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Living Cell Technologies Limited (LCT)

Speculative Buy

Approval to Commence Phase 1/2a Type 1 Diabetes Clinical Trial

\$0.22

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Key Points

LCT has received clearance to commence a Phase 1/2a human clinical trial of its DiabeCell[®] therapy for type 1 diabetes in Russia.

Trial conducted according to FDA guidelines, under supervision of an international Contract Research Organisation (CRO).

Initially 6 patients to receive treatment, with interim data expected during 4Q CY07.

Regulatory approval to conduct second 8 patient Phase 1/2a clinical trial in New Zealand expected this quarter.

Dr Paul Tan appointed CEO to accelerate clinical development and commercialisation.

Summary

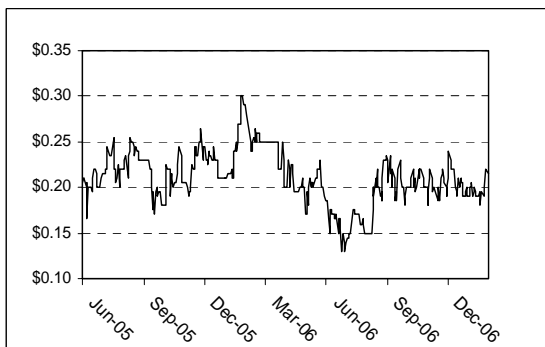
Market Capitalisation (M)	\$28.2
Share Price	\$0.22
52 Week High	\$0.25
52 Week Low	\$0.19
Av. Monthly Volume (Yr Rolling)	1.6M
Est. Cash as at 31/12/06 (M)*	\$1.5
Est. Cash Burn Per Quarter (M)	\$1.5
Market Cap.: Cash Ratio	18.8
Market Cap.: Cash Ratio (Sector)	14.2

*Excludes additional funds raised from SPP closing 5/02/07

Key Financials (A\$'000)

Year End	FY05	FY06	FY07
	Actual	Est.	Est.
Total Revenue	226	292	1,845
Total Op. Expenses	(5,138)	(5,852)	(6,043)
Net Op. Rev	(4,912)	(5,560)	(4,198)
R&D Expenses	(1,369)	(1,072)	(3,195)
EBITD	(6,434)	(6,734)	(7,352)
EBIT	(6,580)	(6,922)	(7,555)
NPAT pre Net R&D	(5,058)	(5,561)	(4,402)
Reported Profit	(6,427)	(6,820)	(7,597)
EPS (c)	(7.7)	(6.3)	(5.0)

Share Price Graph (A\$)



Our View

- Historically LCT has disappointed investors with delays to both DiabeCell[®] and NeurotrophinCell[®] treatments into clinical trials, despite guidance issued. The Russian approval and an imminent decision from the NZ regulator MedSafe represent significant milestones for LCT. In our view, the Russian market represents a nearer term commercial prospect for DiabeCell[®] given rabbit islet cell transplants to treat type 1 diabetes are presently approved and sell for A\$30,000 per course of treatment.
- Importantly, LCT's Russian collaborators will fund the trial with LCT providing DiabeCell[®] for transplant. Based on a successful clinical trial, LCT intends to enter into a commercialisation agreement with its collaborators for the Russian market. We believe the market has a potential size of US\$125 million, assuming 2% of type 1 diabetics are initially eligible for DiabeCell[®] treatment. Although there is a veneer of skirting the more heavily regulated western government health regulators (e.g. US FDA) by conducting human clinical trials in Russia, we note major global pharma companies regularly conduct trials in Russia. However, we believe an approval from the NZ regulator MedSafe will further validate LCT's clinical approach and safety. In terms of the US strategy, we understand that LCT will not pursue an IND for DiabeCell[®] during CY07, but utilise human data garnered from the Russian and potentially NZ clinical trial to submit a regulatory package in CY08 for US clinical trials under an IND. We note the US market opportunity remains wide open, as MicroIslet (AMEX:MII) appears to have backed away from xeno-based cell therapies in favour of performing human islet transplants.
- We believe LCT will need to expend modest Capex to increase the pig capacity to meet the requirements of the 2x Phase 1/2a clinical trials (TC estimates \$0.3 million) envisaged for CY07. With new management that appears committed to accelerating commercial development of LCT's porcine derived cell therapies without necessarily expending further capital on preclinical studies to meet burdensome US regulatory demands, we continue with our Speculative Buy recommendation.

Living Cell Technologies Limited - Summary of Forecasts

LCT \$0.22

PROFIT & LOSS SUMMARY (A\$'000)				
Period	FY05A	FY06A	FY07E	FY08E
Total Revenue	226	292	1,845	1,382
<i>Growth (pcp)</i>	123.8%	29.2%	531.8%	-25.1%
Net Operating Revenue	(4,912)	(5,560)	(4,198)	(5,029)
R&D Expenses	(1,369)	(1,072)	(3,195)	(4,950)
EBITD	(6,434)	(6,734)	(7,352)	(9,962)
Depreciation	(146)	(188)	(204)	(253)
EBIT	(6,580)	(6,922)	(7,555)	(10,215)
Net Interest	153	102	(42)	(17)
Pre-Tax Profit	(6,427)	(6,820)	(7,597)	(10,232)
Tax Expense	0	0	0	0
Minorities	0	0	0	0
NPAT pre Abs/Extr	(6,427)	(6,820)	(7,597)	(10,232)
<i>Growth (pcp)</i>	n/a	n/a	n/a	n/a
Net Abnormals	0	0	0	0
Reported Profit	(6,427)	(6,820)	(7,597)	(10,232)
NPAT pre Net R&D	(5,058)	(5,935)	(4,402)	(5,282)

PER SHARE DATA				
Period	FY05A	FY06A	FY07E	FY08E
EPS (c)	(7.7)	(6.3)	(5.0)	(6.0)
<i>Growth (pcp)</i>	n/a	n/a	n/a	n/a
Dividend (c)	0.0	0.0	0.0	0.0
Franking	n/a	n/a	n/a	n/a
Gross CF per Share (c)	(8.5)	(6.3)	(4.4)	(5.6)
NTA per share (c)	3.8	1.7	1.6	1.1

EQUITY RAISING ASSUMPTIONS				
Period	FY05A	FY06A	FY07E	FY08E
Shares Issued (m)	12.0	10.5	37.5	26.7
Issue Price (A\$)	0.40	0.22	0.20	0.30
Cash Raised (A\$m)	4.8	2.3	7.5	8.0

BALANCE SHEET SUMMARY				
Period	FY05A	FY06A	FY07E	FY08E
Cash	2,648	2,956	3,348	1,493
Receivables	43	2	184	138
Inventories	16	33	184	138
Other	11	12	12	12
Total Current Assets	2,718	3,003	3,729	1,781
Investments	0	0	0	0
Inventories	0	0	0	0
Property Plant & Equip	882	949	1,265	1,259
Intangibles	0	0	0	0
Other	345	306	344	344
Total Non-Current Assets	1,227	1,255	1,609	1,603
TOTAL ASSETS	3,945	4,258	5,338	3,384
Accounts Payable	740	513	922	1,382
Borrowings	24	0	0	0
Provisions	42	62	65	68
Other	0	0	0	3
Total Current Liab	806	575	987	1,454
Borrowings	3	1,887	1,887	0
Provisions	0	0	11	11
Other	0	0	0	0
Total Non-Current Liab	3	1,887	1,898	11
TOTAL LIABILITIES	809	2,462	2,885	1,465
TOTAL EQUITY	3,136	1,796	2,453	1,920

CASH FLOW SUMMARY				
Period	FY05A	FY06A	FY07E	FY08E
EBIT (excl Abs/Extr)	(6,580)	(6,922)	(7,555)	(10,215)
Add: Depreciation	146	188	204	253
Amortisation	0	0	0	0
Change in Pay.	(816)	(243)	409	460
Less: Tax paid	0	0	0	0
Net Interest	153	102	(42)	(17)
Change in Rec.	(72)	(41)	182	(46)
Change in Prov.	19	20	(8)	3
Change in Inv.	14	17	151	(46)
Gross Cashflows	(7,136)	(6,879)	(6,658)	(9,609)
Capex	(418)	(257)	(450)	(247)
Free Cashflows	(7,554)	(7,136)	(7,108)	(9,856)
Dividends Paid	0	0	0	0
Net Cash Flow	(7,554)	(7,136)	(7,108)	(9,856)

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