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## Good Things Going On At The Pharm

### Recommendation

#### SPECULATIVE BUY

S&amp;P/ASX 300 = 4998

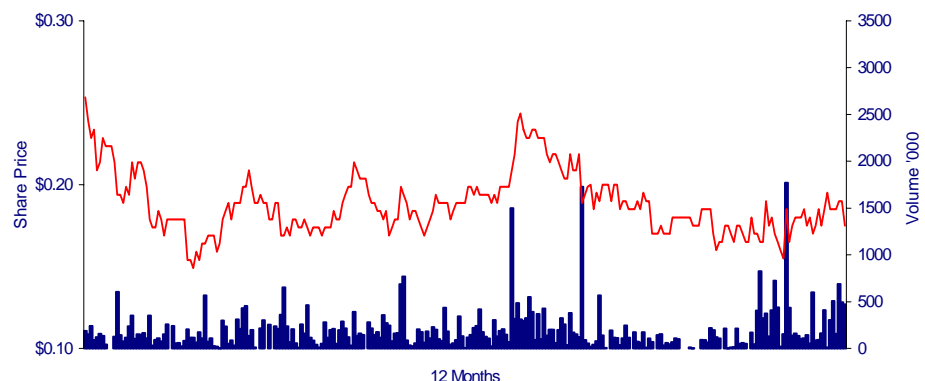
### Significant Risk Reduction

- With the successful achievement of three risk-reducing milestones in the last 5 weeks, we are upgrading our recommendation for PAA to **SPECULATIVE BUY** (previously HOLD) with a price target of **\$0.38**.
- At the time of our last report (16 February 2006), PAA was in a vulnerable cash position with its reported cash balance on 31 December 2006 at \$213,000. Since that time, the company has made a number of significant announcements that reduce our concerns regarding the risk of the stock:
  - On 7 March 2006, PAA announced it had completed placement of the shortfall of stock from its capital raising providing \$2.1m in cash
  - On 13 March 2006, PAA announced that it has received TGA approval for its manufacturing facility in Welshpool
  - On 14 March 2006, PAA released their Half Year accounts which reported 6 month revenues of \$3.2m on an accrual basis rather than the \$2.3m in cash-based quarterly commitment test.
- In addition, the assets of Mimotopes have been independently revalued in the books at \$3.1m. Previously these were carried at zero value. This revaluation has two effects:
  - increases the net tangible asset backing per share from 5.4c (30 June 2005) to 9.1c (31 December 2005)
  - provides a greater asset base to securitize additional debt facilities should the by needed.
- In view of the decreased risk for the PAA and the good growth potential available for the company from both its secured contracts and other opportunities, we believe PAA represents a good speculative investment.

*In July 2004, Patersons Securities completed a private placement of 24 million Echo shares at 2.5c per share to raise \$600,000. The funds were used to progress the purchase of the Ramprie Laboratories and associated real estate, prior to the capital reconstruction and change of name to PharmAust Ltd, which occurred in November 2004. Patersons earned a fee for this service.*

### Company Statistics & Performance

Shares on issue:	82.4m	Year High	\$0.25
Market Cap:	\$14.4m	Year Low	\$0.15
Cash	\$2.3m	Daily Turnover:	198,000
Cash Burn	\$3.1m		



## Good Existing and Potential Growth Opportunities

- PAA has two aspects to its underlying growth strategy:
  - accessing and integrating pharmaceutical capabilities and technologies through M&A
  - using these capabilities and technologies for vertical supply chain integration
- To date, the company has been successful in both of these aspects with the acquisition of chemistry from Epichem, manufacturing through the Welshpool facility and peptide chemistry from Mimotopes.
- The recent partnership with Genzyme (NASDAQ:GENZ) to supply preclinical peptide chemistry services to support Genzyme's clinical scale capability in this area.
- We also believe the contract between PAA's Mimotopes subsidiary and Invitrogen Corporation (NASDAQ:IVGN) has the potential to deliver significant near term revenue for PAA. As this arrangement was modified from a 12-month rolling preferred supplier to a 3-year exclusive supply arrangement, PAA will be able to establish the appropriate level of resourcing and investment to maximise the commercial opportunities from this contract.
- We believe that there also exist a number of opportunities for PAA to further leverage its chemistry, manufacturing and peptide capabilities to partnerships with local companies to establish vertically integrated supply chain offerings.
- With the additional cash from the shortfall placement, the receipt of revenue from work completed last year and contract work undertake to date in this quarter, we believe the investment thesis for PAA has improved:
  - good near term revenue potential from established business:
    - contract revenue from Genzyme and Invitrogen from peptides and Epichem from chemistry
    - manufacturing revenue from Welshpool plant
  - growth potential from new business opportunities:
    - approval and distribution of Xepa Soul-Pattinson generic drugs
    - contract pharmaceutical manufacturing for other companies
    - other supply-chain integration partnerships
  - more secure cash position:
    - improved cash reserves from capital raising and receipt of revenues
    - ongoing revenue from existing contracts
- We believe that these are not fully reflected in PAA's current price of \$0.18 (MCap \$14.4m) and thus the stock has the potential to be significantly re-rated in the near future.

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