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Sareum Holdings

Healthcare

25 January 2021

Starting to tick the right boxes

The bulk of Sareum's value rests on the late preclinical autoimmune therapy SDC-1801, with planned filing to start clinical development in H121 followed by possible exploratory clinical studies, if funding allows, from H221. This could open the way to a substantive partnering deal from Q222. Partnering could be helped if the related BMS therapeutic deucravacitinib gains FDA approval and blockbuster sales in psoriasis. Sareum could offer a partner a promising route to an autoimmune therapy with potentially broad indications.

Autoimmune contender

Sareum's novel dual tyrosine kinase 2 (TYK2) and Janus kinase 1 (JAK1) inhibitor (SDC-1801) is a potential autoimmune therapy. TYK2 and JAK (1, 2 and 3) control cell responses to various potent messenger proteins such as interleukins. The dual kinase approach may give SDC-1801 a broad range of potential indications. The leading direct competitor is a highly specific TYK2 inhibitor, deucravacitinib, from BMS. In Q420 this met its primary endpoints in a Phase III. A second Phase III reports in Q121 and may be marketed from 2022. Pfizer has both TYK2 and TYK2/JAK1 inhibitors in Phase II but is focused on a Phase III JAK3 inhibitor for alopecia. The psoriasis market is large, as shown by Otezla (Amgen), a phosphodiesterase 4 inhibitor that gained 9M20 sales of $1.6bn after being acquired in late 2019 for $13.4bn. There are already three other JAK inhibitors approved for rheumatoid arthritis, baricitinib, tofacitinib and upadacitinib.

SDC-1801 development and newsflow

Sareum aims to file a UK clinical trial authorisation in H121. If granted, a short safety and PK study could be followed by an exploratory Phase Ib study in psoriasis. TYK2 potency is established in psoriasis and trials are faster to run. These studies could, in our view, add significant additional value and may facilitate a valuable partnering deal from H222 onwards. However, we think SDC-1801 might be better positioned in other autoimmune diseases such as inflammatory bowel disease where its dual action might offer therapeutic gains.

Valuation: EV of £68.2m based on SDC-1801

Value is focused on SDC-1801 but this will require further funding to run clinical studies. A related product for oncology, SDC-1802, is in early preclinical. If the out-licensed, clinical-stage Chk1 inhibitor SRA737 for oncology restarts development with Sierra Oncology, it might boost the value. However, with a 27.5% share of the Sierra partnership, Sareum has little influence over the outcome of the project review. Early-stage COVID-19 work with TYK2/JAK1 inhibitors is funded by a £174k UKRI grant. FY20 cash was £1.8m, making the EV £68.2m.

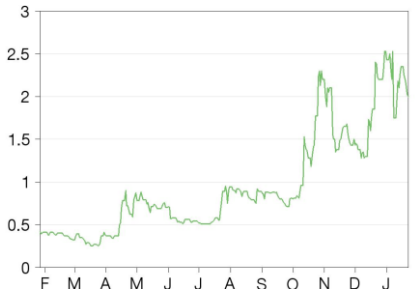
Historical financials

Year end	Revenue (£m)	PBT (£m)	EPS (p)	DPS (p)	P/E (x)	Yield (%)
06/19	0.00	(1.68)	(0.05)	N/A	N/A	N/A
06/20	0.05	(1.12)	(0.03)	N/A	N/A	N/A

Source: Sareum annual report

Price	2p
Market cap	£65m

Share price graph



Share details

Code	SAR
Listing	AIM
Shares in issue	3.27bn

Business description

Sareum is a UK-based virtual company with outsourced R&D and development. It specialises in small molecules for precision medicine targeting internal cell targets. The main product inhibits TYK2/JAK1 with the aim of controlling autoimmune disease. There is also a Chk1 inhibitor for cancer.

Bull

- Promising product in SDC-1801 that could be attractive to partners when it has clinical data.
- Follow-up product SDC-1802 being investigated in cancer.
- Possible COVID-19 inflammatory response treatment with UK grant funding.

Bear

- SRA737 Chk1 cancer product with Sierra Oncology on hold, pending partnership review.
- Side effects of combination TYK2/JAK1 inhibitors still unknown.
- SDC-1801 not certain to enter trials in 2021 and US IND filing also required.

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