

September 29, 2023

EMERGING COMPANY

SPECULATIVE BUY (no change)

Stock code:	PIQ AU
Price:	A\$1.01
12-month target price:	A\$2.42
Previous target price:	A\$1.66
Up/downside to target price:	139.6%
Dividend yield:	0.0%
12-month TSR*:	139.6%
Market cap:	A\$124m
Average daily turnover:	A\$0.06m
Index inclusion:	N/A

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

Price performance

(%)	1M	3M	12M	3Y
Absolute	17.4	17.4	2.0	98.0
Rel ASX/S&P200	19.3	19.8	-6.2	80.2



Source: IRESS

Related research

[PIQ \(SPEC BUY - TP A\\$1.66\) - 25 Aug 2023](#)
[PIQ \(SPEC BUY - TP A\\$1.77\) - 10 May 2023](#)

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

– Proteomics International Laboratories

Proteomics International Laboratories

Big upgrade to US pricing expectations

- PIQ has announced big upgrades to US pricing expectations following CMS assigning a payment rate of US\$390 for its diabetic kidney disease test, up from prior baseline guidance of US\$150.
- Clear upside to previously published numbers, offset by what we could see as potentially a reduced appetite for private payor uptake.
- TGA knock-back is more of an annoyance at this stage, with Aus largely immaterial particularly without reimbursement support.
- Our valuation increases to A\$2.42 (from A\$1.66) and we retain our Speculative Buy recommendation.

Event:

- PIQ announced the Centers for Medicare and Medicaid Services (CMS) has published its preliminary pricing guide for the PromarkerD test for Diabetic Kidney Disease (DKD). The preliminary list price of US\$390.75 represents a >2.5x upgrade from where management had been setting expectations (US\$150). Clearly this is a big positive. The preliminary pricing becomes final following a 30 day public comment, and then becomes effective from 1 January 2024 as the national reimbursement price.
- In other news, the TGA has requested PIQ resubmit its application on the basis of clinical and analytical data needed to be predominantly collected on the currently manufactured version of the test (i.e. immunoassay version manufactured in Europe). Obviously a setback here for AUS and may require a small confirmatory study on the current manufactured version but no impact to US commercialisation and / or European approval. We don't view AUS as material (not in our model assumptions) being a small market, particularly following MSAC's (Medicare reimbursement) decision not to reimburse the test back in March 2023. It's all in the background for now.

Analysis:

- We viewed this as one of the major catalysts outside of first material sales and see the strong reimbursement price demonstrating the value placed on the test and the outcomes it can achieve, but also provides clarity around the US business model going forward. High price with the largest payor in the US (~42% of spend), it sets a price with volume (Medicare and Medicaid coverage) to which many US private payors often peg their own coverage determinations. Expect to see more news flow around this in the coming months.
- On the flip side, we see the higher price as being a potential impediment to private payor coverage, viewing the lower pricing as appropriate to a fast and broad uptake. This is a cautious stance until we see initial uptake, but also acknowledge ~2.5x incentive for the SHL sales team to grow this market.

Forecast and valuation update:

- We have increased our US test pricing assumptions to US\$390 (from US\$150) and applied a fairly hefty market uptake handbrake until we get a strong feel for coverage uptake. Our DCF valuation increases to A\$2.42 (from A\$1.66).

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 final pricing (Jan-24), Ex-USA licensing deals (FY24), Endometriosis development (Dec-23), oesophageal cancer development (Sep23), pipeline development (FY24).

Risks:

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

Proteomics International Laboratories

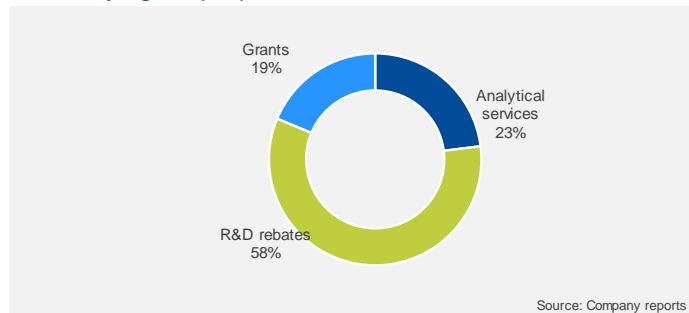
SPECULATIVE BUY

as at September 29, 2023

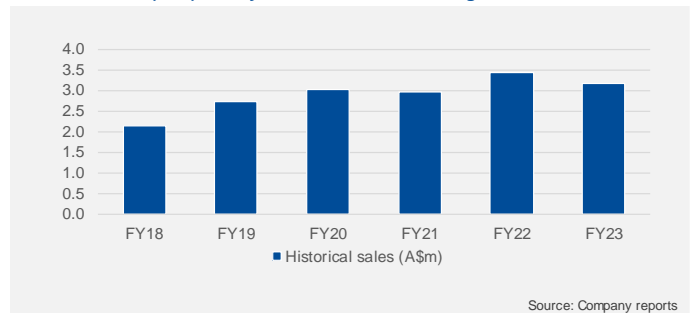
Price (A\$):	1.01	12-month target price (A\$):	2.42
Market cap (A\$m):	124	Up/downside to target price (%):	139.6
Free float (%):	61.0	Dividend yield (%):	0.0
Index inclusion:	N/A	12-month TSR (%):	139.6

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.

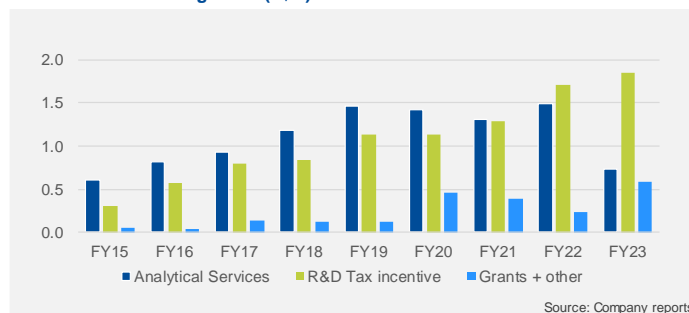
Revenue by segment (A\$m) - FY23



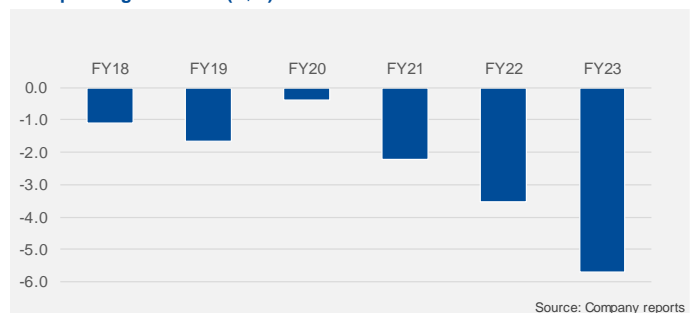
Historical sales (A\$m) - Analytics / R&D / Grant funding



Historical revenue segments (A\$m)



Net operating cashflows (A\$m)



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



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

Proteomics International						Closing price (A\$)		1.01	Price target (A\$)			2.42
Income statement	2022A	2023A	2024F	2025F	2026F	Valuation metrics						
Divisional sales	3.4	3.2	3.4	8.9	15.2	Methodology -DCF-PER Comp			Target Price		\$2.42	
Other revenue	0.0	0.0	0.0	0.0	0.0	DCF valuation inputs						
EBITDA	-4.6	-5.9	-6.4	-2.4	2.0	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	0.4	0.5	0.8	0.7	0.7	Beta	1.40	Kd		5.00%		
EBITA	-5.0	-6.4	-7.1	-3.1	1.3	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)		292.2	
EBIT	-5.0	-6.4	-7.1	-3.1	1.3	Equity (E/EV)		97.5%	Minority interest (A\$m)		0.0	
EBIT(incl associate profit)	-5.0	-6.4	-7.1	-3.1	1.3	Debt (D/EV)		2.5%	Net debt (A\$m)		0.0	
Net interest expense/FX	0.1	0.0	0.1	0.2	0.0	Interest rate		5.00%	Investments (A\$m)		0.0	
Pre-tax profit	-5.0	-6.5	-7.3	-3.1	1.4	Tax rate (t)		30.0%	Equity market value (A\$m)		292.2	
Income tax expense	0.0	0.0	0.0	0.0	0.0	WACC		12.0%	Diluted no. of shares (m)		121.0	
After-tax profit	-5.0	-6.5	-7.3	-3.1	1.4	DCF valuation						\$2.42
Minority interests	0.0	0.0	0.0	0.0	0.0							
NPAT	-5.0	-6.5	-7.3	-3.1	1.4	Multiples		2022A	2023A	2024F	2025F	2026F
Significant items	0.0	0.0	0.0	0.0	0.0	Enterprise value (A\$m)		120.1	116.2	122.7	126.5	126.2
NPAT post abnormals	-5.0	-6.5	-7.3	-3.1	1.4	EV/Sales (x)		35.0	36.6	36.6	14.2	8.3
						EV/EBITDA (x)		-26.3	-19.8	-19.3	-52.9	63.2
Cash flow statement	2022A	2023A	2024F	2025F	2026F	EV/EBIT (x)		-24.1	-18.2	-17.2	-40.8	98.7
EBITDA	-4.6	-5.9	-6.4	-2.4	2.0	PE (pre-goodwill) (x)		-21.5	-19.6	-17.6	-39.2	106.5
Other cash items	0.0	0.0	0.0	0.0	0.0	PEG (pre-goodwill) (x)			0.2	0.7	3.5	1.9
Net interest (pd)/rec	0.0	0.1	0.2	0.0	-0.1							
Taxes paid	0.0	0.0	0.0	0.0	0.0	At target price		2022A	2023A	2024F	2025F	2026F
Change in working capital	0.7	0.0	0.2	-0.7	-0.8	EV/EBITDA (x)		-24.1	-18.2	-17.2	-40.8	98.7
Cash flow from ops (1)	-3.8	-5.7	-6.0	-3.1	1.1	PE (pre-goodwill) (x)		-51.3	-46.8	-42.1	-93.8	254.7
Capex (2)	0.0	-1.2	-0.5	-0.8	-0.7							
Disposals/(acquisitions)	0.0	0.0	0.0	0.0	0.0	Per share data		2022A	2023A	2024F	2025F	2026F
Other investing cash flow	0.0	0.0	0.0	0.0	0.0	No. shares		105.7	121.0	121.0	121.0	121.0
Cash flow from invest (3)	0.0	-1.2	-0.5	-0.8	-0.7	EPS (cps)		-4.7	-5.2	-5.7	-2.6	0.9
Incr/(decr) in equity	0.2	10.8	0.0	0.0	0.0	EPS (normalised) (c)		-4.7	-5.2	-5.7	-2.6	0.9
Incr/(decr) in debt	0.0	0.0	0.0	0.0	0.0	Dividend per share (c)		0.0	0.0	0.0	0.0	0.0
Ordinary dividend paid	0.0	0.0	0.0	0.0	0.0	Dividend payout ratio (%)		0.0%	0.0%	0.0%	0.0%	0.0%
Preferred dividends (4)	0.0	0.0	0.0	0.0	0.0	Dividend yield (%)		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	Growth ratios		2022A	2023A	2024F	2025F	2026F
Forex and disc ops (6)	0.0	0.0	0.0	0.0	0.0	Sales growth		15.4%	-7.5%	5.6%	165.4%	70.6%
Inc/(decr) cash (1+3+5+6)	-3.6	4.0	-6.5	-3.9	0.4	Operating cost growth		46.6%	13.0%	7.6%	16.2%	16.8%
Equity FCF (1+2+4)	-3.8	-6.9	-6.5	-3.9	0.4	EBITDA growth		-74.7%	-28.3%	-11.4%	56.5%	141.3%
						EBITA growth		-74.7%	-28.3%	-11.4%	56.5%	141.3%
Balance sheet	2022A	2023A	2024F	2025F	2026F	EBIT growth		-74.7%	-28.3%	-11.4%	56.5%	141.3%
Cash & deposits	2.1	6.0	-0.5	-4.3	-4.0	NPAT growth		-73.4%	-30.7%	-12.0%	57.7%	145.6%
Trade debtors	0.4	0.1	0.6	1.5	2.5	Pre-goodwill NPAT growth		-73.4%	-30.7%	-12.0%	57.7%	145.6%
Inventory	0.0	0.0	0.0	0.0	0.0	Pre-goodwill EPS growth			-78.9%	-25.5%	-11.1%	55.1%
Investments	0.0	0.0	0.0	0.0	0.0	Normalised EPS growth			-78.9%	-25.5%	-11.1%	55.1%
Goodwill	0.0	0.0	0.0	0.0	0.0							
Other intangible assets	0.0	0.0	0.0	0.0	0.0	Operating performance		2022A	2023A	2024F	2025F	2026F
Fixed assets	1.0	1.6	1.4	1.4	1.4	Asset turnover (%)		12.3	10.2	12.1	96.8	248.6
Other assets	0.1	0.1	0.1	0.1	0.1	EBITDA margin (%)		-133.0	-184.6	-189.9	-26.9	13.2
Total assets	5.4	10.1	3.8	0.8	2.2	EBIT margin (%)		-145.1	-201.3	-212.4	-34.8	8.4
Short-term borrowings	0.0	0.0	0.0	0.0	0.0	Net profit margin (%)		-145.3	-205.3	-217.8	-34.7	9.3
Trade payables	1.1	0.6	1.2	1.4	1.6	Return on net assets (%)		-146.7	-76.2	-492.7	185.6	-244.7
Long-term borrowings	0.0	0.0	0.0	0.0	0.0	Net debt (A\$m)		-2.1	-6.0	0.5	4.3	4.0
Provisions	0.7	1.1	1.1	1.1	1.1	Net debt/equity (%)		-62.2	-71.9	32.7	-260.5	-764.1
Other liabilities	0.2	0.0	0.0	0.0	0.0	Net interest/EBIT cover (x)		70.4	1509.0	49.1	17.2	85.7
Total liabilities	2.0	1.7	2.3	2.5	2.7							
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	-30.6	-33.7	-32.5							
Other equity	0.0	0.0	0.0	0.0	0.0							
Total equity	3.4	8.4	1.4	-1.7	-0.5							
Minority interest	0.0	0.0	0.0	0.0	0.0							
Total shareholders' equity	3.4	8.4	1.4	-1.7	-0.5							
Total liabilities & SE	5.4	10.1	3.8	0.8	2.2							

Source: Morgans estimates, company data

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