

# Universal Biosensors

Q1FY12 4C; Solid Progress



Wilson HTM  
INVESTMENT GROUP

18 April 2012

\$0.69

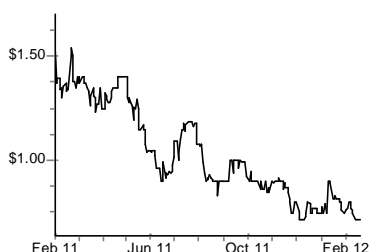
BUY

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## Price Performance



## Security/Capital Details

ASX Code	UBI
Market Cap	\$109 M
Issued Shares	159.2 M
Avg Mth T'over	1.54 M
12 Mth High – Low	\$1.54 - \$0.63

## Key Data/Ratios – FY 2012

Cash	8.5 M
Burn	6.5 M
EV	100.5 M
Interest Cover	14.2 x
ROE	-26.8%
EPS Growth	43.6%
PEG Ratio	X
NTA / Share	\$ 0.17
DCF	\$ 1.53
12 Mth Price Target	\$ 1.75

## Recommendation

The Q1 cash flow release describes another solid quarter at UBI. The operational readthrough suggests that both strip production and service fee receipts (the 1c 'royalty') increased. The stock will only re-rate once investors become convinced that LifeScan can execute on this OneTouch Verio launch, which is a global undertaking now. This release certainly helps; but a string of them over 2012 could realise some sustainable share price gains. Outside the LifeScan/glucose business, the Siemens coagulation deal and immunoassay programmes are both under-rated and both set for material progress this year. We maintain a BUY rating and \$1.75 target. Forecasts unchanged.

## Key Points

- **Q1 cash flow** – UBI reported \$6.6M in cash receipts for the quarter. The company was effectively cash neutral (after operations and investing cash flows). Cash receipts reflect research payments from LifeScan and the glucose strip sales recognised as receivables in Q4-2011. Cash position improved by \$0.6M to \$15.7M.
- **Revenue and operations readthrough** – UBI expects to release its 10-Q to the US Securities and Exchange Commission (SEC) on or about May 2<sup>nd</sup>. By our estimates, we expect UBI to report c.\$4.7m in Product revenue (strips sold to LifeScan) and Service revenues of c.\$1.6m. The production readthrough is approximately 62M strips (UBI may have operated their 750M production line at 33% capacity). That compares favourably to our FY12 forecast of c.250M strips. We estimate that LifeScan's physical strip sales into the diabetes markets may have been c.47M for the quarter.
- **WHTM View** – no surprises in the 4C; consistent with our expectations. We remain positive on the stock. We flag the following potential catalysts this year ...
  - (a) Investors' confidence in LifeScan's execution of the OneTouch Verio launch should benefit from UBI continuing to report progress on cash receipts and revenues, over this year. This latest 4C provides more evidence of this and UBI appears on track to meet our FY12 forecasts. We forecast the following global OneTouch Verio strip volumes (UBI and LifeScan combined): 274M in FY12, 605M in FY13 and 1,924M in 2014.
  - (b) Progress on Siemens coagulation deal. We do have at least one modest milestone payment (c.\$3M) factored in for 1HFY12, in relation to the development of the prothrombin test. Siemens expects to launch this product in 2013, for the hospital and clinic segments of the coagulation market.
  - (c) Efforts to commercialise homecare coagulation monitoring are ongoing – could result in another international partnership. This is a small but growing segment of the coagulation market, which is quite distinct from the medically supervised settings that interest Siemens.
  - (d) Immunoassay capabilities to be validated. There is international demand for the ability to develop and manufacture antibody-based, diagnostic chemistries on a strip-and-meter format. UBI's D-Dimer programme is an important test case, which could be validated this year. Success in that programme would be well regarded by the international molecular diagnostics industry, in our view.
- **Earnings forecasts, valuation and recommendation** – no changes to our FY12 or FY13 forecasts. Maintain BUY rating with \$1.75 target price.

Year to Dec	NPAT (Rep) \$M	EPS (Norm) c	EPS Growth %	PER x	P/CF x	EV/EBITDA x	DPS c	Div Yld %	Franking %
2011a	-14.7	-8.8	-111.1	-8.2	-16.8	-7.5	0.0	0.0	0
2012e	-8.3	-5.0	43.6	-14.6	-21.9	-17.4	0.0	0.0	0
2013e	-2.2	-1.3	73.1	-54.1	93.5	-1,597.1	0.0	0.0	0
2014e	18.6	11.1	936.1	6.5	8.6	4.8	0.0	0.0	0



## Universal Biosensors (UBI : \$0.69)

## INVESTMENT FUNDAMENTALS

Yr Ending Dec	2010A	2011A	2012E	2013E	2014E
EPS Reported (c)	-4.1	-8.8	-5.0	-1.3	11.1
<b>EPS Normalised (c)</b>	<b>-4.2</b>	<b>-8.8</b>	<b>-5.0</b>	<b>-1.3</b>	<b>11.1</b>
EPS Growth (%)	N/A	-111.1%	43.6%	73.1%	936.1%
<b>PER Normalised (x)</b>	<b>-36.5</b>	<b>-8.2</b>	<b>-14.6</b>	<b>-54.1</b>	<b>6.5</b>
DPS (c)	0.0	0.0	0.0	0.0	0.0
Payout (%)	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%

## VALUATION DATA

Yr Ending Dec	2010A	2011A	2012E	2013E	2014E
EV / EBITA (x)	-27.2	-6.9	-12.6	-42.4	5.5
EV / EBITDA (x)	-43.7	-7.5	-17.4	-1,597.1	4.8
CFPS (c)	-4.0	-4.3	-3.3	0.8	8.4
<b>Price / CF</b>	<b>-38.5</b>	<b>-16.8</b>	<b>-21.9</b>	<b>93.5</b>	<b>8.6</b>
Book Value / Share (\$)	0.3	0.2	0.2	0.2	0.3
<b>Price / Book (x)</b>	<b>5.1</b>	<b>3.3</b>	<b>4.3</b>	<b>4.7</b>	<b>2.7</b>

## PROFIT &amp; LOSS (\$m)

Yr Ending Dec	2010A	2011A	2012E	2013E	2014E
Sales Revenue	11.8	14.7	19.8	45.2	83.0
EBITDA	-5.0	-14.0	-6.5	-0.1	20.6
Depreciation	3.0	3.3	2.4	2.6	2.7
<b>EBITA</b>	<b>-7.9</b>	<b>-15.4</b>	<b>-8.9</b>	<b>-2.6</b>	<b>17.9</b>
Amortisation	0.0	0.0	0.0	0.0	0.0
<b>EBIT</b>	<b>-7.9</b>	<b>-15.4</b>	<b>-8.9</b>	<b>-2.6</b>	<b>17.9</b>
Net Interest Expense	-1.2	-0.7	-0.6	-0.4	-0.7
<b>Pre-tax Profit</b>	<b>-6.6</b>	<b>-14.7</b>	<b>-8.3</b>	<b>-2.2</b>	<b>18.6</b>
Tax	0.0	0.0	0.0	0.0	0.0
Tax rate (%)	0.0%	0.0%	0.0%	0.0%	0.0%
Minorities / pref divs	0.0	0.0	0.0	0.0	0.0
Equity accounted NPAT	0.0	0.0	0.0	0.0	0.0
<b>Net Profit</b>	<b>-6.6</b>	<b>-14.7</b>	<b>-8.3</b>	<b>-2.2</b>	<b>18.6</b>
Abn's / Extraord's	0.0	0.0	0.0	0.0	0.0
Reported Net Profit	-6.6	-14.7	-8.3	-2.2	18.6
Revenue Growth (%)	N/A	25.0%	34.6%	128.6%	83.6%
EBIT Growth (%)	N/A	-93.6%	42.0%	70.4%	777.3%
NPAT Growth (%)	N/A	-122.3%	43.6%	73.2%	939.1%

## PROFITABILITY RATIOS

Yr Ending Dec	2010A	2011A	2012E	2013E	2014E
<b>EBIT / Sales (%)</b>	<b>-67.6%</b>	<b>-104.6%</b>	<b>-45.1%</b>	<b>-5.8%</b>	<b>21.5%</b>
ROA (%)	N/A	-50.7%	-30.1%	-8.3%	45.7%
<b>ROE (%)</b>	<b>N/A</b>	<b>-35.7%</b>	<b>-26.8%</b>	<b>-8.7%</b>	<b>55.0%</b>
ROFE (%)	N/A	-70.1%	-46.6%	-15.5%	95.9%

## INTERIMS (\$m)

Half Yr	Jun 11	Dec 11	Jun 12	Dec 12	Jun 13
Yr Ending Dec	1H A	2H A	1H E	2H E	1H E
Sales Revenue	5.6	9.1	8.3	11.5	16.2
EBIT	-8.0	-7.4	-4.1	-4.8	-1.7
<b>Net Profit</b>	<b>-7.6</b>	<b>-7.1</b>	<b>-3.8</b>	<b>-4.5</b>	<b>-1.5</b>
EBIT / Sales (%)	-143.3%	-80.9%	-49.5%	-41.9%	-10.7%

## BALANCE SHEET (\$m)

Yr Ending Dec	2010A	2011A	2012E	2013E	2014E
Cash	23.3	15.1	8.5	8.7	21.6
Receivables	3.6	4.9	5.7	8.2	15.0
Inventories	3.2	3.6	3.0	7.5	11.4
Other	0.7	1.0	1.0	1.1	1.1
<b>Current Assets</b>	<b>30.7</b>	<b>24.6</b>	<b>18.2</b>	<b>25.5</b>	<b>49.1</b>
Net PPE	23.1	20.3	18.9	17.4	15.9
Investments	0.0	0.0	0.0	0.0	0.0
Intangibles	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.3	0.3	0.3	0.3
<b>Non-current Assets</b>	<b>23.1</b>	<b>20.6</b>	<b>19.2</b>	<b>17.7</b>	<b>16.2</b>
<b>Total Assets</b>	<b>53.8</b>	<b>45.2</b>	<b>37.4</b>	<b>43.2</b>	<b>65.3</b>
Current Payables	1.8	0.6	5.3	13.2	16.7
Current Debt	0.0	0.0	0.0	0.0	0.0
Non-Current Debt	0.0	0.0	0.0	0.0	0.0
Provisions	4.9	6.6	2.4	2.5	2.5
Other	0.0	3.0	3.0	3.0	3.0
<b>Total Liabilities</b>	<b>6.6</b>	<b>10.2</b>	<b>10.7</b>	<b>18.7</b>	<b>22.2</b>
Equity	77.1	79.4	79.4	79.4	79.4
Reserves	-0.3	-0.2	-0.2	-0.2	-0.2
Retained Profits	-29.5	-44.2	-52.5	-54.7	-36.1
Minorities	0.0	0.0	0.0	0.0	0.0
<b>Total Equity</b>	<b>47.2</b>	<b>35.0</b>	<b>26.7</b>	<b>24.5</b>	<b>43.1</b>
<b>Total Funds Employed</b>	<b>23.9</b>	<b>19.9</b>	<b>18.2</b>	<b>15.8</b>	<b>21.5</b>

## LIQUIDITY &amp; LEVERAGE RATIOS

Yr Ending Dec	2010A	2011A	2012E	2013E	2014E
Net Debt (Cash) (\$m)	-23.3	-15.1	-8.5	-8.7	-21.6
<b>Net Debt / Equity (%)</b>	<b>-49.3%</b>	<b>-43.1%</b>	<b>-31.9%</b>	<b>-35.6%</b>	<b>-50.2%</b>
Interest Cover (x)	6.7	22.5	14.2	6.3	-24.0
<b>Debt / CashFlow (x)</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

## CASHFLOW (\$m)

Yr Ending Dec	2010A	2011A	2012E	2013E	2014E
EBIT	-7.9	-15.4	-8.9	-2.6	17.9
Dep'n and Amort'n	3.0	3.3	2.4	2.6	2.7
Net Int Rec'd (Paid)	1.2	0.7	0.6	0.4	0.7
Tax Paid	0.0	0.0	0.0	0.0	0.0
Dec / (Inc) W'kg Cap	-4.7	-2.1	0.3	0.9	-7.3
Other	1.9	6.3	0.0	0.0	0.0
<b>Operating Cash Flow</b>	<b>-6.4</b>	<b>-7.2</b>	<b>-5.5</b>	<b>1.3</b>	<b>14.0</b>
Capital Expenditure	-2.3	-1.1	-1.1	-1.1	-1.1
Asset Sales	0.0	0.0	0.0	0.0	0.0
Investments	0.0	0.0	0.0	0.0	0.0
Other Inv. Flows	0.0	0.0	0.0	0.0	0.0
<b>Investing Cash Flow</b>	<b>-2.3</b>	<b>-1.1</b>	<b>-1.1</b>	<b>-1.1</b>	<b>-1.1</b>
Equity Raised	0.7	0.1	0.0	0.0	0.0
Inc / (Dec) in Loans	0.0	0.0	0.0	0.0	0.0
Dividends Paid	0.0	0.0	0.0	0.0	0.0
Other Fin. Flows	0.0	0.0	0.0	0.0	0.0
<b>Financing Cash Flow</b>	<b>0.7</b>	<b>0.1</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Net Cash Flow</b>	<b>-8.0</b>	<b>-8.2</b>	<b>-6.6</b>	<b>0.2</b>	<b>12.9</b>

**Recommendation Structure**

BUY: Total return +10% or more over a 12 month period

HOLD: Total return expected to be between +10% to -10% over a 12-month period

SELL: Total return expected to be -10% or more over a 12 month period

TOTAL RETURN OR TSR = capital growth in share price + expected dividend yield in that period

**Other definitions**

CS Coverage Suspended. Wilson HTM Ltd has suspended coverage of this company.

NR Not Rated. The recommendation has been suspended temporarily. Such suspension is in line with Wilson HTM Investment Group Ltd policies in circumstances where Wilson HTM Corporate Finance Ltd is acting in an advisory capacity in a merger or strategic transaction involving the company and in certain other situations.

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