures), DNB Markets (estimates)

Adjustments to quarterly numbers

(NOKm)	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Q1 2018e	Q2 2018e	Q3 2018e	Q4 2018e	Q1 2019e
EBITDA	-25	-31	-27	-34	-27	-32	-34	-40	-40	-40	-45
EBITDA adj	-25	-31	-27	-34	-27	-32	-34	-40	-40	-40	-45
EBITA	-25	-31	-27	-34	-26	-32	-33	-40	-40	-40	-45
EBITA adj	-25	-31	-27	-34	-26	-32	-33	-40	-40	-40	-45
EBIT	-25	-31	-27	-34	-26	-32	-33	-40	-40	-40	-45
EBIT adj	-25	-31	-27	-34	-26	-32	-33	-40	-40	-40	-45
Net profit	-26	-32	-27	-34	-28	-32	-35	-40	-40	-40	-45
Net profit adj	-26	-32	-27	-34	-28	-32	-35	-40	-40	-40	-45

Source: Company (historical figures), DNB Markets (estimates)

Annual P&L

(NOKm)	2013	2014	2015	2016	2017	2018e	2019e	2020e
Revenues	0	0	0	0	0	247	20	69
Cost of sales	-4	0	0	0	0	0	0	0
Gross profit	-3	0	0	0	0	247	20	69
Operating expenses	-4	-18	-90	-120	-120	-155	-180	-140
EBITDA	-7	-18	-90	-120	-120	92	-160	-71
Depreciation	0	0	0	0	0	0	0	0
EBITA	-7	-18	-90	-120	-120	92	-161	-71
EBIT	-7	-18	-90	-120	-120	92	-161	-71
Net interest	0	0	0	-3	-2	0	0	0
Net financial items	0	0	0	-3	-2	0	0	0
PBT	-8	-18	-90	-123	-123	92	-161	-71
Taxes	0	0	0	0	0	0	0	0
Effective tax rate (%)	0	0	0	0	0	0	0	0
Net profit	-8	-18	-90	-123	-123	92	-161	-71
Adjustments to net profit	0	0	0	0	0	0	0	0
Net profit adj	-8	-18	-90	-123	-123	92	-161	-71
<i>Per share data (NOK)</i>								
EPS	-1.81	-1.87	-3.42	-2.90	-2.32	1.75	-3.05	-1.35
<i>Growth and margins (%)</i>								
Revenue growth	nm	-80.1	101.4	-74.7	0.0	667129.7	-92.0	250.0
EPS adj growth	nm	nm	nm	nm	nm	nm	nm	nm
Gross margin	nm	100.0	100.0	100.0	100.0	100.0	100.0	100.0
EBITDA margin	nm	nm	nm	nm	nm	37.2	nm	nm
EBITDA adj margin	nm	nm	nm	nm	nm	37.2	nm	nm
Depreciation/revenues	0.0	-15.2	-101.4	-756.8	-756.8	-0.1	-1.4	-0.4
EBIT margin	nm	nm	nm	nm	nm	37.1	nm	nm
EBIT adj margin	nm	nm	nm	nm	nm	37.1	nm	nm
PBT margin	nm	nm	nm	nm	nm	37.1	nm	nm
Net profit margin	nm	nm	nm	nm	nm	nm	nm	nm

Source: Company (historical figures), DNB Markets (estimates)

Adjustments to annual P&L

(NOKm)	2013	2014	2015	2016	2017	2018e	2019e	2020e
EBITDA	-7	-18	-90	-120	-120	92	-160	-71
EBITDA adj	-7	-18	-90	-120	-120	92	-160	-71
EBITA	-7	-18	-90	-120	-120	92	-161	-71
EBITA adj	-7	-18	-90	-120	-120	92	-161	-71
EBIT	-7	-18	-90	-120	-120	92	-161	-71
EBIT adj	-7	-18	-90	-120	-120	92	-161	-71
Net profit	-8	-18	-90	-123	-123	92	-161	-71
Net profit adj	-8	-18	-90	-123	-123	92	-161	-71
<i>Per share data (NOK)</i>								
EPS	-1.81	-1.87	-3.42	-2.90	-2.32	1.75	-3.05	-1.35

Source: Company (historical figures), DNB Markets (estimates)

Cash flow

(NOKm)	2013	2014	2015	2016	2017	2018e	2019e	2020e
Net profit	-8	-18	-90	-123	-123	92	-161	-71
Change in net working capital	0	0	0	0	0	0	0	0
Cash flow from operations (CFO)	-8	-18	-90	-123	-122	92	-160	-71
Capital expenditure	0	0	1	0	-2	-2	-3	-3
Acquisitions/Investments	0	0	0	0	0	0	0	0
Cash flow from investing (CFI)	0	0	1	0	-2	-2	-3	-3
Free cash flow (FCF)	-8	-18	-89	-123	-124	90	-163	-74
Net change in debt	0	0	0	1	0	0	0	0
Other	16	4	9	13	6	2	3	3
Cash flow from financing (CFF)	16	72	200	120	200	2	3	3
Total cash flow (CFO+CFI+CFF)	8	54	111	-2	76	92	-160	-71
<i>FCFF calculation</i>								
Free cash flow	-8	-18	-89	-123	-124	90	-163	-74
Less: net interest	0	0	0	3	2	0	0	0
Less: acquisitions	0	0	0	0	0	0	0	0
Growth (%)								
CFO	nm	-132.1	-409.4	-36.5	0.4	175.1	-274.4	55.8
CFI	nm	46.0	821.9	-103.2	-3954.1	-33.3	-25.0	-20.0
FCF	nm	-125.4	-398.3	-38.3	-0.8	172.6	-281.1	54.6
CFF	nm	342.4	177.9	-39.8	65.9	-99.0	25.0	20.0
FCFF	nm	nm	nm	nm	nm	nm	nm	nm

Source: Company (historical figures), DNB Markets (estimates)

Balance sheet

(NOKm)	2013	2014	2015	2016	2017	2018e	2019e	2020e
Assets	14	67	545	525	601	693	533	462
Inventories	0	0	0	0	0	0	0	0
Trade receivables	6	5	12	14	14	14	14	14
Other receivables	0	0	0	0	0	0	0	0
Current financial assets	0	0	0	0	0	0	0	0
Cash and cash equivalents	8	63	174	172	248	340	179	108
Current assets	14	67	185	186	262	354	194	123
Property, plant and equipment	0	0	2	1	1	1	1	1
Goodwill	0	0	358	338	338	338	338	338
Other intangible assets	0	0	0	0	0	0	0	0
Deffered tax assets	0	0	0	0	0	0	0	0
Non-current financial assets	0	0	0	0	0	0	0	0
Non-current assets	0	0	360	340	340	340	340	340
Total assets	14	67	545	525	601	693	533	462
Equity and liabilities	14	67	545	525	601	693	533	462
Total equity to the parent	0	61	423	401	473	565	405	334
Total equity	0	61	423	401	473	565	405	334
Trade payables	3	3	6	5	5	5	5	5
Other payables and accruals	11	4	19	25	25	25	25	25
Short-term debt	0	0	0	0	0	0	0	0
Total current liabilities	14	7	25	29	29	29	29	29
Long-term debt	0	0	38	40	44	44	44	44
Deferred tax liabilities	0	0	59	55	55	55	55	55
Pension liabilities	0	0	0	0	0	0	0	0
Other non-current liabilities	0	0	0	0	0	0	0	0
Total non-current liabilities	0	0	97	95	99	99	99	99
Total liabilities	14	7	122	124	128	128	128	128
Total equity and liabilities	14	67	545	525	601	693	533	462
<i>Key metrics</i>								
Net interest bearing debt	-8	-63	-136	-132	-203	-295	-135	-64

Source: Company (historical figures), DNB Markets (estimates)

9 May 2018

Valuation ratios

(NOKm)	2013	2014	2015	2016	2017	2018e	2019e	2020e
<i>Enterprise value</i>								
Share price (NOK)		24.62	16.74	11.75	16.60	15.64	15.64	15.64
Number of shares (m)	4.20	9.43	26.86	42.19	52.61	52.61	52.61	52.61
Market capitalisation		232	450	496	873	823	823	823
Net interest bearing debt	-8	-63	-136	-132	-203	-295	-135	-64
Adjustments to NIBD	0	0	0	0	0	0	0	0
Net interest bearing debt adj	-8	-63	-136	-132	-203	-295	-135	-64
EV		170	314	364	670	527	688	759
EV adj		170	314	364	670	527	688	759
<i>Valuation</i>								
EPS	-1.81	-1.87	-3.42	-2.90	-2.32	1.75	-3.05	-1.35
P/E		-13.2	-4.9	-4.0	-7.2	9.0	-5.1	-11.6
Average ROE	-5510.0%	-57.9%	-37.2%	-29.9%	-28.0%	17.6%	-33.1%	-19.2%
EV/SALES		2339.27	2149.79	9833.16	18103.89	2.14	34.82	10.97
EV/SALES adj		2339.27	2149.79	9833.16	18103.89	2.14	34.82	10.97
EV/EBITDA		-9.7	-3.5	-3.0	-5.6	5.7	-4.3	-10.7
EV/EBITDA adj		-9.7	-3.5	-3.0	-5.6	5.7	-4.3	-10.7
EV/EBIT		-9.6	-3.5	-3.0	-5.6	5.8	-4.3	-10.7
EV/EBIT adj		-9.6	-3.5	-3.0	-5.6	5.8	-4.3	-10.7
EV/NOPLAT		-9.6	-3.5	-3.0	-5.6	5.8	-4.3	-10.7
EV/OpFCF (taxed)		-9.6	-3.5	-3.0	-5.5	5.9	-4.2	-10.3

Source: Company (historical figures), DNB Markets (estimates)

Key accounting ratios

	2013	2014	2015	2016	2017	2018e	2019e	2020e
<i>Profitability (%)</i>								
ROA	-107.1	-43.3	-29.4	-23.0	-21.8	14.1	-26.2	-14.3
<i>Return on invested capital (%)</i>								
Net PPE/revenues	0.0	206.9	1089.0	3510.8	3510.8	0.5	6.6	1.9
Working capital/revenues	-2220.7	-2798.6	-9495.2	-40489.2	-40489.2	-6.1	-75.9	-21.7
<i>Cash flow ratios (%)</i>								
FCF/revenues	-2167.6	-24560.7	-60774.0	-331756.8	-334521.6	36.4	-824.1	-106.9
FCF/market capitalisation		-7.7	-19.7	-24.8	-14.2	10.9	-19.8	-9.0
CFO/revenues	-2086.3	-24340.0	-61565.1	-331656.8	-330467.6	37.2	-811.4	-102.5
CFO/market capitalisation		-7.6	-20.0	-24.8	-14.0	11.2	-19.5	-8.6
CFO/capex	-2566.6	-11029.1	7782.3	-331656.8	-8151.5	4593.8	-6410.0	-2362.5
CFO/current liabilities	-54.6	-263.8	-353.6	-420.5	-419.0	314.8	-549.1	-242.9
Cash conversion ratio	103.9	100.8	98.6	99.8	101.0	98.1	101.4	103.8
Capex/revenues	81.3	220.7	-791.1	100.0	4054.1	0.8	12.7	4.3
Capex/depreciation		1454.5	-780.4	13.2	535.7	714.3	892.9	1071.4
OpFCF margin	-2128.2	-24454.5	-60589.7	-323100.0	-328178.4	36.4	-824.1	-106.9
<i>Leverage and solvency (x)</i>								
Interest cover	-37.84	-41.04	-33.52	-26.68	-29.63	nm	nm	nm
EBIT/interest payable	-38.11	-41.86	-34.42	-26.96	-30.04			
EBITA adj/interest payable	-38.11	-41.86	-34.42	-26.96	-30.04			
Cash coverage	-51.97	-228.18	-333.14	-37.31	-51.10			
Net debt/EBITDA	1.12	3.56	1.52	1.10	1.70	-3.21	0.84	0.91
Total debt/total capital (BV)	0.00	0.00	0.07	0.08	0.07	0.06	0.08	0.10
LTD / (LTD + equity (MV))		0.00	0.08	0.07	0.05	0.05	0.05	0.05
<i>Cash conversion cycle</i>								
Inventory turnover days	0.0							
Receivables turnover days	5834.7	23460.7	28892.5	140110.7	140110.7	21.0	262.5	75.0
Credit period	260.8	nm	nm	nm	nm	nm	nm	nm
Cash conversion cycle	5573.9							

Source: Company (historical figures), DNB Markets (estimates)

Important Information

Company: Targovax
 Coverage by Analyst: Patrik Ling
 Date: 09-5-2018

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The return-requirement bands above may be applied with some degree of flexibility depending on the liquidity and volatility characteristics of the individual share.

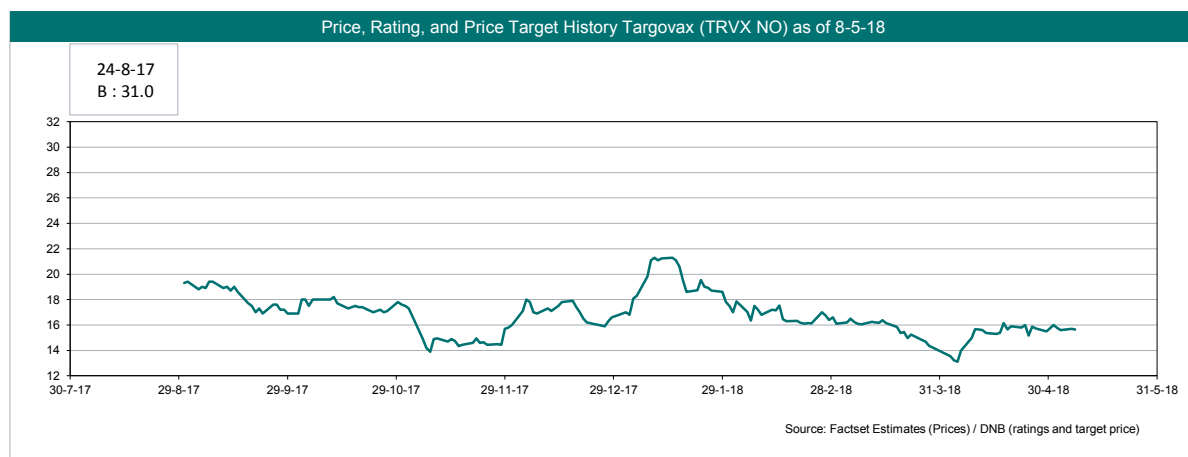
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% of total	52%	32%	10%	6%	
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