

9 June 2021

Universal Biosensors Inc. (UBI) BUY

Share Price: A\$0.68
Worth every Sentia
Target Price: A\$1.20

Recent conversations with domestic users of Sentia's hand-held wine analyser support of our view that the device will be the key driver of earnings growth over the next several years. While the value proposition as a single-test (free SO₂) device is compelling, we expect its market acceptance to be much higher as a multi-test device. We reiterate our Buy rating and \$1.20ps TP.

Sentia roll out is gaining momentum

- Having launched in March 2021, we view UBI's 1Q21 sales for Sentia of \$336k as a solid start, and likely a reflection of upfront orders from the distributor for the US (non-exclusive) and Australia (exclusive).
- Since securing its sole Australian distributor in late 2020 and initial US distributor in early 2021, UBI has signed further non-exclusive distributors for the US, the EU, Chile, South Africa, and an exclusive distributor for NZ.
- Given the momentum thus far, and with a further 19 distributors now trialling the Sentia device across EU, UBI has stated its expectation that revenues will reach \$1m by September 2021. Our CY21 forecast is \$2.2m.

Positive Sentia feedback from domestic users

- Recent conversations with domestic users have thus far validated UBI's key value proposition for Sentia. That is, the enormous time saving (i.e. near real-time testing) the device provides to those undertaking free SO₂ tests.
- While these users do not view Sentia as a complete substitute for free SO₂ testing by aspiration and titration, the device is complementary, and offers a positive ROI with material upside as more test capabilities are added.

An enormous market opportunity

- 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.

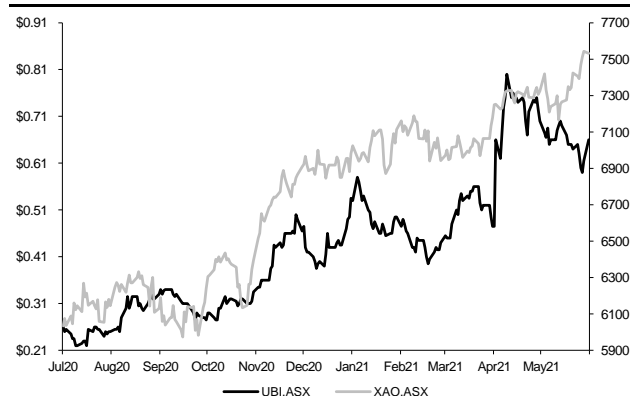
Company Data

Shares – ordinary (M)	177.6
Dilution (M)	0.0
Total (fully diluted) (M)	177.6
Market capitalisation (\$M)	120.8
12 month low/high (\$)	0.19 - 0.85
Average monthly turnover (\$M)	3.8
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)	-16.4	-13.1	-18.5	-157.5	13.4
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)	-14.4	-15.4	-17.0	-71.8	17.3
EV (A\$m)	95.0	101.7	109.8	117.1	118.9
EV/EBITDA	-17.1	-13.5	-23.8	83.2	10.3
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

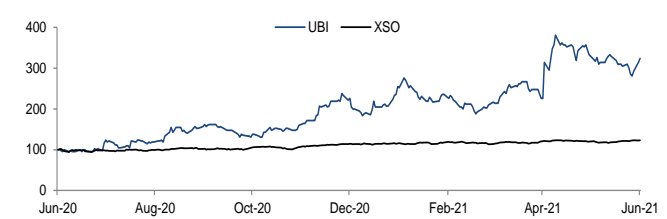
Universal Biosensors

Year End December

MARKET DATA

Recommendation		Buy
Price	\$	0.68
Price target (12-month)	\$	1.21
52 week high / low	\$	0.19 - 0.85
Market capitalisation	\$m	120.8
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 (16.4)	(13.1)	(18.5)	(15.7)	13.4	6.2
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 (14.4)	(15.4)	(17.0)	(71.8)	17.3	6.9
Free cash flow yield	% (6.9)	(6.5)	(5.9)	(1.4)	5.8	14.4

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 95.0	101.7	109.8	117.1	118.9	111.7
EV/EBITDA	x (17.1)	(13.5)	(23.8)	83.2	10.3	5.1
EV/EBIT	x (12.2)	(10.6)	(16.3)	(168.5)	12.7	5.6
Price to book (NAV)	x 3.2	4.3	5.6	5.8	4.1	2.5
Price to NTA	x 5.1	7.7	11.4	10.6	5.5	2.8

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

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):	Craig Brown	+61 (0)2 9239 9629	cbrown@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 (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
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:	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):	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

Disclosure

This document has been prepared in Australia by Petra Capital Pty Ltd which holds an Australian Financial Services License AFSL 317 944. Petra Capital Pty Ltd is an ASX Market Participant. Petra Capital Pty Ltd and its associates, officers, directors, employees and agents, from time to time, may receive brokerage, commissions, fees or other benefits or advantages, hold securities in companies researched by Petra Capital Pty Ltd and may trade in these securities either as principal or agent.

Disclaimer

The information or advice contained in this report has been obtained from sources that were accurate at the time of issue, however the information has not been independently verified and as such, Petra Capital Pty Ltd cannot warrant its accuracy or reliability. Persons relying on this information do so at their own risk. To the extent permitted by law, Petra Capital Pty Ltd disclaims all liability or responsibility for any direct or indirect loss or damage (including consequential loss or damage) caused by any error or omission within this report, or by persons relying on the contents of this report.

This report is published by Petra Capital Pty Ltd by way of general information or advice only. This report does not take into account specific investment needs or other considerations that may be pertinent to individual investors. Before making any investment decisions based on this report, parties should consider, with or without an investor adviser, whether any relevant part of this report is appropriate to their financial circumstances and investment objectives. Petra Capital Pty Ltd is a licensed institutional/wholesale stockbroking firm. The report is only intended for institutional and sophisticated clients to whom Petra Capital Pty Ltd has issued the report. Petra Capital Pty Ltd is not licensed to advise retail investors – retail investors should contact their own stockbroker or financial adviser/planner for advice.

Ratings

Information regarding the scope and expertise of our research services, processes for selection for coverage, and the management of conflicts of interest can be found on Petra Capital's website at <http://www.petracapital.com.au/research-disclosures>.

Petra Capital uses the following ratings system and definitions: Buy - Forecast to outperform the Market by more than 5%; Hold - Forecast to perform up to 5% above or below the Market; Sell - Forecast to underperform the Market by more than 5%; Speculative Buy - Speculative Investment; Take Profits - Recommend taking short term profits in a stock we remain fundamentally positive on a medium term view; Accept Offer - For a company under takeover where we see the offer as a fair price with low risk of a competing offer; No Rating - No rating at this time. Market performance is relative to the S&P/ASX Small Ordinaries Index which we assume generates a neutral return on a 12 month basis.

US Investors

This material is intended for use in the US only by major US Institutional Investors, as that term is defined by the SEC Rule 15a-6. Transactions with US Institutional Investors and major US Institutional Investors, as those terms are defined by SEC Rule 15a-6, are chaperoned by Global Alliance Securities, LLC, ("Global Alliance"), a SEC-registered broker-dealer and FINRA member (web: www.globalalliancesecurities.com) in accordance with the agreement between Global Alliance and Petra Capital Pty Ltd. The information upon which this material is based was obtained from sources believed to be reliable, but has not been independently verified. Therefore, its accuracy is not guaranteed. Additional and supporting information is available upon request. This is not an offer or solicitation of an offer to buy or sell any security or to make any investment. Any opinion or estimate constitutes the preparer's best judgement as of the date of preparation and is subject to change without notice. Petra Capital Pty Ltd or Global Alliance and their associates or affiliates, and their respective officers, directors and employees may buy or sell securities mentioned herein as agent or principal for their own account.

Other International

International investors are encouraged to contact their local regulatory authorities to determine whether restrictions apply in buying/selling this investment.