

Update: Report Q1 2019

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ChemoTech: Good order flow, slow sales

- Four IQwave™ units ordered in Q1, a new record
- Sales were disappointing in the quarter
- CE mark awarded in Q3 at the earliest

Responsible analyst

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Stock ticker	CMOTECB
Industry	Medtech
Listed on	Nasdaq First North
Latest stock price (SEK):	13,95
Market cap (MSEK):	47,5
Enterprise Value (MSEK)	40,6
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 Medicin 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 (%)	-28,8	-11,7	10,0
52 w k range (Hi/Low) - SEK		9,70 / 37,70	

Source: FactSet

In the Q1 report last week, Scandinavian ChemoTech summed up its best quarter so far in terms of number of IQwave™ units ordered. Revenues were however surprisingly low compared with recent quarters. Comparing the accounts for Q1 with previous periods is however complicated by the switch to consolidated financial statements, effective from the start of 2019.

In total, ChemoTech received orders for four IQwave™ units in Q1, which compares with five during full-year 2018. The four include one order from Kenya, another one from Singapore and yet another from Vietnam, all announced within one week in February. Finally, in March ChemoTech received its second order from Kenya after winning a public procurement round initiated by its local agent, Nobbledrug.

This brings the accumulated orders so far to nine, which is the exact number we had forecast for the end of Q2 this year. ChemoTech would therefore be on par with our scenario for ordered units even if no new orders are received during the current quarter.

Other parts of the report were somewhat disappointing, however. We were surprised to see net sales of only SEK 20 thousand during the quarter. The new IQwave™ orders will not be delivered until later and their revenues are still forthcoming. But we had expected higher sales of disposable treatment kits. The revenue figures imply either that only a handful of kits were sold, given the target price of EUR 300-600 per kit, or that sales numbers were higher and prices lower. None of these alternatives give reason to cheer.

Table 1: Financial Overview

MSEK	2017	2018	2019e	2020e	2021e
Net sales	0,0	0,6	3,6	19,3	37,2
Growth (%)	192,7%	1277,4%	548,1%	431,8%	93,0%
EBITDA	(8,5)	(3,7)	(11,4)	(9,5)	(2,3)
EBITDA margin (%)	neg	neg	neg	neg	neg
Cash holdings	4,6	6,8	1,4	9,2	3,7
Total assets	12,8	22,8	16,3	26,7	26,5
Interest bearing debt	0,6	0,4	5,4	5,4	5,4
Total equity	10,3	20,5	9,7	17,8	13,5
Solidity (%)	80,1%	89,9%	59,3%	66,6%	50,9%
P/E	neg	neg	neg	neg	neg
ROE	neg	neg	neg	neg	neg
EV/EBITDA (x)	neg	neg	neg	neg	neg
EV/Sales (x)	1 168,2	84,8	13,1	2,5	1,3

Source: Västra Hamnen Corporate Finance

We will treat the numbers with caution given that the company has switched from reporting only the mother company to publishing consolidated financial statements for the group, starting last New Year. The group comprises two subsidiaries, one in Singapore and one in India, in addition to the mother company in Sweden. Sales in previous years therefore refer to sales between the mother company and subsidiaries whereas Q1 sales are from the group to outside customers.

Table 2: Estimates vs actual, Q1 2019

kSEK	Q1 '18	Q1 '19 est	Q1 '19 act	Diff
Net Revenues	206	750	20	(730)
Other Revenues	805	415	1 121	706
Total Revenues	1 011	1 164	1 141	(23)
Cost of Goods Sold	-	(518)	-	518
Personnel Expenses	(222)	(676)	(736)	(60)
Other Operating Expenses	(1 867)	(2 723)	(2 745)	(22)
Total OPEX	(2 089)	(3 917)	(3 481)	436
EBITDA	(1 078)	(2 753)	(2 340)	413
Amortisation and Depreciation	(204)	(450)	(454)	(4)
EBIT	(1 283)	(3 203)	(2 794)	409
Net Financial Items	(13)	(9)	214	223
EBT	(1 295)	(3 212)	(2 580)	632
Taxes	-	-	-	-
Net Profit	(1 295)	(3 212)	(2 580)	632
Cash and Equivalents	1 528	1 686	7 279	5 593
Total Equity	8 992	17 053	18 944	1 891

Source: Västra Hamnen Corporate Finance

CE mark to be expected in Q3 or later

Another item of concern is the process of achieving a CE mark for IQwave 3.0. The process has been going on since 2017 and was hoped to reach its conclusion by now. In the Q1 report, ChemoTech says that it intends to hand in the full technical file to the Notified Body during the month of June. The Notified Body will in turn perform a review before it can issue a Declaration of Conformity which is the final requirement for affixing a CE mark to the product. The way the process is going, a CE mark in Q3 is probably the best that ChemoTech can hope for.

The CE process is essential for ChemoTech's finances. Several of the orders already announced are conditional upon the CE mark. The equipment can neither be delivered nor paid for until the CE mark has been awarded. This in turn means that sales of disposable treatment kits to those IQwave™ units will remain zero until the CE registration is finished. For this reason, we have shaved a couple of million SEK off our sales estimates for both 2019 and 2020. However, the changes are too small to affect our valuation noticeably.

SEK 11 million in new financing secured

When it comes to financing, ChemoTech managed to secure SEK 11 million during Q1. It made a directed share issue of 480 000 new shares, bringing in SEK 6 million in new equity, and thereby put in place conditions for a SEK 5 million bank loan. Of the 11 million total, SEK 4.5 million was added to the cash balance in Q1 while the rest falls due in Q2. This makes a marked improvement to the liquidity situation in the short term. If costs moreover decrease as the CE process draws to an end, which the company expects, the cash reserve could last until early next year. Our model however points toward further financing needs and we are prepared to see another capital acquisition in the order of SEK 15-20 million around the turn of the year 2019/2020.

Our indicated fair valuation range for the share stays unchanged at 17.00 – 25.70 SEK per share for the time being.

Income Statement - Annual Data

kSEK	2016	2017	2018	2019e	2020e	2021e	2022e	2023e
Net Revenues	14	41	560	3 630	19 303	37 246	59 999	72 495
Other Revenues	1 727	2 750	3 864	2 500	539	26	27	29
Total Revenues	1 741	2 791	4 425	6 130	19 842	37 272	60 026	72 524
Cost of Goods Sold	-	-	(258)	(2 357)	(9 304)	(14 044)	(22 176)	(26 213)
Gross Profit	1 741	2 791	4 167	3 773	10 539	23 228	37 851	46 311
Personnel Expenses	(467)	(2 400)	(1 153)	(3 925)	(6 027)	(9 461)	(11 576)	(11 809)
Other Operating Expenses	(4 912)	(8 876)	(6 678)	(10 081)	(12 392)	(14 227)	(16 083)	(17 184)
Development Expenses	-	-	-	(1 151)	(1 660)	(1 797)	(1 897)	(1 925)
EBITDA	(3 638)	(8 486)	(3 665)	(11 384)	(9 540)	(2 256)	8 295	15 392
Amortisation and Depreciation	(28)	(784)	(1 152)	(1 924)	(1 888)	(1 629)	(1 401)	(1 216)
EBIT	(3 666)	(9 269)	(4 816)	(13 308)	(11 428)	(3 886)	6 893	14 176
Net Financial Items	(54)	(42)	19	(60)	(433)	(433)	(433)	(433)
EBT	(3 720)	(9 311)	(4 797)	(13 368)	(11 861)	(4 318)	6 461	13 744
Taxes	-	-	-	(20)	-	-	-	-
Net Profit	(3 720)	(9 311)	(4 797)	(13 388)	(11 861)	(4 318)	6 461	13 744
Earnings per share (SEK)	(3,50)	(6,40)	(2,62)	(4,06)	(2,73)	(0,99)	1,49	3,17
Growth (%)								
Net Revenues	na	192,7%	1277,4%	548,1%	431,8%	93,0%	61,1%	20,8%
EBITDA	na	na	na	na	na	na	na	85,6%
EBIT	na	na	na	na	na	na	na	105,7%
Net Profit	na	na	na	na	na	na	na	112,7%
% of Revenues (%)								
EBITDA Margin	neg	neg	neg	neg	neg	neg	13,8%	21,2%
EBIT Margin	neg	neg	neg	neg	neg	neg	11,5%	19,5%
EBT Margin	neg	neg	neg	neg	neg	neg	10,8%	19,0%
Profit Margin	neg	neg	neg	neg	neg	neg	10,8%	19,0%
COGS	0,0%	0,0%	5,8%	38,4%	46,9%	37,7%	36,9%	36,1%
Personnel Expenses	26,8%	86,0%	26,1%	64,0%	30,4%	25,4%	19,3%	16,3%
Total OPEX	309,0%	404,1%	177,0%	247,3%	101,2%	68,4%	49,2%	42,6%
Profitability (%)								
ROE	neg	neg	neg	neg	neg	neg	32,4%	40,8%
ROIC	neg	neg	neg	neg	neg	neg	32,7%	69,3%
ROCE	neg	neg	neg	neg	neg	neg	21,6%	28,6%

Source: Västra Hamnen Corporate Finance

Balance Sheet - Annual Data

kSEK	2016	2017	2018	2019e	2020e	2021e	2022e	2023e
Inventory	54	38	605	684	1 981	4 260	6 436	6 614
Account Receivables	-	0	-	1 220	3 534	7 600	11 481	11 798
Receivables from Subsidiaries	-	3	378	-	-	-	-	-
Other Receivables	917	644	550	2 780	2 893	3 010	3 132	3 259
Cash and Cash Equivalents	18 532	4 634	6 763	1 357	9 210	3 724	8 889	23 143
Total Current Assets	19 503	5 319	8 296	6 041	17 617	18 595	29 938	44 815
Property, Plant & Equipment	-	129	71	182	383	683	927	1 126
Non-Current Intangible Assets	4 138	6 362	9 388	10 062	8 738	7 209	5 963	4 948
Non-Current Financial Assets	13	1 033	5 053	-	-	-	-	-
Total Non-Current Assets	4 151	7 524	14 512	10 245	9 121	7 891	6 890	6 074
Total Assets	23 654	12 844	22 808	16 286	26 738	26 486	36 828	50 889
Total Equity	19 724	10 287	20 495	9 656	17 795	13 477	19 938	33 682
Non-Current Debt	750	447	289	5 000	5 000	5 000	5 000	5 000
Total Non-Current Liabilities	750	447	289	5 000	5 000	5 000	5 000	5 000
Accounts Payable	2 625	1 014	1 207	518	1 499	3 224	4 871	5 005
Current Interest-Bearing Debt	-	158	158	408	408	408	408	408
Other Current Liabilities	556	938	659	703	2 035	4 376	6 610	6 793
Total Current Liabilities	3 180	2 109	2 024	1 628	3 942	8 008	11 889	12 206
Total Equity and Liabilities	23 654	12 844	22 808	16 284	26 737	26 485	36 826	50 888

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)	(3 862)	(11 464)	(9 973)	(2 689)	7 862	14 959
Changes in Working Capital	(1 892)	(943)	(3 761)	(3 955)	(1 410)	(2 397)	(2 298)	(305)
Investing Activities	(2 977)	(4 157)	(8 139)	(2 632)	(764)	(400)	(400)	(400)
Financing Activities	26 078	(224)	14 905	10 962	20 000	-	-	-
Cash Flow for the Period	17 465	(14 068)	2 129	(6 313)	7 853	(5 486)	5 164	14 254
Beginning Cash Balance	-	18 532	4 634	6 763	1 357	9 210	3 724	8 889
Ending Cash Balance	18 532	4 634	6 763	1 357	9 210	3 724	8 889	23 143

Source: Västra Hamnen Corporate Finance

Income Statement - Quarterly Data

kSEK	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q1 2019	Q2 2019e	Q3 2019e	Q4 2019e
Net Revenues	206	104	125	125	20	800	961	1 849
Other Revenues	805	1 056	923	1 081	1 121	564	452	363
Total Revenues	1 011	1 160	1 048	1 206	1 141	1 364	1 413	2 212
Cost of Goods Sold	-	(77)	(103)	(77)	-	(541)	(616)	(1 199)
Gross Profit	1 011	1 083	945	1 129	1 141	822	797	1 013
Personnel Expenses	(222)	(268)	(335)	(328)	(736)	(906)	(1 139)	(1 144)
Other Operating Expenses	(1 867)	(2 135)	(1 158)	(1 519)	(2 745)	(2 405)	(2 429)	(2 502)
Development Expenses	-	-	-	-	-	(355)	(401)	(395)
EBITDA	(1 078)	(1 320)	(548)	(718)	(2 340)	(2 844)	(3 172)	(3 028)
Amortisation and Depreciation	(204)	(204)	(288)	(455)	(454)	(487)	(492)	(492)
EBIT	(1 283)	(1 524)	(836)	(1 173)	(2 794)	(3 330)	(3 664)	(3 519)
Net Financial Items	(13)	(31)	(15)	77	214	(58)	(108)	(108)
EBT	(1 295)	(1 555)	(851)	(1 096)	(2 580)	(3 388)	(3 772)	(3 628)
Taxes	-	-	-	-	(20)	-	-	-
Net Profit	(1 295)	(1 555)	(851)	(1 096)	(2 600)	(3 388)	(3 772)	(3 628)
Earnings per share (SEK)	(0,89)	(1,06)	(0,29)	(0,37)	(0,89)	(1,00)	(1,11)	(1,07)
Y-o-Y Growth (%)								
Net Revenues	446,2%	na	na	4105,9%	(90,3%)	667,8%	668,6%	1379,2%
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	0,0%	6,7%	9,9%	6,4%	0,0%	39,7%	43,6%	54,2%
Personnel Expenses	22,0%	23,1%	32,0%	27,2%	64,5%	66,5%	80,6%	51,7%
Total OPEX	206,7%	207,1%	142,5%	153,2%	305,1%	268,8%	280,9%	182,7%
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 2019	Q2 2019e	Q3 2019e	Q4 2019e
Inventory	38	126	342	605	650	296	355	684
Account Receivables	-	-	-	-	-	528	634	1 220
Receivables from Subsidiaries	-	-	375	378	-	-	-	-
Other Receivables	366	927	251	550	2 698	2 725	2 752	2 780
Cash and Cash Equivalents	1 528	16 977	10 154	6 763	7 279	9 119	5 256	1 357
Total Current Assets	1 932	18 031	11 123	8 296	10 627	12 668	8 997	6 041
Property, Plant & Equipment	117	105	93	71	67	94	139	182
Non-Current Intangible Assets	6 974	7 873	8 727	9 388	10 157	10 231	10 190	10 062
Non-Current Financial Assets	1 746	2 429	3 441	5 053	-	-	-	-
Total Non-Current Assets	8 838	10 408	12 262	14 512	10 224	10 325	10 330	10 245
Total Assets	10 770	28 440	23 384	22 808	20 851	22 993	19 327	16 286
Total Equity	8 992	22 500	21 591	20 495	18 944	17 056	13 284	9 656
Non-Current Debt	408	368	329	289	-	5 000	5 000	5 000
Total Non-Current Liabilities	408	368	329	289	-	5 000	5 000	5 000
Accounts Payable	600	158	471	1 207	1 498	224	269	518
Current Interest-Bearing Debt	158	3 202	158	158	408	408	408	408
Other Current Liabilities	615	2 211	836	659	-	304	365	703
Total Current Liabilities	1 373	5 571	1 464	2 024	1 906	936	1 042	1 628
Total Equity and Liabilities	10 772	28 440	23 384	22 808	20 850	22 992	19 326	16 284

Source: Västra Hamnen Corporate Finance

Cash Flow Statement - Quarterly Data

kSEK	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q1 2019	Q2 2019e	Q3 2019e	Q4 2019e
Operating Activities	(1 091)	(1 350)	(779)	(641)	(2 146)	(2 902)	(3 280)	(3 136)
Changes in Working Capital	(455)	503	(3 805)	(5)	(1 565)	(1 171)	(87)	(356)
Investing Activities	(1 517)	(1 775)	(2 142)	(2 705)	(1 142)	(588)	(496)	(407)
Financing Activities	(39)	18 068	(98)	(40)	4 462	6 500	-	-
Cash Flow for the Period	(3 103)	15 446	(6 823)	(3 391)	(391)	1 840	(3 863)	(3 899)
Beginning Cash Balance	4 634	1 528	16 977	10 154	7 563	7 279	9 119	5 256
Ending Cash Balance	1 528	16 977	10 154	6 763	7 279	9 119	5 256	1 357

Source: Västra Hamnen Corporate Finance

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