

9 August 2021

Universal Biosensors Inc. (UBI) BUY

Share Price: **A\$0.74**

Strong 1H21 revenue growth off a low base

Target Price: **A\$1.20**

UBI has reported a solid 1H21 results, driven by a 219% increase in sales, a marked increase in the GP margin and an only modest increase in opex. While we expect UBI to remain loss making for the next several years, the key driver of our forecast transition to profitability in CY24 remains increasing sales momentum in Sentia. We reiterate our Buy rating and \$1.20ps target price.

1H21 results feature a 219% jump in sales

- UBI has reported solid 1H21 results, underpinned by a 219% jump in sales to \$3.4m. This combined with a higher GP margin and modest decline in operating costs to reduce UBI's net loss to \$3.2m (from \$4.5m in 1H20).
- The key drivers of 1H21 sales were flagged ahead of the results and included the (i) Services contract with Bayer secured in late CY20, and (ii) modest sequential growth in Sentia since its inception in late 1Q21.
- Despite UBI's lower net loss versus 1H20, the company reported a modest increase in operating cash outflows to \$5.4m, due largely to higher contract liabilities and accounts receivable. Net cash fell ~\$5m to \$18.8m.

Momentum expected to accelerate in 2H21

- We have opted to keep our forecasts unchanged. This reflects our (i) expectation for incremental sales growth in 2H21, driven by Sentia, and (ii) conservative forecast for near-term operating leverage.
- While we estimate there was only modest quarter-on-quarter growth in Sentia sales in 1H21, the scheduled release of three new Sentia tests (Malic Acid, Glucose, Fructose) in 2H21 imply stronger sales growth in 2H21.

The broader market opportunity remains enormous

- While we expect Sentia to drive a marked improvement in UBI's profitability over the next several years, this is based on what we view as conservative market share assumptions given its utility and first mover advantage.
- Importantly, our current forecasts do not factor in any potential contributions from UBI developing biosensors for cancer and/or fertility. The market opportunity for both is huge, with targeted product sales from ~2025.

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.

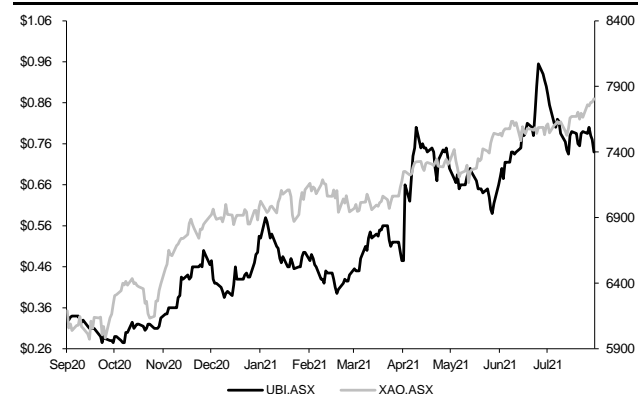
Company Data

Shares – ordinary (M)	177.6
Dilution (M)	0.0
Total (fully diluted) (M)	177.6
Market capitalisation (\$M)	131.4
12 month low/high (\$)	0.24 - 0.97
Average monthly turnover (\$M)	4.4
GICS Industry	Health Care Equipment & Supplies

Financial Summary (fully diluted/normalised)

Year End December	2020A	2021F	2022F	2023F	2024F
Revenue (A\$m)	3.2	8.3	15.5	25.7	40.7
Costs (A\$m)	8.8	15.8	20.1	24.3	29.2
EBITDA (A\$m)	-5.6	-7.5	-4.6	1.4	11.5
NPAT (A\$m)	-7.6	-9.6	-6.8	-0.8	9.3
EPS (¢)	-4.1	-5.2	-3.7	-0.4	5.1
EPS Growth (%)	-57.5	-25.4	29.4	88.3	+100.0
PER (x)	-17.8	-14.2	-20.1	-171.4	14.5
FCF (A\$m)	-8.7	-8.1	-7.4	-1.7	7.2
FCF per share (cps)	-4.7	-4.4	-4.0	-0.9	3.9
Price to FCF (x)	-15.7	-16.8	-18.5	-78.1	18.8
EV (A\$m)	106.0	112.7	120.8	128.2	129.9
EV/EBITDA	-19.1	-15.0	-26.2	91.0	11.3
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.

James Lennon
+61 2 9239 9618

Analysis

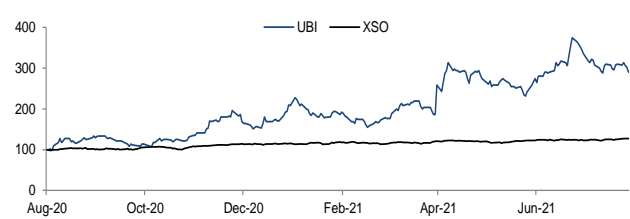
Universal Biosensors

Year End December

MARKET DATA

Recommendation		Buy
Price	\$	0.74
Price target (12-month)	\$	1.20
52 week high / low	\$	0.24 - 0.97
Market capitalisation	\$m	131.4
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)	(9.6)	(6.8)	(0.8)	9.3	20.0
Reported net profit	\$m (7.6)	(9.6)	(6.8)	(0.8)	9.3	20.0
Reported EPS (diluted)	¢ (4.1)	(5.2)	(3.7)	(0.4)	5.1	10.9
Normalised EPS (diluted)	¢ (4.1)	(5.2)	(3.7)	(0.4)	5.1	10.9
...Growth	% (57.5)	(25.4)	29.4	88.3	+100.0	+100.0
Normalised diluted PER	x (17.8)	(14.2)	(20.1)	(171.4)	14.5	6.8
Adjusted Op. CF per share	¢ (4.5)	(4.1)	(3.7)	(0.7)	4.2	10.1
Adjusted FCF per share	¢ (4.7)	(4.4)	(4.0)	(0.9)	3.9	9.8
Price to free cash flow per share	x (15.7)	(16.8)	(18.5)	(78.1)	18.8	7.5
Free cash flow yield	% (6.4)	(6.0)	(5.4)	(1.3)	5.3	13.3

PROFIT AND LOSS	2020A	2021F	2022F	2023F	2024F	2025F
Total revenue	\$m 3.2	8.3	15.5	25.7	40.7	55.4
EBITDA	\$m (5.6)	(7.5)	(4.6)	1.4	11.5	22.1
Depreciation & amortisation	\$m 2.2	2.1	2.1	2.1	2.1	2.1
EBIT	\$m (7.8)	(9.6)	(6.7)	(0.7)	9.4	20.0
Net interest	\$m (0.1)	(0.0)	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)	(9.6)	(6.8)	(0.8)	9.3	20.0
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)	(9.6)	(6.8)	(0.8)	9.3	20.0
Significant items	\$m 0.0	0.0	0.0	0.0	0.0	0.0
Underlying NPAT	\$m (7.6)	(9.6)	(6.8)	(0.8)	9.3	20.0

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 106.0	112.7	120.8	128.2	129.9	122.7
EV/EBITDA	x (19.1)	(15.0)	(26.2)	91.0	11.3	5.6
EV/EBIT	x (13.6)	(11.7)	(18.0)	(184.4)	13.8	6.1
Price to book (NAV)	x 3.5	4.6	6.1	6.4	4.5	2.7
Price to NTA	x 5.5	8.3	12.4	11.5	6.0	3.1

GROWTH PROFILE	2020A	2021F	2022F	2023F	2024F	2025F
Operating revenue	% (53.6)	159.2	86.5	66.2	58.2	36.0
EBITDA	% 4.8	(35.3)	38.6	+100.0	+100.0	92.2
EBIT	% (11.3)	(23.6)	30.1	89.7	+100.0	+100.0
Operating NPAT	% (57.6)	(25.4)	29.3	88.3	+100.0	+100.0
Normalised EPS	% (57.5)	(25.4)	29.4	88.3	+100.0	+100.0
DPS	% 0.0	0.0	0.0	0.0	0.0	0.0

KEY RATIOS	2020A	2021F	2022F	2023F	2024F	2025F
EBITDA margin	% (173.3)	(90.5)	(29.8)	5.5	28.2	39.9
EBIT margin	% (242.8)	(115.8)	(43.4)	(2.7)	23.0	36.1
Underlying net profit margin	% (238.5)	(115.4)	(43.7)	(3.1)	22.9	36.1
Return on average equity	% (18.3)	(28.9)	(27.0)	(3.7)	36.5	49.8
Return on average assets	% (13.3)	(18.8)	(15.5)	(2.1)	19.3	30.8
Net tangible assets per share	¢ 13.3	8.9	6.0	6.4	12.3	23.9
Net debt / (cash)	\$m (23.6)	(15.4)	(8.1)	(6.4)	(13.5)	(31.5)
Interest cover (EBIT / net interest)	x N/A	N/A	(144.5)	(7.2)	125.4	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

BALANCE SHEET	2020A	2021F	2022F	2023F	2024F	2025F
Cash	\$m 23.6	15.4	8.1	6.4	13.5	31.5
Receivables	\$m 0.1	1.2	2.8	4.6	7.3	10.0
Inventory	\$m 1.9	1.7	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	24.2	19.7	21.8	34.5	57.9
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
Total assets	\$m 56.4	47.5	41.4	42.0	53.2	75.1
Accounts Payable	\$m 0.4	1.2	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	18.1	18.2	18.3
Total liabilities	\$m 18.4	19.1	19.8	21.1	23.1	24.9
Net assets	\$m 38.0	28.4	21.6	20.8	30.1	50.2
Equity	\$m 38.0	28.4	21.6	20.8	30.1	50.2
Minorities	\$m 0.0	0.0	0.0	0.0	0.0	0.0
Shareholder's equity	\$m 38.0	28.4	21.6	20.8	30.1	50.2
Shares on issue	m 177.6	177.6	177.7	179.0	181.8	184.1

DUPONT ANALYSIS	2020A	2021F	2022F	2023F	2024F	2025F
Net Profit Margin	% (238.5)	(115.4)	(43.7)	(3.1)	22.9	36.1
Asset Turnover	x 0.1	0.2	0.3	0.6	0.9	0.9
Return on Assets	% (12.8)	(18.4)	(15.2)	(1.9)	19.6	31.2
Financial Leverage	x 1.4	1.6	1.8	2.0	1.9	1.6
Return on Equity	% (18.3)	(28.9)	(27.0)	(3.7)	36.5	49.8

CASH FLOW	2020A	2021F	2022F	2023F	2024F	2025F
EBITDA	\$m (5.6)	(7.5)	(4.6)	1.4	11.5	22.1
Change in working capital	\$m (0.9)	(0.2)	(2.2)	(2.6)	(3.7)	(3.7)
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)	0.0	0.0	0.0	0.0	0.0
Operating cash flow	\$m (8.3)	(7.6)	(6.9)	(1.3)	7.7	18.5
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
Investing cash flow	\$m (0.4)	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)
Free cash flow	\$m -8.7	-8.1	-7.4	-1.7	7.2	18.0
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
Financing cash flow	\$m 0.0	0.0	0.0	0.0	0.0	0.0
Net cash flow	\$m (8.6)	(8.1)	(7.4)	(1.7)	7.2	18.0

Source: Petra Capital



Petra Capital
Level 17, 14 Martin Place, Sydney NSW 2000

ABN 95 110 952 782
ACN 110 952 782
AFSL 317 944

Director:	George Marias	+61 (0)2 9239 9601	gmarias@petracapital.com.au
Research (Resources):	Brett McKay	+61 (0)2 9239 9605	bmckay@petracapital.com.au
Research (Resources):	Hugh Stackpool	+61 (0)2 9239 9625	hstackpool@petracapital.com.au
Research (Resources):	David Brennan	+61 (0)2 9239 9630	dbrennan@petracapital.com.au
Research (Resources):	Andrew Harrington	+61 (0)2 9239 9614	aharrington@petracapital.com.au
Research (Resources):	Kieran Barratt	+61 (0)2 9239 9610	kbarratt@petracapital.com.au
Research (Resources):	Colin McLelland	+61 (0)2 9239 9639	cmcllland@petracapital.com.au
Research (Industrials):	Killian Murphy	+61 (0)2 9239 9607	kmurphy@petracapital.com.au
Research (Industrials):	James Lennon	+61 (0)2 9239 9618	jlennon@petracapital.com.au
Research (Industrials):	Nick Basile	+61 (0)2 9239 9633	nbasile@petracapital.com.au
Research (Industrials):	Ken Wagner	+61 (0)2 9239 9642	kwagner@petracapital.com.au
Research (Industrials):	Daniel Ireland	+61 (0)2 9239 9647	direland@petracapital.com.au
Research (Industrials):	Mark Yarwood	+61 (0)2 9239 9646	myarwood@petracapital.com.au
Sales:	Frank Barila	+61 (0)2 9239 9603	fbarila@petracapital.com.au
Sales:	Vincent Pisani	+61 (0)2 9239 9617	vpisani@petracapital.com.au
Sales:	Peter Veldhuizen	+61 (0)2 9239 9609	pveldhuizen@petracapital.com.au
Sales:	Neil Watson	+61 (0)2 9239 9602	nwatson@petracapital.com.au
Sales:	Leigh Gardner	+61 (0)2 9239 9620	lgardner@petracapital.com.au
Sales:	Vince Barila	+61 (0)2 9239 9627	vbarila@petracapital.com.au
Sales:	Colin Redmond	+61 (0)2 9239 9613	credmond@petracapital.com.au
Sales:	Richard Macphillamy	+61 (0)2 9239 9604	rmacphillamy@petracapital.com.au
Sales:	Paul Doherty	+61 (0)407 194 549	pdoherty@petracapital.com.au
Sales:	Darren Sheppard	+61 (0)417 039 647	dsheppard@petracapital.com.au
Sales:	Tyrone Lara	+61 (0)2 9239 9608	tlara@petracapital.com.au
Sales:	Vince Musumeci	+61 (0)2 9239 9606	vmusumeci@petracapital.com.au
Sales:	Rob Dobson	+61 (0)2 9239 9628	rdobson@petracapital.com.au
Sales:	Ben Parisek	+61 (0)2 9239 9640	bparisek@petracapital.com.au
Sales:	Victoria Smith	+61 (0)2 9239 9616	vsmith@petracapital.com.au
Corporate (ECM):	Verity Barritt	+61 (0)2 9239 9622	vbarritt@petracapital.com.au
Corporate (ECM):	Craig Brown	+61 (0)2 9239 9629	cbrown@petracapital.com.au
Corporate (ECM):	Georgia Chinchilla	+61 (0)2 9239 9632	gchinchilla@petracapital.com.au
Administration:	Belinda Teichmann	+61 (0)2 9239 9636	bteichmann@petracapital.com.au
Administration:	Nicole Sarapata	+61 (0)2 9239 9635	nsarapata@petracapital.com.au
Administration:	Katy Phillips	+61 (0)2 9239 9624	kphillips@petracapital.com.au
Administration:	Larissa Falvo	+61 (0)2 9239 9611	lfalvo@petracapital.com.au
Administration:	Emma Pagalday	+61 (0)2 9239 9621	epagalday@petracapital.com.au
Legal & Compliance:	Danielle Smith	+61 (0)2 9239 9612	dsmith@petracapital.com.au
Financials:	Tony Christelis	+61 (0)2 9239 9615	tchristelis@petracapital.com.au

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