

22 June 2022

Universal Biosensors Inc. (UBI) BUY Share Price: A\$0.34

Still going to plan despite some delays Target Price: A\$0.89

UBI's AGM update suggests that while there have been some delays to key share price catalysts (Tn Antigen clinical studies and Sentia functionality upgrades and thus sales), the company remains broadly on-track and fully funded. While we have reduced our EPS estimates to reflect lower Sentia sales, we retain our Buy rating with a new TP of \$0.89ps (down from \$0.96ps)

Upbeat AGM presentation

- The tone from UBI's AGM presentation was positive, with all key valuation drivers/share price catalysts still on-track, albeit with delays to (i) the rollout of Sentia's Total Sugar Test, and (ii) TN Antigen clinical studies.
- While all of Sentia's tests are expected to be released in CY22, UBI estimates that delays to the rollout of the Total Sugar Test (fructose and glucose) will result in the deferral of \$2.2m of CY22 sales to future periods.
- Moreover, UBI's two Tn Antigen clinical studies (Peter Mac and Cancer Biobank) have been delayed due to inefficiencies stemming from its current reliance on the R&D line to manufacture its 3-electrode test strips.
- While these manufacturing inefficiencies are expected to be remedied once UBI's legacy 2-strip manufacturing line has been recommissioned, UBI now expects the results from its two clinical studies in mid-August 2022.

Earnings forecast revisions on lower Sentia sales

- We have cut our CY22 and CY23 EPS estimate by 9% and 22%, respectively, with CY24 unchanged. The key driver is lower Sentia sales - \$5.4m in CY22 (previously \$6.7m) and \$15.8m in CY23 (previously \$16.9m).

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 \$0.89ps TP (from \$0.96ps)

- Our estimated fair value for UBI is \$0.89ps, with this based entirely on our DCF valuation. This equates to an equity value of \$196m, which is compelling for a business with its product pipeline and net cash balance.

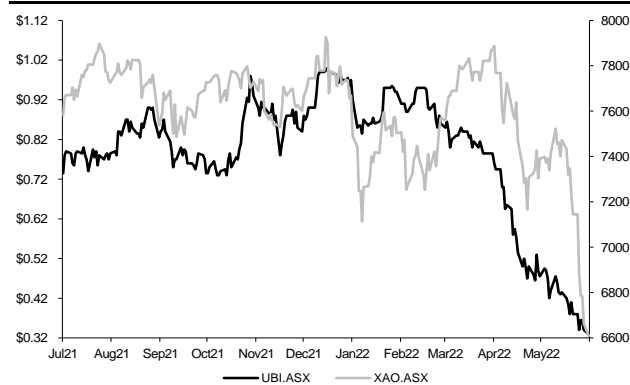
Company Data

Shares – ordinary (M)	211.8
Dilution (M)	8.6
Total (fully diluted) (M)	220.4
Market capitalisation (\$M)	71.0
12-month low/high (\$)	0.33 - 1.04
Average monthly turnover (\$M)	5.7
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	11.9	24.6	40.7
Costs (A\$m)		8.8	14.0	21.2	25.6	31.0
EBITDA (A\$m)		-5.6	-8.3	-9.2	-1.0	9.7
NPAT (A\$m)		-7.6	-10.5	-11.6	-3.9	6.3
EPS (¢)		-4.1	-5.6	-5.7	-1.8	2.9
EPS Growth (%)		-57.5	-37.5	-0.4	68.9	+100.0
PER (x)		-8.2	-5.9	-5.9	-18.9	11.5
FCF (A\$m)		-8.7	-10.6	-16.2	-12.0	1.9
FCF per share (cps)		-4.7	-5.7	-8.0	-5.5	0.9
Price to FCF (x)		-7.2	-5.9	-4.2	-6.1	39.2
EV (A\$m)		32.2	38.8	47.1	49.5	61.6
EV/EBITDA		-5.8	-4.7	-5.1	-50.8	6.3
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. 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.

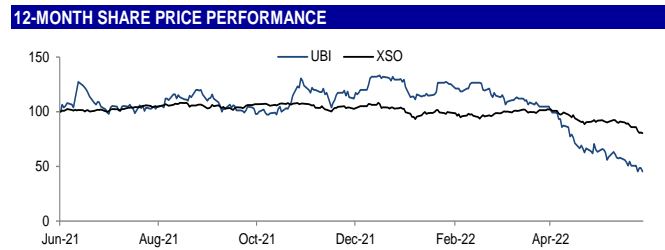
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Analysis

Universal Biosensors

Year End December

MARKET DATA			
Recommendation			Buy
Price	\$		0.34
Price target (12-month)	\$		0.89
52 week high / low	\$		0.33 - 1.04
Market capitalisation	\$m		71.0
Shares on issue (basic)	no.		211.8
Performance rights	no.		3.8
Other equity	no.		4.8
Shares on issue (diluted)	no.		220.4



INVESTMENT FUNDAMENTALS		2020A	2021A	2022F	2023F	2024F	2025F
Underlying net profit	\$m	(7.6)	(10.5)	(11.6)	(3.9)	6.3	16.9
Reported net profit	\$m	(7.6)	(10.5)	(11.6)	(3.9)	6.3	16.9
Reported EPS (diluted)	¢	(4.1)	(5.6)	(5.7)	(1.8)	2.9	7.7
Normalised EPS (diluted)	¢	(4.1)	(5.6)	(5.7)	(1.8)	2.9	7.7
...Growth	%	(57.5)	(37.5)	(0.4)	68.9	+100.0	+100.0
Normalised diluted PER	x	(8.2)	(5.9)	(5.9)	(18.9)	11.5	4.4
Adjusted Op. CF per share	¢	(4.5)	(5.3)	(5.6)	(2.1)	1.7	6.7
Adjusted FCF per share	¢	(4.7)	(5.7)	(8.0)	(5.5)	0.9	5.9
Price to free cash flow per share	x	(7.2)	(5.9)	(4.2)	(6.1)	39.2	5.7
Free cash flow yield	%	(13.9)	(16.9)	(23.8)	(16.3)	2.6	17.6
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	32.2	38.8	47.1	49.5	61.6	59.7
EV/EBITDA	x	(5.8)	(4.7)	(5.1)	(50.8)	6.3	3.0
EV/EBIT	x	(4.1)	(3.7)	(4.0)	(12.5)	9.7	3.6
Price to book (NAV)	x	1.6	2.2	1.7	1.9	1.6	1.2
Price to NTA	x	2.5	4.0	2.3	2.5	2.0	1.3

PROFIT AND LOSS		2020A	2021A	2022F	2023F	2024F	2025F
Total revenue	\$m	3.2	5.8	11.9	24.6	40.7	55.3
EBITDA	\$m	(5.6)	(8.3)	(9.2)	(1.0)	9.7	20.2
Depreciation & amortisation	\$m	2.2	2.2	2.4	3.0	3.4	3.4
EBIT	\$m	(7.8)	(10.4)	(11.6)	(4.0)	6.3	16.8
Net interest	\$m	(0.1)	0.1	(0.1)	(0.1)	0.0	(0.1)
Non-operating income	\$m	0.0	0.0	0.0	0.0	0.0	0.0
Pretax Profit	\$m	(7.6)	(10.5)	(11.6)	(3.9)	6.3	16.9
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)	(11.6)	(3.9)	6.3	16.9
Significant items	\$m	0.0	0.0	0.0	0.0	0.0	0.0
Underlying NPAT	\$m	(7.6)	(10.5)	(11.6)	(3.9)	6.3	16.9

KEY RATIOS		2020A	2021A	2022F	2023F	2024F	2025F
EBITDA margin	%	(173.3)	(142.9)	(77.6)	(4.0)	23.9	36.5
EBIT margin	%	(242.8)	(180.6)	(97.7)	(16.1)	15.6	30.4
Underlying net profit margin	%	(238.5)	(181.9)	(97.1)	(15.9)	15.6	30.5
Return on average equity	%	(18.3)	(32.0)	(33.2)	(9.7)	15.3	31.9
Return on average assets	%	(13.3)	(20.9)	(22.6)	(7.0)	10.1	22.4
Net tangible assets per share	¢	13.3	8.4	14.7	13.6	16.9	25.1
Net debt /(cash)	\$m	(23.6)	(15.3)	(24.3)	(12.3)	(14.1)	(27.1)
Interest cover (EBIT / net interest)	x	N/A	(145.0)	N/A	N/A	5,835.4	N/A
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	106.2	106.3	65.4	36.0
EBITDA	%	4.8	(48.8)	(12.0)	89.5	+100.0	+100.0
EBIT	%	(11.3)	(34.2)	(11.5)	65.9	+100.0	+100.0
Operating NPAT	%	(57.6)	(37.6)	(10.1)	66.1	+100.0	+100.0
Normalised EPS	%	(57.5)	(37.5)	(0.4)	68.9	+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)	(97.1)	(15.9)	15.6	30.5
Asset Turnover	x	0.1	0.1	0.2	0.4	0.7	0.7
Return on Assets	%	(12.8)	(20.8)	(22.2)	(6.7)	10.3	22.7
Financial Leverage	x	1.4	1.5	1.5	1.5	1.5	1.4
Return on Equity	%	(18.3)	(32.0)	(33.2)	(9.7)	15.3	31.9

BALANCE SHEET		2020A	2021A	2022F	2023F	2024F	2025F
Cash	\$m	23.6	15.3	24.3	12.3	14.1	27.1
Receivables	\$m	0.1	0.5	1.2	2.5	4.1	5.5
Inventory	\$m	1.9	2.1	4.2	8.6	14.2	19.4
Other	\$m	5.9	6.9	6.9	6.9	6.9	6.9
Current	\$m	31.4	24.9	36.6	30.3	39.4	58.9
Prop. plant & equip	\$m	4.4	4.1	8.1	14.1	14.2	14.3
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	23.0	27.5	26.0	24.6
Total assets	\$m	56.4	44.5	59.6	57.7	65.4	83.4
Accounts Payable	\$m	0.4	0.4	0.9	1.8	3.0	4.1
Borrowings	\$m	0.0	0.0	0.0	0.0	0.0	0.0
Other	\$m	18.0	16.5	16.6	17.7	17.8	17.8
Total liabilities	\$m	18.4	16.9	17.5	19.5	20.8	22.0
Net assets	\$m	38.0	27.6	42.1	38.2	44.6	61.4
Equity	\$m	38.0	27.6	42.1	38.2	44.6	61.4
Minorities	\$m	0.0	0.0	0.0	0.0	0.0	0.0
Shareholder's equity	\$m	38.0	27.6	42.1	38.2	44.6	61.4
Shares on issue	m	177.6	177.6	211.8	211.8	218.1	220.4

BUSINESS SEGMENTS		2020A	2021A	2022F	2023F	2024F	2025F
Revenue	\$m	3.2	5.8	11.9	24.6	40.7	55.3
- Oenology (Sentia)	\$m	0.0	1.1	5.4	15.8	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	5.7	15.1	26.6	37.9
- Oenology (Sentia)	\$m	0.0	0.2	4.1	12.1	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	47.9	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)	(9.2)	(1.0)	9.7	20.2
Change in working capital	\$m	(0.9)	(0.7)	(2.3)	(4.8)	(6.0)	(5.5)
Net interest	\$m	0.0	0.0	0.1	0.1	(0.0)	0.1
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)	(11.5)	(4.7)	3.7	14.8
Capital expenditure	\$m	(0.4)	(0.7)	(4.7)	(7.4)	(1.8)	(1.8)
Acquisitions/divestment/other	\$m	0.0	0.0	0.0	0.0	0.0	0.0
Investing cash flow	\$m	(0.4)	(0.7)	(4.7)	(7.4)	(1.8)	(1.8)
Free cash flow	\$m	-8.7	-10.6	-16.2	-12.0	1.9	12.9
Equity	\$m	0.0	0.1	26.3	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	(1.1)	0.0	0.0	0.0
Financing cash flow	\$m	0.0	0.1	25.2	0.0	0.0	0.0
Net cash flow	\$m	(8.6)	(10.5)	9.0	(12.0)	1.9	12.9

Source: Petra Capital

Earnings forecast revisions

As summarised in Figure 1, we have revised our earnings estimates to reflect the recent AGM update. While our forecasts continue to exclude potential contributions from the company's 3-electrode strip biosensor technology platform, we have updated our forecasts to reflect weaker-than-expected sales for Sentia in CY22 and CY23, due entirely to the delays in rolling out its Total Sugar Test.

Figure 1: Earnings forecast revisions

Year End Dec	2022F			2023F			2024F		
	Old	New	Δ	Old	New	Δ	Old	New	Δ
EBITDA	-8.4	-9.2	-10.5%	-0.3	-1.0	-245%	9.7	9.7	0.0%
NPAT	-10.7	-11.6	-8.2%	-3.2	-3.9	-22.1%	6.4	6.3	-0.3%
EPS ¢	-5.2	-5.7	-9.0%	-1.5	-1.8	-22.4%	2.9	2.9	-0.2%
DPS ¢	0.0	0.0	0.0%	0.0	0.0	0.0%	0.0	0.0	0.0%
FCF	-15.8	-16.2	-2.4%	-11.2	-12.0	-7.2%	2.3	1.9	-18.9%

Source: Petra Capital



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