

1 July 2021

# Universal Biosensors Inc. (UBI) BUY

Share Price: **A\$0.84**

Buy signals are getting clearer

Target Price: **A\$1.20**

Recent commentary from UBI confirms that the company remains on track to deliver a marked uplift in sales over the next several years. Key in this regard have been the YTD sales run rate for Sentia and the incremental progress made across several of UBI's product development initiatives. We reiterate our Buy rating and \$1.20ps target price.

## Near-term catalysts

- The ongoing commercialisation of Sentia, which is UBI's hand-held biosensor for wine testing, remains on-track to become the key driver of near-term earnings, and a material contributor to medium-term growth.
- Based on recent updates, UBI is continuing to increase its market reach/brand awareness through distribution agreements – on an exclusive basis in Australia and a non-exclusive basis in international markets.
- Sentia's operating model is already translating to sales, with UBI expecting the \$1m mark to be breached in September 2021. Increasing the number of wine tests available on the Sentia device will accelerate this trend.

## Medium-term catalysts

- While UBI's product pipeline features several exciting innovations, on a risk-return basis the most compelling of these are its potential biosensors for Tn Antigens and key fertility hormones.
- UBI recently noted that the development pipelines for these biosensors are tracking to plan, including the potential ground-breaking use of aptamers to monitor fertility hormones as part of the IVF treatment process.

## The broader market opportunity is enormous

- While we expect Sentia to drive a marked improvement in UBI's profitability over the next several years, this is based on what we view as conservative market share assumptions given its utility and first mover advantage.
- Moreover, our current forecasts do not factor in any potential contributions from UBI developing biosensors for cancer and/or fertility. The market opportunity for both is huge, with targeted product sales from ~2025.

## Reiterate Buy rating and \$1.20ps target price

- Our estimated fair value for UBI is \$1.20ps, with this based entirely on our DCF valuation. This equates to an equity value of \$220m, which compares favourably with the current market value of key company comparatives.
- UBI's near-term share price catalysts are likely to include progress reports on (i) Sentia, including new distribution agreements and test types and (ii) the development of a biosensor for monitoring Tn Antigen.

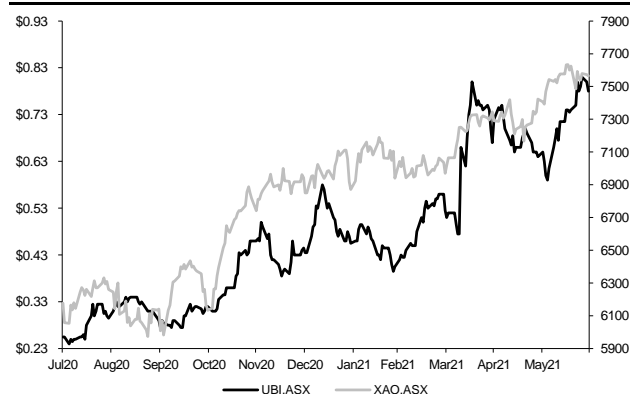
## Company Data

Shares – ordinary (M)	177.6
Dilution (M)	0.0
Total (fully diluted) (M)	177.6
Market capitalisation (\$M)	149.2
12 month low/high (\$)	0.2 - 0.85
Average monthly turnover (\$M)	4.3
GICS Industry	Health Care Equipment & Supplies

## Financial Summary (fully diluted/normalised)

Year End December	2020A	2021F	2022F	2023F	2024F
Revenue (A\$m)	3.2	8.3	15.5	25.7	40.7
Costs (A\$m)	8.8	15.8	20.1	24.3	29.2
EBITDA (A\$m)	-5.6	-7.5	-4.6	1.4	11.5
NPAT (A\$m)	-7.6	-9.6	-6.8	-0.8	9.3
EPS (¢)	-4.1	-5.2	-3.7	-0.4	5.1
EPS Growth (%)	-57.5	-25.4	29.4	88.3	+100.0
PER (x)	-20.2	-16.2	-22.9	-194.6	16.5
FCF (A\$m)	-8.7	-8.1	-7.4	-1.7	7.2
FCF per share (cps)	-4.7	-4.4	-4.0	-0.9	3.9
Price to FCF (x)	-17.8	-19.1	-21.0	-88.6	21.4
EV (A\$m)	124.4	131.1	139.2	146.6	148.3
EV/EBITDA	-22.4	-17.5	-30.2	104.1	12.9
Payout ratio (%)	0.0	0.0	0.0	0.0	0.0
Dividend (¢)	0.0	0.0	0.0	0.0	0.0
Net Yield (%)	0.0	0.0	0.0	0.0	0.0
Franking (%)	0.0	0.0	0.0	0.0	0.0

## UBI – performance over one year



## Disclosure and Disclaimer

This report must be read with the disclosure and disclaimer on the final page of this document.

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## Analysis

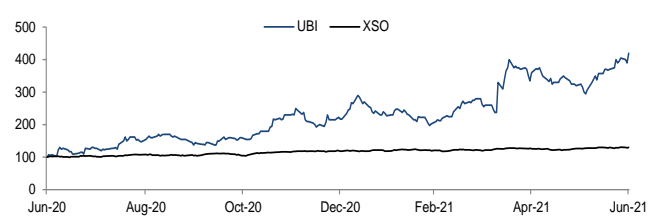
### Universal Biosensors

Year End December

#### MARKET DATA

Recommendation		Buy
Price	\$	0.84
Price target (12-month)	\$	1.20
52 week high / low	\$	0.2 - 0.85
Market capitalisation	\$m	149.2
Shares on issue (basic)	no.	177.6
Performance rights	no.	0.0
Other equity	no.	0.0
Shares on issue (diluted)	no.	177.6

#### 12-MONTH SHARE PRICE PERFORMANCE



INVESTMENT FUNDAMENTALS	2020A	2021F	2022F	2023F	2024F	2025F
Underlying net profit	\$m (7.6)	(9.6)	(6.8)	(0.8)	9.3	20.0
Reported net profit	\$m (7.6)	(9.6)	(6.8)	(0.8)	9.3	20.0
Reported EPS (diluted)	¢ (4.1)	(5.2)	(3.7)	(0.4)	5.1	10.9
Normalised EPS (diluted)	¢ (4.1)	(5.2)	(3.7)	(0.4)	5.1	10.9
...Growth	% (57.5)	(25.4)	29.4	88.3	+100.0	+100.0
Normalised diluted PER	x (20.2)	(16.2)	(22.9)	(194.6)	16.5	7.7
Adjusted Op. CF per share	¢ (4.5)	(4.1)	(3.7)	(0.7)	4.2	10.1
Adjusted FCF per share	¢ (4.7)	(4.4)	(4.0)	(0.9)	3.9	9.8
Price to free cash flow per share	x (17.8)	(19.1)	(21.0)	(88.6)	21.4	8.6
Free cash flow yield	% (5.6)	(5.2)	(4.8)	(1.1)	4.7	11.7
Dividend per share	¢ 0.0	0.0	0.0	0.0	0.0	0.0
Payout ratio	% 0.0	0.0	0.0	0.0	0.0	0.0
Yield	% 0.0	0.0	0.0	0.0	0.0	0.0
Franking	% 0.0	0.0	0.0	0.0	0.0	0.0

Enterprise value	2020A	2021F	2022F	2023F	2024F	2025F
EV/EBITDA	x (22.4)	(17.5)	(30.2)	104.1	12.9	6.4
EV/EBIT	x (16.0)	(13.6)	(20.7)	(210.9)	15.8	7.1
Price to book (NAV)	x 3.9	5.3	6.9	7.2	5.1	3.1
Price to NTA	x 6.3	9.5	14.0	13.1	6.8	3.5

KEY RATIOS	2020A	2021F	2022F	2023F	2024F	2025F
EBITDA margin	% (173.3)	(90.5)	(29.8)	5.5	28.2	39.9
EBIT margin	% (242.8)	(115.8)	(43.4)	(2.7)	23.0	36.1
Underlying net profit margin	% (238.5)	(115.4)	(43.7)	(3.1)	22.9	36.1
Return on average equity	% (18.3)	(28.9)	(27.0)	(3.7)	36.5	49.8
Return on average assets	% (13.3)	(18.8)	(15.5)	(2.1)	19.3	30.8
Net tangible assets per share	¢ 13.3	8.9	6.0	6.4	12.3	23.9
Net debt / (cash)	\$m (23.6)	(15.4)	(8.1)	(6.4)	(13.5)	(31.5)
Interest cover (EBIT / net interest)	x N/A	N/A	(144.5)	(7.2)	125.4	N/A
Leverage (net debt / EBITDA)	x N/A	N/A	N/A	N/A	N/A	N/A
Gearing (net debt / net debt plus equity)	% N/A	N/A	N/A	N/A	N/A	N/A

DUPONT ANALYSIS	2020A	2021F	2022F	2023F	2024F	2025F
Net Profit Margin	% (238.5)	(115.4)	(43.7)	(3.1)	22.9	36.1
Asset Turnover	x 0.1	0.2	0.3	0.6	0.9	0.9
Return on Assets	% (12.8)	(18.4)	(15.2)	(1.9)	19.6	31.2
Financial Leverage	x 1.4	1.6	1.8	2.0	1.9	1.6
Return on Equity	% (18.3)	(28.9)	(27.0)	(3.7)	36.5	49.8

BUSINESS SEGMENTS	2020A	2021F	2022F	2023F	2024F	2025F
Revenue	\$m 3.2	8.3	15.5	25.7	40.7	55.4
- Oenology (Sentia)	\$m 0.0	2.2	6.7	16.9	27.2	37.5
- Blood coagulation	\$m 2.6	4.1	6.0	5.5	8.9	12.1
- Veterinary	\$m 0.0	0.0	0.4	0.8	1.7	2.6
- HRL	\$m 0.6	2.0	2.3	2.6	2.8	3.1
Gross profit	\$m 0.6	3.7	8.8	15.8	26.6	37.9
- Oenology (Sentia)	\$m 0.0	1.7	5.0	12.8	20.6	28.7
- Blood coagulation	\$m 0.9	1.9	3.1	2.0	4.3	7.0
- Veterinary	\$m 0.0	0.0	0.2	0.4	0.8	1.3
- HRL	\$m (0.2)	0.2	0.5	0.6	0.8	0.9
Gross profit margin	% 19.5	44.9	56.6	61.4	65.3	68.5
Non-sales income	\$m 4.9	3.0	0.0	0.0	0.0	0.0

PROFIT AND LOSS	2020A	2021F	2022F	2023F	2024F	2025F
Total revenue	\$m 3.2	8.3	15.5	25.7	40.7	55.4
EBITDA	\$m (5.6)	(7.5)	(4.6)	1.4	11.5	22.1
Depreciation & amortisation	\$m 2.2	2.1	2.1	2.1	2.1	2.1
EBIT	\$m (7.8)	(9.6)	(6.7)	(0.7)	9.4	20.0
Net interest	\$m (0.1)	(0.0)	0.0	0.1	0.1	(0.0)
Non-operating income	\$m 0.0	0.0	0.0	0.0	0.0	0.0
Pretax Profit	\$m (7.6)	(9.6)	(6.8)	(0.8)	9.3	20.0
Tax expense	\$m 0.0	0.0	0.0	0.0	0.0	0.0
Minorities	\$m 0.0	0.0	0.0	0.0	0.0	0.0
Reported NPAT	\$m (7.6)	(9.6)	(6.8)	(0.8)	9.3	20.0
Significant items	\$m 0.0	0.0	0.0	0.0	0.0	0.0
Underlying NPAT	\$m (7.6)	(9.6)	(6.8)	(0.8)	9.3	20.0

GROWTH PROFILE	2020A	2021F	2022F	2023F	2024F	2025F
Operating revenue	% (53.6)	159.2	86.5	66.2	58.2	36.0
EBITDA	% 4.8	(35.3)	38.6	+100.0	+100.0	92.2
EBIT	% (11.3)	(23.6)	30.1	89.7	+100.0	+100.0
Operating NPAT	% (57.6)	(25.4)	29.3	88.3	+100.0	+100.0
Normalised EPS	% (57.5)	(25.4)	29.4	88.3	+100.0	+100.0
DPS	% 0.0	0.0	0.0	0.0	0.0	0.0

BALANCE SHEET	2020A	2021F	2022F	2023F	2024F	2025F
Cash	\$m 23.6	15.4	8.1	6.4	13.5	31.5
Receivables	\$m 0.1	1.2	2.8	4.6	7.3	10.0
Inventory	\$m 1.9	1.7	2.9	4.9	7.7	10.5
Other	\$m 5.9	5.9	5.9	5.9	5.9	5.9
Current	\$m 31.4	24.2	19.7	21.8	34.5	57.9
Prop. plant & equip	\$m 4.4	4.4	4.4	4.4	4.4	4.5
Goodwill	\$m 0.0	0.0	0.0	0.0	0.0	0.0
Other	\$m 20.6	18.8	17.3	15.8	14.3	12.8
Non current	\$m 25.0	23.2	21.7	20.2	18.7	17.2
Total assets	\$m 56.4	47.5	41.4	42.0	53.2	75.1
Accounts Payable	\$m 0.4	1.2	1.9	3.1	4.9	6.6
Borrowings	\$m 0.0	0.0	0.0	0.0	0.0	0.0
Other	\$m 18.0	17.8	17.9	18.1	18.2	18.3
Total liabilities	\$m 18.4	19.1	19.8	21.1	23.1	24.9
Net assets	\$m 38.0	28.4	21.6	20.8	30.1	50.2
Equity	\$m 38.0	28.4	21.6	20.8	30.1	50.2
Minorities	\$m 0.0	0.0	0.0	0.0	0.0	0.0
Shareholder's equity	\$m 38.0	28.4	21.6	20.8	30.1	50.2
Shares on issue	m 177.6	177.6	177.7	179.0	181.8	184.1

CASH FLOW	2020A	2021F	2022F	2023F	2024F	2025F
EBITDA	\$m (5.6)	(7.5)	(4.6)	1.4	11.5	22.1
Change in working capital	\$m (0.9)	(0.2)	(2.2)	(2.6)	(3.7)	(3.7)
Net interest	\$m 0.0	0.0	(0.0)	(0.1)	(0.1)	0.0
Tax paid	\$m 0.0	0.0	0.0	0.0	0.0	0.0
Other	\$m (1.8)	0.0	0.0	0.0	0.0	0.0
Operating cash flow	\$m (8.3)	(7.6)	(6.9)	(1.3)	7.7	18.5
Capital expenditure	\$m (0.4)	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)
Acquisitions/divestment/other	\$m 0.0	0.0	0.0	0.0	0.0	0.0
Investing cash flow	\$m (0.4)	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)
Free cash flow	\$m -8.7	-8.1	-7.4	-1.7	7.2	18.0
Equity	\$m 0.0	0.0	0.0	0.0	0.0	0.0
Increase / (decrease) in borrowings	\$m 0.0	0.0	0.0	0.0	0.0	0.0
Dividend/other	\$m 0.0	0.0	0.0	0.0	0.0	0.0
Financing cash flow	\$m 0.0	0.0	0.0	0.0	0.0	0.0
Net cash flow	\$m (8.6)	(8.1)	(7.4)	(1.7)	7.2	18.0

Source: Petra Capital



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