

ContextVision

HOLD

Key share data

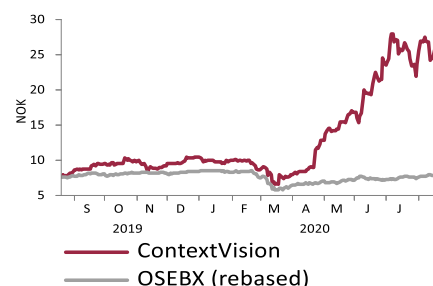
Sector	Health Care
Reuters	COVI.OL
Bloomberg	COV NO

Market Cap (NOKm)	1,928
Net debt (NOKm)	-47
EV (NOKm)	1,881
Net debt /equity	-59%

Issued shares (m) 77.4

* 10:1 share split effective August 19th, 2020

Share price



Performance

	1m	3m	12m
COV	-3%	62%	241%
OSEBX	3%	12%	5%

Upcoming events

3Q20 report	October 22, 2020
4Q20 report	February 18, 2021

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

Analyst

Tomas Skeivys, CFA

+370 676 35 144

tomas.skeivys@norne.no

Focus on long-term

2Q figures from ContextVision came in weaker due to COVID-19. Still, long-term prospects are highly interesting, but share remains rather fairly priced. Our P&L estimates were revised downwards for the coming few quarters and years due to several factors, but long-term case seems intact and we keep our Hold recommendation at a bit higher TP of NOK 26/sh (25 previously adj. for split).

Weaker-than-expected 2Q figures on lower Asian demand due to COVID-19

ContextVision (COV) released its 2Q20 report last week with figures below our expectations. Sales of SEK 20m and EBTIDA of SEK 3.7m were both significantly below our respective estimates of SEK 25m and SEK 7.9m. The company indicated that orders from Asian customers were low in 2Q and particularly within Ultrasound segment, which was a direct impact of COVID-19. Uncertainty ahead of 2Q was naturally high due to the pandemic, but we still expected some offsetting effects related to the fact that COV's software is used in diagnostics equipment for COVID-19. On the positive side, cash flow was very strong and cash position ended at SEK 45m (SEK 47m estimated). After the record-high 1Q, there was an increase in receivables, which were now largely converted into cash.

Focus on new products with INIFY Prostate released and CE marked

The company's first Digital Pathology product was released in June and COV indicates that contracts with several labs are already in place, while additional prospects are in late-phase discussions. The feedback so far is very positive and ambition is for several installations to be completed by the end of the year. Medical Imaging is also moving forward with new products with Rivent (2D ultrasound) released in 2Q. Still, the company admits the pandemic effects and that *business going forward continues to be somewhat unpredictable*.

Estimates cut, but focus on long term; Hold reiterated at NOK 26/sh TP (25)

2Q was a weaker quarter figure-wise for COV, but 1H was still strong due to the record 1Q. We have cut our estimates somewhat and brought CAPEX on intangibles back to P&L short term – capitalization of two projects ended in 2Q and it will take time for other R&D projects to meet capitalization criteria. Still, the COV case is based on long-term expectations of both massive Digital Pathology market growth (USD 20m in 2020 to USD 700m by 2024) and a significant market share reach by COV (5% 2024). After our model adjustments including the 10:1 split, we reiterate Hold at a bit higher TP of NOK 26/sh (25 previously adj. for the split).

Estimate changes (SEKm)	2Q20		3Q20E		2020E		2021E		2022E	
	Act.	Est.	New	Old	New	Old	New	Old	New	Old
Operating revenues	20.1	24.8	23.3	25.6	98.7	108.4	114.9	126.0	240.0	251.8
EBITDA adj.	3.7	7.9	2.8	8.2	23.6	37.5	31.9	45.0	151.5	159.3
EBITDA adj. margin	19%	32%	12%	32%	24%	35%	28%	36%	63%	63%
EBIT (adj)	1.6	5.8	-0.1	5.7	13.3	28.1	18.2	31.0	134.7	140.4
EBIT adj. margin	8%	23%	-1%	22%	14%	26%	16%	25%	56%	56%
Non-recurring items	-	-	-	-	-	-	-	-	-	-
EBIT	1.6	5.8	-0.1	5.7	13.3	28.1	18.2	31.0	134.7	140.4
Pre-tax profit	1.5	5.7	-0.2	5.7	13.1	27.8	17.9	30.7	134.4	140.2
Tax	-0.3	-1.2	0.0	-1.2	-2.9	-6.1	-3.7	-6.3	-27.7	-28.9
Tax rate	20%	21%	21%	21%	23%	22%	21%	21%	21%	21%
Profit after tax	1.2	4.5	-0.2	4.5	10.1	21.7	14.2	24.4	106.7	111.3
Revenue split by segment										
Medical Imaging	20.1	24.8	23.3	25.6	98.5	108.2	103.3	114.4	109.5	119.8
X-ray	5.7	5.4	5.5	5.9	26.5	27.1	27.7	29.1	29.3	30.9
Ultrasound 2D	12.2	14.8	15.1	15.1	59.9	62.6	64.3	66.3	68.2	69.6
Ultrasound 3D	0.6	2.5	0.6	2.4	4.5	10.3	3.6	10.7	4.2	11.0
Magnetic Resonance Imaging	1.3	1.6	1.6	1.6	6.3	6.7	6.4	6.6	6.3	6.6
Others (iRV, CT, Mammo)	0.3	0.5	0.4	0.5	1.3	1.6	1.3	1.6	1.4	1.7
Digital Pathology	-	-	0.0	0.0	0.3	0.3	11.5	11.7	130.5	132.0
Total	20.1	24.8	23.3	25.6	98.7	108.5	114.9	126.0	240.0	251.8

DCF model

SEKm	3Q-4Q 2020E	2021E	2022E	2023E	2024E
Revenues	49	115	240	296	423
EBIT*	-2	17	135	181	299
Tax on EBIT	0	-3	-28	-37	-62
NOPLAT (+)	-1	13	107	143	237
Depreciation & amortization (+)	6	14	17	20	21
Capital expenditure (-)	-1	-11	-19	-22	-24
Change in working capital (- or +)	5	-5	-23	-11	-25
Free Cash Flow to the Firm	9	11	81	130	209
NPV of FCFE	8	9	62	90	130

* Includes office leasing agreements

WACC calculation		Valuation, SEKm		Assumptions	
Debt ratio	0.0%	Net debt	-45	L.t. growth	2.5%
Cost of debt (after tax)	nm	Minority interest	0	Tax rate	20.6%
				SEK/NOK	1.03
Risk free rate	2.0%	NPV cash flow			
Beta	1.5	3Q-4Q 2020-2024E	300	# shares, m*	77.4
Market risk premium	6.0%	2025E-	1,572	10:1 split effective August 19th.	
Cost of equity	11.0%	Total NPV cash flow	1,873		
WACC	11.0%	Equity value	1,918		
		Value per share, SEK	24.79		
		Value per share, NOK	25.53		

Sensitivity analysis

		L.t. growth				
		1.5%	2.0%	2.5%	3.5%	4.0%
WACC	9%	30.4	32.3	34.6	40.3	44.1
	10%	26.3	27.8	29.4	33.5	36.1
	11%	23.1	24.3	25.5	28.6	30.4
	12%	20.6	21.5	22.5	24.8	26.1
	13%	18.5	19.2	20.0	21.8	22.9

Profit & Loss (SEKm)	2015	2016	2017	2018	2019	2020E	2021E	2022E	2023E
Operating revenues	72.2	81.9	80.5	90.9	95.3	98.7	114.9	240.0	296.5
Operating expenses	-61.7	-71.3	-78.9	-86.1	-67.1	-75.1	-83.0	-88.5	-96.0
EBITDA	10.5	10.6	1.6	4.8	28.2	23.6	31.9	151.5	200.5
Depreciation & Amortisation	-4.3	-4.8	-4.9	-5.0	-8.2	-10.2	-13.7	-16.8	-19.8
EBIT (adj)	6.3	5.8	-3.3	-0.2	20.1	13.3	18.2	134.7	180.7
Non-recurring items	0.7	-	1.3	-1.1	-10.0	-	-	-	-
EBIT	7.0	5.8	-2.0	-1.3	10.1	13.3	18.2	134.7	180.7
Net interest & other financial effects	-	-0.0	-0.0	0.0	-0.3	-0.3	-0.3	-0.3	-0.3
Pre-tax profit	7.0	5.8	-2.0	-1.3	9.8	13.1	17.9	134.4	180.3
Minority interests	-	-	-	-	-	-	-	-	-
Taxes	-1.6	-1.5	0.3	0.1	-2.4	-2.9	-3.7	-27.7	-37.2
Profit after tax	5.3	4.3	-1.7	-1.2	7.4	10.1	14.2	106.7	143.2
EPS rep. (SEK)	0.07	0.05	-0.02	-0.02	0.10	0.13	0.18	1.38	1.85
EPS adj. (SEK)	0.06	0.06	-0.03	-0.00	0.20	0.13	0.18	1.38	1.85
Margins									
Operating margin	9%	7%	-4%	0%	21%	14%	16%	56%	61%
ROE	9%	8%	-4%	0%	25%	14%	17%	74%	53%
ROCE	11%	10%	-5%	0%	30%	18%	21%	92%	67%
Tax rate	23%	26%	14%	9%	24%	23%	21%	21%	21%
Growth rates (YoY)									
Operating revenues	12%	13%	-2%	13%	5%	4%	16%	109%	24%
EBIT (adj)	-36%	-8%	nm	nm	nm	-34%	36%	>100%	34%
EPS (adj)	-38%	-8%	nm	nm	nm	-34%	38%	>100%	34%

* Adj. for share split effective August 19th, 2020

Cash flow (SEKm)	2015	2016	2017	2018	2019	2020E	2021E	2022E	2023E
Pre-tax profit	7.0	5.8	-2.0	-1.3	7.9	13.1	17.9	134.4	180.3
Depreciation and amortisation	4.3	6.2	5.0	6.7	18.2	10.2	13.7	16.8	19.8
Unrealized g/l on current investments	0.8	-0.0	-0.2	0.3	0.1	0.7	-	-	-
Paid taxes	-2.0	-3.5	-3.4	0.4	1.8	-2.1	-3.7	-27.7	-37.2
Other	-	-	-	-	-	-	-	-	-
Change in working capital	-0.9	1.1	2.6	-1.0	-3.0	7.5	-5.5	-23.4	-11.3
Operating cash flow (OCF)	9.2	9.5	1.9	5.1	25.1	29.4	22.5	100.1	151.7
Capital expenditures	-5.4	-2.2	-4.5	-7.5	-22.8	-8.8	-10.6	-19.3	-21.9
Other cash flow from investments	0.7	-0.1	-	-	-0.2	-0.2	-	-	-
Free Cash Flow (FCF)	4.5	7.3	-2.6	-2.4	2.0	20.4	11.8	80.8	129.8
Cash flow from financing activities	-	-	-	-	-3.7	-3.4	-1.7	-	-
Change in cash	4.5	7.3	-2.6	-2.4	-1.6	17.0	10.1	80.8	129.8

Balance sheet (SEKm)	2015	2016	2017	2018	2019	2020E	2021E	2022E	2023E
Goodwill	-	-	-	-	-	-	-	-	-
Deferred tax asset	-	-	-	-	-	-	-	-	-
Licences, property, plant & equipment	18.1	15.2	14.5	15.0	23.5	24.0	21.0	23.4	25.5
Other intangible assets	0.3	0.3	0.4	0.3	10.0	8.2	8.2	8.2	8.2
Non-current Assets	18.3	15.5	14.9	15.4	33.5	32.3	29.2	31.7	33.7
Inventory	0.4	0.3	0.6	0.7	0.9	0.9	1.2	2.2	2.7
Receivables	18.1	20.6	23.3	22.8	23.4	19.8	25.0	47.4	58.1
Other current assets	-	-	-	-	-	-	-	-	-
Cash and cash equivalents	35.6	42.9	40.3	37.9	36.3	53.3	63.5	144.2	274.1
Current Assets	54.2	63.8	64.2	61.5	60.6	74.0	89.6	193.8	335.0
Total assets	72.5	79.3	79.1	76.8	94.1	106.3	118.8	225.5	368.7
Shareholders equity	57.0	61.4	59.3	58.6	66.1	77.0	91.1	197.8	341.0
Non-controlling interests	-	-	-	-	-	-	-	-	-
Total equity	57.0	61.4	59.3	58.6	66.1	77.0	91.1	197.8	341.0
Deferred tax liability	-	-	-	1.0	1.6	1.8	1.8	1.8	1.8
Long-term interest bearing debt	-	-	-	-	-	-	-	-	-
Other long-term liabilities	1.2	1.5	1.1	-	4.7	1.3	-0.4	-0.4	-0.4
Non-current liabilities	1.2	1.5	1.1	1.0	6.3	3.1	1.4	1.4	1.4
Current interest bearing debt	-	-	-	-	-	-	-	-	-
Trade payables	-	-	-	-	-	-	-	-	-
Other current liabilities	14.3	16.4	18.6	17.3	21.7	26.3	26.3	26.3	26.3
Current liabilities	14.3	16.4	18.6	17.3	21.7	26.3	26.3	26.3	26.3
Total liabilities	15.5	17.9	19.7	18.3	28.0	29.3	27.7	27.7	27.7
Total liabilities and equity	72.5	79.3	79.1	76.8	94.1	106.3	118.8	225.5	368.7
Working capital	18.5	20.9	23.8	23.5	24.3	20.7	26.2	49.6	60.9
Net IB debt	-35.6	-42.9	-40.3	-37.9	-36.3	-53.3	-63.5	-144.2	-274.1
Capital employed	58.2	62.9	60.5	59.5	72.4	80.0	92.5	199.2	342.4
Net IB debt / equity	-62%	-70%	-68%	-65%	-55%	-69%	-70%	-73%	-80%
Equity / total assets	79%	77%	75%	76%	70%	72%	77%	88%	92%

Share data	2015	2016	2017	2018	2019	2020E	2021E	2022E	2023E
Shares outstanding, year end (mill.)	77.368	77.368	77.368	77.368	77.368	77.368	77.368	77.368	77.368
Share price, year end (NOK)	2.64	4.95	5.75	5.52	10.40	24.92	24.92	24.92	24.92
Market cap (NOKm)	204	383	445	427	805	1,928	1,928	1,928	1,928
Enterprise value (NOKm)	169	343	405	392	770	1,873	1,862	1,779	1,645
EPS rep. (SEK)	0.07	0.05	-0.02	-0.02	0.10	0.13	0.18	1.38	1.85
EPS adj. (SEK)	0.06	0.06	-0.03	-0.00	0.20	0.13	0.18	1.38	1.85
DPS. (SEK)	-	-	-	-	-	-	-	-	-

Valuation	2015	2016	2017	2018	2019	2020E	2021E	2022E	2023E
EV/Sales	2.3	4.5	5.1	4.6	8.5	18.4	15.7	7.2	5.4
EV/EBITDA	16.0	34.8	>100	87.8	28.8	77.1	56.7	11.4	8.0
EV/EBIT (adj)	26.9	63.9	neg	neg	40.5	>100	99.4	12.8	8.8
P/E (adj)	41.7	91.5	neg	neg	54.7	>100	>100	17.5	13.1
P/B (excl. goodwill)	3.6	6.7	7.6	7.8	12.8	24.3	20.5	9.5	5.5

Growth (YoY)	2015	2016	2017	2018	2019	2020E	2021E	2022E	2023E
Revenues	12%	13%	-2%	13%	5%	4%	16%	109%	24%
EBITDA	-23%	1%	-85%	199%	489%	-17%	35%	375%	32%
EBIT (adj)	-36%	-8%	nm	nm	nm	-34%	36%	641%	34%
Pre-tax profit (rep)	-1%	-17%	nm	nm	nm	34%	37%	652%	34%
Net profit (rep)	-2%	-20%	nm	nm	nm	37%	40%	652%	34%
EPS (rep)	-2%	-20%	nm	nm	nm	37%	40%	652%	34%
EPS (adj)	-38%	-8%	nm	nm	nm	-34%	38%	652%	34%

Margins	2015	2016	2017	2018	2019	2020E	2021E	2022E	2023E
EBITDA	14.6 %	12.9 %	2.0 %	5.3 %	29.6 %	23.9 %	27.8 %	63.1 %	67.6 %
EBIT (adj)	8.7 %	7.0 %	-4.1 %	-0.3 %	21.1 %	13.5 %	15.8 %	56.1 %	60.9 %
Pre-tax profit	9.6 %	7.0 %	-2.5 %	-1.4 %	10.2 %	13.2 %	15.6 %	56.0 %	60.8 %
Net profit	7.4 %	5.2 %	-2.1 %	-1.3 %	7.8 %	10.3 %	12.4 %	44.5 %	48.3 %

Profitability	2015	2016	2017	2018	2019	2020E	2021E	2022E	2023E
ROE	9.1 %	7.6 %	-4.2 %	-0.3 %	24.9 %	14.3 %	16.9 %	73.8 %	53.1 %
ROCE	11.4 %	9.5 %	-5.3 %	-0.4 %	30.4 %	17.5 %	21.1 %	92.3 %	66.7 %
Dividend yield	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %

* Adj. for share split effective August 19th, 2020

Recommendation, valuation, risk and sources

Recommendation and target price

Recommendation history for ContextVision during the last 12 months:

Date	Recommendation	Target price (NOK)*
19/08/2020	Hold	26.00
31/07/2020	Hold	25.00
29/04/2020	Hold	13.00
20/04/2020	Buy	12.00
25/02/2020	Buy	14.00
10/02/2020	Buy	15.00
28/10/2019	Buy	15.00
21/10/2019	Buy	15.00
22/08/2019	Buy	10.00
13/08/2019	Buy	9.00

* Adj. for share 10:1 share split effective August 19th, 2020

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 of the existing Medical Imaging business, 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;
- Digital Pathology is a rapidly developing field and relevant market for ContextVision is expected to grow from USD 20m in 2020 to USD 700m by 2024 (company's estimates). Our estimates are based on company achieving certain market share of the Digital Pathology market and failure for the market to develop according to expectations would impact estimates and valuation negatively.
- 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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RECOMMENDATION STRUCTURE

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 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 June 30, 2020:

	Buy	Hold	Sell
Total recommendations	58	28	5
% of total	64%	31%	5%
Corporate clients*	29	9	2
% of corporate clients*	73%	23%	5%

* 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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