

22 April 2022

## Universal Biosensors Inc. (UBI) BUY

**Share Price: A\$0.76**
**Cashing up for an oncology market ascent**
**Target Price: A\$0.96**

**UBI's equity raise provides requisite funding certainty to advance the development of its next generation of biosensors. While UBI remains confident that Sentia is tracking to plan despite a flat 1Q22, its aspirations in other much larger end markets are becoming more tangible. With this broader upside not factored into our estimates, we reiterate our Buy and new \$0.96ps TP.**

### Locking in funding certainty

- UBI has raised ~\$26m at 77cps, comprising \$20m from an entitlement offer and \$6m from a placement. As a result, shares and options on issue will increase by 34m to 212m, and 4m to 20m, respectively.
- While UBI had previously stated it has sufficient capital to fund its operations to cash flow break-even in 1Q23, recent technological breakthroughs and clinical study results have prompted an acceleration of its R&D plans.

### Use of funds and key upcoming milestones

- Of the \$26m of new equity raised, UBI will invest ~\$10m in 3-electrode-strip manufacturing lines with incremental output of 60-80m units p.a. and ~\$1m to upgrade its HRL laboratories, with the balance allocated to WC/BD.
- While the large allocation to WC/BD is a surprise given UBI's cash balance/cash flow projections and has been attributed to recent growth in its R&D pipeline, it could also reflect the uncertain outlook for Sentia sales.
- Key milestone dates include the initial retrofitting of a 3-electrode strip manufacturing line within 9-12 months, followed by the addition of a dedicated Tn Antigen line ahead of the commencement of clinical studies in 3Q23.

### Large market opportunities remain at-hand

- We expect UBI to report a significant improvement in profitability over the next several years, driven primarily by strong revenue growth derived from the rollout of its various initiatives, supplemented by operating leverage.
- Key in this regard is UBI's Sentia device, which debuted in early 2021 as a medical-grade diagnostics device for wine makers. The customer proposition is compelling, and the addressable market is >A\$600m p.a.
- While we expect this to be supplemented by the rollout of Xprecia Prime, particularly once licensed for the US market, the key medium-term driver is the US\$6-12bn p.a. market opportunity for its cancer monitoring device.

### Reiterate Buy with \$0.96ps TP (from \$1.17ps)

- Our estimated fair value for UBI is \$0.96ps, with this based entirely on our DCF valuation. This equates to an equity value of \$212m, which compares favourably with the current market value of key company comparatives.

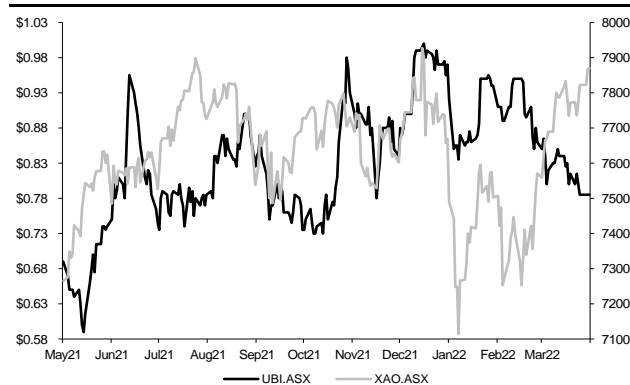
### Company Data

Shares – ordinary (M)	211.5
Dilution (M)	3.8
Total (fully diluted) (M)	215.3
Market capitalisation (\$M)	160.7
12-month low/high (\$)	0.58 - 1.04
Average monthly turnover (\$M)	5.0
GICS Industry	Health Care Equipment & Supplies

### Financial Summary (fully diluted/normalised)

Year End December	2020A	2021A	2022F	2023F	2024F
Revenue (A\$m)	3.2	5.8	13.3	25.7	40.7
Costs (A\$m)	8.8	14.0	21.6	26.0	31.0
EBITDA (A\$m)	-5.6	-8.3	-8.4	-0.3	9.7
NPAT (A\$m)	-7.6	-10.5	-10.7	-3.2	6.4
EPS (¢)	-4.1	-5.6	-5.2	-1.5	2.9
EPS Growth (%)	-57.5	-37.5	7.2	72.5	+100.0
PER (x)	-18.7	-13.6	-14.6	-52.4	26.1
FCF (A\$m)	-8.7	-10.6	-15.8	-11.2	2.3
FCF per share (cps)	-4.6	-5.6	-7.7	-5.1	1.0
Price to FCF (x)	-16.5	-13.5	-9.8	-15.0	72.4
EV (A\$m)	112.5	119.2	127.5	143.0	154.2
EV/EBITDA	-20.3	-14.4	-15.2	-506.5	15.9
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. Petra Capital was sole lead manager and bookrunner for this Company's placement to raise A\$6m at \$0.77/CDI by way of a Placement and \$A20m by way of a 1-for-6.85 non-renounceable entitlement offer on 20 April 2022, for which fees will be received.

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## Analysis

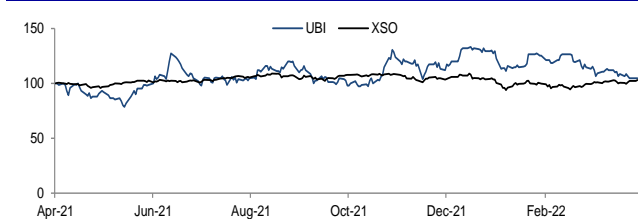
### Universal Biosensors

Year End December

#### MARKET DATA

<b>Recommendation</b>		<b>Buy</b>
Price	\$	0.76
<b>Price target (12-month)</b>	\$	<b>0.96</b>
52 week high / low	\$	0.58 - 1.04
<b>Market capitalisation</b>	\$m	<b>160.7</b>
Shares on issue (basic)	no.	211.5
Performance rights	no.	3.8
Other equity	no.	6.4
Shares on issue (diluted)	no.	221.7

#### 12-MONTH SHARE PRICE PERFORMANCE



INVESTMENT FUNDAMENTALS		2020A	2021A	2022F	2023F	2024F	2025F
Underlying net profit	\$m	(7.6)	(10.5)	(10.7)	(3.2)	6.4	16.9
<b>Reported net profit</b>	<b>\$m</b>	<b>(7.6)</b>	<b>(10.5)</b>	<b>(10.7)</b>	<b>(3.2)</b>	<b>6.4</b>	<b>16.9</b>
Reported EPS (diluted)	¢	(4.1)	(5.6)	(5.2)	(1.5)	2.9	7.7
<b>Normalised EPS (diluted)</b>	<b>¢</b>	<b>(4.1)</b>	<b>(5.6)</b>	<b>(5.2)</b>	<b>(1.5)</b>	<b>2.9</b>	<b>7.7</b>
...Growth	%	(57.5)	(37.5)	7.2	72.5	+100.0	+100.0
<b>Normalised diluted PER</b>	<b>x</b>	<b>(18.7)</b>	<b>(13.6)</b>	<b>(14.6)</b>	<b>(52.4)</b>	<b>26.1</b>	<b>9.9</b>
Adjusted Op. CF per share	¢	(4.4)	(5.3)	(5.4)	(1.7)	1.9	6.7
Adjusted FCF per share	¢	(4.6)	(5.6)	(7.7)	(5.1)	1.0	5.9
<b>Price to free cash flow per share</b>	<b>x</b>	<b>(16.5)</b>	<b>(13.5)</b>	<b>(9.8)</b>	<b>(15.0)</b>	<b>72.4</b>	<b>12.9</b>
Free cash flow yield	%	(6.1)	(7.4)	(10.2)	(6.7)	1.4	7.7
<b>Dividend per share</b>	<b>¢</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
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
<b>Enterprise value</b>	<b>\$m</b>	<b>112.5</b>	<b>119.2</b>	<b>127.5</b>	<b>143.0</b>	<b>154.2</b>	<b>151.9</b>
EV/EBITDA	x	(20.3)	(14.4)	(15.2)	(506.5)	15.9	7.5
EV/EBIT	x	(14.5)	(11.4)	(11.8)	(43.6)	24.3	9.0
Price to book (NAV)	x	3.6	4.9	3.8	4.1	3.6	2.7
Price to NTA	x	5.7	9.0	5.1	5.4	4.4	3.0

KEY RATIOS		2020A	2021A	2022F	2023F	2024F	2025F
EBITDA margin	%	(173.3)	(142.9)	(63.1)	(1.1)	23.9	36.5
EBIT margin	%	(242.8)	(180.6)	(81.1)	(12.8)	15.6	30.4
Underlying net profit margin	%	(238.5)	(181.9)	(80.5)	(12.5)	15.6	30.6
Return on average equity	%	(18.3)	(32.0)	(30.4)	(7.8)	14.9	31.1
Return on average assets	%	(13.3)	(20.9)	(20.6)	(5.6)	9.7	21.7
Net tangible assets per share	¢	13.3	8.4	15.0	14.2	17.4	25.6
Net debt /(cash)	\$m	(23.6)	(15.3)	(25.5)	(14.3)	(16.6)	(29.5)
Interest cover (EBIT / net interest)	x	N/A	(145.0)	N/A	N/A	N/A	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	2021A	2022F	2023F	2024F	2025F
Net Profit Margin	%	(238.5)	(181.9)	(80.5)	(12.5)	15.6	30.6
Asset Turnover	x	0.1	0.1	0.3	0.4	0.6	0.7
Return on Assets	%	(12.8)	(20.8)	(20.2)	(5.3)	9.9	22.0
Financial Leverage	x	1.4	1.5	1.5	1.5	1.5	1.4
<b>Return on Equity</b>	<b>%</b>	<b>(18.3)</b>	<b>(32.0)</b>	<b>(30.4)</b>	<b>(7.8)</b>	<b>14.9</b>	<b>31.1</b>

BUSINESS SEGMENTS		2020A	2021A	2022F	2023F	2024F	2025F
<b>Revenue</b>	<b>\$m</b>	<b>3.2</b>	<b>5.8</b>	<b>13.3</b>	<b>25.7</b>	<b>40.7</b>	<b>55.3</b>
- Oenology (Sentia)	\$m	0.0	1.1	6.7	16.9	27.2	37.5
- Blood coagulation	\$m	2.6	2.7	3.9	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	2.5	2.8	3.0
<b>Gross profit</b>	<b>\$m</b>	<b>0.6</b>	<b>2.1</b>	<b>6.6</b>	<b>15.8</b>	<b>26.6</b>	<b>37.9</b>
- Oenology (Sentia)	\$m	0.0	0.2	5.0	12.8	20.6	28.7
- Blood coagulation	\$m	0.9	1.7	0.9	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
<b>Gross profit margin</b>	<b>%</b>	<b>19.5</b>	<b>36.6</b>	<b>49.6</b>	<b>61.4</b>	<b>65.3</b>	<b>68.5</b>
<b>Non-sales income</b>	<b>\$m</b>	<b>4.9</b>	<b>4.6</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

PROFIT AND LOSS		2020A	2021A	2022F	2023F	2024F	2025F
Total revenue	\$m	3.2	5.8	13.3	25.7	40.7	55.3
<b>EBITDA</b>	<b>\$m</b>	<b>(5.6)</b>	<b>(8.3)</b>	<b>(8.4)</b>	<b>(0.3)</b>	<b>9.7</b>	<b>20.2</b>
Depreciation & amortisation	\$m	2.2	2.2	2.4	3.0	3.4	3.4
EBIT	\$m	(7.8)	(10.4)	(10.8)	(3.3)	6.3	16.8
Net interest	\$m	(0.1)	0.1	(0.1)	(0.1)	(0.0)	(0.1)
Non-operating income	\$m	0.0	0.0	0.0	0.0	0.0	0.0
Pretax Profit	\$m	(7.6)	(10.5)	(10.7)	(3.2)	6.4	16.9
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
<b>Reported NPAT</b>	<b>\$m</b>	<b>(7.6)</b>	<b>(10.5)</b>	<b>(10.7)</b>	<b>(3.2)</b>	<b>6.4</b>	<b>16.9</b>
Significant items	\$m	0.0	0.0	0.0	0.0	0.0	0.0
Underlying NPAT	\$m	(7.6)	(10.5)	(10.7)	(3.2)	6.4	16.9

GROWTH PROFILE		2020A	2021A	2022F	2023F	2024F	2025F
Operating revenue	%	(53.6)	80.4	129.7	93.6	58.3	36.0
EBITDA	%	4.8	(48.8)	(1.4)	96.6	+100.0	+100.0
EBIT	%	(11.3)	(34.2)	(3.1)	69.6	+100.0	+100.0
Operating NPAT	%	(57.6)	(37.6)	(1.7)	70.0	+100.0	+100.0
Normalised EPS	%	(57.5)	(37.5)	7.2	72.5	+100.0	+100.0
DPS	%	0.0	0.0	0.0	0.0	0.0	0.0

BALANCE SHEET		2020A	2021A	2022F	2023F	2024F	2025F
Cash	\$m	23.6	15.3	25.5	14.3	16.6	29.5
Receivables	\$m	0.1	0.5	1.3	2.6	4.1	5.5
Inventory	\$m	1.9	2.1	4.6	9.0	14.2	19.4
Other	\$m	5.9	6.9	6.9	6.9	6.9	6.9
Current	\$m	31.4	24.9	38.4	32.7	41.8	61.3
Prop. plant & equip	\$m	4.4	4.1	8.1	14.1	14.2	14.3
Goodwill	\$m	0.0	0.0	0.0	0.0	0.0	0.0
Other	\$m	20.6	15.6	14.9	13.4	11.8	10.3
Non current	\$m	25.0	19.7	23.0	27.5	26.0	24.6
<b>Total assets</b>	<b>\$m</b>	<b>56.4</b>	<b>44.5</b>	<b>61.4</b>	<b>60.2</b>	<b>67.8</b>	<b>85.9</b>
Accounts Payable	\$m	0.4	0.4	1.0	1.9	3.0	4.1
Borrowings	\$m	0.0	0.0	0.0	0.0	0.0	0.0
Other	\$m	18.0	16.5	17.6	18.7	18.8	18.9
<b>Total liabilities</b>	<b>\$m</b>	<b>18.4</b>	<b>16.9</b>	<b>18.6</b>	<b>20.7</b>	<b>21.9</b>	<b>23.1</b>
Net assets	\$m	38.0	27.6	42.8	39.6	45.9	62.8
Equity	\$m	38.0	27.6	42.8	39.6	45.9	62.8
Minorities	\$m	0.0	0.0	0.0	0.0	0.0	0.0
<b>Shareholder's equity</b>	<b>\$m</b>	<b>38.0</b>	<b>27.6</b>	<b>42.8</b>	<b>39.6</b>	<b>45.9</b>	<b>62.8</b>
Shares on issue	m	177.6	177.6	211.5	212.8	219.3	221.7

CASH FLOW		2020A	2021A	2022F	2023F	2024F	2025F
EBITDA	\$m	(5.6)	(8.3)	(8.4)	(0.3)	9.7	20.2
Change in working capital	\$m	(0.9)	(0.7)	(2.8)	(4.7)	(5.6)	(5.5)
Net interest	\$m	0.0	0.0	0.1	0.1	0.0	0.1
Tax paid	\$m	0.0	0.0	0.0	0.0	(0.0)	(0.0)
Other	\$m	(1.8)	(1.0)	0.0	1.0	0.0	0.0
<b>Operating cash flow</b>	<b>\$m</b>	<b>(8.3)</b>	<b>(9.9)</b>	<b>(11.1)</b>	<b>(3.9)</b>	<b>4.1</b>	<b>14.8</b>
Capital expenditure	\$m	(0.4)	(0.7)	(4.7)	(7.4)	(1.8)	(1.8)
Acquisitions/divestment/other	\$m	0.0	0.0	0.0	0.0	0.0	0.0
<b>Investing cash flow</b>	<b>\$m</b>	<b>(0.4)</b>	<b>(0.7)</b>	<b>(4.7)</b>	<b>(7.4)</b>	<b>(1.8)</b>	<b>(1.8)</b>
<b>Free cash flow</b>	<b>\$m</b>	<b>-8.7</b>	<b>-10.6</b>	<b>-15.8</b>	<b>-11.2</b>	<b>2.3</b>	<b>13.0</b>
Equity	\$m	0.0	0.1	26.0	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
<b>Financing cash flow</b>	<b>\$m</b>	<b>0.0</b>	<b>0.1</b>	<b>26.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Net cash flow</b>	<b>\$m</b>	<b>(8.6)</b>	<b>(10.5)</b>	<b>10.2</b>	<b>(11.2)</b>	<b>2.3</b>	<b>13.0</b>

Source: Petra Capital

## Earnings forecast revisions

As summarised in Figure 1, we have revised our earnings estimates to reflect the recent operational update and capital raise. While noting that our revenue forecasts remain unchanged and thus continue to exclude potential contributions from the company's 3-electrode strip biosensor technology platform, the key changes to our forecasts comprise:

- Higher opex, reflecting increased investment in BD, particularly Sentia;
- Lower NIE, reflecting the increased cash balance following the capital raise;
- Higher capex and depreciation stemming from the planned investment in strip manufacturing; and
- Higher shares (and diluted shares) on issue following the capital raise.

**Figure 1: Earnings forecast revisions**

Year End December	2022F			2023F			2024F		
	Old	New	Δ	Old	New	Δ	Old	New	Δ
EBITDA	-7.5	-8.4	-11%	0.6	-0.3	-144%	10.7	9.7	-9%
NPAT	-9.7	-10.7	-10%	-1.6	-3.2	-100%	8.4	6.4	-25%
EPS ¢ (diluted)	-5.3	-5.2	1%	-0.9	-1.5	-66%	4.6	2.9	-37%
DPS ¢	0.0	0.0	0%	0.0	0.0	0%	0.0	0.0	0%
FCF	-10.9	-15.8	-46%	-3.6	-11.2	-208%	4.4	2.3	-48%

Source: Petra Capital



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