

Proteomics International Lab. Ltd

(PIQ \$1.28) Speculative Buy

Analyst	Date	Price Target
Seth Lizee	23 rd February 2021	\$1.50/sh ▲ from \$1.00/sh

Diagnostics Becoming Mainstream / Catalyst Approach

Investment case

The diagnostics space has become more topical in recent weeks and months, consequentially sector valuations have increased. We don't foresee this tide changing anytime soon either, rather we see a solid thematic emerging as a result of COVID-19 and its eventual departure. We believe PIQ is well placed to take advantage of these themes in addition to the existing market opportunities we've previously discussed. We further see a number of material price moving catalyst approaching in the near term. We continue to see upside present with PIQ and as a result have increased our Valuation and Price Target.

Our investment case is predicated on the commercialization and rollout of PIQs novel diabetic kidney disease test, PromarkerD. If PIQ can deliver on near term milestones and, in time, first sales, we believe the stock can trade up, perhaps substantially.

We maintain our Speculative Buy recommendation with an updated \$1.50/sh. Price Target.

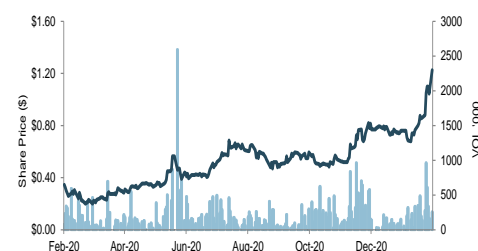
Key points

- The diagnostics space has continued to gain traction amongst the broader market, consequentially we've seen increasing valuations;
- This is a growing trend, the pandemic as a whole has created a greater awareness of the diagnostics space and its importance;
- PIQ continues to be our favourite company in the space;
- We explore below the value discount still present amongst its peers, and the large upside possible;
- We further note a number of value inflecting catalyst are approaching, we maintain positive expectations and see share price upside on their successful delivery;
- As a result of broader sector value appreciation, greater awareness, and approaching catalyst we have upgraded our Valuation and Price Target to \$1.50/sh;
- The company remains well funded with \$7.5m as of Dec-20 and a very low burn rate;

Proteomics Intl Lab Ltd	Year End 30 June	
Share Price	1.28	A\$/sh
Price Target	1.50	A\$/sh
Valuation (DCF)	1.50	A\$/sh
WACC	16.0%	
Terminal Growth	2.0%	
Shares on issue	105	m
Market Capitalisation	134.3	A\$m
Enterprise Value	126.9	A\$m
Cash (Pro-forma)	7.5	A\$m
Debt (inc. AASB16)	0.1	A\$m

Key Financials	2020a	2021f	2022f
Revenue (A\$m)	3.0	2.9	4.7
EBITDA (A\$m)	-1.4	-2.0	-1.0
EBIT (A\$m)	-1.7	-2.4	-1.3
Reported NPAT (A\$m)	-1.8	-2.4	-1.4
Normalised NPAT (A\$m)	-2.2	-2.4	-1.4
Gross Cashflow (A\$m)	-1.2	-2.1	-1.1
Capex (A\$m)	-1.4	-0.3	-0.3
Op. Free Cashflow (A\$m)	-1.8	-2.3	-1.4
Revenue Growth (%)	11%	-2%	60%
EBITDA Growth (%)	-17%	47%	-52%
Norm. NPAT Growth (%)	14%	10%	-44%
Normalised EPS (Ac)	-2.26	-2.21	-1.25
Norm. EPS growth (%)	0.00	-0.02	-0.44
PER (x)	-56.6	-57.9	-102.7
EV:EBITDA (x)	-92.1	-62.7	-129.6
EV:EBIT (x)	-72.8	-52.9	-94.6
Net Debt (A\$m)	-2.2	-6.0	-4.5
Net Debt:Equity (%)	-50%	-74%	-68%
Interest Cover (x)	na	na	na

Share Price Chart



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This analyst declares that he has a beneficial interest in PIQ.

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Analysis

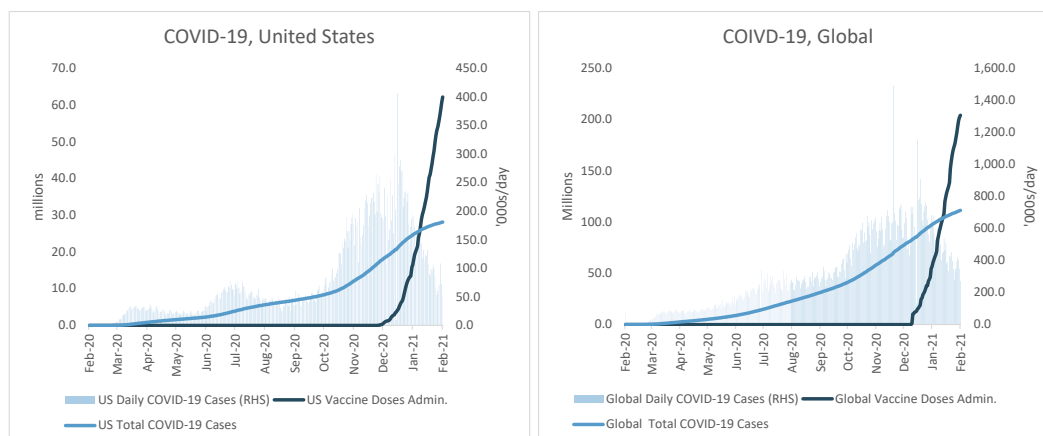
We see the increasing interest in the diagnostics space emerging as a result of Covid-19, arising via two areas:

- **Awareness on testing** – The pandemic has provided community awareness towards testing and its importance;
- **Possible pent-up demand in screening** – The pandemic has led to broad decreases in non-urgent hospital/doctor visits. PIQ has outlined it believes there is strong pent-up demand for screening of major diseases neglected during the pandemic, including diabetes and its complications.

These factors create a number of possible opportunities for the broader diagnostics space, and especially for PIQ.

We don't see this trend changing either, with a global vaccine rollout underway and a downward trend in daily cases a possible end to COVID-19 at some stage is now being discussed.

We highlight the below for reference:



Source: Bloomberg LP

This growing interest has continued to lift broad sectors valuations in recent months. Although PIQ has also experienced a solid re-rate, we continue to see material value discrepancies between the Company and its Peers. Combined with its commercial position and market opportunity, we continue to see potential upside present.

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This solid positioning is demonstrated in the comparable table below:

Ticker	Exchange	Company Name	Mkt Cap	EV	Revenue			Stage	Key Product(s)	Clinical Studies	Sale ⁵	Regulatory				TAM (US\$m)	
					FY20a	FY21e	FY22e					FDA	CE	HC	TGA		
RENX	LSE/NYSE	Renalytix AI PLC	1,168.0	1,147.7	0.1	32.0	89.4	Commercialisation	KidneyIntelX	Various		X ³				12,000	
VHT	ASX	Volpara Health Tech	366.5	313.0	15.2	20.5	27.1	Commercial	Volpara Density Volpara Enterprise Volpara Live! Volpara Risk Aspen Breast Aspend Lung Various Other	Various	X	X	X	X	X	750	
RHY	ASX	Rhythm Biosciences	298.3	292.3	0.1	na	na	Development	ColoSTAT hTERT ICC Test	Various			O			6,500	
BD1*	ASX	Bard1 Life Sciences	256.2	249.0	0.2	na	na	Commercial/ Development	EXO-NET-RUO EXO-NET-PaCS BARD1-Breast BARD1-Lung Various Other	Various	X	X	X	X	X	6,574	
GSS	ASX	Genetic Signatures	250.0	213.8	11.3	34.5	24.7	Commercial	3base EasyScreen PromarkerD	Various	X		X		X	8,400	
PIQ	ASX	Proteomics Int Lab	134.3	126.9	3.0	2.9	4.7	Commercialisation	Various Other Developments	Various			O	X		X	33,200
Median			277.3	270.6	1.6	26.3	25.9									7,487.0	
Average			412.1	390.3	5.0	22.5	36.5									11,237.3	

O = Ongoing/In Progress

*Sales & regulatory approvals only hTERT ICC Test Product (Not core focus)

³Under "Breakthrough designated devices"

⁴regulatory approval on applicable to HIV version

⁵Sales of 'Key Product(s)'

Sources: Company announcements, Company Websites, Facset, Euroz Hartleys Estimates

All figures in A\$m, unless otherwise stated

The main takeaway is the valuation discount present between PIQ and its peers. Although making perfect comparisons is difficult, we continue to believe there is upside present based on the companies current position, with even greater potential as the company advances.

PIQ remains very well positioned with its novel diabetic kidney disease test, PromarkerD, already clinically validated and ready for sales now. This compares to other peers such as RHY & BD1, who still require further development on some of their products yet attract valuations 2.0-2.5x higher.

We continue to see RENX as one of PIQs closest peers, the company remains modestly more commercially advanced with greater US regulatory approvals and coding/coverage progress, yet commands a valuation nearly 12x higher than PIQ. Although we are not implying PIQ should trade at such valuations, we indicatively see it as the opportunity present with PIQ should it achieve similar levels of commercial progress.

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Catalyst

We continue to see a number of upcoming catalyst for PIQ. We highlight the table below:

Key Catalyst	CY'2021				+CY'2022
	Mar'Q	Jun'Q	Sep'Q	Dec'Q	
PromarkerD					
Further Licensing Deals					
Jansen Stg. 2 Results					
First Sales					
US Reimbursement Code					
Regulatory Approvals (FDA)					
Promarker™					
Endometriosis Update					
Giardia Update					
Analytical Services					
New contracts					

Source: Euroz Hartleys Estimates

We anticipate PIQ will trade up upon successfully achieving these catalyst, potentially substantially with some.

We explore below a upcoming catalyst which we believe could be material to PIQ share price in the near term.

Janssen Stage 2 Study Results

PIQ and Janssen expanded their collaboration in March 2020 to include a second stage (Janssen Stage 2). The study will determine if PromarkerD can assess the effectiveness of canagliflozin as a treatment for Diabetic Kidney Disease.

The study results are material in our opinion as we believe it could lay the foundation for PromarkerD's use as a Complementary Diagnostic test (CDx), whereby it would be used:

- Upon prescription of drug treatments for diabetes; or
- Throughout a patients course of treatment (potentially lifetime) to monitor the ongoing risk of developing DKD

We interpret 3 different possible outcomes, 2 of which would indicate successful results:

- Reduced risk of developing DKD (lowering PromarkerD risk stratification): Successful outcome
- Stable risk of developing DKD (unchanged PromarkerD risk stratification): Successful outcome
- Increased risk of developing DKD (increasing PromarkerD risk stratification): unsuccessful outcome

Logically we would expect either first or the second outcomes, since if the drug currently works for 'sicker' individuals one would expect it to be somewhat effective for 'less sick' people. However, to be noted, regardless of outcome, these results have NO bearing on PromarkerD's effectiveness.

Per our timeline above, we continue to expect results within the coming 2 quarters.

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Valuation and Price Target

As a result of broader sector value appreciation, greater awareness, and approaching catalyst we have upgraded our Valuation and Price Target to \$1.50/sh. This Price Target per our analysis requires PIQ achieving the level of commercial adoption outlined in our previous research. The factors and risks surrounding these assumptions further drive our Speculative Buy recommendation.

Valuation Summary		
DCF EV	A\$m	149.5
(+) Cash (1H'21)	A\$m	7.5
(-) Debt (1H'21)	A\$m	-0.1
Equity Value	A\$m	156.9
(/) SOI	m	104.9
Valuation per Share	A\$/sh	1.50
Price Target	A\$/sh	1.50

Source: Euroz Hartleys Estimates

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Financial Statements	2019a	2020a	2021f	2022f	Performance Ratios	2019a	2020a	2021f	2022f
Income Statement					Growth & Margins				
PromarkerD Royalties	0.0	0.0	0.3	2.0	Revenue Growth	na	11%	-2%	60%
Analysis Business	1.5	1.4	1.6	1.7	EBITDA Growth	na	-17%	47%	-52%
Other Income	1.2	1.6	1.1	1.0	EBIT Growth	na	-16%	37%	-44%
Total Sales	2.7	3.0	2.9	4.7	Normalized Net Profit Growth	na	14%	10%	-44%
(-) COGS	0.0	0.0	-0.1	-0.4	EBITDA margin	-62%	-46%	-69%	-21%
Gross Profit	2.7	3.0	2.9	4.3	EBIT margin	-69%	-58%	-82%	-29%
(-) OPEX	-4.3	-4.4	-4.9	-5.3	Normalized net profit margin	-71%	-73%	-82%	-29%
EBITDA	-1.7	-1.4	-2.0	-1.0	Effective tax rate	0%	0%	0%	0%
(-) D&A	-0.2	-0.4	-0.4	-0.4	Liquidity				
EBIT	-1.9	-1.7	-2.4	-1.3	Capex/depreciation	0.2	3.8	0.7	0.7
(-) Net Finance	0.0	0.0	0.0	0.0	Current ratio	5.9	6.6	11.5	8.7
(-) Other Expenses	-0.2	0.0	0.0	0.0	Quick ratio	6.6	6.1	12.7	9.0
EBT	-2.1	-1.8	-2.4	-1.4	Receivable days	68.1	44.4	44.4	44.4
(-) Tax	0.0	0.0	0.0	0.0	Payable days	25.4	37.4	37.4	37.4
Reported NPAT	-2.1	-1.8	-2.4	-1.4	Risk Measures				
(+/-) Abnormals	0.2	-0.4	0.0	0.0	Dividend Cover	na	na	na	na
Norm NPAT	-1.9	-2.2	-2.4	-1.4	Payout ratio	0%	0%	0%	0%
Cash flow (A\$m)					Net interest cover	na	na	na	na
Profit Before Tax	-2.1	-1.8	-2.4	-1.4	Net debt/equity	-45%	-50%	-74%	-68%
(+) D&A	0.2	0.4	0.4	0.4	Returns				
(+) FX loss/(gain)	0.0	0.0	0.0	0.0	ROIC	-59%	-39%	-30%	-20%
(+) Share base payments	0.3	0.1	0.0	0.0	ROA	-53%	-39%	-26%	-17%
(-) Tax Paid	0.0	0.0	0.0	0.0	ROE	-64%	-49%	-30%	-20%
(+/-) Other	0.0	0.0	-0.1	-0.1	Share Data/Valuation				
Gross Cashflow	-1.6	-1.2	-2.1	-1.1	Share Data				
(-) Capital Expenditure	0.0	-1.4	-0.3	-0.3	Issued shares	80.7	92.4	104.9	104.9
(-) Change in NWC	0.0	0.8	0.1	-0.1	Weighted ave shares	80.4	86.5	98.7	104.9
Operating Free Cashflow	-1.7	-1.8	-2.3	-1.4	Fully diluted shares	84.7	96.4	108.9	108.5
(-) acq of subs/other Invst.	0.0	0.0	0.0	0.0	Basic EPS	-2.6	-1.9	-2.3	-1.3
(+) Proc. from disp of FA/subs	0.9	0.0	0.0	0.0	YoY change	na	-0.3	0.2	-0.4
(-) Dividends Paid	0.0	0.0	0.0	0.0	Fully diluted EPS	-2.5	-1.8	-2.2	-1.2
(+) Equity issued	0.1	3.3	6.0	0.0	YoY change	na	-0.3	0.2	-0.4
(+/-) Other	0.0	-0.4	0.0	0.0	Fully diluted normalised EPS	-2.3	-2.3	-2.2	-1.2
Net Cashflow	-0.7	1.0	3.7	-1.4	YoY change	na	0%	-2%	-44%
BoP Net Cash	2.0	1.3	2.2	6.0	Dividend/share	0.0	0.0	0.0	0.0
(+/-) Net Cashflow	-0.7	1.0	3.7	-1.4	Franking	na	na	na	na
(+/-) AASB16	0.0	-0.1	0.0	0.0	Gross cashflow/share	-2.0	-1.3	-2.0	-1.0
EoP Net Cash	1.3	2.2	6.0	4.5	NBV/share	3.7	4.8	7.7	6.4
Balance Sheet (\$m)					NTA/Share	3.7	4.8	7.7	6.4
Cash	1.5	2.4	6.1	4.6	Valuation				
Receivables	0.5	0.4	0.4	0.6	PER (Basic)	-49.7	-67.5	-55.8	-99.3
Other Assets	1.2	1.4	1.4	1.4	PER (Fully diluted)	-52.1	-70.4	-57.9	-102.7
Total Current Assets	3.2	4.1	7.8	6.6	PER (Fully diluted, normalized)	-56.8	-56.6	-57.9	-102.7
PP&E	0.2	1.3	1.2	1.2	P/CFPS	-63.8	-95.5	-64.1	-127.6
Other Assets	0.2	0.0	0.0	0.0	Price/NBV	34.6	26.7	16.7	20.1
ROUA	0.0	0.1	0.1	0.1	Price/NTA	34.6	26.7	16.7	20.1
Intangible Assets	0.0	0.0	0.0	0.0	Dividend Yield	0.0	0.0	0.0	0.0
Total Non-current Assets	0.4	1.4	1.4	1.3	EV/EBITDA	-76.3	-92.1	-62.7	-129.6
Total Assets	3.6	5.6	9.2	7.9	EV/EBIT	-68.6	-72.8	-52.9	-94.6
Payables	0.3	0.4	0.5	0.6	EV/Revenue	47.2	42.4	43.4	27.1
Borrowing	0.1	0.0	0.0	0.0	Other Information				
Lease Liabilities	0.0	0.1	0.1	0.1	Major shareholders:				
Provisions	0.1	0.1	0.1	0.1	Estimated free float:				
Total Current Liabilities	0.5	0.6	0.7	0.8	12-mth High/Low (A\$/sh)				
Payables	0.0	0.3	0.3	0.3	Average daily volume (A\$m)				
Borrowing	0.0	0.0	0.0	0.0	ASX Code				
Lease Liabilities	0.0	0.1	0.1	0.1	Next result				
Provisions	0.1	0.1	0.1	0.1	Company Description				
Total Non-Current Liabilities	0.1	0.5	0.5	0.5	Proteomics International Laboratories Ltd (PIQ) is a Perth based medical technology company. Currently in the process of commercializing its novel diabetic kidney disease test, PromarkerD, the business has an additional pipeline of 10 other diagnostic tests in various stages of development and commercialization, in addition to a growing world class analytical services business.				
Total Liabilities	0.6	1.1	1.2	1.2					
Net Assets	3.0	4.4	8.0	6.7					
Issued Capital	10.5	13.4	19.4	19.4					
Reserves	0.7	1.1	1.1	1.1					
Accumulated Losses	-8.3	-10.0	-12.4	-13.8					
Total Equity	3.0	4.4	8.0	6.7					

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