

September 11, 2024

## EMERGING COMPANY

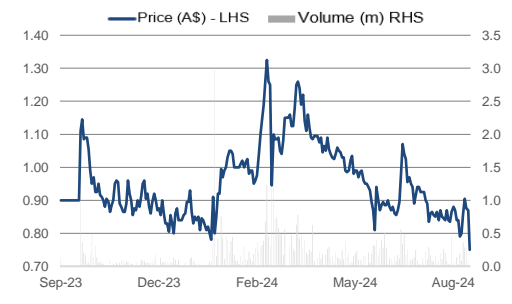
### REDUCE (previously SPECULATIVE BUY)

Stock code:	PIQ AU
Price:	A\$0.75
12-month target price:	A\$0.50
Previous target price:	A\$0.99
Up/downside to target price:	-33.3%
Dividend yield:	0.0%
12-month TSR*:	-33.3%
Market cap:	A\$98m
Average daily turnover:	0.24m
Index inclusion:	N/A

\* Total stock return – Up/downside to target price + 12-month forward dividend yield.

#### Price performance

(%)	1M	3M	12M	3Y
Absolute	-13.3	-19.4	-16.7	-32.4
Rel ASX/S&P200	-17.3	-21.0	-28.3	-40.8



Source: IRESS

#### Related research

[PIQ \(SPEC BUY - TP A\\$0.99\) - 17 Jun 2024](#)

[Sector report - 07 May 2024](#)

#### Iain Wilkie

+61 7 3334 4521

iain.wilkie@morgans.com.au

#### Scott Power

Analyst(s) own shares in the following stocks mentioned in this report:

– N/A

# Proteomics International Laboratories

## Better than being strung along, but harder now

- PIQ has exited its agreement with Sonic Healthcare USA to distribute its DKD test following timeline delays and performance milestones not being achieved.
- We get the sense the outcome was mutual, with Sonic appearing not willing to sufficiently accelerate the asset to commercial launch which likely points to either lower than anticipated demand from marketing testing, or focus sitting elsewhere - both of which would have resulted in poor market traction. Better than being strung along, but still a significant negative on the near-term prospects to achieve commercial outcomes and risk for the asset elevates.
- We continue to view see longer-term value in the pipeline, but near-term optimism has waned and harder now to quantify the commercial prospects and likewise managements ability to commercialise the assets. Happy to avoid for now until commercialisation and funding strategy is known.
- Our valuation and target price reduces to A\$0.50 (from A\$0.99) and we downgrade to a Reduce recommendation.

#### Event

- PIQ has announced it has rescinded its exclusive license agreement with Sonic Healthcare USA (SHUSA) for the PromarkerD test following milestones and performance indicators not being met within the specified timeframe. From our understanding, there are no financial implications or penalties for either party. PIQ are now looking to alternative partners and/or launch the test directly to consumers/patients.

#### Analysis

- The delays to launch has been a source of frustration for shareholders for a long-time now which we shared although still anticipated an eventual launch albeit delayed and with a lower sales ramp than initial expectations. While this removes a lingering source of frustration and delay, it raises questions about the demand for the test and the LDT pathway, and of course PIQ's ability to achieve commercial outcomes for its assets.
- Expect more news flow around launch plans and progress, but likely delays will certainly trigger the funding question with just shy of 3 quarters of cash remaining at current burn rates. PIQ's potential ace up the sleeve is its endometriosis and oesophageal assets which are nearing completion and we expect to be highly saleable / licensable assets which may address funding concerns but timing here is unknown. We continue to reserve these as potential upside.

#### Forecast and valuation update

- In the absence of a distribution partner, we now assume PIQ will launch and market the test directly. This incurs additional expenses and risk, including marketing, wet-lab work, logistics etc, offset by capturing 100% of the value-chain. Without the relationships, processes, and supply chain of a top-tier pathology player, we expect a significantly lower market penetration although likely a faster ramp to peak sales penetration. In either case, the absence of near-term revenues and potentially launching and marketing a test themselves involves significant resources. As such, we increase our capital requirements in FY25 from \$5m to \$10m.
- As a result of our changes, our valuation reduces materially to A\$0.50 (from A\$0.99) and our recommendation downgrades to a Reduce. Upside remain in the endometriosis and oesophageal cancer tests which at this stage is difficult to quantify with development timelines and commercialisation strategy yet to unfold.

#### Investment view

- We continue to see value in the pipeline over the long-term, but short to medium term becomes less certain as timelines extend and shape of commercial launch draws near. Less risk tolerant investors may find more suitable options elsewhere until commercial launch and evidence of market traction. We value PIQ using a DCF methodology and we set our price target at the same level of A\$0.50 p/s and a Reduce recommendation.

#### Risks

- Key risks include technology, US launch timing/success, IP, and funding risks.

# Proteomics International Laboratories

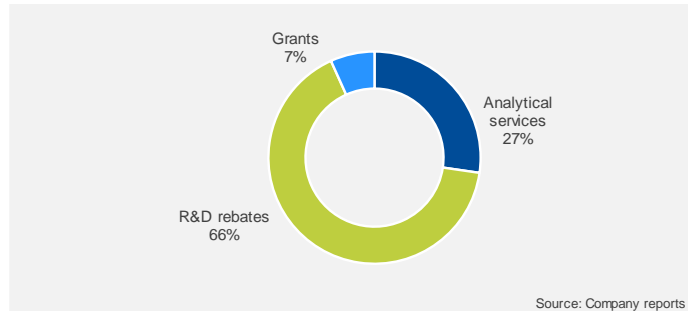
REDUCE

as at September 11, 2024

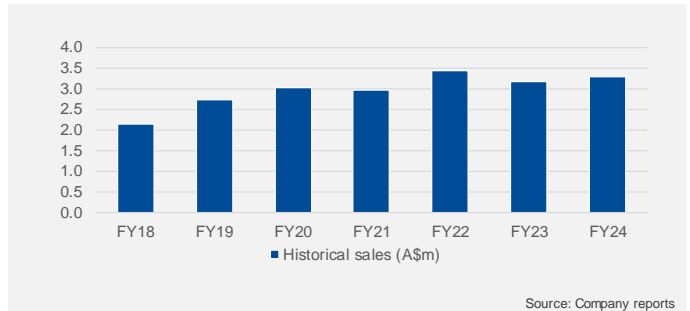
Price (A\$):	0.75	12-month target price (A\$):	0.50
Market cap (A\$m):	98	Up/downside to target price (%):	-33.3
Free float (%):	61	Dividend yield (%):	0.0
Index inclusion:	N/A	12-month TSR (%):	-33.3

Proteomics International Laboratories Limited operates as a medical technology company, specializing in the area of proteomics. PIQ offers analytical services including specialist contract research however its major asset is currently the PromarkerD, a predictive test for diabetic kidney disease, as well as further diagnostics under development for endometriosis and oesophageal adenocarcinoma.

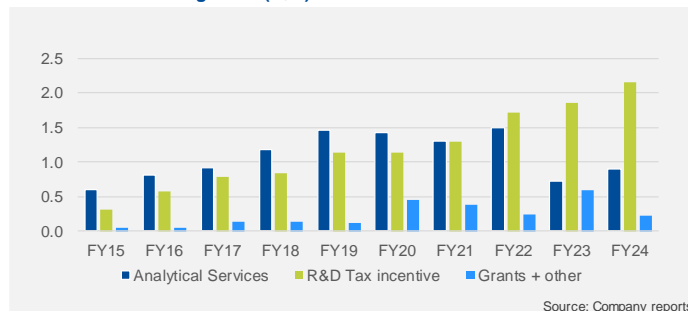
## Revenue by segment (A\$m) - FY24



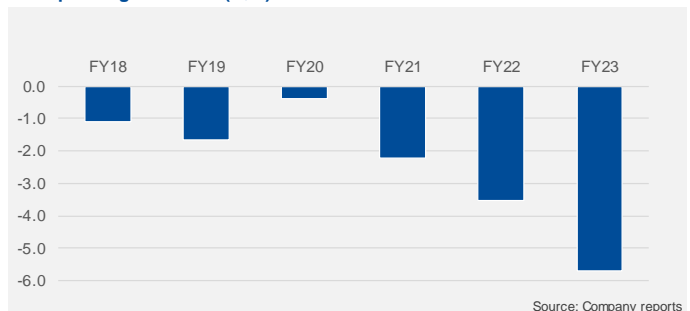
## Historical sales (A\$m) - Analytics / R&D / Grant funding



## Historical revenue segments (A\$m)



## Net operating cashflows (A\$m)



## Bull points



### Further development options

The pipeline continues to broaden with potential uses in Endometriosis and Oesophageal cancers. Early results appear promising.

### Founder led business

Board and management including founders retain large shareholdings in the company. We view this as a positive alignment with shareholders.

## Bear points



### Micro-cap / low-liquidity

Given PIQ's small market capitalisation, it remains outside of many investors radars. Due to the small size and high level of insider ownership, liquidity remains low which may cause difficulty entering/exiting the stock.

### COVID headwinds / business interruption

The majority of PIQ's sales will be generated from physical clinics as it requires a blood sample. Events (including COVID and natural disasters) which cause widespread clinic closures may have a significant impact on testing volumes.

## Environmental, Social and Governance

ESG  
Exposure  
Management



### Environmental - Limited environmental footprint

PIQ has, in our opinion, a small environmental footprint for its size. The company is subject to and complies with all environmental regulations connected with its research and development activities.

### Social - low cost testing

We view PIQ's testing pipeline has a strong social impact, aiming to create low cost and innovative tools to improve patient outcomes.

### Governance - strong executive team, with good balance

PIQ has a strong executive team, with a diverse range of skillsets and long governance history. Senior management team is diverse with a balance of commercial and scientific expertise, multilingual, and female representation of 50% female. Board composition is currently 20% female.

Source: Morgans

**Figure 1: Financial summary**

<b>Proteomics International</b>						<b>Closing price (A\$)</b>	0.75	<b>Price target (A\$)</b>			0.50	
<b>Income statement</b>	<b>2023A</b>	<b>2024A</b>	<b>2025F</b>	<b>2026F</b>	<b>2027F</b>	<b>Valuation metrics</b>						
Divisional sales	3.2	3.3	3.1	6.3	9.7	Methodology -DCF-PER Comp		Target Price		\$0.50		
Other revenue	0.0	0.0	0.0	0.0	0.0	<b>DCF valuation inputs</b>						
EBITDA	-5.9	-6.1	-6.9	-4.4	-1.9	Rf	3.60%	10-year rate		5.25%		
Associate income	0.0	0.0	0.0	0.0	0.0	Rm-Rf	6.00%	Margin		2.0%		
Depreciation	0.5	0.7	0.7	0.7	0.7	Beta	1.40	Kd		5.00%		
EBITA	-6.4	-6.8	-7.6	-5.1	-2.7	CAPM (Rf+Beta(Rm-Rf))	12.0%	Ke		14.9%		
Amortisation/impairment	0.0	0.0	0.0	0.0	0.0	E/EV*Ke+D/EV*Kd(1-t)		NPV cash flow (A\$m)		60.8		
EBIT	-6.4	-6.8	-7.6	-5.1	-2.7	Equity (E/EV)	97.5%	Minority interest (A\$m)		0.0		
EBIT(incl associate profit)	-6.4	-6.8	-7.6	-5.1	-2.7	Debt (D/EV)	2.5%	Net debt (A\$m)		0.0		
Net interest expense/FX	0.0	0.1	0.3	0.2	0.3	Interest rate	5.00%	Investments (A\$m)		0.0		
Pre-tax profit	-6.5	-7.1	-7.8	-5.4	-2.8	Tax rate (t)	30.0%	Equity market value (A\$m)		60.8		
Income tax expense	0.0	0.0	0.0	0.0	-0.8	WACC	12.0%	Diluted no. of shares (m)		121.0		
After-tax profit	-6.5	-7.1	-7.8	-5.4	-2.0			DCF valuation		\$0.50		
Minority interests	0.0	0.0	0.0	0.0	0.0							
NPAT	-6.5	-7.1	-7.8	-5.4	-2.0	<b>Multiples</b>						
Significant items	0.0	0.0	0.0	0.0	0.0	Enterprise value (A\$m)	84.7	2023A	2024A	2025F	2026F	2027F
NPAT post abnormals	-6.5	-7.1	-7.8	-5.4	-2.0	EV/Sales (x)	26.7	25.7	26.4	13.6	9.1	
						EV/EBITDA (x)	-14.5	-13.9	-11.8	-19.5	-45.4	
						EV/EBIT (x)	-13.3	-12.4	-10.7	-16.8	-33.3	
<b>Cash flow statement</b>	<b>2023A</b>	<b>2024A</b>	<b>2025F</b>	<b>2026F</b>	<b>2027F</b>	PE (pre-goodwill) (x)	-14.5	-15.1	-14.7	-22.4	-61.4	
EBITDA	-5.9	-6.1	-6.9	-4.4	-1.9	PEG (pre-goodwill) (x)	0.2	0.6	3.5	1.7	-1.8	
Other cash items	0.0	0.0	0.0	0.0	0.0							
Net interest (pd)/rec	0.1	0.3	0.2	0.3	0.1	<b>At target price</b>						
Taxes paid	0.0	0.0	0.0	0.0	0.8	EV/EBITDA (x)	-13.3	-12.4	-10.7	-16.8	-33.3	
Change in working capital	0.0	-0.1	0.4	-0.4	-0.4	PE (pre-goodwill) (x)	-9.7	-10.1	-9.9	-15.0	-41.1	
Cash flow from ops (1)	-5.7	-5.9	-6.3	-4.6	-1.5							
Capex (2)	-1.2	-0.4	-0.7	-0.7	-0.7	<b>Per share data</b>						
Disposals/(acquisitions)	0.0	0.0	0.0	0.0	0.0	No. shares	121.0	130.9	144.8	144.8	144.8	
Other investing cash flow	0.0	0.0	0.0	0.0	0.0	EPS (cps)	-5.2	-5.0	-5.1	-3.3	-1.2	
Cash flow from invest (3)	-1.2	-0.4	-0.7	-0.7	-0.7	EPS (normalised) (c)	-5.2	-5.0	-5.1	-3.3	-1.2	
Incr/(decr) in equity	10.8	6.6	10.0	0.0	0.0	Dividend per share (c)	0.0	0.0	0.0	0.0	0.0	
Incr/(decr) in debt	0.0	0.0	0.0	0.0	0.0	Dividend payout ratio (%)	0.0%	0.0%	0.0%	0.0%	0.0%	
Ordinary dividend paid	0.0	0.0	0.0	0.0	0.0	Dividend yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%	
Preferred dividends (4)	0.0	0.0	0.0	0.0	0.0							
Other financing cash flow	0.0	0.0	0.0	0.0	0.0	<b>Growth ratios</b>						
Cash flow from fin (5)	10.8	6.6	10.0	0.0	0.0	Sales growth	-7.5%	3.0%	-6.2%	106.9%	53.0%	
Forex and disc ops (6)	0.0	0.0	0.0	0.0	0.0	Operating cost growth	13.0%	3.3%	6.6%	8.3%	8.3%	
Inc/(decr) cash (1+3+5+6)	4.0	0.4	3.0	-5.3	-2.2	EBITDA growth	-28.3%	-6.3%	-11.7%	32.3%	48.2%	
Equity FCF (1+2+4)	-6.9	-6.3	-7.0	-5.3	-2.2	EBITA growth	-28.3%	-6.3%	-11.7%	32.3%	48.2%	
						EBIT growth	-28.3%	-6.3%	-11.7%	32.3%	48.2%	
<b>Balance sheet</b>	<b>2023A</b>	<b>2024A</b>	<b>2025F</b>	<b>2026F</b>	<b>2027F</b>	NPAT growth	-30.7%	-8.5%	-10.0%	30.3%	62.5%	
Cash & deposits	6.0	6.6	9.6	4.4	2.1	Pre-goodwill NPAT growth	-30.7%	-8.5%	-10.0%	30.3%	62.5%	
Trade debtors	0.1	0.2	0.5	1.0	1.6	Pre-goodwill EPS growth	-78.9%	-25.5%	-4.2%	-13.4%	34.4%	
Inventory	0.0	0.0	0.0	0.0	0.0	Normalised EPS growth	-78.9%	-25.5%	-4.2%	-13.4%	34.4%	
Investments	0.0	0.0	0.0	0.0	0.0							
Goodwill	0.0	0.0	0.0	0.0	0.0	<b>Operating performance</b>						
Other intangible assets	0.0	0.0	0.0	0.0	0.0	Asset turnover (%)	10.2	7.8	6.1	13.4	28.1	
Fixed assets	1.6	1.4	1.4	1.4	1.4	EBITDA margin (%)	-184.6	-185.4	-224.1	-69.6	-20.1	
Other assets	0.1	0.3	0.3	0.3	0.3	EBIT margin (%)	-201.3	-207.6	-247.1	-80.8	-27.4	
<b>Total assets</b>	<b>10.1</b>	<b>10.9</b>	<b>14.2</b>	<b>9.5</b>	<b>7.8</b>	Net profit margin (%)	-205.3	-216.3	-253.6	-85.4	-20.9	
Short-term borrowings	0.0	0.0	0.0	0.0	0.0	Return on net assets (%)	-76.2	-72.1	-63.0	-71.3	-49.0	
Trade payables	0.6	0.5	1.2	1.3	1.4	Net debt (A\$m)	-6.0	-6.6	-9.6	-4.4	-2.1	
Long-term borrowings	0.0	0.0	0.0	0.0	0.0	Net debt/equity (%)	-71.9	-70.6	-80.0	-60.5	-39.5	
Provisions	1.1	0.8	0.8	0.8	0.8	Net interest/EBIT cover (x)	1509.0	46.8	26.9	25.8	9.2	
Other liabilities	0.0	0.2	0.2	0.2	0.2							
Total liabilities	1.7	1.5	2.2	2.3	2.4							
Share capital	30.2	36.8	46.8	46.8	46.8							
Other reserves	1.8	2.3	2.3	2.3	2.3							
Retained earnings	-23.6	-29.7	-37.1	-41.9	-43.7							
Other equity	0.0	0.0	0.0	0.0	0.0							
Total equity	8.4	9.4	12.0	7.2	5.4							
Minority interest	0.0	0.0	0.0	0.0	0.0							
Total shareholders' equity	8.4	9.4	12.0	7.2	5.4							
<b>Total liabilities &amp; SE</b>	<b>10.1</b>	<b>10.9</b>	<b>14.2</b>	<b>9.5</b>	<b>7.8</b>							

Source: Morgans estimates, company data



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