

11 August 2022

Universal Biosensors Inc. (UBI) BUY

Share Price: **A\$0.33**

Still loading the bases

Target Price: **A\$0.72**

UBI's 1H22 results remind us of the progress being made across its suite of development assets. While the investments therein combined with subdued sales to deliver a ~3x uplift in the net loss for 1H22, UBI remains confident that it can fund its current product pipeline from internal cash resources. Despite cutting our EPS estimates, we reiterate our Buy with a new \$0.72ps TP.

The rubber is yet to hit the road

- While UBI's product development activities continue to progress at an encouraging rate, there was little to show for it from an earnings perspective, as evidenced by the ~3x uplift in the net loss for 1H22 to \$9.2m (from \$3.2m).
- The key drivers of the net loss were (i) weaker-than-expected sales, down 9% on pcp to \$3.1m, and (ii) the marked increase (>2x) in operating costs to \$11.2m, due largely to higher R&D and SG&A (i.e. BD).
- The weaker 1H22 sales reflect the (i) transition to direct Sentia sales, (ii) transition to direct Xprecia sales and the associated run-down of Siemens' inventories, and (iii) timing of HRL's project sales and planned shutdown.

Positive outlook intact despite cuts to EPS estimates

- Notwithstanding the weaker-than-expected 1H22 sales, management remains upbeat about UBI's prospects, noting its expectation for a transition to positive monthly Op. CF (excl. R&D) at some point in CY23.
- While we have cut our EPS estimate for CY22, CY23, and CY24 by 30%, 81% and 53% on account of lower sales growth assumptions (and higher opex in CY22), we continue to expect a maiden net profit in CY24.

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 \$0.72ps TP (from \$0.89ps)

- Our fair value estimate for UBI has fallen to \$0.72ps, which continues to be based on our DCF valuation. With UBI's current suite of development assets fully funded from internal cash sources, we reiterate our Buy rating.

Company Data

| | |
|--------------------------------|----------------------------------|
| Shares – ordinary (M) | 211.8 |
| Dilution (M) | 8.5 |
| Total (fully diluted) (M) | 220.3 |
| Market capitalisation (\$M) | 68.8 |
| 12-month low/high (\$) | 0.29 - 1.04 |
| Average monthly turnover (\$M) | 1.6 |
| 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 | 10.2 | 17.8 | 33.5 |
| Costs (A\$m) | | 8.8 | 14.0 | 22.9 | 21.9 | 27.1 |
| EBITDA (A\$m) | | -5.6 | -8.3 | -12.7 | -4.1 | 6.4 |
| NPAT (A\$m) | | -7.6 | -10.5 | -15.1 | -7.1 | 3.0 |
| EPS (¢) | | -4.1 | -5.6 | -7.4 | -3.2 | 1.4 |
| EPS Growth (%) | | -57.5 | -37.5 | -30.7 | 56.8 | +100.0 |
| PER (x) | | -7.9 | -5.8 | -4.4 | -10.1 | 23.7 |
| FCF (A\$m) | | -8.7 | -10.6 | -19.1 | -13.3 | -1.4 |
| FCF per share (cps) | | -4.7 | -5.7 | -9.4 | -6.0 | -0.6 |
| Price to FCF (x) | | -7.0 | -5.7 | -3.5 | -5.4 | -51.3 |
| EV (A\$m) | | 30.3 | 37.0 | 45.2 | 50.1 | 63.4 |
| EV/EBITDA | | -5.5 | -4.5 | -3.6 | -12.2 | 9.9 |
| 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 were received.

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Analysis

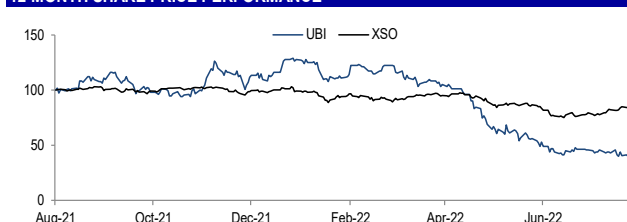
Universal Biosensors

Year End December

MARKET DATA

| | | |
|--------------------------------|-----|-------------|
| Recommendation | | Buy |
| Price | \$ | 0.33 |
| Price target (12-month) | \$ | 0.72 |
| 52 week high / low | \$ | 0.29 - 1.04 |
| Market capitalisation | \$m | 68.8 |
| Shares on issue (basic) | no. | 211.8 |
| Performance rights | no. | 3.8 |
| Other equity | no. | 4.7 |
| Shares on issue (diluted) | no. | 220.3 |

12-MONTH SHARE PRICE PERFORMANCE



INVESTMENT FUNDAMENTALS

| | 2020A | 2021A | 2022F | 2023F | 2024F | 2025F |
|--|------------------|---------------|---------------|---------------|---------------|-------------|
| Underlying net profit | \$m (7.6) | (10.5) | (15.1) | (7.1) | 3.0 | 13.5 |
| Reported net profit | \$m (7.6) | (10.5) | (15.1) | (7.1) | 3.0 | 13.5 |
| Reported EPS (diluted) | ¢ (4.1) | (5.6) | (7.4) | (3.2) | 1.4 | 6.2 |
| Normalised EPS (diluted) | ¢ (4.1) | (5.6) | (7.4) | (3.2) | 1.4 | 6.2 |
| ...Growth | % (57.5) | (37.5) | (30.7) | 56.8 | +100.0 | +100.0 |
| Normalised diluted PER | x (7.9) | (5.8) | (4.4) | (10.1) | 23.7 | 5.3 |
| Adjusted Op. CF per share | ¢ (4.5) | (5.3) | (7.0) | (2.7) | 0.2 | 5.2 |
| Adjusted FCF per share | ¢ (4.7) | (5.7) | (9.4) | (6.0) | (0.6) | 4.4 |
| Price to free cash flow per share | x (7.0) | (5.7) | (3.5) | (5.4) | (51.3) | 7.4 |
| Free cash flow yield | % (14.3) | (17.5) | (28.9) | (18.5) | (1.9) | 13.5 |

| | | | | | | |
|---------------------------|------------|-------------|-------------|-------------|-------------|-------------|
| Dividend per share | ¢ | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Payout ratio | % | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Yield | % | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Franking | % | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Enterprise value | \$m | 30.3 | 37.0 | 45.2 | 50.1 | 63.4 |
| EV/EBITDA | x | (5.5) | (4.5) | (3.6) | (12.2) | 9.9 |
| EV/EBIT | x | (3.9) | (3.5) | (3.0) | (7.1) | 20.9 |
| Price to book (NAV) | x | 1.5 | 2.1 | 1.8 | 2.2 | 2.0 |
| Price to NTA | x | 2.4 | 3.9 | 2.5 | 3.1 | 2.6 |

KEY RATIOS

| | 2020A | 2021A | 2022F | 2023F | 2024F | 2025F |
|---|-----------|---------|---------|--------|-------|-------|
| EBITDA margin | % (173.3) | (142.9) | (124.8) | (23.1) | 19.1 | 35.1 |
| EBIT margin | % (242.8) | (180.6) | (148.2) | (39.9) | 9.1 | 28.1 |
| Underlying net profit margin | % (238.5) | (181.9) | (147.6) | (39.8) | 8.9 | 28.0 |
| Return on average equity | % (18.3) | (32.0) | (45.5) | (20.1) | 9.0 | 32.6 |
| Return on average assets | % (13.3) | (20.9) | (30.3) | (13.6) | 5.5 | 21.5 |
| Net tangible assets per share | ¢ | 13.3 | 8.4 | 13.1 | 10.5 | 12.3 |
| Net debt / (cash) | \$m | (23.6) | (15.3) | (21.5) | (8.2) | (6.8) |
| Interest cover (EBIT / net interest) | x | N/A | (145.0) | N/A | N/A | 52.2 |
| Leverage (net debt / EBITDA) | x | 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 |

DUPONT ANALYSIS

| | 2020A | 2021A | 2022F | 2023F | 2024F | 2025F |
|-------------------------|-----------------|---------------|---------------|---------------|------------|-------------|
| Net Profit Margin | % (238.5) | (181.9) | (147.6) | (39.8) | 8.9 | 28.0 |
| Asset Turnover | x | 0.1 | 0.1 | 0.2 | 0.3 | 0.6 |
| Return on Assets | % (12.8) | (20.8) | (30.0) | (13.3) | 5.7 | 21.7 |
| Financial Leverage | x | 1.4 | 1.5 | 1.5 | 1.6 | 1.5 |
| Return on Equity | % (18.3) | (32.0) | (45.5) | (20.1) | 9.0 | 32.6 |

BUSINESS SEGMENTS

| | 2020A | 2021A | 2022F | 2023F | 2024F | 2025F |
|----------------------------|------------|-------------|-------------|-------------|-------------|-------------|
| Revenue | \$m | 3.2 | 5.8 | 10.2 | 17.8 | 33.5 |
| - Oenology (Sentia) | \$m | 0.0 | 1.1 | 3.9 | 9.2 | 20.3 |
| - Blood coagulation | \$m | 2.6 | 2.7 | 3.9 | 5.5 | 8.9 |
| - Veterinary | \$m | 0.0 | 0.0 | 0.4 | 0.8 | 1.7 |
| - HRL | \$m | 0.6 | 2.0 | 2.1 | 2.3 | 2.5 |
| Gross profit | \$m | 0.6 | 2.1 | 4.5 | 9.8 | 21.0 |
| - Oenology (Sentia) | \$m | 0.0 | 0.2 | 2.9 | 6.9 | 15.1 |
| - Blood coagulation | \$m | 0.9 | 1.7 | 0.9 | 2.0 | 4.3 |
| - Veterinary | \$m | 0.0 | 0.0 | 0.2 | 0.4 | 0.8 |
| - HRL | \$m | (0.2) | 0.2 | 0.4 | 0.6 | 0.7 |
| Gross profit margin | % | 19.5 | 36.6 | 43.7 | 55.1 | 62.6 |
| Non-sales income | \$m | 4.9 | 4.6 | 0.0 | 0.0 | 0.0 |

PROFIT AND LOSS

| | 2020A | 2021A | 2022F | 2023F | 2024F | 2025F |
|-----------------------------|------------|--------------|---------------|---------------|--------------|------------|
| Total revenue | \$m | 3.2 | 5.8 | 10.2 | 17.8 | 33.5 |
| EBITDA | \$m | (5.6) | (8.3) | (12.7) | (4.1) | 6.4 |
| Depreciation & amortisation | \$m | 2.2 | 2.2 | 2.4 | 3.0 | 3.4 |
| EBIT | \$m | (7.8) | (10.4) | (15.1) | (7.1) | 3.0 |
| Net interest | \$m | (0.1) | 0.1 | (0.1) | (0.0) | 0.1 |
| Non-operating income | \$m | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Pretax Profit | \$m | (7.6) | (10.5) | (15.1) | (7.1) | 3.0 |
| Tax expense | \$m | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Minorities | \$m | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Reported NPAT | \$m | (7.6) | (10.5) | (15.1) | (7.1) | 3.0 |
| Significant items | \$m | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Underlying NPAT | \$m | (7.6) | (10.5) | (15.1) | (7.1) | 3.0 |

GROWTH PROFILE

| | 2020A | 2021A | 2022F | 2023F | 2024F | 2025F |
|-------------------|-------|--------|--------|--------|-------|--------|
| Operating revenue | % | (53.6) | 80.4 | 76.5 | 74.1 | 88.7 |
| EBITDA | % | 4.8 | (48.8) | (54.1) | 67.8 | +100.0 |
| EBIT | % | (11.3) | (34.2) | (44.9) | 53.1 | +100.0 |
| Operating NPAT | % | (57.6) | (37.6) | (43.3) | 53.0 | +100.0 |
| Normalised EPS | % | (57.5) | (37.5) | (30.7) | 56.8 | +100.0 |
| DPS | % | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

BALANCE SHEET

| | 2020A | 2021A | 2022F | 2023F | 2024F | 2025F |
|-----------------------------|------------|-------------|-------------|-------------|-------------|-------------|
| Cash | \$m | 23.6 | 15.3 | 21.5 | 8.2 | 6.8 |
| Receivables | \$m | 0.1 | 0.5 | 1.0 | 1.8 | 3.4 |
| Inventory | \$m | 1.9 | 2.1 | 3.6 | 6.2 | 11.7 |
| Other | \$m | 5.9 | 6.9 | 6.9 | 6.9 | 6.9 |
| Current | \$m | 31.4 | 24.9 | 33.0 | 23.1 | 28.8 |
| Prop. plant & equip | \$m | 4.4 | 4.1 | 8.1 | 14.1 | 14.2 |
| Goodwill | \$m | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other | \$m | 20.6 | 15.6 | 14.9 | 13.4 | 11.8 |
| Non current | \$m | 25.0 | 19.7 | 23.0 | 27.5 | 26.0 |
| Total assets | \$m | 56.4 | 44.5 | 56.0 | 50.6 | 69.5 |
| Accounts Payable | \$m | 0.4 | 0.4 | 0.8 | 1.3 | 2.5 |
| Borrowings | \$m | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other | \$m | 18.0 | 16.5 | 16.6 | 17.7 | 17.8 |
| Total liabilities | \$m | 18.4 | 16.9 | 17.3 | 19.0 | 21.5 |
| Net assets | \$m | 38.0 | 27.6 | 38.7 | 31.6 | 34.6 |
| Equity | \$m | 38.0 | 27.6 | 38.7 | 31.6 | 34.6 |
| Minorities | \$m | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Shareholder's equity | \$m | 38.0 | 27.6 | 38.7 | 31.6 | 34.6 |
| Shares on issue | m | 177.6 | 177.6 | 211.8 | 211.8 | 218.0 |

CASH FLOW

| | 2020A | 2021A | 2022F | 2023F | 2024F | 2025F |
|-------------------------------------|------------|--------------|---------------|---------------|---------------|--------------|
| EBITDA | \$m | (5.6) | (8.3) | (12.7) | (4.1) | 6.4 |
| Change in working capital | \$m | (0.9) | (0.7) | (1.6) | (2.8) | (5.9) |
| Net interest | \$m | 0.0 | 0.0 | 0.1 | 0.0 | (0.1) |
| Tax paid | \$m | 0.0 | 0.0 | 0.0 | 0.0 | (0.0) |
| Other | \$m | (1.8) | (1.0) | 0.0 | 1.0 | 0.0 |
| Operating cash flow | \$m | (8.3) | (9.9) | (14.3) | (5.9) | 0.4 |
| Capital expenditure | \$m | (0.4) | (0.7) | (4.7) | (7.4) | (1.8) |
| Acquisitions/divestment/other | \$m | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Investing cash flow | \$m | (0.4) | (0.7) | (4.7) | (7.4) | (1.8) |
| Free cash flow | \$m | -8.7 | -10.6 | -19.1 | -13.3 | -1.4 |
| Equity | \$m | 0.0 | 0.1 | 26.3 | 0.0 | 0.0 |
| Increase / (decrease) in borrowings | \$m | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Dividend/other | \$m | 0.0 | 0.0 | (1.1) | 0.0 | 0.0 |
| Financing cash flow | \$m | 0.0 | 0.1 | 25.2 | 0.0 | 0.0 |
| Net cash flow | \$m | (8.6) | (10.5) | 6.1 | (13.3) | (1.4) |

Source: Petra Capital

Earnings forecast revisions

As summarised in Figure 1, we have revised our earnings estimates to reflect the recent 1H22 results. While our forecasts continue to exclude potential contributions from the company's 3-electrode strip biosensor technology platform, we have updated our forecasts for lower sales growth across all segments over the explicit forecast period, coupled with higher R&D in CY22 (but lower thereafter).

Figure 1: Earnings forecast revisions

| Year End Dec | 2022F | | | 2023F | | | 2024F | | |
|--------------|-------|-------|------|-------|-------|-------|-------|------|-------|
| | Old | New | Δ | Old | New | Δ | Old | New | Δ |
| EBITDA | -9.2 | -12.7 | -38% | -1.0 | -4.1 | -320% | 9.7 | 6.4 | -34% |
| NPAT | -11.6 | -15.1 | -30% | -3.9 | -7.1 | -81% | 6.3 | 3.0 | -53% |
| EPS ¢ | -5.7 | -7.4 | -30% | -1.8 | -3.2 | -81% | 2.9 | 1.4 | -53% |
| DPS ¢ | 0.0 | 0.0 | 0% | 0.0 | 0.0 | 0% | 0.0 | 0.0 | 0% |
| FCF | -16.2 | -19.1 | -18% | -12.0 | -13.3 | -10% | 1.9 | -1.4 | -174% |

Source: Petra Capital



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