

26 October 2021

Universal Biosensors Inc. (UBI) BUY

Share Price: **A\$0.77**

Sentia surpasses the \$1m sales mark

Target Price: **A\$1.20**

UBI's recent updates confirm that Sentia remains on track to become the company's key earnings driver in the next 12 months. With Sentia sales having now surpassed the \$1m mark and in light of the recent distribution agreements, we remain confident that our medium-term earnings forecasts are readily attainable. Accordingly, we reiterate our Buy and \$1.20ps TP.

Sentia's positive momentum continues

- UBI recently confirmed that the \$1m sales mark for Sentia has been surpassed. With management having indicated in June that this milestone would be reached in September, Sentia appears to be tracking to plan.
- Since securing its sole Australian distributor in late 2020 and initial US distributor in early 2021, UBI has signed further non-exclusive distributors for the US, the EU, Chile, South Africa, and an exclusive distributor for NZ.
- Sentia's latest distribution agreement with Vinmetrica highlights two positives. First, the expanding distribution network, and second, product validation stemming from Vinmetrica's niche focus on beverage test instruments.

Positive Sentia feedback from domestic users

- Recent conversations with domestic users have thus far validated UBI's key value proposition for Sentia. That is, the enormous time saving (i.e. near real-time testing) the device provides to those undertaking free SO₂ tests.
- While these users do not view Sentia as a complete substitute for free SO₂ testing by aspiration and titration, the device is complementary, and offers a positive ROI with material upside as more test capabilities are added.

An enormous market opportunity

- 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.

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.

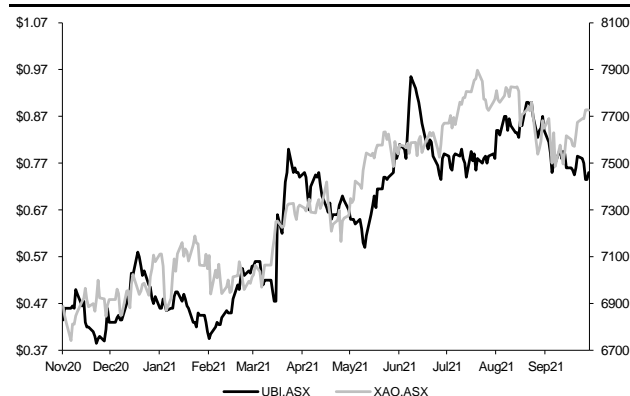
Company Data

Shares – ordinary (M)	177.6
Dilution (M)	0.0
Total (fully diluted) (M)	177.6
Market capitalisation (\$M)	135.9
12 month low/high (\$)	0.3 - 0.97
Average monthly turnover (\$M)	4.8
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)		-18.4	-14.7	-20.8	-177.2	15.0
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)		-16.2	-17.4	-19.1	-80.7	19.5
EV (A\$m)		110.6	117.3	125.4	132.8	134.5
EV/EBITDA		-19.9	-15.6	-27.2	94.3	11.7
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

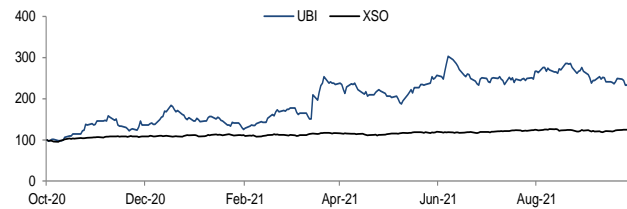
Universal Biosensors

Year End December

MARKET DATA

Recommendation		Buy
Price	\$	0.77
Price target (12-month)	\$	1.20
52 week high / low	\$	0.3 - 0.97
Market capitalisation	\$m	135.9
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 (18.4)	(14.7)	(20.8)	(177.2)	15.0	7.0
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 (16.2)	(17.4)	(19.1)	(80.7)	19.5	7.8
Free cash flow yield	% (6.2)	(5.8)	(5.2)	(1.2)	5.1	12.8
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	\$m 110.6	117.3	125.4	132.8	134.5	127.3
EV/EBITDA	x (19.9)	(15.6)	(27.2)	94.3	11.7	5.8
EV/EBIT	x (14.2)	(12.2)	(18.7)	(191.0)	14.3	6.4
Price to book (NAV)	x 3.6	4.8	6.3	6.6	4.6	2.8
Price to NTA	x 5.7	8.6	12.8	11.9	6.2	3.2

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	31.2
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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