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August 25, 2023

EMERGING COMPANY

SPECULATIVE BUY (no change)

Stock code:	PIQ AU
Price:	A$0.82
12-month target price:	A$1.66
Previous target price:	A$1.77
Up/downside to target price:	102.4%
Dividend yield:	0.0%
12-month TSR*:	102.4%
Market cap:	A$100m
Average daily turnover:	A$0.08m
Index inclusion:	N/A

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

Price performance

(%)	1M	3M	12M	3Y
Absolute	-5.2	-12.3	-15.9	35.5
Rel ASX/S&P200	-3.0	-11.4	-18.6	18.6

Source: IRESS

Related research

[PIQ (SPEC BUY - TP A$1.77) - 10 May 2023]

[PIQ (SPEC BUY - TP A$1.77) - 27 Mar 2023]

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

– Proteomics International Laboratories

Proteomics International Laboratories

Catalyst-a-plenty in FY24

- PIQ reported its FY23 results with no major surprises. Financials are largely irrelevant at this stage. Focus remains solely on near-term commercialisation of its major diagnostic asset.
- We roll forward our model on lower service revenues which we will carry forward, and higher shares on issue following options exercise. As a result, our valuation reduces to A$1.66 (from A$1.77) and we retain our Speculative Buy rating.
- No change to our optimistic outlook and PIQ remains a key pick in the space. We anticipate that success in the US will serve as a catalyst for a major re-rate and accelerate opportunities in other jurisdictions over the medium term.

Event:

- Revenue of A$3.2m (-6.2% in the pcp): Services -51% to A$730k, Research grant funding +150% to A$600k, and R&D rebate +8% to A$1.85m.
- Net loss increases to A$6.2m (+25% in the pcp) with higher staff, IP, and travel / marketing costs following in preparation of commercial launch.
- PIQ closed the period with A$6m cash and no debt.

Analysis:

- Major catalyst here is around securing first payor coverage which PIQ is targeting from now until 2Q24, prior to full commercial rollout upon CMS reimbursement pricing which triggers broader adoption of the test (circa end of CY23 or shortly after). We view confirmation of first sales will realise a significant de-risking event. Question then remains the shape of adoption across the broader market. Expect strong news flow in the coming six months.
- We see strong potential for the Endometriosis test which may surprise the market. We view this as a potentially highly lucrative test in a space devoid of competition. Not completely de-risked yet with a number of confirmatory and regulatory steps to work through, but expect this to become a valuable asset.

Forecast and valuation update:

- We roll forward our model, incorporating lower service revenues and higher shares on issue following exercise of options.
- Our DCF valuation reduces to A$1.66 (from A$1.77).

Investment view:

- We view PIQ as a highly promising opportunity in FY24, driven by several major catalysts. These encompass the initial steps towards commercialisation, which will not only establish a foundation for FY25 onwards, but also multiple advancements in the clinical and regulatory spheres, enhancing the company's pipeline. We value PIQ using a DCF methodology and we set our price target at the same level of A$1.66 p/s. We maintain a Speculative Buy recommendation, supported by a blend of exciting growth prospects and strategic developments.

Price catalysts:

- First payor coverage of PromarkerD (Q2FY24), CMS pricing determinations (Q2FY24), CMS final pricing (Jan-24), Ex-USA licensing deals (FY24), Endometriosis development (Dec-23), oesophageal cancer development (Sep-23), pipeline development (FY24).

Risks:

- Key risks include technology, intellectual property, and funding risks.

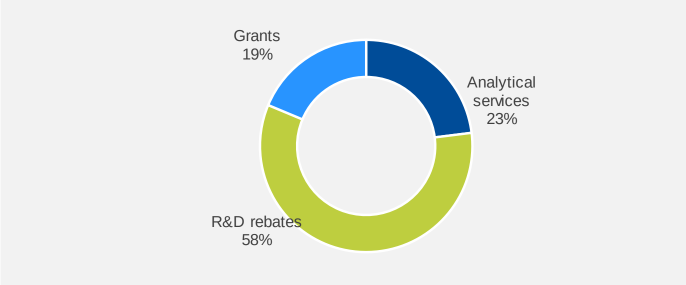
Proteomics International Laboratories

SPECULATIVE BUY — **as at August 25, 2023**

Price (A$):	0.82	12-month target price (A$):	1.66
Market cap (A$m):	100	Up/downside to target price (%):	102.4
Free float (%):	61.0	Dividend yield (%):	0.0
Index inclusion:		12-month TSR (%):	102.4

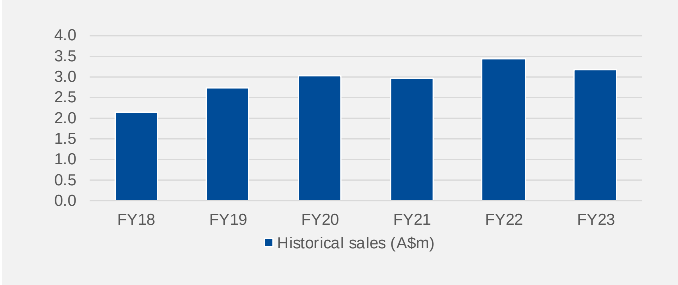
Proteomics International Laboratories Limited operates as a medical technology company, specializing in the area of proteomics. PIQ offers analytical services including specialist contract research however its major asset is currently the PromarkerD, a predictive test for diabetic kidney disease, as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

Revenue by segment (A$m) - FY23



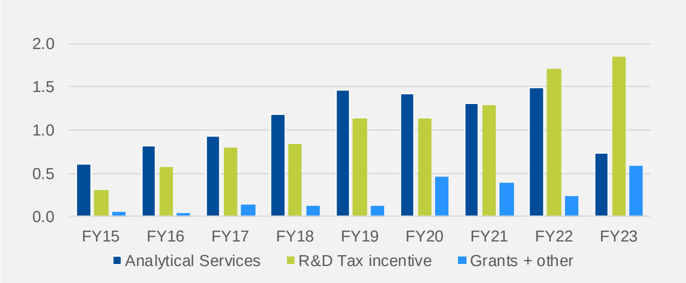
Source: Company reports

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



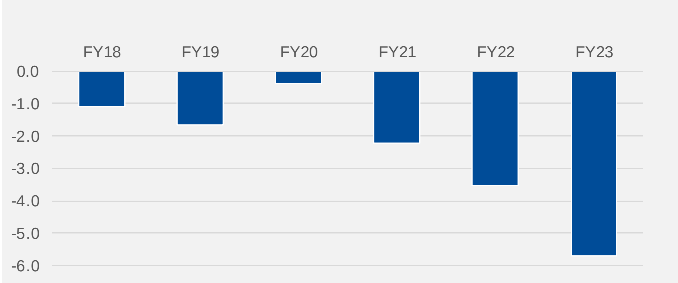
Source: Company reports

Historical revenue segments (A$m)



Source: Company reports

Net operating cashflows (A$m)



Source: Company reports

Bull points

Distribution agreement (in principle at this stage) with Sonic Healthcare USA (#3 pathology lab by volume in USA)
PIQ has signed a binding letter of intent with Sonic Healthcare USA for the exclusive distribution of its diabetic kidney disease test in the United States. We view the potential partnership validates the technology and proposition.

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 pipline 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

Proteomics International

Income statement	2022A	2023A	2024F	2025F	2026F
Divisional sales	3.4	3.2	8.7	15.1	21.5
Other revenue	0.0	0.0	0.0	0.0	0.0
EBITDA	-4.6	-5.9	-3.1	0.1	3.5
Associate income	0.0	0.0	0.0	0.0	0.0
Depreciation	0.4	0.5	0.8	0.7	0.7
EBITA	-5.0	-6.4	-3.9	-0.6	2.7
Amortisation/impairment	0.0	0.0	0.0	0.0	0.0
EBIT	-5.0	-6.4	-3.9	-0.6	2.7
EBIT(incl associate profit)	-5.0	-6.4	-3.9	-0.6	2.7
Net interest expense/FX	0.1	0.0	0.1	0.2	0.1
Pre-tax profit	-5.0	-6.5	-4.1	-0.6	2.7
Income tax expense	0.0	0.0	0.0	0.0	0.0
After-tax profit	-5.0	-6.5	-4.1	-0.6	2.7
Minority interests	0.0	0.0	0.0	0.0	0.0
NPAT	-5.0	-6.5	-4.1	-0.6	2.7
Significant items	0.0	0.0	0.0	0.0	0.0
NPAT post abnormals	-5.0	-6.5	-4.1	-0.6	2.7

Cash flow statement	2022A	2023A	2024F	2025F	2026F
EBITDA	-4.6	-5.9	-3.1	0.1	3.5
Other cash items	0.0	0.0	0.0	0.0	0.0
Net interest (pd)/rec	0.0	0.1	0.2	0.1	0.0
Taxes paid	0.0	0.0	0.0	0.0	0.0
Change in working capital	0.7	0.0	-0.4	-0.7	-0.7
Cash flow from ops (1)	-3.8	-5.7	-3.4	-0.5	2.8
Capex (2)	0.0	-1.2	-0.5	-0.8	-0.7
Disposals/(acquisitions)	0.0	0.0	0.0	0.0	0.0
Other investing cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from invest (3)	0.0	-1.2	-0.5	-0.8	-0.7
Incr/(decr) in equity	0.2	10.8	0.0	0.0	0.0
Incr/(decr) in debt	0.0	0.0	0.0	0.0	0.0
Ordinary dividend paid	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
Cash flow from fin (5)	0.2	10.8	0.0	0.0	0.0
Forex and disc ops (6)	0.0	0.0	0.0	0.0	0.0
Inc/(decr) cash (1+3+5+6)	-3.6	4.0	-3.9	-1.2	2.1
Equity FCF (1+2+4)	-3.8	-6.9	-3.9	-1.2	2.1

Balance sheet	2022A	2023A	2024F	2025F	2026F
Cash & deposits	2.1	6.0	2.1	0.9	3.0
Trade debtors	0.4	0.1	1.4	2.5	3.5
Inventory	0.0	0.0	0.0	0.0	0.0
Investments	0.0	0.0	0.0	0.0	0.0
Goodwill	0.0	0.0	0.0	0.0	0.0
Other intangible assets	0.0	0.0	0.0	0.0	0.0
Fixed assets	1.0	1.6	1.4	1.4	1.4
Other assets	0.1	0.1	0.1	0.1	0.1
Total assets	**5.4**	**10.1**	**7.3**	**7.1**	**10.3**
Short-term borrowings	0.0	0.0	0.0	0.0	0.0
Trade payables	1.1	0.6	1.5	1.8	2.2
Long-term borrowings	0.0	0.0	0.0	0.0	0.0
Provisions	0.7	1.1	1.1	1.1	1.1
Other liabilities	0.2	0.0	0.0	0.0	0.0
Total liabilities	2.0	1.7	2.6	3.0	3.3
Share capital	19.3	30.2	30.2	30.2	30.2
Other reserves	1.7	1.8	1.8	1.8	1.8
Retained earnings	-17.6	-23.6	-27.3	-27.8	-25.1
Other equity	0.0	0.0	0.0	0.0	0.0
Total equity	3.4	8.4	4.7	4.2	7.0
Minority interest	0.0	0.0	0.0	0.0	0.0
Total shareholders' equity	3.4	8.4	4.7	4.2	7.0
Total liabilities & SE	**5.4**	**10.1**	**7.3**	**7.1**	**10.3**

Closing price (A$)	0.82	Price target (A$)	1.66
Valuation metrics			
Methodology -DCF-PER Comp		Target Price	$1.66
DCF valuation inputs			
Rf	3.60%	10-year rate	5.25%
Rm-Rf	6.00%	Margin	2.0%
Beta	1.40	Kd	5.00%
CAPM (Rf+Beta(Rm-Rf))	12.0%	Ke	14.9%
E/EV*Ke+D/EV*Kd(1-t)		NPV cash flow (A$m)	200.8
Equity (E/EV)	97.5%	Minority interest (A$m)	0.0
Debt (D/EV)	2.5%	Net debt (A$m)	0.0
Interest rate	5.00%	Investments (A$m)	0.0
Tax rate (t)	30.0%	Equity market value (A$m)	200.8
WACC	12.0%	Diluted no. of shares (m)	121.0
		DCF valuation	$1.66

Multiples	2022A	2023A	2024F	2025F	2026F
Enterprise value (A$m)	97.1	93.2	97.1	98.3	96.2
EV/Sales (x)	28.3	29.4	11.1	6.5	4.5
EV/EBITDA (x)	-21.3	-15.9	-31.0	657.4	27.8
EV/EBIT (x)	-19.5	-14.6	-25.0	-175.5	35.0
PE (pre-goodwill) (x)	-17.4	-15.9	-26.8	-199.9	35.8
PEG (pre-goodwill) (x)		0.2	1.1	-4.9	0.4

At target price	2022A	2023A	2024F	2025F	2026F
EV/EBITDA (x)	-19.5	-14.6	-25.0	-175.5	35.0
PE (pre-goodwill) (x)	-35.3	-32.2	-54.2	-404.6	72.5

Per share data	2022A	2023A	2024F	2025F	2026F
No. shares	105.7	121.0	121.0	121.0	121.0
EPS (cps)	-4.7	-5.2	-3.1	-0.4	2.3
EPS (normalised) (c)	-4.7	-5.2	-3.1	-0.4	2.3
Dividend per share (c)	0.0	0.0	0.0	0.0	0.0
Dividend payout ratio (%)	0.0%	0.0%	0.0%	0.0%	0.0%
Dividend yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%

Growth ratios	2022A	2023A	2024F	2025F	2026F
Sales growth	15.4%	-7.5%	175.4%	72.4%	42.9%
Operating cost growth	46.6%	13.0%	31.4%	25.6%	21.1%
EBITDA growth	-74.7%	-28.3%	39.2%	85.6%	590.1%
EBITA growth	-74.7%	-28.3%	39.2%	85.6%	590.1%
EBIT growth	-74.7%	-28.3%	39.2%	85.6%	590.1%
NPAT growth	-73.4%	-30.7%	37.6%	84.6%	534.6%
Pre-goodwill NPAT growth	-73.4%	-30.7%	37.6%	84.6%	534.6%
Pre-goodwill EPS growth		-78.9%	-25.5%	40.6%	86.6%
Normalised EPS growth		-78.9%	-25.5%	40.6%	86.6%

Operating performance	2022A	2023A	2024F	2025F	2026F
Asset turnover (%)	12.3	10.2	25.2	52.3	61.8
EBITDA margin (%)	-133.0	-184.6	-35.8	1.0	16.1
EBIT margin (%)	-145.1	-201.3	-44.4	-3.7	12.7
Net profit margin (%)	-145.3	-205.3	-46.5	-4.1	12.6
Return on net assets (%)	-146.7	-76.2	-83.0	-13.4	39.5
Net debt (A$m)	-2.1	-6.0	-2.1	-0.9	-3.0
Net debt/equity (%)	-62.2	-71.9	-45.8	-22.4	-43.7
Net interest/EBIT cover (x)	70.4	1509.0	26.8	3.1	-43.2

Source: Morgans estimates, company data

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