

CORPORATE

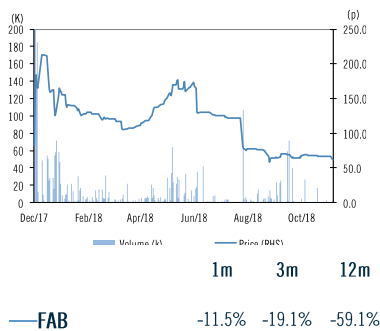
Current price 61.5p

Sector Healthcare Equipment & Services

Code (FAB.L)

Listing AIM

SHARE PERFORMANCE



Source: Thomson Reuters, Allenby Capital

SHARE DATA

Market cap (£) 13.6m

Shares in issue (m) 22.091

52 weeks High Low

177 58.5

Financial year end March

Source: Company Data, Allenby Capital

LARGEST SHAREHOLDERS

Crescent Capital II LP 12.01%

Viridian Growth Fund LP 8.29%

Cannacord Genuity 6.35%

Amati Global Investors Ltd 6.07%

Jim Johnston 5.96%

Livingbridge VC LLP 5.52%

Source: Company Data, Allenby Capital

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FUSION ANTIBODIES (FAB.L)

Momentum building in H2

Interim results for the half year to the end of September 2018 reflected a previously flagged period of weaker sales, owing in part to an increase in competition and consequent pricing pressure. With order book growth accelerating in October and November, reinforced business development efforts in full swing along with doubled production capacity, the company is 'cautiously optimistic' on FY19 outlook. New technology launches have potential to bolster the company's longer-term competitive prospects.

- Financials:** H1'19 was a slow period, as flagged, sales fell 53% to £0.7m from £1.4 in H1'18, due to rising competition and pricing pressures caused by the entry of lower cost providers of antibody sequencing services. There was also some loss of momentum in H2'18 due to IPO preparations carrying over into the first half. Investment in the recruitment of scientists, developing new technology and lab expansion led to a 7% increase in total opex to £1.1m in H1'19 from £1m. Consequently, H1'19 post-tax loss widened to £0.7m from £0.2m in H1'18, taking end of September 2018 cash and equivalents to £2.8m.
- New technologies on track:** The company's Rational Affinity Maturation Platform (RAMP™) is on schedule to launch in December 2018 along with a patent filed in October. This service should enable FAB to further differentiate itself from competitors, allowing it to secure higher value contracts, and with initial commercial revenues forecast in FY20. A fully human antibody screening platform, to execute high throughput screening of therapeutic antibody drug targets, is progressing as planned for a commercial launch in 2020 and would provide a transformational service offering.
- Conclusion:** We are encouraged to see the very strong start to H2'19, indicating that underlying industry growth trends remain on track and that past investment in the business is starting to bear fruit ahead of the busiest period in the year. However, in accordance with current visibility on the order book and in line with the statement, we have trimmed our FY19 revenue forecast by 9% from £2.9m to £2.7m, giving modest full year growth.
- Undemanding valuation.** Following the c 50% fall in share price since August, the current EV/revenue ratio stands at 3.7x FY19 falling to 3.2x our FY20 estimates, which we consider to be undemanding given growth prospects.

Year End: Mar 31

(£000's)	2017A	2018A	2019E	2020E	2021E
REVENUE	1,914.0	2,690.7	2,715.0	3,900.0	5,031.0
REVENUE GROWTH	29%	41%	1%	44%	29%
ADJ EBITDA	288.5	132.0	(681.3)	(13.5)	117.7
EBIT	126.5	(710.5)	(1,036.7)	(890.0)	(424.2)
PBT	125.9	(711.4)	(1,028.4)	(887.1)	(421.8)
NET CASH	285.7	4,413.6	1,700.1	1,370.0	1,205.8

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INTERIMS TO END SEPTEMBER 2018

Further progress in the period included completion of the planned expansion of facilities and technical capacity on time and well within the original budget, doubling output capacity. The company also signed a new service-only contract with MAB Discovery GmbH in the period, amending the terms of FAB's humanisation services provision. The amendment does not impact our forecasts since we had not factored in any royalty payments arising from the collaboration.

The combination of weaker sales, some price erosion, together with ongoing recruitment led to a weaker H119 gross margin of only 17%.

Year End: Mar 31 Summary income statement for six months ended September 2018		
(£'000's)	H119	H118
Revenue	658.5	1,414.1
Gross profit	113.0	817.2
Gross margin	17%	58%
Other operating income	58.0	29.5
Administrative expenses	(1,063.3)	(994.9)
Loss before tax	(887.4)	(150.5)
Net loss for the period	(742.1)	(166.4)

Our old forecasts are summarised below for reference;

Year End: Mar 31	Previous forecasts				
(£000's)	2017A	2018A	2019E	2020E	2021E
REVENUE	1,914.0	2,690.7	2,970.0	3,900.0	5,031.0
REVENUE GROWTH	29%	41%	10%	31%	29%
ADJ EBITDA	288.5	132.0	(556.3)	(13.5)	117.7
EBIT	126.5	(710.5)	(911.7)	(890.0)	(424.2)
PBT	125.9	(711.4)	(903.5)	(887.1)	(421.6)
NET CASH	285.7	4,413.6	1,716.9	1,495.0	1,331.4

The outlook for FY19 given the forecast recovery in revenues in H219, plus the prospect of cost efficiencies, is estimated to enable the company to leverage its existing cost base despite the revenue downgrade.

Prospects: longer term growth is supported by FAB'S expertise and experience in taking drug candidates through to clinical trials, and by the imminent launch of new technologies.

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Emma Ulker is the author of this research recommendation. Emma is employed by Equity Development as an Equity Analyst.

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