Equity | Australia | Pharma & Biotech

6 May 2009

ChemGenex

The need for speed

CXS has clearly defined its strategy to progress lead oncology compound omacetaxine to market. The company plans to independently market the drug in the US and partner in EU. We have re-modelled our forecasts to reflect this.

Buy

Important: The above recommendation has been made on a 12 month view and may not suit your investment needs or timeframe. The basis it is prepared on is summarised on the last page of this report. **PLEASE CONTACT YOUR ADVISER TO DISCUSS THIS GENERAL RECOMMENDATION BEFORE ACTING ON IT.**

High Volatility

Target price
A$0.75

Price
A$0.465

Short term (0-60 days)
n/a

CXS90506

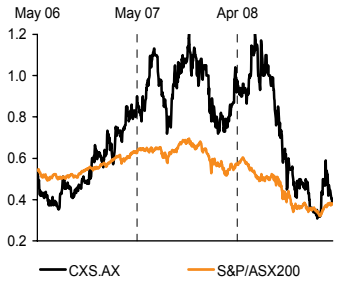
Price performance

	(1M)	(3M)	(12M)
Price (A$)	0.52	0.36	0.92
Absolute %	-10.6	29.2	-49.5
Rel market %	-14.1	13.8	-25.6
Rel sector %	-11.0	50.6	-33.0

Market capitalisation
A$130.27m (US$96.35m)

Average (12M) daily turnover
A$0.08m (US$0.06m)

RIC: CXS.AX, CXS AU
Priced at close of business 5 May 2009.
Source: Bloomberg



Key forecasts

	FY07A	FY08A	FY09F	FY10F	FY11F
EBITDA (A$m)	-12.0	-18.3	-22.7▼	-5.06▼	59.5▲
Reported net profit (A$m)	-11.7	-6.42	-23.9▼	-3.99▼	60.30▲
Normalised net profit (A$m)[1]	-11.7	-17.4	-23.9▼	-3.99▼	60.30▲
Normalised EPS (c)[1]	-6.33	-7.74	-8.52	-1.43▼	21.50▲
Normalised EPS growth (%)	-8.87	22.20	10.10	-83.3	41.20
Dividend per share (c)	n/a	n/a	n/a	n/a	n/a
Dividend yield (%)	n/a	n/a	n/a	n/a	n/a
Normalised PE (x)	n/m	n/m	n/m	n/m	2.16
EV/EBITDA (x)	n/m	n/m	n/m	n/m	1.00
Price/net oper. CF (x)	-9.84	-6.53	-6.12	-32.7▼	2.33▼
ROIC (%)	-55.6	-89.1	-110	-26.4	303.8

Use of ▲ ▼ indicates that the line item has changed by at least 5%. year to Jun, fully diluted
1. Pre non-recurring items and post preference dividends
Accounting Standard: IFRS
Source: Company data, ABN AMRO Morgans forecasts

Commercialisation strategy defined. Focus on speed to market

CXS's lead drug, omacetaxine, is for the treatment of chronic myeloid leukaemia, initially for patients who have developed resistance to standard treatment as a result of a genetic mutation. CXS has now defined a clear strategy to commercialise omacetaxine. The company will seek to retain the rights for the distribution and marketing of omacetaxine in the US, with launch targeted in 1QCY10. In order to fund the US launch, CXS intends to seek a partner for the marketing and distribution of omacetaxine outside of the US before end CY09.

To fund its speed to market strategy, CXS has addressed its cash position

CXS has announced a 1:14 non-renounceable rights issue, at an issue price of A$0.43 per share, to raise up to A$7.4m. The rights issue follows the successful completion of a A$10m placement to institutional and sophisticated investors also at A$0.43.

Confirms omacetaxine timeline – US launch targeted 1QCY10 and EU launch 3QCY10

In the US, we expect the final section of the 'rolling' NDA submission will be filed with the FDA in mid CY09. In EU, omacetaxine will be submitted for marketing approval to the EMEA, through the centralised procedure, in 4QCY09, with launch anticipated in 3QCY10.

Buy maintained. New valuation reflects changes to underlying assumptions

Following a revision of a number of key assumptions, detailed overleaf, our new DCF valuation is A$1.33 (was A$1.07). Our price target is unchanged at A$0.75, reflecting where we believe the stock will trade upon successful achievement of near-term milestones. Risks include failure to achieve a partnering deal on a timely basis and commercialisation risks.

Analysts

Scott Power
+61 7 3334 4884
scottp@abnamromorgans.com.au

Tanya Solomon
+61 7 3334 4521
tsolomon@abnamromorgans.com.au

ABN AMRO Morgans Limited
(A.B.N. 49 010 669 726) AFSL235410
A Participant of ASX Group

www.abnamromorgans.com.au

ABN AMRO Morgans Corporate Limited is the Underwriter and Lead Manager to the ChemGenex Pharmaceuticals Limited rights issue and may receive fees in this regard. ABN AMRO Morgans Corporate Limited was the Lead Manager to the ChemGenex Pharmaceuticals Limited share placement in April 2009 and received fees in this regard.

Strategy defined

Following a review of the potential corporate opportunities for omacetaxine, CXS has, for the first time, sought to clearly annunciate a clear commercial strategy to take the business forward.

This strategy review commenced in June 2008, when CXS negotiated to acquire the intellectual property and commercial rights of omacetaxine held by Stragen Pharma SA. This acquisition removed the need for an IP royalty on manufacturing and significantly reduced the cost of producing omacetaxine. In our view, the re-negotiation of the Stragen Pharma alliance shortly after the demerger of CXS' metabolic disease assets made CXS a focused oncology company with a clean structure, thus strengthening the company's ability to freely pursue multiple commercialisation opportunities.

In the past, we have had the view that these actions positioned CXS as an attractive M&A target (see our report "Let the games begin", published 10 June 2008), while disappointing that this has not played out as hoped, we acknowledge that CXS is not passively waiting for an exit via M&A. Instead, we believe the company is actively focused on progressing omacetaxine to market, retaining the maximum value of the drug, yet at the same time, noting the resources required to successfully commercialise a product like omacetaxine, seeking partners where appropriate.

Therefore, as we understand it, the strategy to be employed by CXS is to seek to retain the rights for the distribution and marketing of omacetaxine in the US, the launch of which is targeted for 1QCY10. In order to fund the US launch of omacetaxine, CXS intends to seek partnering agreements for the marketing and distribution of omacetaxine outside of the US before the end of 2009.

In our view, by defining a strategy to commercialise its lead product omacetaxine, CXS is now able to get on with the job of advancing its lead product to market. Although, we comment that we would expect CXS to be a very attractive target once FDA approval has been received for its lead compound, and that at this point CXS may then consider an M&A opportunity if one were to arise, at the right price; in our view.

In this note we:

- List the key milestones that may provide a catalyst for the share price;
- Analyse the strategy to be employed by CXS to commercialise omacetaxine;
- Highlight the recent clinical data supporting the development of omacetaxine;
- Review the market potential of omacetaxine; and
- Reiterate our Buy recommendation and new A$1.33 valuation (was A$1.07).

Details of placement and rights issue

To fund its speed to market strategy, CXS recently announced a 1:14 non-renounceable rights issue, at an issue price of A$0.43 per share to raise up to A$7.4m. The rights issue follows the successful completion of a A$10m placement to institutional and sophisticated investors at the same price as the rights issue (A$0.43 per share), supported by existing shareholders Merck Serono, GBS Venture Partners and Orbis Investment Management.

The rights issue is underwritten up to A$5m by ABN AMRO Morgans Corporate Limited and is supported by the commitment of two of CXS' largest shareholders, Alta Partners and GBS Venture Partners, to subscribe for 1.6 million New Shares and 1.1 million New Shares respectively via the Entitlement Issue. Key dates are listed below.

Table 1 : Timetable of rights issue

Action	Date
Lodgement of Rights Issue Information Booklet	Tuesday 21 April 2009
Shares trade ex-entitlement	Thursday 23 April 2009
Record Date to determine eligible shareholders	7.00pm Wednesday 29 April 2009
Despatch Information Booklet and Entitlement Forms	Monday 4 May 2009
Closing Date	5.00pm Friday 22 May 2009
Allotment	Thursday 28 May 2009
Despatch Holding Statements	Friday 29 May 2009
Rights Issue Shares trade on ASX	Friday 29 May 2009

Source: Company data

Use of funds

It is expected that the funds raised by the placement and rights issue will fund CXS through to the US launch of omacetaxine for its initial T315I indication in 1QCY10, with funds being applied to:

- complete clinical development and regulatory filings in the US and Europe for omacetaxine in respect of the T315I indication;
- further progress discussions with pharmaceutical companies to secure a distribution partner for omacetaxine outside of the US;
- prepare for the commercial launch of omacetaxine in the US; and
- fund general and administrative costs of CXS.

Disclosure - ABN AMRO Morgans Corporate Limited is the Underwriter and Lead Manager to the ChemGenex Pharmaceuticals Limited rights issue and may receive fees in this regard. ABN AMRO Morgans Corporate Limited was the Lead Manager to the ChemGenex Pharmaceuticals Limited share placement in April 2009 and received fees in this regard. ABN AMRO Morgans Corporate Limited was the Lead Manager to the ChemGenex Pharmaceuticals Limited placement and SPP in September 2008 and received fees in this regard.

Near-term catalysts to watch

We have identified a number of upcoming catalysts, which, if achieved should drive CXS' share price closer to our target price.

Table 2 : Key catalysts

Estimated Date	Milestone	Impact
Achieved	Initiation of a rolling NDA submission to the US FDA	Positive
Achieved	Presentation of new or updated clinical data at the ASH conference	Positive
Achieved	Completion of enrolment of registration directed trials	Neutral
Achieved	Pre NDA Clinical meeting with US FDA	Neutral
2QCY09	Submission of the CMC (Chemistry and Manufacturing Controls) section of the rolling NDA for omacetaxine	Positive
May-09	Updated data from phase 2/3 clinical trial of omacetaxine in Chronic Myeloid Leukaemia patients with the T315I mutation submitted to be presented at the ASCO 45th Annual Meeting in Orlando, Florida	Positive
May-09	Data from the phase 2/3 clinical trial of omacetaxine in Chronic Myeloid Leukaemia patients who are resistant to multiple tyrosine kinase inhibitors (TKIs) submitted to be presented at ASCO 45th Annual Meeting in Orlando, Florida	Positive
Mid CY09	Complete submission of rolling NDA for omacetaxine to the FDA	Positive
2HCY09	Complete non-US partnering discussions concerning omacetaxine	Major Positive
4QCY09	Initiate European regulatory filing for omacetaxine	Positive
1QCY10	Anticipated commercial launch of omacetaxine in the USA	Major Positive

Source: Company data, ABN AMRO Morgans

Speed to market strategy

As mentioned above, CXS seeks to retain the rights for the distribution and marketing of omacetaxine in the US, the launch of which is targeted for 1QCY10. In order to fund the US launch of omacetaxine, CXS intends to seek partnering agreements for the marketing and distribution of omacetaxine outside of the US before end CY09.

To recap, CXS is currently conducting registration-directed clinical trials in CML patients who have failed therapy with the tyrosine kinase inhibitor, imatinib, and who have the T315I point mutation. Approval in this niche indication, which will initially target only chronic phase patients, should allow CXS to receive its first US FDA approval in 1QCY10 and approval in EU in 3QCY10.

In 2HCY09, CXS plans to appoint a senior sales and marketing executive to lead the US commercialisation efforts. Given the size of the initial T315I market subset targeted initially, CXS plans to launch the drug in a phased manner, with a small and focused marketing team.

In addition to this registration-directed clinical trial, CXS has a phase 2 trial in Chronic Myeloid Leukaemia patients who have failed multiple TKI therapies (study 203), and a phase 2 trial in Acute Myeloid Leukaemia patients underway. While the company is primarily focused on getting omacetaxine registered for its initial niche application described above, these trials may well demonstrate that there are additional applications and revenue generating opportunities available.

See our Special Bulletin “An insight into ChemGenex” published 21 April 2009 for a summary of our recent discussions with Don Joseph, Head of Corporate Development at CXS, on the potential of omacetaxine and the company’s plans to secure a marketing partner ex-US before year-end.

Regulatory pathway

In the US, omacetaxine has a fast-track designation that enables the filing of a new drug application (NDA) in sections to the FDA, leading to faster approval. CXS has submitted the first of three components of its ’rolling’ NDA submission with the filing of non-clinical data. This will be followed by the chemistry and manufacturing controls section (due 2QCY09) and finally the clinical section (due mid 2009). We then expect US FDA approval in 1QCY10.

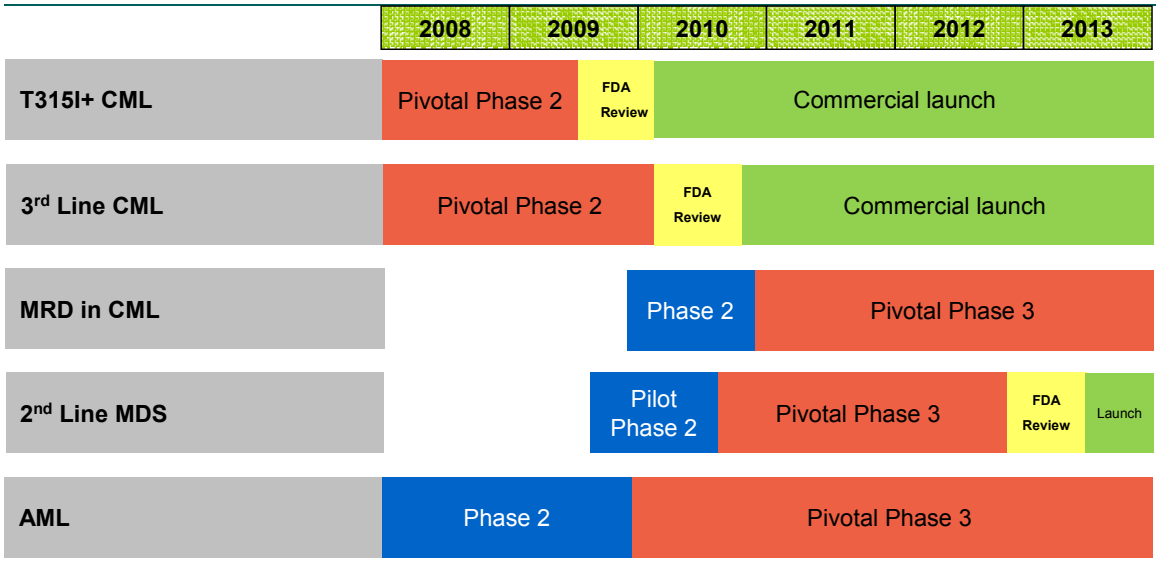
In EU, omacetaxine will be submitted for marketing approval to the EMEA, through the centralized procedure. A letter of intent was filed in March 2009, and a pre-market authorisation application (MAA) meeting will be held in 2QCY09. Submission is expected to occur in 4QCY09, with approval and launch anticipated in 3QCY10.

See Figure 1 for a complete summary.

ABN AMRO Morgans view

While it is disappointing that CXS has failed to secure a marketing partner to date (or for that matter been acquired), creating the need for additional capital to be raised, we believe the reviewed strategy places the company in a sound position to progress its lead compound to market. Indeed, the retention of the US rights will ultimately provide a greater return to shareholders than out-licensing this jurisdiction, albeit at higher risk, in our view. We would also comment that this strategy is contingent on CXS securing an ex-US marketing partner. If a partner is not secured in the targeted time-frame, further capital may be required.

Figure 1: Omacetaxine clinical and regulatory timeline



Source: Company data

Updated clinical data

The latest interim data from its ongoing registration-directed clinical trial (study 202) of omacetaxine in chronic myeloid leukaemia (CML) patients who have developed resistance to the current treatment (imatinib) and have the T315I point mutation is detailed below. Importantly, the data shows that omacetaxine is well tolerated and demonstrates durable complete hematological and cytogenetic responses. The key points are as follows:

- The latest data looks at 44 patients who have been on the drug for more than three months (25 chronic phase, 11 accelerated phase and 8 in blast phase).
- Overall, hematologic response (less cancer cells in blood) has been seen in 80% of chronic-phase patients and 45% of accelerated-phase patients. Complete hematologic response has been seen in 80% of chronic phase patients.
- Cytogenetic response (disease reduces from bone marrow) in 28% of chronic-phase patients and 9% of accelerated-phase patients.
- Median complete hematologic response duration of 11.5 months (ranging from 3.5 months to 25.4 months) and complete cytogenetic response duration of 4.8 months (ranging from 0.3 months to 9.7 months) has been demonstrated.
- The safety profile is in-line with other therapies. The drug is associated with hematologic (blood) toxicity that is not unusual and is manageable and reversible.

Additional data from the 202 study and the 203 study will be presented at the American Society of Clinical Oncology (ASCO) annual meeting in Orlando to be held from 29 May 09 to 2 June 09.

Defining the market

We have used the following assumptions to define the market opportunity for omacetaxine.

Table 3 : Key assumptions

Item	Assumption
CML prevalence in each of the US and EU in 2009 NB: Annual CML incidence in the US is 1.5 cases per 100,000 people	70,000
CML Patients resistant to existing treatment (imatinib) annually	4%
CML Patients resistant to existing treatments due to genetic mutations	45%
Target Group - Patients with genetic mutations who have the T315I mutation	20%
Expected market penetration (presuming omacetaxine is the only therapy approved for patients with this mutation)	70%
Number of patients in target market in FY10 – our estimate	1,080
Assumed sale price	US$50,000
Market launch date - US	1QCY10
Market launch date - EU	3QCY10
EU upfront and milestone payments	US$15m in FY10 upon agreement US$15m in FY11 at market launch
EU royalty on sales (%)	20%
Probability of success (%)	85%
Probability weighted DCF valuation	**A$1.33**

Source: ABN AMRO Morgans; American Cancer Society; Jabour. E, et al (2008) Targeted Therapy in Chronic Myeloid Leukemia, Expert Review of Anticancer Therapy.

- We have initially focused on omacetaxine for use in patients who have demonstrated resistance to existing tyrosine kinase inhibitors and who have the T315I mutation. According to Jabour E et al. (2008), the incidence of new T315I mutation cases is around 200-500 annually in the US (CML prevalence: 70,000 cases; annual resistance rate: 4%; resistance due to mutations: 35-45%; T315I: 15-21% of mutations). We estimate the number of patients in our target market in FY10 to be 1,080 patients. Given the likelihood, that CXS will ultimately seek approval for a wider patient population, including patients demonstrating resistance without the T315I mutation and the possibility of combination therapies with existing drugs, we consider our estimates on the number of patients to be conservative.

- Table 4 below lists the products on the market to treat CML and their average price range. We note that the tyrosine kinase inhibitors listed are ineffective against the T315I mutation. We further draw attention to the special access scheme available in France, where patients with no alternative are accessing omacetaxine priced at approximately US$70,000 per patient, per annum. We assume a sale price of omacetaxine of US$50,000 per patient, per annum, at the bottom end of this range, to be conservative. We would expect CXS will look to secure a higher price, toward the top-end of those listed below. If we assume a US$85,000 per patient, per annum price range, our valuation increases to A$2.76 per share.

Table 4 : Approved therapies to treat CML

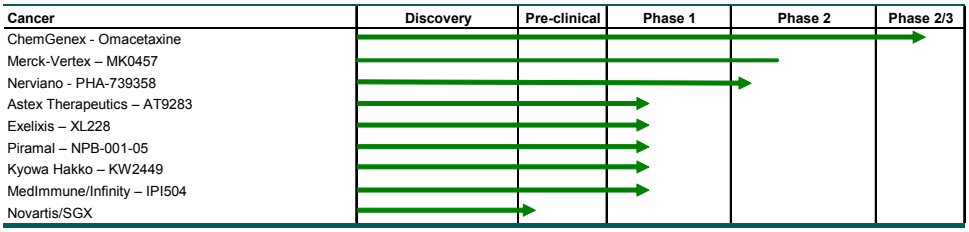
Brand Name	Generic Name	Company	Year approved	Patent expiration	Estimated annual cost per patient (US$) #
Gleevec	imatinib	Novartis	2001	Jul-15	42,768 - 85,524
Sprycel	dasatinib	BMS	Jun-06	Apr-20	63,072
Tasigna	nilotinib	Novartis	Oct-07	Jul-23	85,524

Source: Company data, RegenceRx Pharamcy Benefit Management
Based on the average wholesale price as listed in First Data Bank as of January 2008 for 1 month of therapy

- From a cost perspective, we assume CXS will spend US$7.5m in FY10, increasing to US$10m per annum in FY11 on marketing activities; for example, investigator sponsored clinical studies, conferences, medical education, reimbursement activities etc. A further US$3.0m per annum of a sales force in FY10 (12 reps), increasing to US$9.0m per annum by FY12 (36 reps).

Figure 2 lists the competing drugs under development to treat CML patients with the T315I mutation. We highlight how much further advanced omacetaxine and we further believe the number of companies developing future treatments for CML further supports the potential interest in CXS' compound.

Figure 2 : Omacetaxine is the most advanced candidate for T315I



Source: Company data

Changes to forecasts

We have made the following changes to our assumptions:

- Re-modelled to reflect CXS' strategy to retain the sales and marketing rights of omacetaxine in the US, while seeking a partner for EU and rest-of-world. We had previously assumed a global marketing partner.
- Increased our assumed selling price for omacetaxine to US$50,000 (from US$30,000).
- Adjusted our assumed upfront and milestone payments for the forecast EU partnering deal to 2 x US$15m, one occurring in FY10 and one occurring in FY11 (was previously one US$35m payment in FY10).
- Included sales and marketing costs for the US market into our model (we had previously assumed this would be covered by a US marketing partner). We assume CXS will spend US$7.5m in FY10, increasing to US$10m per annum in FY11 on marketing and a further US$3.0m per annum of a sales force in FY10 (12 reps), increasing to US$9.0m per annum by FY12 (36 reps).
- Diluted the number of shares on issue to reflect the 23.3m shares (A$10.0m) issued for the placement and the 17.1m shares (A$7.4m) to be issued if the rights issue is fully subscribed. Total shares on issue will be 280.1m. The rights issue is underwritten up to A$5m by ABN AMRO Morgans Corporate Limited who will receive fees in this regard.
- Update our USD/AUD FOREX assumptions in line with the house view.

The effect on our forecasts is detailed in the following table.

Table 5 : Changes to forecasts

	FY09			FY10			FY11			FY12		
A$m	Old	New	% Change	Old	New	% Change	Old	New	% Change	Old	New	% Change
Revenue	1.7	1.7	-0.1%	41.7	36.2	-13.1%	69.3	110.2	59.0%	78.2	107.2	37.1%
EBITDA	-20.1	-22.7	-13.0%	28.0	-5.1	-118.1%	55.3	59.5	7.5%	63.8	45.9	-28.0%
NPAT	-21.8	-23.9	-9.5%	28.2	-4.0	-114.2%	39.8	60.3	51.5%	47.4	51.1	7.7%
EPS (c)	-8.9	-8.5	4.2%	11.8	-1.4	-112.1%	16.6	21.5	29.6%	18.9	17.5	-7.2%

Source: ABN AMRO Morgans

Sensitivity analysis:

- Every US$10,000 change to selling price, impacts our valuation by 42cps.
- Every 1% change to the probability of success, impacts our valuation by 3cps.
- Each 1Q delay in US market launch, reduces our valuation by 5cps.

Investment view and recommendation

Following the changes to our forecasts, our DCF valuation has increased to A$1.33 (from A$1.07). We have set our price target at A$0.75, to reflect where we believe the share price will trade on successful achievement of near-term milestones. It is important to note that at this stage we have conservatively assigned no value, incorporating only the R&D-related costs of CXS' pipeline, including its Phase 2 Quinamed program. This provides further upside potential to our forecasts.

- Upside risks to our target price include securing a partner sooner than expected. We do not rule out corporate activity.

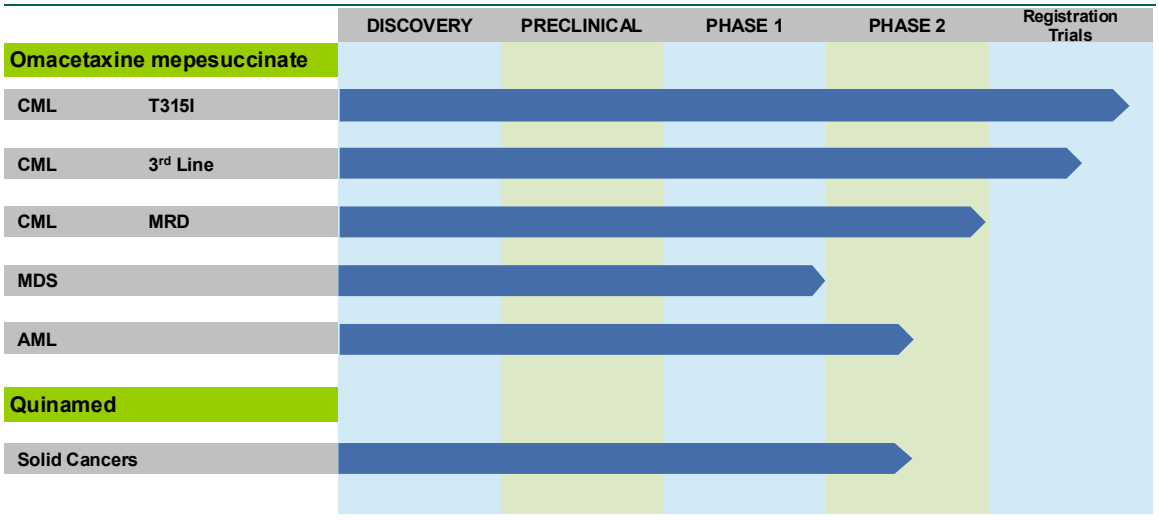
- Downside risks include any delays in the progress of clinical trials, regulatory review time, or securing a marketing partner. Other risks include competition, resistance developing to omacetaxine, market acceptance, manufacturing risk and intellectual property risk.

Additional detail on ChemGenex Pharmaceuticals Limited

ChemGenex's lead compound is omacetaxine (formerly known as Ceflatonin), which is a structurally unique, well-tolerated inducer of programmed cell death, and was originally identified from the National Cancer Institute natural product screening program. CXS is developing omacetaxine to treat three types of blood cancer: chronic myeloid leukaemia (CML), myelodysplastic syndrome (MDS) and acute myeloid leukaemia (AML). The lead program that omacetaxine is being tested in is registration-directed Phase 2/3 clinical trials in CML for patients who have developed resistance to current treatment Gleevec (imatinib mesylate). See Figure 3 below.

A second product candidate, Quinamed (amonafide dihydrochloride), follows a personalised medicine approach. It is in a Phase 2 trial for the treatment of hormone refractory prostate cancer. In a Phase 1 study to determine the best dose based on a patient's genotype, Quinamed generated responses in patients with refractory prostate, ovarian and gastric tumours. In Phase 2, patients are genotyped prior to therapy to determine how quickly they metabolize the drug and are then assigned a specific dose based on their metabolic profile, or genotype. The goal is to maximize Quinamed's therapeutic potential while minimizing drug side-effects.

Figure 3: CXS pipeline



Source: Company data

CXS – financial summary

Year to 30 Jun (A$m)	AIFRS	AIFRS	AIFRS	AIFRS	AIFRS
Income statement	**2007A**	**2008A**	**2009F**	**2010F**	**2011F**
Divisional sales	0.5	1.6	1.7	36.2	110.2
Total revenue	0.5	1.6	1.7	36.2	110.2
EBITDA	-12.0	-18.3	-22.7	-5.1	59.5
Associate income	0.0	0.0	0.0	0.0	0.0
Depreciation	-0.3	-0.1	-0.1	-0.1	-0.1
EBITA	-12.3	-18.5	-22.8	-5.1	59.4
Amortisation/impairment	0.0	0.0	0.0	0.0	0.0
EBIT	-12.3	-18.5	-22.8	-5.1	59.4
EBIT(incl associate profit)	-12.3	-18.5	-22.8	-5.1	59.4
Net interest expense	0.9	1.1	0.6	1.1	0.9
Pre-tax profit	-11.4	-17.4	-23.9	-4.0	60.3
Income tax expense	-0.3	0.0	0.0	0.0	0.0
After-tax profit	-11.7	-17.4	-23.9	-4.0	60.3
Minority interests	0.0	0.0	0.0	0.0	0.0
NPAT	-11.7	-17.4	-23.9	-4.0	60.3
Significant items	0.0	10.9	0.0	0.0	0.0
NPAT post abnormals	-11.7	-6.4	-23.9	-4.0	60.3
Cash flow statement	**2007A**	**2008A**	**2009F**	**2010F**	**2011F**
EBITDA	-12.0	-18.3	-22.7	-5.1	59.5
Change in working capital	2.7	1.3	0.8	-0.1	-4.5
Net interest (pd)/rec	0.9	1.1	0.6	1.1	0.9
Taxes paid	-0.3	0.0	0.0	0.0	0.0
Other oper cash items	0.0	0.0	0.0	0.0	0.0
Cash flow from ops (1)	-8.7	-16.0	-21.3	-4.0	55.8
Capex (2)	-0.3	-0.4	-0.1	-0.1	-0.1
Disposals/(acquisitions)	0.0	0.0	0.0	0.0	0.0
Other investing cash flow	0.0	-0.2	0.0	0.0	0.0
Cash flow from invest (3)	-0.3	-0.5	-0.1	-0.1	-0.1
Incr/(decr) in equity	20.9	0.7	30.3	0.0	0.0
Incr/(decr) in debt	0.0	0.0	0.0	0.0	0.0
Ordinary dividend paid	0.0	0.0	0.0	0.0	0.0
Preferred dividends (4)	0.0	0.0	0.0	0.0	0.0
Other financing cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from fin (5)	20.9	0.7	30.3	0.0	0.0
Forex and disc ops (6)	0.0	0.0	0.0	0.0	0.0
Inc/(decr) cash (1+3+5+6)	11.9	-15.8	8.9	-4.1	55.8
Equity FCF (1+2+4)	-9.0	-16.4	-21.4	-4.1	55.8
Balance sheet	**2007A**	**2008A**	**2009F**	**2010F**	**2011F**
Cash & deposits	25.4	10.1	19.0	14.9	70.7
Trade debtors	0.0	0.0	0.1	3.0	9.1
Inventory	0.0	0.0	0.0	0.0	0.0
Investments	0.0	0.0	0.0	0.0	0.0
Goodwill	16.9	16.9	16.9	16.9	16.9
Other intangible assets	0.0	0.0	0.0	0.0	0.0
Fixed assets	0.1	0.4	0.4	0.4	0.4
Other assets	0.4	0.6	0.6	0.6	0.6
Total assets	42.8	27.9	37.0	35.8	97.6
Short-term borrowings	0.0	0.0	0.0	0.0	0.0
Trade payables	2.4	3.1	4.0	6.8	8.3
Long-term borrowings	0.0	0.0	0.0	0.0	0.0
Provisions	0.0	0.0	0.0	0.0	0.0
Other liabilities	0.4	0.4	0.4	0.4	0.4
Total liabilities	2.9	3.4	4.4	7.2	8.7
Preference shares					
Hybrid equity					
Share capital	120.8	109.0	115.4	111.4	171.7
Other reserves	12.6	15.5	15.5	15.5	15.5
FCTR					
Unrealised gains/losses					
Retained earnings	-93.5	-99.9	-98.2	-98.2	-98.2
Other equity	0.0	0.0	0.0	0.0	0.0
Total equity	39.9	24.5	32.6	28.6	88.9
Minority interest	0.0	0.0	0.0	0.0	0.0
Total shareholders' equity	39.9	24.5	32.6	28.6	88.9
Total liabilities & SE	42.8	27.9	37.0	35.8	97.6

Closing price (A$)	**0.465**	**Price target (A$)**	**0.75**
Valuation metrics			
Preferred methodology	DCF	Val'n (A$)	$ 1.33
DCF valuation inputs			
Rf	5.25%	10-year rate	5.25%
Rm-Rf	6.50%	Margin	2.0%
Beta	1.80	Kd	7.25%
CAPM (Rf+Beta(Rm-Rf))	16.9%	Ke	16.9%
E/EV*Ke+D/EV*Kd(1-t)		NPV cash flow (A$m)	355.0
Equity (E/EV)	100.0%	Minority interest (A$m)	0.0
Debt (D/EV)	0.0%	Net debt (A$m)	-19.0
Interest rate	7.25%	Investments (A$m)	0.0
Tax rate (t)	30.0%	Equity market value (A$m)	374.0
Franking credit	na		
WACC	16.9%	Diluted no. of shares (m)	280.1
		DCF valuation (A$)	**1.33**

Multiples	**2008A**	**2009F**	**2010F**	**2011F**
Enterprise value (A$m)	120.2	111.3	115.3	59.6
EV/Sales (x)	72.9	65.5	3.2	0.5
EV/EBITDA (x)	-6.6	-4.9	-22.8	1.0
EV/EBIT (x)	-6.5	-4.9	-22.5	1.0
PE (pre-goodwill) (x)	-6.0	-5.5	-32.6	2.2

At target price	**2008A**	**2009F**	**2010F**	**2011F**
EV/EBITDA (x)	-10.9	-8.4	-38.6	2.3
PE (pre-goodwill) (x)	-9.7	-8.8	-52.6	3.5

Comparable company data (x)		**2009F**	**2010F**	**2011F**
Avexa	EV/EBITDA	-0.9	-9.4	0.1
Year to 30 Jun	EV/EBIT	-0.9	-8.6	0.1
	PE	-2.9	-67.7	1.9
Acrux	EV/EBITDA	-11.6	11.9	2.3
Year to 30 Jun	EV/EBIT	-10.6	13.1	2.4
	PE	-17.5	14.3	3.9

Per share data	**2008A**	**2009F**	**2010F**	**2011F**
No. shares	224.4	280.1	280.1	280.1
EPS (cps)	-2.9	-8.5	-1.4	21.5
EPS (normalised) (c)	-7.7	-8.5	-1.4	21.5
Dividend per share (c)	0.0	0.0	0.0	0.0
Dividend payout ratio (%)	0.0	0.0	0.0	0.0
Dividend yield (%)	na	na	na	na

Growth ratios	**2008A**	**2009F**	**2010F**	**2011F**
Sales growth	207.6%	3.0%	2033.9%	204.1%
Operating cost growth	59.5%	22.1%	69.2%	22.9%
EBITDA growth	nm	nm	-77.7%	97.3%
EBITA growth	nm	nm	-77.5%	97.5%

Operating performance	**2008A**	**2009F**	**2010F**	**2011F**
Asset turnover (%)	1.2	1.3	24.9	41.3
EBITDA margin (%)	nm	-1337.2	-14.0	54.0
EBIT margin (%)	nm	-1341.9	-14.2	53.9
Net profit margin (%)	nm	-1406.4	-11.0	54.7
Return on net assets (%)	-75.3	-69.8	-17.9	66.8
Net debt (A$m)	-10.1	-19.0	-14.9	-70.7
Net debt/equity (%)	-41.1	-58.3	-52.2	-79.5
Net interest/EBIT cover (x)	17.5	37.7	4.5	-66.2
ROIC (%)	-89.1	-110.6	-26.4	303.8

Internal liquidity	**2008A**	**2009F**	**2010F**	**2011F**
Current ratio (x)	3.2	4.6	2.6	9.3
Receivables turnover (x)	183.2	24.3	23.2	18.3
Payables turnover (x)	7.3	6.9	7.6	6.7

Source: Company data, ABN AMRO Morgans forecasts

RESEARCH TEAM

ROGER LEANING	-	Head of Research	SCOTT POWER	-	Senior Analyst
CHRIS BROWN	-	Senior Analyst	TOM SARTOR	-	Analyst
FIONA BUCHANAN	-	Senior Analyst	TAMARA STRETCH	-	Analyst
NICK HARRIS	-	Analyst	TANYA SOLOMON	-	Analyst
MICHAEL KNOX	-	Director of Strategy & Chief Economist	PAUL STEVENSON	-	Analyst
JAMES LAWRENCE	-	Fixed Interest Analyst	SAM TURNER	-	Analyst
JOSEPHINE LITTLE	-	Analyst	MARCEL VON PFYFFER	-	Associate Director - Strategy
BELINDA MOORE	-	Senior Analyst			

ABN AMRO MORGANS OFFICES

BRISBANE	(07) 3334 4888	CHATSWOOD	(02) 9411 8988
BUNDABERG	(07) 4153 1050	COFFS HARBOUR	(02) 6651 5700
BURLEIGH HEADS	(07) 5520 8788	GOSFORD	(02) 4325 0884
CAIRNS	(07) 4052 9222	HURSTVILLE	(02) 9570 5755
CALOUNDRA	(07) 5491 5422	MERIMBULA	(02) 6495 2869
CAPALABA	(07) 3245 5466	NEUTRAL BAY	(02) 8969 7500
CHERMSIDE	(07) 3350 9000	NEWCASTLE	(02) 4926 4044
EMERALD	(07) 4988 2777	NEWPORT	(02) 9998 4200
GLADSTONE	(07) 4972 8000	ORANGE	(02) 6361 9166
GOLD COAST	(07) 5592 5777	PARRAMATTA	(02) 9615 4500
IPSWICH	(07) 3202 3995	PORT MACQUARIE	(02) 6583 1735
MACKAY	(07) 4957 3033	SCONE	(02) 6544 3144
MILTON	(07) 3114 8600	WOLLONGONG	(02) 4227 3022
NOOSA	(07) 5449 9511	**MELBOURNE**	(03) 9947 4111
REDCLIFFE	(07) 3897 3999	BERWICK	(03) 9796 2676
ROCKHAMPTON	(07) 4922 5855	BRIGHTON	(03) 9519 3555
SPRING HILL	(07) 3833 9333	CAMBERWELL	(03) 9813 2945
SPRINGWOOD	(07) 3808 7588	GEELONG	(03) 5222 5128
SUNSHINE COAST	(07) 5479 2757	TRARALGON	(03) 5176 6055
TOOWOOMBA	(07) 4639 1277	WARRNAMBOOL	(03) 5559 1500
TOWNSVILLE	(07) 4771 4577	**CANBERRA**	(02) 6232 4999
YEPPOON	(07) 4939 3021	**ADELAIDE**	(08) 8464 5000
SYDNEY	(02) 8215 5000	**PERTH**	(08) 9261 0888
ARMIDALE	(02) 6770 3300	BUNBURY	(08) 9791 9188
BALLINA	(02) 6686 4144	**DARWIN**	(08) 8981 9555
BALMAIN	(02) 8755 3333	**HOBART**	(03) 6236 9000

DISCLAIMER - ABN AMRO MORGANS LTD

This report was prepared as a private communication to clients and was not intended for public circulation or publication or for the use of any third party, without the approval of ABN AMRO Morgans Ltd ("ABN AMRO Morgans"). While this report is based on information from sources which ABN AMRO Morgans considers reliable, its accuracy and completeness cannot be guaranteed. Any opinions expressed reflect ABN AMRO Morgans judgment at this date and are subject to change. ABN AMRO Morgans has no obligation to provide revised assessments in the event of changed circumstances. ABN AMRO Morgans, its directors and employees do not accept any liability for the results of any actions taken or not taken on the basis of information in this report, or for any negligent misstatements, errors or omissions. This report is made without consideration of any specific client's investment objectives, financial situation or needs. Those acting upon such information without first consulting one of ABN AMRO Morgans investment advisors do so entirely at their own risk. It is recommended that any persons who wish to act upon this report consult with an ABN AMRO Morgans investment advisor before doing so. This report does not constitute an offer or invitation to purchase any securities and should not be relied upon in connection with any contract or commitment whatsoever.

DISCLOSURE OF INTEREST

ABN AMRO Morgans and/or its affiliated companies may make markets in the securities discussed. Further, ABN AMRO Morgans and/or its affiliated companies and/or their employees from time to time may hold shares, options, rights and/or warrants on any issue included in this report and may, as principal or agent, sell such securities. ABN AMRO Morgans affiliates may have acted as manager or co-manager of a public offering of any such securities in the past three years. ABN AMRO Morgans affiliates may provide or have provided banking services or corporate finance to the companies referred to in the report. The knowledge of affiliates concerning such services may not be reflected in this report.

The Directors of ABN AMRO Morgans advise that they and persons associated with them may have an interest in the above securities and that they may earn brokerage, commissions, fees and other benefits and advantages, whether pecuniary or not and whether direct or indirect, in connection with the making of a recommendation or a dealing by a client in these securities, and which may reasonably be expected to be capable of having an influence in the making of any recommendation, and that some or all of our Proper Authority holders may be remunerated wholly or partly by way of commission. The Directors of ABN AMRO Morgans advise that the author/s of this report and/or their associates hold an interest in securities mentioned in this report.

RECOMMENDATION STRUCTURE

Absolute performance, long-term (fundamental) recommendation: The recommendation is based on implied upside/downside for the stock from the target price. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%. The target price is the level the stock should currently trade at if the market accepted the analyst's view of the stock, provided the necessary catalysts are in place to effect the change in perception. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value the target price will differ from 'fair' value. Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months.

For listed property trusts (LPTs) the recommendation is based upon the target price plus the dividend yield, ie total return. A Buy implies a total return of 10% or more; a Hold 5-10%; and a Sell less than 5%.

Absolute performance, short-term (trading) recommendation: The Trading Buy/Sell recommendation implies upside/downside of 3% or more. The trading recommendation time horizon is 0-60 days.

Each stock has been assigned a Volatility Rating to assist in assessing the risk of the security. The rating measures the volatility of the security's daily closing price data over the previous year relative to other stocks included in either the S&P/ASX200 Index (large caps) or the Small Ordinaries Index (small caps) of which it is a member. This rating is a quantitative (objective) measure provided as an additional resource and is independent of the qualitative research process undertaken by our research analysts.

A rating of Low indicates very little movement in price over the previous year (Coefficient of Variation < 4 for small caps or < 5 for large caps). A Moderate rating implies average price movement over the previous year (Coefficient of Variation of 9 - 21 for small caps or 7.25 - 15 for large caps). A High rating implies significant price movement over the past year (Coefficient of Variation greater than 25 for small caps or 35 for large caps).

REGULATORY DISCLOSURES

Subject companies: ChemGenex Pharmaceuticals Limited (CXS.AX)

ABN AMRO Morgans Corporate Limited is the Underwriter and Lead Manager to the ChemGenex Pharmaceuticals Limited rights issue and may receive fees in this regard.

ABN AMRO Morgans Corporate Limited was the Lead Manager to the ChemGenex Pharmaceuticals Limited share placement in April 2009 and received fees in this regard.

ABN AMRO Morgans Corporate Limited was the Lead Manager to the ChemGenex Pharmaceuticals Limited placement and SPP in September 2008 and received fees in this regard.

PRIVACY

Personal information held by ABN AMRO Morgans Ltd may have been used to enable you to receive this publication. If you do not wish your personal information to be used for this purpose in the future please advise us, including your account details to your local ABN AMRO Morgans Ltd office or to Reply Paid 202, GPO Box 202 Brisbane Qld 4001.