

The Australian

Wednesday 22/11/2006

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Wealth

Stock: Mesoblast Ltd

Code: MSB
Market Cap: \$100 million
Recommendation:
SPECULATIVE BUY

IT'S not always easy being contrarian, especially in the middle of a resources boom that seems like such a sure bet. However, if you don't mind the occasional high-risk punt with upside potential, the biotechnology sector is worth a look.

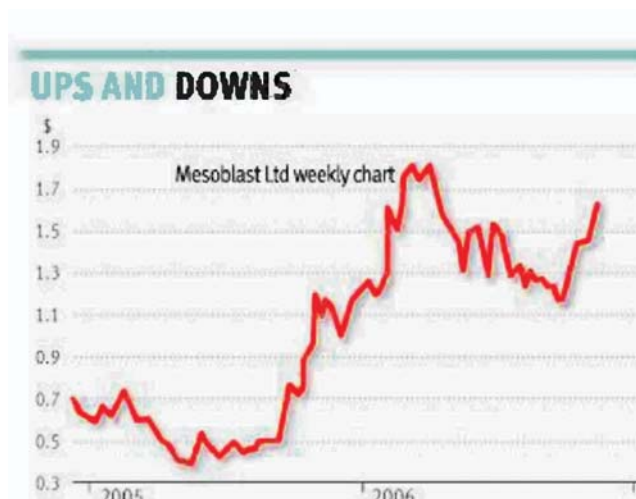
Wise-owl.com analyst Simon Guzowski says biotechs have been out of favour with investors for years, while the resources sector has taken the limelight.

"It wasn't long ago that resource stocks were 'old economy' and shunned by the market. Biotech stocks have a lot in common with resources stocks," he says.

Early-stage biotechs and resources explorers both offer potentially large upside, but they also come with large downside risk. While a mining company may live or die by drilling results, a biotech may rely on a strategic clinical trial being successful.

Mesoblast is developing stem-cell-based medicines.

What makes them different from competitors is their technology uses adult stem cells. Not only do adult stem cells not face the ethical dilemmas of embryonic stem cells, they are also safer.



WHAT'S HOT WHAT'S NOT

"While Mesoblast is admittedly high risk, its fundamentals are head and shoulders ahead of its peers. The company has delivered early trial results that show it may one day commercialise a company maker," Guzowski says.

What makes stem cells so exciting? They have the potential to completely change medicine as we know it. If they live up to their full theoretical potential, so to speak, they could replace the majority of current treatments.

Essentially they encourage the body to regenerate itself.

"In the case of Mesoblast, their stem cells could become an 'off the shelf' style treatment for health problems, including spinal disease, bone fractures, osteoarthritis, joint diseases, heart disease and even regeneration of blood vessels," Guzowski says.

All of these markets are in the multi-billion-dollar category. Mesoblast is now preparing for phase two trials that are expected to start in 2007.

"Should the trials be successful, we would expect a strong rerating of this company," Guzowski says.

Source: Wise-owl.com