

31 January 2022

# Universal Biosensors Inc. (UBI) BUY

Share Price: **A\$0.87**

## Weaker-than-expected 4Q21 sales

Target Price: **A\$1.20**

UBI has confirmed CY21 sales of \$5.8m, +80% on pcp. While this implies a weaker-than-expected 4Q21 that has prompted downward revisions to our forecasts, we remain upbeat about UBI's outlook, noting evident momentum in Sentia (distribution and functionality) and Xprecia Stride (distribution). We reiterate our Buy and \$1.20ps TP ahead of the upcoming CY21 results.

### Company Data

Shares – ordinary (M)	177.6
Dilution (M)	0.0
Total (fully diluted) (M)	177.6
Market capitalisation (\$M)	154.5
12-month low/high (\$)	0.39 - 1.04
Average monthly turnover (\$M)	5.5
GICS Industry	Health Care Equipment & Supplies

### Weaker-than-expected 4Q21 sales

- UBI has reported unaudited CY21 revenue of \$5.8m, up 80% on pcp. Given that UBI reported sales for the 9 months to September 2021 of \$4.6m (+208% on pcp) this implies a 31% decline in 4Q21 sales to \$1.2m.
- The other key 4Q21 metric was the net cash outflow of \$600k, translating to net cash of \$18.1m. Key drivers were higher cash receipts (+255%) and government grants (\$2.8m), with the CY21 R&D run rate unchanged.

### Financial Summary (fully diluted/normalised)

Year End December	2020A	2021F	2022F	2023F	2024F
Revenue (A\$m)	3.2	5.8	15.5	25.7	40.7
Costs (A\$m)	8.8	16.1	21.9	26.4	31.4
EBITDA (A\$m)	-5.6	-10.4	-6.4	-0.7	9.4
NPAT (A\$m)	-7.6	-12.4	-8.6	-2.9	7.1
EPS (¢)	-4.1	-6.7	-4.7	-1.6	3.9
EPS Growth (%)	-57.5	-62.7	30.6	66.4	+100.0
PER (x)	-21.0	-12.9	-18.6	-54.9	22.4
FCF (A\$m)	-8.7	-10.5	-9.7	-2.9	5.0
FCF per share (cps)	-4.7	-5.7	-5.3	-1.6	2.7
Price to FCF (x)	-18.5	-15.3	-16.5	-55.9	32.0
EV (A\$m)	129.9	136.6	147.1	156.8	159.7
EV/EBITDA	-23.4	-13.2	-22.8	-239.7	17.1
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

### More timing than performance-related in 4Q21

- UBI's 4Q21 sales were below our forecast for continued quarter-on-quarter growth. Pending the release of further sales data at the upcoming CY21 results, we attribute the weaker 4Q21 sales run rate to timing.
- This view reflects (i) evident momentum in Sentia, underpinned by positive reviews, increasing distribution and functionality of the device, and (ii) the relatively small user base, which can make sales appear lumpier.
- Following the 4Q21 results, we have adjusted our CY21 sale and opex forecast. While our sales estimates for CY22-CY24 are unchanged ahead of the CY21 result, higher CY21 opex has reduced our EPS forecasts.

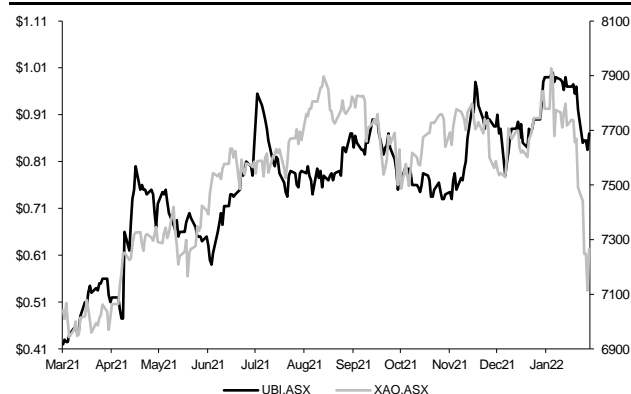
### An enormous market opportunity remains at-hand

- 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.

### 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.

### 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

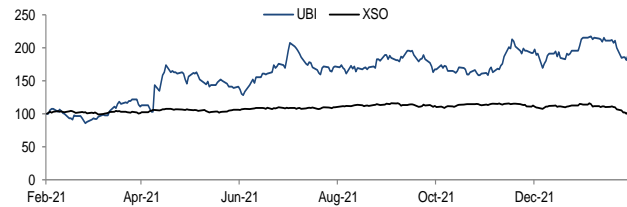
### Universal Biosensors

Year End December

#### MARKET DATA

<b>Recommendation</b>		<b>Buy</b>
Price	\$	0.87
<b>Price target (12-month)</b>	\$	<b>1.20</b>
52 week high / low	\$	0.39 - 1.04
<b>Market capitalisation</b>	\$m	<b>154.5</b>
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)	(12.4)	(8.6)	(2.9)	7.1	17.7
<b>Reported net profit</b>	<b>\$m (7.6)</b>	<b>(12.4)</b>	<b>(8.6)</b>	<b>(2.9)</b>	<b>7.1</b>	<b>17.7</b>
Reported EPS (diluted)	¢ (4.1)	(6.7)	(4.7)	(1.6)	3.9	9.7
<b>Normalised EPS (diluted)</b>	<b>¢ (4.1)</b>	<b>(6.7)</b>	<b>(4.7)</b>	<b>(1.6)</b>	<b>3.9</b>	<b>9.7</b>
....Growth	% (57.5)	(62.7)	30.6	66.4	+100.0	+100.0
<b>Normalised diluted PER</b>	<b>x (21.0)</b>	<b>(12.9)</b>	<b>(18.6)</b>	<b>(54.9)</b>	<b>22.4</b>	<b>9.0</b>
Adjusted Op. CF per share	¢ (4.5)	(5.4)	(5.0)	(1.3)	3.0	8.8
Adjusted FCF per share	¢ (4.7)	(5.7)	(5.3)	(1.6)	2.7	8.6
<b>Price to free cash flow per share</b>	<b>x (18.5)</b>	<b>(15.3)</b>	<b>(16.5)</b>	<b>(55.9)</b>	<b>32.0</b>	<b>10.2</b>
Free cash flow yield	% (5.4)	(6.5)	(6.1)	(1.8)	3.1	9.8
<b>Dividend per share</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 129.9</b>	<b>136.6</b>	<b>147.1</b>	<b>156.8</b>	<b>159.7</b>	<b>154.7</b>
EV/EBITDA	x (23.4)	(13.2)	(22.8)	(239.7)	17.1	7.8
EV/EBIT	x (16.7)	(11.0)	(17.2)	(56.9)	22.0	8.7
Price to book (NAV)	x 4.1	6.0	9.1	11.1	7.5	4.1
Price to NTA	x 6.5	12.0	26.1	33.5	11.8	4.9

KEY RATIOS	2020A	2021F	2022F	2023F	2024F	2025F
EBITDA margin	% (173.3)	(180.0)	(41.6)	(2.5)	23.0	35.9
EBIT margin	% (242.8)	(216.6)	(55.2)	(10.7)	17.8	32.1
Underlying net profit margin	% (238.5)	(216.2)	(55.7)	(11.3)	17.4	32.0
Return on average equity	% (18.3)	(39.1)	(40.6)	(18.8)	40.4	59.1
Return on average assets	% (13.3)	(25.1)	(21.5)	(8.0)	17.4	32.0
Net tangible assets per share	¢ 13.3	7.3	3.3	2.6	7.4	17.8
Net debt / (cash)	\$m (23.6)	(13.1)	(3.4)	(0.5)	(5.5)	(21.2)
Interest cover (EBIT / net interest)	x N/A	N/A	(104.5)	(18.4)	50.3	384.9
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)	(216.2)	(55.7)	(11.3)	17.4	32.0
Asset Turnover	x 0.1	0.1	0.4	0.7	1.0	1.0
Return on Assets	% (12.8)	(24.7)	(21.3)	(8.0)	17.5	32.2
Financial Leverage	x 1.4	1.6	1.9	2.4	2.3	1.8
<b>Return on Equity</b>	<b>% (18.3)</b>	<b>(39.1)</b>	<b>(40.6)</b>	<b>(18.8)</b>	<b>40.4</b>	<b>59.1</b>

BUSINESS SEGMENTS	2020A	2021F	2022F	2023F	2024F	2025F
<b>Revenue</b>	<b>\$m 3.2</b>	<b>5.8</b>	<b>15.5</b>	<b>25.7</b>	<b>40.7</b>	<b>55.4</b>
- Oenology (Sentia)	\$m 0.0	1.1	6.7	16.9	27.2	37.5
- Blood coagulation	\$m 2.6	2.7	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
<b>Gross profit</b>	<b>\$m 0.6</b>	<b>1.7</b>	<b>8.8</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	1.2	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
<b>Gross profit margin</b>	<b>% 19.5</b>	<b>28.7</b>	<b>56.6</b>	<b>61.4</b>	<b>65.3</b>	<b>68.5</b>
<b>Non-sales income</b>	<b>\$m 4.9</b>	<b>3.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

PROFIT AND LOSS	2020A	2021F	2022F	2023F	2024F	2025F
Total revenue	\$m 3.2	5.8	15.5	25.7	40.7	55.4
<b>EBITDA</b>	<b>\$m (5.6)</b>	<b>(10.4)</b>	<b>(6.4)</b>	<b>(0.7)</b>	<b>9.4</b>	<b>19.9</b>
Depreciation & amortisation	\$m 2.2	2.1	2.1	2.1	2.1	2.1
EBIT	\$m (7.8)	(12.5)	(8.5)	(2.8)	7.2	17.8
Net interest	\$m (0.1)	(0.0)	0.1	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)	(12.4)	(8.6)	(2.9)	7.1	17.7
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 (7.6)</b>	<b>(12.4)</b>	<b>(8.6)</b>	<b>(2.9)</b>	<b>7.1</b>	<b>17.7</b>
Significant items	\$m 0.0	0.0	0.0	0.0	0.0	0.0
Underlying NPAT	\$m (7.6)	(12.4)	(8.6)	(2.9)	7.1	17.7

GROWTH PROFILE	2020A	2021F	2022F	2023F	2024F	2025F
Operating revenue	% (53.6)	79.5	169.2	66.2	58.2	36.0
EBITDA	% 4.8	(86.5)	37.8	+100.0	+100.0	112.4
EBIT	% (11.3)	(60.1)	31.4	67.7	+100.0	+100.0
Operating NPAT	% (57.6)	(62.7)	30.6	66.3	+100.0	+100.0
Normalised EPS	% (57.5)	(62.7)	30.6	66.4	+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	13.1	3.4	0.5	5.5	21.2
Receivables	\$m 0.1	0.9	2.8	4.6	7.3	10.0
Inventory	\$m 1.9	1.2	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	21.0	15.0	15.9	26.4	47.5
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
<b>Total assets</b>	<b>\$m 56.4</b>	<b>44.2</b>	<b>36.7</b>	<b>36.2</b>	<b>45.2</b>	<b>64.8</b>
Accounts Payable	\$m 0.4	0.9	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	19.1	19.2	19.3
<b>Total liabilities</b>	<b>\$m 18.4</b>	<b>18.7</b>	<b>19.8</b>	<b>22.1</b>	<b>24.1</b>	<b>25.9</b>
Net assets	\$m 38.0	25.5	16.9	14.0	21.1	38.8
Equity	\$m 38.0	25.5	16.9	14.0	21.1	38.8
Minorities	\$m 0.0	0.0	0.0	0.0	0.0	0.0
<b>Shareholder's equity</b>	<b>\$m 38.0</b>	<b>25.5</b>	<b>16.9</b>	<b>14.0</b>	<b>21.1</b>	<b>38.8</b>
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)	(10.4)	(6.4)	(0.7)	9.4	19.9
Change in working capital	\$m (0.9)	0.4	(2.7)	(2.6)	(3.7)	(3.7)
Net interest	\$m 0.0	0.0	(0.1)	(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	1.0	0.0	0.0
<b>Operating cash flow</b>	<b>\$m (8.3)</b>	<b>(10.0)</b>	<b>(9.2)</b>	<b>(2.4)</b>	<b>5.5</b>	<b>16.2</b>
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
<b>Investing cash flow</b>	<b>\$m (0.4)</b>	<b>(0.5)</b>	<b>(0.5)</b>	<b>(0.5)</b>	<b>(0.5)</b>	<b>(0.5)</b>
<b>Free cash flow</b>	<b>\$m -8.7</b>	<b>-10.5</b>	<b>-9.7</b>	<b>-2.9</b>	<b>5.0</b>	<b>15.7</b>
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
<b>Financing cash flow</b>	<b>\$m 0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Net cash flow</b>	<b>\$m (8.6)</b>	<b>(10.5)</b>	<b>(9.7)</b>	<b>(2.9)</b>	<b>5.0</b>	<b>15.7</b>

Source: Petra Capital



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