

ContextVision

BUY

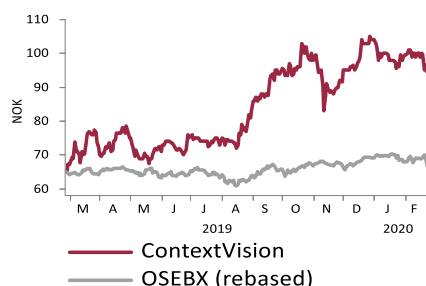
Key share data

Sector	Health Care
Reuters	COVI.OL
Bloomberg	COV NO

Market Cap (NOKm)	723
Net debt (NOKm)	-35
EV (NOKm)	689
Net debt /equity	-55%

Issued shares (m)	7.7
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Share price



Performance

	1m	3m	12m
COV	-4%	4%	53%
OSEBX	-4%	-1%	3%

Upcoming events

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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Growth from existing business to continue as company prepares to enter the promising digital pathology field

COV's 4Q figures were slightly below our estimates and write-down of intangibles led to negative bottom line. Digital Pathology product market launch was delayed, as the company is patient to get the product right. We therefore decided to move first revenues from DP market from this to next year, which resulted in a lower TP of NOK 140/sh (150), but we reiterate Buy seeing huge growth potential in the DP market and as the existing Image Enhancement business should continue a profitable growth path.

Slightly weaker-than-expected 4Q figures; write-down of intangibles

ContextVision (COV) released its 4Q19 report last week with sales of SEK 28.1m and EBITDA of SEK 8.1m being slightly weaker than our SEK 29.2m and SEK 9.3m expectations. Notably, the company made a write-down of intangibles of SEK 10m, as a precautionary measure in order to get a good match between the estimated revenues, the development costs and the overall product lifecycle within Digital Pathology. Cash position remained strong at the end of the year at SEK 36m, just SEK 1m lower QoQ, as the existing business is mostly paying for the endeavour into the promising Digital Pathology field.

Image Enhancement continues to do well; profitable growth to continue

The existing Image Enhancement business continues to do well even if 4Q was not as strong as we had hoped. New products are being launched and multiple new contracts signed should have a positive impact on revenues in 2020 according to the company.

Digital Pathology launch delayed from end of 2019 previously

The company decided to be patient with the release of the first Digital Pathology product to get the product right. Thus, the market launch of INIFY Prostate Screening is delayed from end of 2019. Still, full feedback from important BETA installations made in 4Q is expected in early 2020. Therefore, the launch is still close, but we moved first DP sales to 2021.

Buy stays at a bit lower TP of NOK 140/sh (150 previously)

After our model revision (mainly DP market entry delay and higher WACC used) we decrease our TP from NOK 150 to NOK 140/sh, but reiterate Buy on the back of huge growth potential lying in the Digital Pathology field and as existing business continues its profitable growth path.

Estimate changes (SEKm)	4Q19		1Q20E		2020E		2021E		2022E	
	Act.	Est.	New	Old	New	Old	New	Old	New	Old
Operating revenues	28.1	29.2	23.4	23.2	99.6	112.3	146.5	173.3	256.2	252.9
EBITDA adj.	8.1	9.3	6.7	5.9	25.8	37.9	64.0	89.6	164.8	160.8
EBITDA adj. margin	29%	32%	29%	25%	26%	34%	44%	52%	64%	64%
EBIT (adj)	5.8	6.6	4.4	2.6	14.9	21.9	48.4	66.6	144.4	132.4
EBIT adj. margin	21%	22%	19%	11%	15%	19%	33%	38%	56%	52%
Non-recurring items	-10.0	-	-	-	-	-	-	-	-	-
EBIT	-4.2	6.6	4.4	2.6	14.9	21.9	48.4	66.6	144.4	132.4
Pre-tax profit	-4.2	6.5	4.3	2.5	14.5	21.5	48.0	66.3	144.1	132.1
Tax	0.9	-1.4	-0.9	-0.5	-3.1	-4.6	-9.9	-13.7	-29.7	-27.2
Tax rate	21%	21%	21%	21%	21%	21%	21%	21%	21%	21%
Profit after tax	-3.4	5.1	3.4	2.0	11.4	16.9	38.1	52.6	114.4	104.9
Revenue split by segment										
Medical Imaging	28.1	29.2	23.4	22.7	99.6	100.8	104.9	105.4	109.2	108.9
X-ray	5.8	4.1	4.7	4.1	18.7	16.4	20.6	17.6	22.1	18.5
Ultrasound 2D	16.3	18.1	13.9	13.8	60.1	61.4	63.1	63.9	65.7	65.8
Ultrasound 3D	2.6	4.8	2.5	2.6	11.5	14.0	11.8	14.7	12.2	15.3
Magnetic Resonance Imaging	2.9	1.6	1.8	1.6	7.1	6.6	7.0	6.7	6.9	6.9
Others (iRV, CT, Mammo)	0.5	0.7	0.6	0.6	2.3	2.4	2.3	2.5	2.4	2.5
Digital Pathology	-	-	-	0.5	-	11.5	41.6	67.9	147.0	144.0
Total	28.1	29.2	23.4	23.2	99.6	112.3	146.5	173.3	256.2	252.9

DCF model

SEKm	2020E	2021E	2022E	2023E	2024E
Revenues	100	146	256	277	321
EBIT*	11	47	144	155	189
Tax on EBIT	-2	-10	-30	-32	-39
NOPLAT (+)	9	38	115	123	150
Depreciation & amortization (+)	11	16	20	25	30
Capital expenditure (-)	-24	-26	-27	-28	-29
Change in working capital (- or +)	3	-13	-18	-4	-9
Free Cash Flow to the Firm	-1	14	90	115	142
NPV of FCFE	-1	11	64	73	81

* 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	20.6%
				SEK/NOK	0.95
Risk free rate	3.0%	NPV cash flow			
Beta	1.5	2020-2024E	228	# shares, m	7.7
Market risk premium	6.0%	2025E-	870		
Cost of equity	12.0%	Total NPV cash flow	1,098		
WACC	12.0%	Equity value	1,135		
		Value per share, SEK	146.75		
		Value per share, NOK	139.41		

Sensitivity analysis

		L.t. growth				
		1.5%	2.0%	2.5%	3.5%	4.0%
WACC	10%	164.0	172.8	182.7	207.2	222.4
	11%	144.2	151.0	158.5	176.5	187.4
	12%	128.3	133.6	139.4	153.1	161.3
	13%	115.2	119.4	124.1	134.8	141.0
	15%	95.0	97.9	100.9	107.9	111.8

Profit & Loss (SEKm)	2015	2016	2017	2018	2019	2020E	2021E	2022E
Operating revenues	72.2	81.9	80.5	90.9	95.3	99.6	146.5	256.2
Operating expenses	-61.7	-71.3	-78.9	-86.1	-67.1	-73.9	-82.5	-91.4
EBITDA	10.5	10.6	1.6	4.8	28.2	25.8	64.0	164.8
Depreciation & Amortisation	-4.3	-4.8	-4.9	-5.0	-8.2	-10.9	-15.6	-20.4
EBIT (adj)	6.3	5.8	-3.3	-0.2	20.1	14.9	48.4	144.4
Non-recurring items	0.7	-	1.3	-1.1	-10.0	-	-	-
EBIT	7.0	5.8	-2.0	-1.3	10.1	14.9	48.4	144.4
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	9.8	14.5	48.0	144.1
Minority interests	-	-	-	-	-	-	-	-
Taxes	-1.6	-1.5	0.3	0.1	-2.4	-3.1	-9.9	-29.7
Profit after tax	5.3	4.3	-1.7	-1.2	7.4	11.4	38.1	114.4
EPS rep. (SEK)	0.69	0.55	-0.22	-0.15	0.96	1.48	4.93	14.79
EPS adj. (SEK)	0.63	0.58	-0.33	-0.02	2.01	1.48	4.93	14.79
Margins								
Operating margin	9%	7%	-4%	0%	21%	15%	33%	56%
ROE	9%	8%	-4%	0%	25%	16%	39%	66%
ROCE	11%	10%	-5%	0%	30%	19%	49%	83%
Tax rate	23%	26%	14%	9%	24%	21%	21%	21%
Growth rates (YoY)								
Operating revenues	12%	13%	-2%	13%	5%	5%	47%	75%
EBIT (adj)	-36%	-8%	nm	nm	nm	-26%	>100%	>100%
EPS (adj)	-38%	-8%	nm	nm	nm	-26%	>100%	>100%

Cash flow (SEKm)	2015	2016	2017	2018	2019	2020E	2021E	2022E
Pre-tax profit	7.0	5.8	-2.0	-1.3	7.9	14.5	48.0	144.1
Depreciation and amortisation	4.3	6.2	5.0	6.7	18.2	10.9	15.6	20.4
Unrealized g/l on current investments	0.8	-0.0	-0.2	0.3	0.1	-	-	-
Paid taxes	-2.0	-3.5	-3.4	0.4	1.8	-3.1	-9.9	-29.7
Other	-	-	-	-	-	-	-	-
Change in working capital	-0.9	1.1	2.6	-1.0	-3.0	2.9	-13.5	-17.7
Operating cash flow (OCF)	9.2	9.5	1.9	5.1	25.1	25.2	40.3	117.1
Capital expenditures	-5.4	-2.2	-4.5	-7.5	-22.8	-23.7	-25.6	-27.1
Other cash flow from investments	0.7	-0.1	-	-	-0.2	-	-	-
Free Cash Flow (FCF)	4.5	7.3	-2.6	-2.4	2.0	1.5	14.6	90.0
Cash flow from financing activities	-	-	-	-	-3.7	-3.7	-1.1	-
Change in cash	4.5	7.3	-2.6	-2.4	-1.6	-2.1	13.5	90.0

Balance sheet (SEKm)	2015	2016	2017	2018	2019	2020E	2021E	2022E
Goodwill	-	-	-	-	-	-	-	-
Deferred tax asset	-	-	-	-	-	-	-	-
Licences, property, plant & equipment	18.1	15.2	14.5	15.0	23.5	36.3	46.3	53.1
Other intangible assets	0.3	0.3	0.4	0.3	10.0	10.0	10.0	10.0
Non-current Assets	18.3	15.5	14.9	15.4	33.5	46.3	56.3	63.0
Inventory	0.4	0.3	0.6	0.7	0.9	1.0	1.6	2.4
Receivables	18.1	20.6	23.3	22.8	23.4	20.4	33.3	50.2
Other current assets	-	-	-	-	-	-	-	-
Cash and cash equivalents	35.6	42.9	40.3	37.9	36.3	34.2	47.8	137.7
Current Assets	54.2	63.8	64.2	61.5	60.6	55.6	82.6	190.3
Total assets	72.5	79.3	79.1	76.8	94.1	101.9	138.9	253.3
Shareholders equity	57.0	61.4	59.3	58.6	66.1	77.6	115.7	230.1
Non-controlling interests	-	-	-	-	-	-	-	-
Total equity	57.0	61.4	59.3	58.6	66.1	77.6	115.7	230.1
Deferred tax liability	-	-	-	1.0	1.6	1.6	1.6	1.6
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	6.3	2.6	1.6	1.6
Current interest bearing debt	-	-	-	-	-	-	-	-
Trade payables	-	-	-	-	-	-	-	-
Other current liabilities	14.3	16.4	18.6	17.3	21.7	21.7	21.7	21.7
Current liabilities	14.3	16.4	18.6	17.3	21.7	21.7	21.7	21.7
Total liabilities	15.5	17.9	19.7	18.3	28.0	24.3	23.2	23.2
Total liabilities and equity	72.5	79.3	79.1	76.8	94.1	101.9	138.9	253.3
Working capital	18.5	20.9	23.8	23.5	24.3	21.4	34.9	52.6
Net IB debt	-35.6	-42.9	-40.3	-37.9	-36.3	-34.2	-47.8	-137.7
Capital employed	58.2	62.9	60.5	59.5	72.4	80.2	117.3	231.7
Net IB debt / equity	-62%	-70%	-68%	-65%	-55%	-44%	-41%	-60%
Equity / total assets	79%	77%	75%	76%	70%	76%	83%	91%

Share data	2015	2016	2017	2018	2019	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	93.50	93.50	93.50
Market cap (NOKm)	204	383	445	427	805	723	723	723
Enterprise value (NOKm)	169	343	405	392	770	691	678	593
EPS rep. (SEK)	0.69	0.55	-0.22	-0.15	0.96	1.48	4.93	14.79
EPS adj. (SEK)	0.63	0.58	-0.33	-0.02	2.01	1.48	4.93	14.79
DPS. (SEK)	-	-	-	-	-	-	-	-

Valuation	2015	2016	2017	2018	2019	2020E	2021E	2022E
EV/Sales	2.3	4.5	5.1	4.6	8.5	7.3	4.9	2.4
EV/EBITDA	16.0	34.8	>100	87.8	28.8	28.2	11.2	3.8
EV/EBIT (adj)	26.9	63.9	neg	neg	40.5	48.9	14.8	4.3
P/E (adj)	41.7	91.5	neg	neg	54.7	66.7	20.0	6.7
P/B (excl. goodwill)	3.6	6.7	7.6	7.8	12.8	9.8	6.6	3.3

Growth (YoY)	2015	2016	2017	2018	2019	2020E	2021E	2022E
Revenues	12%	13%	-2%	13%	5%	5%	47%	75%
EBITDA	-23%	1%	-85%	199%	489%	-9%	148%	158%
EBIT (adj)	-36%	-8%	nm	nm	nm	-26%	225%	199%
Pre-tax profit (rep)	-1%	-17%	nm	nm	nm	49%	231%	200%
Net profit (rep)	-2%	-20%	nm	nm	nm	54%	234%	200%
EPS (rep)	-2%	-20%	nm	nm	nm	54%	234%	200%
EPS (adj)	-38%	-8%	nm	nm	nm	-26%	234%	200%

Margins	2015	2016	2017	2018	2019	2020E	2021E	2022E
EBITDA	14.6 %	12.9 %	2.0 %	5.3 %	29.6 %	25.9 %	43.7 %	64.3 %
EBIT (adj)	8.7 %	7.0 %	-4.1 %	-0.3 %	21.1 %	14.9 %	33.0 %	56.4 %
Pre-tax profit	9.6 %	7.0 %	-2.5 %	-1.4 %	10.2 %	14.6 %	32.8 %	56.2 %
Net profit	7.4 %	5.2 %	-2.1 %	-1.3 %	7.8 %	11.5 %	26.0 %	44.6 %

Profitability	2015	2016	2017	2018	2019	2020E	2021E	2022E
ROE	9.1 %	7.6 %	-4.2 %	-0.3 %	24.9 %	15.9 %	39.5 %	66.2 %
ROCE	11.4 %	9.5 %	-5.3 %	-0.4 %	30.4 %	19.5 %	49.0 %	82.8 %
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)
25/02/2020	Buy	140.00
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

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/X-Ray segments;
- 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.

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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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