

Update: Report Q4 2018

2019-02-15

ChemoTech: Into Africa

- First order and distributor agreement in Africa
- Exploring opportunities to enter veterinary market
- We adjust our fair value range slightly lower

Responsible analyst

Alf Riple, CFA
073-840 4008
alf.riple@vhcorp.se

Stock ticker	CMOTECB
Industry	Medtech
Listed on	Nasdaq First North
Latest stock price (SEK):	15,40
Market cap (MSEK):	51,5
Enterprise Value (MSEK)	45,3
Total number of shares (M):	2,93
- of which free float (M):	2,07

VHCF fair value per share

DCF model 17,00 - 25,70 SEK

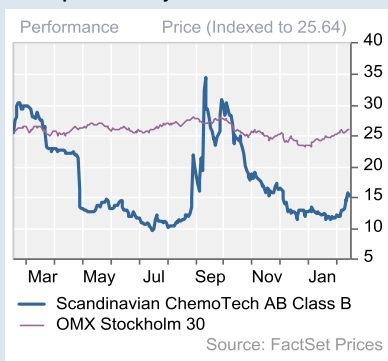
Scandinavian ChemoTech AB

Address Medicon Village
Scheelevägen 2
223 63 Lund
Webpage chemotech.se
CEO Mohan Frick

Main owners (30 Sep 2018)

	Capital (%)
Mohan Frick	18,1
Göran Hellers	11,2
Martin Jerndal	6,5
Elberna Fastigheter	5,1
John Fällström	5,1
Anders Frick	4,2

Stock price history



	-1m	-3m	-12m
Change (%)	22,7	-8,1	-39,9
52 w k range (Hi/Low) - SEK		9,70 / 37,70	

Source: FactSet

In Scandinavian ChemoTech's report for Q4 and full year 2018, which was published yesterday, the company pointed towards interesting new opportunities for its technology. The most exciting item was the suggestion that its equipment for tumour control could find a market in household pets. Another piece of good news this week was the signing of its first distributor agreement in Africa, which came along with a first order from the continent. Thirdly, ChemoTech has been granted a loan conditional upon finding other financing, preferably new equity.

The veterinary market could become an attractive market for ChemoTech. Household pets are prone to develop cancer tumours and their owners are often prepared to spend money on their well-being just like other family members. Many pet owners also buy insurance to cover medical bills for their pets. Even without an insurance, electrochemotherapy may be within range of many household budgets because of its relative inexpensiveness compared with other types of cancer treatment. Because of this, electrochemotherapy is already an established treatment form at veterinary centres in Europe and North America.

ChemoTech quote statistics saying that 12 million new cats and dogs are diagnosed with cancer every year only in the US. Academic sources claim that cancer is the leading cause of death in dogs and that 1 in 3 domestic dogs will develop cancer (Wikipedia). Cancer is therefore one of the main causes of medical spending on pets. The research firm Global Markets Insights estimates the global pet cancer therapeutics market to be worth around USD 150 million at present and foresee an increase to USD 250 million in 2024.

Table 1: Financial Overview

MSEK	2017	2018e	2019e	2020e	2021e
Net sales	0,0	0,6	6,9	21,1	39,5
Grow th (%)	192,7%	1277,4%	1137,2%	205,1%	86,7%
EBITDA	(8,5)	(3,9)	(11,5)	(7,1)	(0,2)
EBITDA margin (%)	neg	neg	neg	neg	neg
Cash holdings	4,6	6,5	13,4	3,8	1,2
Total assets	12,8	22,5	31,0	25,1	26,0
Interest bearing debt	0,6	0,3	5,4	5,4	5,4
Total equity	10,3	20,3	23,8	14,7	12,8
Solidity (%)	80,1%	90,0%	76,7%	58,6%	49,2%
P/E	neg	neg	neg	neg	neg
ROE	neg	neg	neg	neg	neg
EV/EBITDA (x)	neg	neg	neg	neg	neg
EV/Sales (x)	1 267,6	92,0	7,4	2,4	1,3

Source: Västra Hamnen Corporate Finance

Exploring opportunities in the vet market

ChemoTech is currently at the point where it will explore the conditions for entering the veterinary market. One of the issues to be determined is whether its equipment needs any modification or whether veterinaries can use the IQwave™ as it is. Another question to be answered is what, if any, approvals or certifications are needed to start selling for veterinary use. The approval process is usually lighter for veterinary equipment compared with human use but the exact requirements need to be established.

Exciting option but too early to value

We see the veterinary market as a potentially large new market and an attractive opportunity for ChemoTech. However, as the company is still in the early stages of exploring conditions, it is too early to weigh the opportunity into our valuation model.

First entry into Kenya

Earlier this week, ChemoTech reported that it has made its first foray into Africa with the signing of a deal in Kenya. It has long been a stated goal for the company to address Africa as well as Asia. In Kenya, ChemoTech has signed a distributor agreement with Nobbledrug Healthcare Services Ltd, a leading distributor of medical and laboratory equipment and consumables. The distributor has also placed its first order with ChemoTech. Moreover, Nobbledrug has been instrumental in bringing about the first public procurement of equipment for electrochemotherapy, although the timing of this is yet to be determined.

Kenya added to addressable markets in our model

In our model, we have added Kenya to the list of addressable markets which increases our revenue forecasts somewhat in the long run. We are keen to see if this is the first of several deals in Africa, which could add further upside to our model.

Financing on the way

The company reported that it has signed a conditional agreement with a Swedish bank for a loan of SEK 5 million. The condition is that the company raises at least as much capital from other sources, and that such capital has longer maturity and is subordinated to the loan. ChemoTech intends to raise this other capital in the form of a directed new share issue. The company has not disclosed any timing for this capital raise, nor whether it will aim for exactly SEK 5 million or whether it would consider raising more in the same round.

We assume a SEK 5 million share issue

In our model, we have assumed that the company places new shares for a total of SEK 5 million in Q2 this year. It is customary to give a discount to the market price in such a deal. If the issue is priced at a 15 percent discount to the last 3 months' VWAP, the company would issue about 422 000 new shares. We have added this number of shares to the fully diluted shares in our DCF, which all else equal lowers our fair value estimate for the share.

No surprises in the Q4 data

The financial figures released yesterday were roughly in line with our forecasts, see table 2. Revenues were slightly below our estimate, due primarily to us expecting more IQwave™ units to be sold in 2018 which would have driven higher sales of disposable treatment kits. On the operating cost side, our estimates were too high by nearly SEK 1 million, which explains why net profit came in higher than our estimate.

In total, the company received 5 orders for IQwave™ units in 2018, which was 3 less than its goal. This is to some extent mitigated by the 2 orders it has received so far this year, the one included in the Kenya deal and another one from Singapore announced yesterday. Moreover, ChemoTech reports that it is involved in several different processes that could lead to orders, but that the exact timing is difficult to pinpoint. The company sees no reason to modify the goal for 2019 which is to sell 16 units.

Table 2: Estimates vs actual, Q4 2018

kSEK	Q4 '17	Q4 '18e	Q4 '18 actual	Diff
Net Revenues	3	394	125	(269)
Other Revenues	1 268	829	1 081	252
Total Revenues	1 271	1 223	1 206	(17)
Cost of Goods Sold	(0)	(74)	(308)	(235)
Personnel Expenses	(619)	(361)	(328)	33
Other Operating Expenses	(2 405)	(2 409)	(1 519)	890
Total OPEX	(3 024)	(2 843)	(2 155)	688
EBITDA	(1 752)	(1 620)	(949)	671
Amortisation and Depreciation	(202)	(418)	(455)	(37)
EBIT	(1 954)	(2 038)	(1 404)	634
Net Financial Items	4	(10)	77	87
EBT	(1 950)	(2 048)	(1 327)	721
Taxes	-	-	-	-
Net Profit	(1 950)	(2 048)	(1 327)	721
Cash and Equivalents	4 634	6 500	6 532	32
Total Equity	10 287	19 543	20 264	721

Source: Västra Hamnen Corporate Finance

We cut sales estimates for 2019 and 2020

Changes to our forecast model

Given that sales are lagging somewhat behind the schedule we had previously foreseen, we have lowered our sales estimates for 2019 to leave room for upside surprises. With a lower installed base of IQwave™ units, we have also lowered our estimated sales of disposable kits. Compared with our last update, we have reduced our estimate of revenues and net profit in 2019 by SEK 1.6 million and 0.4 million, respectively. We have made follow-on adjustments to our 2020 forecasts that also point downwards. From 2021 onwards, our estimates are somewhat higher than before due primarily to the addition of the Kenyan market.

Table 3: Summary of forecast changes

MSEK	New	Old	Chg
2019e			
Total revenues	7,7	9,3	(1,6)
EBITDA	(11,5)	(11,3)	(0,1)
Net profit	(13,5)	(13,1)	(0,4)
			-
2020e			
Total revenues	21,1	24,4	(3,3)
EBITDA	(7,1)	(6,3)	(0,8)
Net profit	(9,0)	(7,8)	(1,2)
			-
2021e			
Total revenues	39,5	37,8	1,7
EBITDA	(0,2)	(1,5)	1,4
Net profit	(1,9)	(2,9)	0,9

Source: Västra Hamnen Corporate Finance

The combination of lower short-term profits and the dilution from the expected capital raise causes a slight decrease in our fair value range per fully diluted share. **We have consequently lowered our fair value estimate to a range of 17.00 – 25.70 SEK per share** from 18.20 – 26.70 SEK per share previously.

Income Statement - Annual Data

kSEK	2016	2017	2018e	2019e	2020e	2021e	2022e	2023e
Net Revenues	14	41	560	6 929	21 143	39 483	59 255	72 495
Other Revenues	1 727	2 750	3 864	778	1	1	2	2
Total Revenues	1 741	2 791	4 425	7 707	21 144	39 485	59 257	72 497
Cost of Goods Sold	-	-	(489)	(3 850)	(9 139)	(14 827)	(21 663)	(26 213)
Gross Profit	1 741	2 791	3 936	3 858	12 005	24 657	37 594	46 284
Personnel Expenses	(467)	(2 400)	(1 153)	(3 866)	(6 027)	(9 461)	(11 576)	(11 809)
Other Operating Expenses	(4 912)	(8 876)	(6 678)	(9 682)	(11 593)	(13 805)	(15 169)	(16 166)
Development Expenses	-	-	-	(1 765)	(1 448)	(1 568)	(1 655)	(1 680)
EBITDA	(3 638)	(8 486)	(3 896)	(11 455)	(7 064)	(176)	9 193	16 629
Amortisation and Depreciation	(28)	(784)	(1 152)	(1 762)	(1 530)	(1 306)	(1 138)	(1 001)
EBIT	(3 666)	(9 269)	(5 047)	(13 217)	(8 594)	(1 482)	8 055	15 628
Net Financial Items	(54)	(42)	19	(286)	(436)	(436)	(436)	(436)
EBT	(3 720)	(9 311)	(5 028)	(13 503)	(9 030)	(1 917)	7 619	15 192
Taxes	-	-	-	-	-	-	-	-
Net Profit	(3 720)	(9 311)	(5 028)	(13 503)	(9 030)	(1 917)	7 619	15 192
Growth (%)								
Net Revenues	na	192,7%	1277,4%	1137,2%	205,1%	86,7%	50,1%	22,3%
EBITDA	na	na	na	na	na	na	na	80,9%
EBIT	na	na	na	na	na	na	na	94,0%
Net Profit	na	na	na	na	na	na	na	99,4%
% of Revenues (%)								
EBITDA Margin	neg	neg	neg	neg	neg	neg	15,5%	22,9%
EBIT Margin	neg	neg	neg	neg	neg	neg	13,6%	21,6%
EBT Margin	neg	neg	neg	neg	neg	neg	12,9%	21,0%
Profit Margin	neg	neg	neg	neg	neg	neg	12,9%	21,0%
COGS	0,0%	0,0%	11,0%	49,9%	43,2%	37,6%	36,6%	36,2%
Personnel Expenses	26,8%	86,0%	26,1%	50,2%	28,5%	24,0%	19,5%	16,3%
Total OPEX	309,0%	404,1%	177,0%	198,7%	90,2%	62,9%	47,9%	40,9%
Profitability (%)								
ROE	neg	neg	neg	neg	neg	neg	37,3%	42,6%
ROIC	neg	neg	neg	neg	neg	neg	34,6%	68,7%
ROCE	neg	neg	neg	neg	neg	neg	24,6%	29,9%

Source: Västra Hamnen Corporate Finance

Balance Sheet - Annual Data

kSEK	2016	2017	2018e	2019e	2020e	2021e	2022e	2023e
Inventory	54	38	605	1 081	2 859	4 451	6 436	6 614
Account Receivables	-	0	-	1 928	5 101	7 940	11 481	11 798
Receivables from Subsidiaries	-	3	378	378	378	378	378	378
Other Receivables	917	644	489	509	530	551	573	597
Cash and Cash Equivalents	18 532	4 634	6 532	13 396	3 847	1 222	7 572	23 164
Total Current Assets	19 503	5 319	8 004	17 292	12 714	14 542	26 441	42 551
Property, Plant & Equipment	-	129	71	208	404	700	941	1 137
Non-Current Intangible Assets	4 138	6 362	9 388	8 426	6 950	5 748	4 769	3 971
Non-Current Financial Assets	13	1 033	5 053	5 053	5 053	5 053	5 053	5 053
Total Non-Current Assets	4 151	7 524	14 512	13 687	12 407	11 501	10 763	10 162
Total Assets	23 654	12 844	22 516	30 979	25 121	26 043	37 203	52 713
Total Equity	19 724	10 287	20 264	23 761	14 731	12 814	20 433	35 625
Non-Current Debt	750	447	289	5 289	5 289	5 289	5 289	5 289
Total Non-Current Liabilities	750	447	289	5 289	5 289	5 289	5 289	5 289
Accounts Payable	2 625	1 014	-	818	2 164	3 368	4 871	5 005
Current Interest-Bearing Debt	-	158	-	158	158	158	158	158
Other Current Liabilities	556	938	-	1 110	2 937	4 571	6 610	6 793
Total Current Liabilities	3 180	2 109	-	2 086	5 258	8 097	11 638	11 956
Total Equity and Liabilities	23 654	12 844	20 553	31 136	25 279	26 200	37 361	52 870

Source: Västra Hamnen Corporate Finance

Cash Flow Statement - Annual Data

kSEK	2016	2017	2018e	2019e	2020e	2021e	2022e	2023e
Operating Activities	(3 745)	(8 744)	(4 324)	(11 741)	(7 500)	(611)	8 758	16 193
Changes in Working Capital	(1 892)	(943)	(3 761)	(2 459)	(1 799)	(1 613)	(2 007)	(201)
Investing Activities	(2 977)	(4 157)	(8 139)	(937)	(250)	(400)	(400)	(400)
Financing Activities	26 078	(224)	14 905	22 000	-	-	-	-
Cash Flow for the Period	17 465	(14 068)	1 667	6 863	(9 549)	(2 624)	6 350	15 592
Beginning Cash Balance	-	18 532	4 480	6 150	13 013	3 465	840	7 190
Ending Cash Balance	18 532	4 480	6 150	13 013	3 465	840	7 190	22 782

Source: Västra Hamnen Corporate Finance

Income Statement - Quarterly Data

kSEK	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q1 2019e	Q2 2019e	Q3 2019e	Q4 2019e
Net Revenues	206	104	125	125	750	1 034	2 223	2 922
Other Revenues	805	1 056	923	1 081	415	208	104	52
Total Revenues	1 011	1 160	1 048	1 206	1 164	1 242	2 327	2 974
Cost of Goods Sold	(231)	(77)	(103)	(308)	(518)	(602)	(1 225)	(1 505)
Gross Profit	780	1 083	945	898	647	640	1 102	1 469
Personnel Expenses	(222)	(268)	(335)	(328)	(676)	(906)	(1 139)	(1 144)
Other Operating Expenses	(1 867)	(2 135)	(1 158)	(1 519)	(2 304)	(2 419)	(2 443)	(2 516)
Development Expenses	-	-	-	-	(419)	(526)	(476)	(345)
EBITDA	(1 309)	(1 320)	(548)	(949)	(2 752)	(3 211)	(2 955)	(2 536)
Amortisation and Depreciation	(204)	(204)	(288)	(455)	(450)	(449)	(439)	(424)
EBIT	(1 514)	(1 524)	(836)	(1 404)	(3 202)	(3 661)	(3 394)	(2 960)
Net Financial Items	(13)	(31)	(15)	77	(9)	(59)	(109)	(109)
EBT	(1 526)	(1 555)	(851)	(1 327)	(3 211)	(3 720)	(3 503)	(3 069)
Taxes	-	-	-	-	-	-	-	-
Net Profit	(1 526)	(1 555)	(851)	(1 327)	(3 211)	(3 720)	(3 503)	(3 069)
Y-o-Y Growth (%)								
Net Revenues	446,2%	na	na	4105,9%	264,2%	892,5%	1678,8%	2237,3%
EBITDA	na	na	na	na	na	na	na	na
EBIT	na	na	na	na	na	na	na	na
Net Profit	na	na	na	na	na	na	na	na
% of Revenues (%)								
EBITDA Margin	neg	neg	neg	neg	neg	neg	neg	neg
EBIT Margin	neg	neg	neg	neg	neg	neg	neg	neg
EBT Margin	neg	neg	neg	neg	neg	neg	neg	neg
Profit Margin	neg	neg	neg	neg	neg	neg	neg	neg
COGS	22,9%	6,7%	9,9%	25,5%	44,5%	48,4%	52,7%	50,6%
Personnel Expenses	22,0%	23,1%	32,0%	27,2%	58,1%	73,0%	48,9%	38,5%
Total OPEX	206,7%	207,1%	142,5%	153,2%	291,9%	310,2%	174,3%	134,7%
Profitability (%)								
ROE	neg	neg	neg	neg	neg	neg	neg	neg
ROIC	neg	neg	neg	neg	neg	neg	neg	neg
ROCE	neg	neg	neg	neg	neg	neg	neg	neg

Source: Västra Hamnen Corporate Finance

Balance Sheet - Quarterly Data

kSEK	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q1 2019e	Q2 2019e	Q3 2019e	Q4 2019e
Inventory	38	126	342	605	277	383	823	1 081
Account Receivables	-	-	-	-	495	683	1 467	1 928
Receivables from Subsidiaries	-	-	375	378	378	378	378	378
Other Receivables	366	927	147	489	494	499	504	509
Cash and Cash Equivalents	1 528	16 977	10 154	6 532	1 686	8 069	4 406	13 396
Total Current Assets	1 932	18 031	11 018	8 004	3 331	10 011	7 578	17 292
Property, Plant & Equipment	117	105	93	71	97	123	166	208
Non-Current Intangible Assets	6 974	7 873	8 727	9 388	9 356	9 119	8 790	8 426
Non-Current Financial Assets	1 746	2 429	3 441	5 053	5 053	5 053	5 053	5 053
Total Non-Current Assets	8 838	10 408	12 262	14 512	14 507	14 295	14 010	13 687
Total Assets	10 770	28 440	23 280	22 516	17 837	24 306	21 588	30 979
Total Equity	8 992	22 500	21 591	20 264	17 053	18 334	14 831	23 761
Non-Current Debt	408	368	329	289	289	5 289	5 289	5 289
Total Non-Current Liabilities	408	368	329	289	289	5 289	5 289	5 289
Accounts Payable	600	158	471	-	210	290	623	818
Current Interest-Bearing Debt	158	3 202	158	-	158	158	158	158
Other Current Liabilities	615	2 211	836	-	285	393	845	1 110
Total Current Liabilities	1 373	5 571	1 464	-	653	841	1 625	2 086
Total Equity and Liabilities	10 772	28 440	23 384	20 553	17 995	24 463	21 745	31 136

Source: Västra Hamnen Corporate Finance

Cash Flow Statement - Quarterly Data

kSEK	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q1 2019e	Q2 2019e	Q3 2019e	Q4 2019e
Operating Activities	(1 322)	(1 350)	(779)	(872)	(2 761)	(3 270)	(3 064)	(2 645)
Changes in Working Capital	(455)	503	(3 805)	(5)	(1 640)	(110)	(445)	(263)
Investing Activities	(1 517)	(1 775)	(2 142)	(2 705)	(444)	(237)	(154)	(102)
Financing Activities	(39)	18 068	(98)	(40)	-	10 000	-	12 000
Cash Flow for the Period	(3 334)	15 446	(6 823)	(3 622)	(4 846)	6 382	(3 663)	8 990
Beginning Cash Balance	4 634	1 528	16 977	10 154	6 532	1 686	8 069	4 406
Ending Cash Balance	1 528	16 977	10 154	6 532	1 686	8 069	4 406	13 396

Source: Västra Hamnen Corporate Finance

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Västra Hamnen Corporate Finance AB

Jungmansgatan 12
211 11 Malmö
Telefon: +46 40 200 250
E-post: info@vhcorp.se
www.vhcorp.se

