

ContextVision

BUY

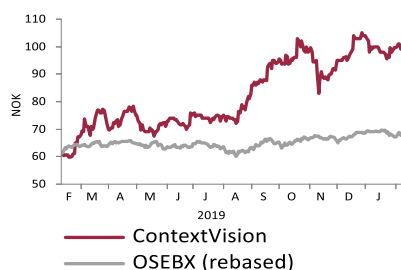
Key share data

Sector	Health Care
Reuters	COVI.OL
Bloomberg	COV NO

Market Cap (NOKm)	766
Net debt (NOKm)	-36
EV (NOKm)	730
Net debt / equity	-54%

Issued shares (m)	7.7
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Share price



Performance

	1m	3m	12m
COV	-1%	5%	62%
OSEBX	-2%	0%	9%

Upcoming events

4Q19 report	February 20, 2020
1Q20 report	April 23, 2020
AGM	May 6, 2020
2Q20 report	August 13, 2020
3Q20 report	October 22, 2020
4Q20 report	February 18, 2021

Norne Securities AS is a market maker in the shares of ContextVision

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Solid figures expected; DP market news highly awaited

ContextVision's 4Q figures should continue showing Image Enhancement business' solid profitability and ability to support endeavour into Digital Pathology, news on which is expected any time now. Therefore, we reiterate our Buy recommendation and NOK 150/sh TP on the share.

Record-high EBITDA seen in a seasonally strong quarter

ContextVision (COV) will release its 4Q report on February 20th. We expect seasonally strong sales of SEK 29.2m and EBITDA of SEK 9.3m, representing a good top line growth of 5% YoY and EBITDA margin of 32% (+2%p QoQ and vs 18% a year ago). It is impressive to see the company's existing Image Enhancement business to continue on a highly profitable growth path that continues to finance the endeavour into the very promising Digital Pathology field.

4Q/19 results	4Q/18	3Q/19	4Q/19E
SEKm			Norne
Revenues	27.9	23.0	29.2
EBITDA	5.0	6.8	9.3
EBITDA margin	18%	30%	32%
EBIT	2.7	4.6	6.6
Pre-tax profit	2.7	4.5	6.5
Net earnings	2.8	3.4	5.1
EPS reported (SEK)	0.36	0.44	0.66
EPS adjusted (SEK)	0.38	0.45	0.66

DP provides enormous room for growth – market launch news awaited

Naturally, the key focus from investors for a while now has been on the company's entry into the Digital Pathology (DP) market. COV estimates the relevant part of the DP market to grow from USD 20m in 2020 to a massive USD 250m by 2022 and even more impressive USD 700m by 2024. This provides plenty of room for growth for many who enter the DP market including COV. We hope to see first sales from DP early this year, as the company is very close to releasing its first Decision Support Tool for prostate cancer (INIFY Prostate) for sale. We believe the news of market launch of INIFY Prostate is a trigger for the stock, but note that more significant revenue should not be expected before end of the year or maybe even in 2021.

Buy and NOK 150/sh TP reiterated on good EBITDA expectations and DP market entry just around the corner

We keep our Buy recommendation and NOK 150/sh target price on COV share on expectations of solid 4Q figures and news on Digital Pathology market entry due any time now.

Estimate changes (SEKm)	4Q19E		2019E		2020E		2021E		2022E	
	New	Old	New	Old	New	Old	New	Old	New	Old
Operating revenues	29.2	29.2	96.4	96.4	112.3	112.5	173.3	174.0	252.9	254.4
EBITDA adj.	9.3	9.3	29.5	29.5	37.9	38.0	89.6	90.3	160.8	162.3
EBITDA adj. margin	32%	32%	31%	31%	34%	34%	52%	52%	64%	64%
EBIT (adj)	6.6	6.6	20.8	20.8	21.9	22.0	66.6	67.3	132.4	133.8
EBIT adj. margin	22%	22%	22%	22%	19%	20%	38%	39%	52%	53%
Non-recurring items	-	-	-	-	-	-	-	-	-	-
EBIT	6.6	6.6	20.8	20.8	21.9	22.0	66.6	67.3	132.4	133.8
Pre-tax profit	6.5	6.5	20.5	20.5	21.5	21.7	66.3	67.0	132.1	133.5
Tax	-1.4	-1.4	-4.6	-4.6	-4.6	-4.6	-13.7	-13.8	-27.2	-27.5
Tax rate	21%	21%	23%	23%	21%	21%	21%	21%	21%	21%
Profit after tax	5.1	5.1	15.9	15.9	16.9	17.0	52.6	53.2	104.9	106.0
Revenue split by segment										
Medical Imaging	22.7	22.7	96.4	96.4	100.8	100.8	105.4	105.4	108.9	108.9
X-ray	4.1	4.1	14.9	14.9	16.4	16.4	17.6	17.6	18.5	18.5
Ultrasound 2D	13.8	13.8	58.5	58.5	61.4	61.4	63.9	63.9	65.8	65.8
Ultrasound 3D	2.6	2.6	13.2	13.2	14.0	14.0	14.7	14.7	15.3	15.3
Magnetic Resonance Imaging	1.6	1.6	7.5	7.5	6.6	6.6	6.7	6.7	6.9	6.9
Others (iRV, CT, Mammo)	0.6	0.6	2.4	2.4	2.4	2.4	2.5	2.5	2.5	2.5
Digital Pathology	0.5	0.5	-	-	11.5	11.6	67.9	68.6	144.0	145.5
Total	23.2	23.2	96.4	96.4	112.3	112.5	173.3	174.0	252.9	254.4

DCF model

SEKm	4Q 2019E	2020E	2021E	2022E	2023E	2024E
Revenues	29	112	173	253	272	316
EBIT*	6	18	66	132	142	174
Tax on EBIT	-1	-4	-14	-27	-29	-36
NOPLAT (+)	4	14	52	105	112	138
Depreciation & amortization (+)	3	16	23	28	33	38
Capital expenditure (-)	-7	-32	-35	-37	-39	-42
Change in working capital (- or +)	-4	-6	-11	-17	-4	-9
Free Cash Flow to the Firm	-5	-8	29	79	102	125
NPV of FCFE	-4	-7	24	58	68	75

* Includes office leasing agreements

WACC calculation		Valuation, SEKm		Assumptions	
Debt ratio	0.0%	Net debt	-37	Lt. growth	2.5%
Cost of debt (after tax)	nm	Minority interest	0	Tax rate	21%
				SEK/NOK	0.95
Risk free rate	3.0%	NPV cash flow			
Beta	1.2	4Q 2019-2024E	213	# shares, m	7.7
Market risk premium	6.0%	2025E-	1,003		
Cost of equity	10.2%	Total NPV cash flow	1,215		
WACC	10.2%	Equity value	1,253		
		Value per share, SEK	161.92		
		Value per share, NOK	153.83		

Sensitivity analysis

	L.t. growth				
	1.5%	2.0%	2.5%	3.5%	4.0%
WACC 8%	193.6	207.9	224.7	269.5	300.4
9%	164.5	174.7	186.4	216.3	235.7
10%	138.6	145.8	153.8	173.6	185.8
12%	111.1	115.6	120.6	132.4	139.4
15%	81.9	84.4	87.0	92.9	96.3

Profit & Loss (SEKm)	2015	2016	2017	2018	2019E	2020E	2021E	2022E
Operating revenues	72.2	81.9	80.5	90.9	96.4	112.3	173.3	252.9
Operating expenses	-61.7	-71.3	-78.9	-86.1	-66.9	-74.5	-83.6	-92.1
EBITDA	10.5	10.6	1.6	4.8	29.5	37.9	89.6	160.8
Depreciation & Amortisation	-4.3	-4.8	-4.9	-5.0	-8.7	-16.0	-23.0	-28.4
EBIT (adj)	6.3	5.8	-3.3	-0.2	20.8	21.9	66.6	132.4
Non-recurring items	0.7	-	1.3	-1.1	-	-	-	-
EBIT	7.0	5.8	-2.0	-1.3	20.8	21.9	66.6	132.4
Net interest & other financial effects	-	-0.0	-0.0	0.0	-0.3	-0.3	-0.3	-0.3
Pre-tax profit	7.0	5.8	-2.0	-1.3	20.5	21.5	66.3	132.1
Minority interests	-	-	-	-	-	-	-	-
Taxes	-1.6	-1.5	0.3	0.1	-4.6	-4.6	-13.7	-27.2
Profit after tax	5.3	4.3	-1.7	-1.2	15.9	16.9	52.6	104.9
EPS rep. (SEK)	0.69	0.55	-0.22	-0.15	2.05	2.19	6.80	13.55
EPS adj. (SEK)	0.63	0.58	-0.33	-0.02	2.08	2.19	6.80	13.55
Margins								
Operating margin	9%	7%	-4%	0%	22%	19%	38%	52%
ROE	9%	8%	-4%	0%	24%	21%	45%	53%
ROCE	11%	10%	-5%	0%	30%	25%	56%	67%
Tax rate	23%	26%	14%	9%	23%	21%	21%	21%
Growth rates (YoY)								
Operating revenues	12%	13%	-2%	13%	6%	17%	54%	46%
EBIT (adj)	-36%	-8%	nm	nm	nm	5%	>100%	99%
EPS (adj)	-38%	-8%	nm	nm	nm	5%	>100%	99%

Cash flow (SEKm)	2015	2016	2017	2018	2019E	2020E	2021E	2022E
Pre-tax profit	7.0	5.8	-2.0	-1.3	18.7	21.5	66.3	132.1
Depreciation and amortisation	4.3	6.2	5.0	6.7	8.7	16.0	23.0	28.4
Unrealized g/l on current investments	0.8	-0.0	-0.2	0.3	-0.5	-	-	-
Paid taxes	-2.0	-3.5	-3.4	0.4	0.5	-4.6	-13.7	-27.2
Other	-	-	-	-	-	-	-	-
Change in working capital	-0.9	1.1	2.6	-1.0	-2.8	-5.9	-10.8	-17.2
Operating cash flow (OCF)	9.2	9.5	1.9	5.1	24.5	27.0	64.9	116.1
Capital expenditures	-5.4	-2.2	-4.5	-7.5	-26.0	-32.2	-34.9	-37.1
Other cash flow from investments	0.7	-0.1	-	-	-0.2	-	-	-
Free Cash Flow (FCF)	4.5	7.3	-2.6	-2.4	-1.7	-5.2	30.0	78.9
Cash flow from financing activities	-	-	-	-	-3.7	-3.7	-1.1	-
Change in cash	4.5	7.3	-2.6	-2.4	-5.3	-8.9	28.9	78.9

Balance sheet (SEKm)	2015	2016	2017	2018	2019E	2020E	2021E	2022E
Goodwill	-	-	-	-	-	-	-	-
Deferred tax asset	-	-	-	-	-	-	-	-
Licences, property, plant & equipment	18.1	15.2	14.5	15.0	35.2	51.4	63.3	72.0
Other intangible assets	0.3	0.3	0.4	0.3	11.1	11.1	11.1	11.1
Non-current Assets	18.3	15.5	14.9	15.4	46.4	62.6	74.5	83.2
Inventory	0.4	0.3	0.6	0.7	1.1	1.3	1.8	2.6
Receivables	18.1	20.6	23.3	22.8	23.9	29.6	39.9	56.4
Other current assets	-	-	-	-	-	-	-	-
Cash and cash equivalents	35.6	42.9	40.3	37.9	32.6	23.7	52.7	131.6
Current Assets	54.2	63.8	64.2	61.5	57.6	54.7	94.4	190.5
Total assets	72.5	79.3	79.1	76.8	104.0	117.2	168.8	273.7
Shareholders equity	57.0	61.4	59.3	58.6	74.0	91.0	143.6	248.5
Non-controlling interests	-	-	-	-	-	-	-	-
Total equity	57.0	61.4	59.3	58.6	74.0	91.0	143.6	248.5
Deferred tax liability	-	-	-	1.0	0.9	0.9	0.9	0.9
Long-term interest bearing debt	-	-	-	-	-	-	-	-
Other long-term liabilities	1.2	1.5	1.1	-	4.7	1.1	0.0	0.0
Non-current liabilities	1.2	1.5	1.1	1.0	5.7	2.0	0.9	0.9
Current interest bearing debt	-	-	-	-	-	-	-	-
Trade payables	-	-	-	-	-	-	-	-
Other current liabilities	14.3	16.4	18.6	17.3	24.3	24.3	24.3	24.3
Current liabilities	14.3	16.4	18.6	17.3	24.3	24.3	24.3	24.3
Total liabilities	15.5	17.9	19.7	18.3	30.0	26.3	25.2	25.2
Total liabilities and equity	72.5	79.3	79.1	76.8	104.0	117.2	168.8	273.7
Working capital	18.5	20.9	23.8	23.5	25.0	31.0	41.7	58.9
Net IB debt	-35.6	-42.9	-40.3	-37.9	-32.6	-23.7	-52.7	-131.6
Capital employed	58.2	62.9	60.5	59.5	79.7	92.9	144.5	249.4
Net IB debt / equity	-62%	-70%	-68%	-65%	-44%	-26%	-37%	-53%
Equity / total assets	79%	77%	75%	76%	71%	78%	85%	91%

Share data	2015	2016	2017	2018	2019E	2020E	2021E	2022E
Shares outstanding, year end (mill.)	7.737	7.737	7.737	7.737	7.737	7.737	7.737	7.737
Share price, year end (NOK)	26.40	49.50	57.50	55.20	104.00	99.00	99.00	99.00
Market cap (NOKm)	204	383	445	427	805	766	766	766
Enterprise value (NOKm)	169	343	405	392	774	743	716	641
EPS rep. (SEK)	0.69	0.55	-0.22	-0.15	2.05	2.19	6.80	13.55
EPS adj. (SEK)	0.63	0.58	-0.33	-0.02	2.08	2.19	6.80	13.55
DPS. (SEK)	-	-	-	-	-	-	-	-

Valuation	2015	2016	2017	2018	2019E	2020E	2021E	2022E
EV/Sales	2.3	4.5	5.1	4.6	8.5	7.0	4.3	2.7
EV/EBITDA	16.0	34.8	>100	87.8	27.7	20.7	8.4	4.2
EV/EBIT (adj)	26.9	63.9	neg	neg	39.2	35.8	11.3	5.1
P/E (adj)	41.7	91.5	neg	neg	52.7	47.6	15.3	7.7
P/B (excl. goodwill)	3.6	6.7	7.6	7.8	11.5	8.9	5.6	3.2

Growth (YoY)	2015	2016	2017	2018	2019E	2020E	2021E	2022E
Revenues	12%	13%	-2%	13%	6%	17%	54%	46%
EBITDA	-23%	1%	-85%	199%	515%	28%	137%	79%
EBIT (adj)	-36%	-8%	nm	nm	nm	5%	205%	99%
Pre-tax profit (rep)	-1%	-17%	nm	nm	nm	5%	208%	99%
Net profit (rep)	-2%	-20%	nm	nm	nm	7%	211%	99%
EPS (rep)	-2%	-20%	nm	nm	nm	7%	211%	99%
EPS (adj)	-38%	-8%	nm	nm	nm	5%	211%	99%

Margins	2015	2016	2017	2018	2019E	2020E	2021E	2022E
EBITDA	14.6 %	12.9 %	2.0 %	5.3 %	30.6 %	33.7 %	51.7 %	63.6 %
EBIT (adj)	8.7 %	7.0 %	-4.1 %	-0.3 %	21.6 %	19.5 %	38.5 %	52.3 %
Pre-tax profit	9.6 %	7.0 %	-2.5 %	-1.4 %	21.3 %	19.2 %	38.3 %	52.2 %
Net profit	7.4 %	5.2 %	-2.1 %	-1.3 %	16.5 %	15.1 %	30.4 %	41.5 %

Profitability	2015	2016	2017	2018	2019E	2020E	2021E	2022E
ROE	9.1 %	7.6 %	-4.2 %	-0.3 %	24.3 %	20.5 %	44.9 %	53.5 %
ROCE	11.4 %	9.5 %	-5.3 %	-0.4 %	29.9 %	25.3 %	56.1 %	67.2 %
Dividend yield	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %

Recommendation, valuation, risk and sources

Recommendation and target price

Recommendation history for ContextVision during the last 12 months:

Date	Recommendation	Target price (NOK)
10/02/2020	Buy	150.00
28/10/2019	Buy	150.00
21/10/2019	Buy	150.00
22/08/2019	Buy	100.00
13/08/2019	Buy	90.00
30/04/2019	Buy	90.00
05/04/2019	Buy	85.00
05/03/2019	Buy	80.00
15/02/2019	Buy	80.00
26/10/2018	Buy	80.00

Valuation

To arrive at our share price target we have used a rounded result from our DCF valuation.

Risks

The main risks to our target price on ContextVision are the following:

- Slower sales growth in the operating areas, particularly in the Ultrasound segment;
- Failure to successfully complete R&D and market the new products in the portfolio, i.e. within Digital Pathology field;
- The company invests heavily in R&D and being able to capitalize on these investments, not to incur significant cost overruns etc. in the future is the key for the company's long-term growth;
- Currency risk – our long-term estimates for the Digital Pathology market are based on USD, the company reports in SEK and the share is traded in NOK.

Sources

The sources used in the preparation of this report were: ContextVision, Refinitiv Eikon, Infront and Oslo Stock Exchange.

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Norne Securities' general recommendations – Buy, Hold and Sell – are based on the expected absolute return on the financial instrument within the next 12 months, which equals to an upside to the target price, in combination with a risk profile. The target price represents the price level which the analyst expects the financial instrument to trade at within the coming 12 months. The table below shows the ranges of returns under different risk levels, based on which the recommendation is being determined:

Risk	Total return next 12 months (upside to target price)		
	Buy	Hold	Sell
Low	> 10%	2% - 10%	< 2%
Medium	> 15%	3% - 15%	< 3%
High	> 25%	5% - 25%	< 5%

Our risk assessments range from “high risk” to “medium risk” and “low risk” and are based on a subjective assessment of the following factors: 1) volatility in the share price, 2) liquidity in the share, 3) strength of the balance sheet, 4) absolute earnings level and trend and 5) estimate risk.

Share prices used in the report are as of market close on the last trading day if the report is being published before the stock market opening, or market price within 15 min. before the publication if the report is published during the trading hours of the Oslo Stock Exchange.

TARGET PRICE AND UPDATES

Target prices may be based on one or several valuation methods, for instance, the discounted cash flow (DCF) analysis or applying “fair” pricing multiple(s) based on historical valuation or peer pricing level. Target price may not necessarily equal to the “fair value” of the financial instrument – certain discount or premium is possible due to various reasons, depending on the analyst's view of what the price may be within the 12 months period. Norne Securities AS plans to update the recommendation based on the following events: the target price is achieved; new accounting figures are released; any significant news on the company or its industry is announced.

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POTENTIAL CONFLICTS OF INTEREST

Norne Securities AS is a market maker in the shares of ContextVision.

This report has been presented to the issuer before dissemination for a check of factual information. Amendments of factual information have not been made following this.

Share holdings of Norne employees in ContextVision:

Responsible analyst(s)	0
All Norne analysts	0
Other Norne employees	0
Norne Securities AS	0

The overview of share holdings is updated continuously. A list of total share holdings of the Norne Securities' employees and the date of last overview can be found on <https://www.norne.no/compliance/>. Shareholdings that Norne Securities AS owns as a result of own-account trading that is part of its investment services operations (such as market making) are not included in the table above.

Distribution of Norne Securities' recommendations during three months up till December 31, 2019:

	Buy	Hold	Sell
Total recommendations	43	41	4
% of total	49%	47%	5%
Corporate clients*	30	9	1
% of corporate clients*	75%	23%	3%

* Includes publicly disclosed not immaterial investment banking services or issues of financial instruments where Norne Securities AS has been lead manager or co-lead manager, and market making clients during the 12 months prior to the overview date.

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