

25 February 2022

Universal Biosensors Inc. (UBI) BUY

Share Price: A\$0.89

Another big year ahead

Target Price: A\$1.17

Having pre-released CY21 revenues, UBI reported a net loss of \$10.5m that was ahead of our expectations, due entirely to outperformance at the GP line. With opex well contained and ~\$18m of cash on hand inclusive of restricted cash, UBI looks set for another positive year, particularly Sentia, but potentially also Xprecia Prime. Reiterate Buy with a \$1.17ps TP (from \$1.20ps).

CY21 results highlight the progress made thus far

- UBI delivered a CY21 net loss of \$10.5m that was better than our forecast (i.e. net loss of \$12.4m). Having pre-reported CY21 sales, it was the higher GP margin that surprised on the upside at 36.4% (PC est. 28.7%).
- While UBI's operating costs increased by 34.6% to \$15m, this company's operating costs to sales ratio fell from 3.5x to 2.6x. We expect this trend to continue based on UBI's current sales and distribution model.
- UBI finished CY21 with cash equivalents of \$15.3m, and an additional \$2.8m of restricted cash. Based on our revised estimates, UBI has sufficient cash to fund all of its growth initiatives, with CY23 being the low point.

CY22 likely to be another positive year for UBI

- While UBI has not provided any explicit guidance for CY22, we expect it to be another positive year for the company, in particular Sentia, which will benefit from functional upgrades, and potentially also Xprecia Prime.
- As a result, we expect UBI to report a marked increase in profitability, with this extending into CY23 and beyond, in-step with the rollout of its various initiatives, supplemented by operating leverage.

CY22 likely to be another positive year for UBI

- While we have increased our estimated net loss for CY22 to \$9.7m (from \$8.6m), we have reduced our CY23 net loss estimate to \$1.6m (from \$2.9m) and increased CY24 net profit to \$8.4m (from \$7.1m).
- The key drivers of our earnings forecast revisions are (i) lower sales forecasts for Xprecia Stride in CY22, and (ii) lower operating costs across our explicit forecasts, due largely to an assumed moderation in R&D spending.

Reiterate Buy rating and lower TP to \$1.17ps

- Our estimated fair value for UBI is \$1.17ps, with this based entirely on our DCF valuation. This equates to an equity value of \$216m, 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.

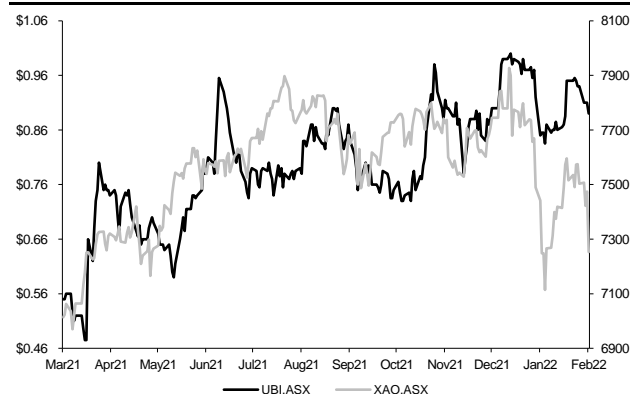
Company Data

Shares – ordinary (M)	177.6
Dilution (M)	0.0
Total (fully diluted) (M)	177.6
Market capitalisation (\$M)	158.1
12 month low/high (\$)	0.39 - 1.04
Average monthly turnover (\$M)	5.5
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	20.8	25.0	30.0
EBITDA (A\$m)	-5.6	-8.3	-7.5	0.6	10.7
NPAT (A\$m)	-7.6	-10.5	-9.7	-1.6	8.4
EPS (¢)	-4.1	-5.7	-5.3	-0.9	4.6
EPS Growth (%)	-57.5	-37.5	7.6	83.5	+100.0
PER (x)	-21.5	-15.6	-16.9	-101.7	19.3
FCF (A\$m)	-8.7	-10.6	-10.9	-3.6	4.4
FCF per share (cps)	-4.7	-5.7	-5.9	-2.0	2.4
Price to FCF (x)	-18.9	-15.5	-15.1	-44.8	36.8
EV (A\$m)	133.6	140.3	148.6	159.5	163.1
EV/EBITDA	-24.1	-17.0	-19.7	248.2	15.3
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

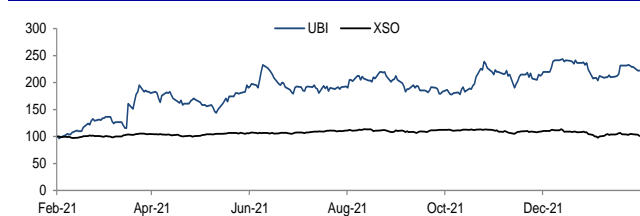
Universal Biosensors

Year End December

MARKET DATA

Recommendation		Buy
Price	\$	0.89
Price target (12-month)	\$	1.17
52 week high / low	\$	0.39 - 1.04
Market capitalisation	\$m	158.1
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	2021A	2022F	2023F	2024F	2025F
Underlying net profit	\$m (7.6)	(10.5)	(9.7)	(1.6)	8.4	19.0
Reported net profit	\$m (7.6)	(10.5)	(9.7)	(1.6)	8.4	19.0
Reported EPS (diluted)	¢ (4.1)	(5.7)	(5.3)	(0.9)	4.6	10.4
Normalised EPS (diluted)	¢ (4.1)	(5.7)	(5.3)	(0.9)	4.6	10.4
....Growth	% (57.5)	(37.5)	7.6	83.5	+100.0	+100.0
Normalised diluted PER	x (21.5)	(15.6)	(16.9)	(101.7)	19.3	8.5
Adjusted Op. CF per share	¢ (4.5)	(5.4)	(5.6)	(1.7)	2.7	8.6
Adjusted FCF per share	¢ (4.7)	(5.7)	(5.9)	(2.0)	2.4	8.3
Price to free cash flow per share	x (18.9)	(15.5)	(15.1)	(44.8)	36.8	10.7
Free cash flow yield	% (5.3)	(6.4)	(6.6)	(2.2)	2.7	9.3
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 133.6	140.3	148.6	159.5	163.1	158.7
EV/EBITDA	x (24.1)	(17.0)	(19.7)	248.2	15.3	7.5
EV/EBIT	x (17.2)	(13.4)	(15.3)	(106.1)	19.1	8.3
Price to book (NAV)	x 4.2	5.7	8.9	9.9	6.6	3.8
Price to NTA	x 6.7	10.6	23.5	23.6	9.6	4.4

PROFIT AND LOSS	2020A	2021A	2022F	2023F	2024F	2025F
Total revenue	\$m 3.2	5.8	13.3	25.7	40.7	55.3
EBITDA	\$m (5.6)	(8.3)	(7.5)	0.6	10.7	21.2
Depreciation & amortisation	\$m 2.2	2.2	2.1	2.1	2.1	2.2
EBIT	\$m (7.8)	(10.4)	(9.7)	(1.5)	8.5	19.1
Net interest	\$m (0.1)	0.1	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)	(10.5)	(9.7)	(1.6)	8.4	19.0
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)	(10.5)	(9.7)	(1.6)	8.4	19.0
Significant items	\$m 0.0	0.0	0.0	0.0	0.0	0.0
Underlying NPAT	\$m (7.6)	(10.5)	(9.7)	(1.6)	8.4	19.0

KEY RATIOS	2020A	2021A	2022F	2023F	2024F	2025F
EBITDA margin	% (173.3)	(142.9)	(56.8)	2.5	26.2	38.4
EBIT margin	% (242.8)	(180.6)	(72.9)	(5.8)	21.0	34.5
Underlying net profit margin	% (238.5)	(181.9)	(73.1)	(6.3)	20.7	34.4
Return on average equity	% (18.3)	(32.0)	(42.8)	(9.5)	41.4	55.9
Return on average assets	% (13.3)	(20.9)	(24.3)	(4.5)	20.2	33.5
Net tangible assets per share	¢ 13.3	8.4	3.8	3.8	9.3	20.4
Net debt /(cash)	\$m (23.6)	(15.3)	(4.4)	(0.8)	(5.2)	(20.4)
Interest cover (EBIT / net interest)	x N/A	(145.0)	(361.4)	(14.6)	82.6	2,063.6
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

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)	8.8	+100.0	+100.0	98.8
EBIT	% (11.3)	(34.2)	7.2	84.5	+100.0	+100.0
Operating NPAT	% (57.6)	(37.6)	7.6	83.5	+100.0	+100.0
Normalised EPS	% (57.5)	(37.5)	7.6	83.5	+100.0	+100.0
DPS	% 0.0	0.0	0.0	0.0	0.0	0.0

DUPONT ANALYSIS	2020A	2021A	2022F	2023F	2024F	2025F
Net Profit Margin	% (238.5)	(181.9)	(73.1)	(6.3)	20.7	34.4
Asset Turnover	x 0.1	0.1	0.3	0.7	1.0	1.0
Return on Assets	% (12.8)	(20.8)	(24.0)	(4.4)	20.2	33.7
Financial Leverage	x 1.4	1.5	1.8	2.2	2.0	1.7
Return on Equity	% (18.3)	(32.0)	(42.8)	(9.5)	41.4	55.9

BALANCE SHEET	2020A	2021A	2022F	2023F	2024F	2025F
Cash	\$m 23.6	15.3	4.4	0.8	5.2	20.4
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	17.3	19.3	30.4	52.2
Prop. plant & equip	\$m 4.4	4.1	4.1	4.2	4.2	4.2
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	19.0	17.5	16.0	14.5
Total assets	\$m 56.4	44.5	36.4	36.8	46.4	66.7
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
Total liabilities	\$m 18.4	16.9	18.6	20.7	21.9	23.1
Net assets	\$m 38.0	27.6	17.7	16.1	24.5	43.6
Equity	\$m 38.0	27.6	17.7	16.1	24.5	43.6
Minorities	\$m 0.0	0.0	0.0	0.0	0.0	0.0
Shareholder's equity	\$m 38.0	27.6	17.7	16.1	24.5	43.6
Shares on issue	m 177.6	177.6	177.7	179.0	181.8	184.1

BUSINESS SEGMENTS	2020A	2021A	2022F	2023F	2024F	2025F
Revenue	\$m 3.2	5.8	13.3	25.7	40.7	55.3
- 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
Gross profit	\$m 0.6	2.1	6.6	15.8	26.6	37.9
- 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
Gross profit margin	% 19.5	36.6	49.6	61.4	65.3	68.5
Non-sales income	\$m 4.9	4.6	0.0	0.0	0.0	0.0

CASH FLOW	2020A	2021A	2022F	2023F	2024F	2025F
EBITDA	\$m (5.6)	(8.3)	(7.5)	0.6	10.7	21.2
Change in working capital	\$m (0.9)	(0.7)	(2.8)	(4.7)	(5.6)	(5.5)
Net interest	\$m 0.0	0.0	(0.0)	(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)	(1.0)	0.0	1.0	0.0	0.0
Operating cash flow	\$m (8.3)	(9.9)	(10.4)	(3.1)	5.0	15.7
Capital expenditure	\$m (0.4)	(0.7)	(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)	(0.7)	(0.5)	(0.5)	(0.5)	(0.5)
Free cash flow	\$m -8.7	-10.6	-10.9	-3.6	4.4	15.2
Equity	\$m 0.0	0.1	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	0.1	0.0	0.0	0.0	0.0
Net cash flow	\$m (8.6)	(10.5)	(10.9)	(3.6)	4.4	15.2

Source: Petra Capital



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