

Update: Report Q4 2020

2021-03-01

Magle Chemoswed: Beats our estimates

- Adjusted for lumpy royalties, the company shows strong growth
- New development customers and promising pipeline
- We keep our valuation interval SEK 42.70 – 57.30 per share

Analysts

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

Jens Jacob Aabel Nordkvist
073-422 5876
jensjacob.aabelnordkvist@vhcorp.se

Stock ticker: **MAGLE**
Industry: **Healthcare**
Listed on: **First North Stockholm**
Latest stock price (SEK): **38,05**
Market cap (MSEK): **422,4**
Enterprise Value (MSEK): **441,1**
Total number of shares (M): **10,80**
- of which free float (M): **1,73**

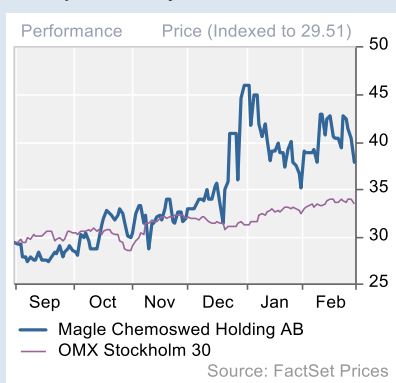
VHCF fair value per share
DCF model **SEK 42.70 - 57.30**

Magle Chemoswed Holding AB
Address: **Agneslundsvägen 27**
212 15, Malmö
Webpage: **maglechemoswed.com**
CEO: **Justin Pierce**

Main owners (23 Sept 2020)

	Capital (%)
Magle AB (H.H. Lidgard)	74,0%
Fosielund Holding AB	10,0%
Others	16,0%

Stock price history



	-1m	-3m	-12m
Change (%)	0,0	16,2	na
52 w k range (Low /H) - SEK	19,28 - 49,00		

Source: FactSet

Magle Chemoswed ended 2020 on a strong note, comfortably beating our Q4 financial forecasts released less than a month ago. Thursday's full year report documented a healthy underlying revenue growth that was somewhat obscured by the unpredictable swings in royalty payments. Growth in the CDMO business was markedly slanted towards development more than to manufacturing. This is a promising sign as new customers in development services tend to stay with the company for years. We retain our recently determined valuation interval for now, but chances are that our next revision will be upwards.

The company reported Net sales of SEK 35.9 million in Q4, which was 26 percent lower than the corresponding figure in Q4 2019. The decline was however entirely caused by an expected drop in royalty revenues. The reason is that royalties for the year 2019 were almost completely concentrated to the last quarter of that year. In contrast, royalties for 2020 were spread more evenly over the year, cf. Figure 1 (next page). Ignoring royalties altogether shows that the CDMO business (manufacturing and development) grew by 23 percent in Q4 2020 compared with the previous year. As an annual total, royalties also grew between 2019 and 2020 at a rate of almost 6 percent.

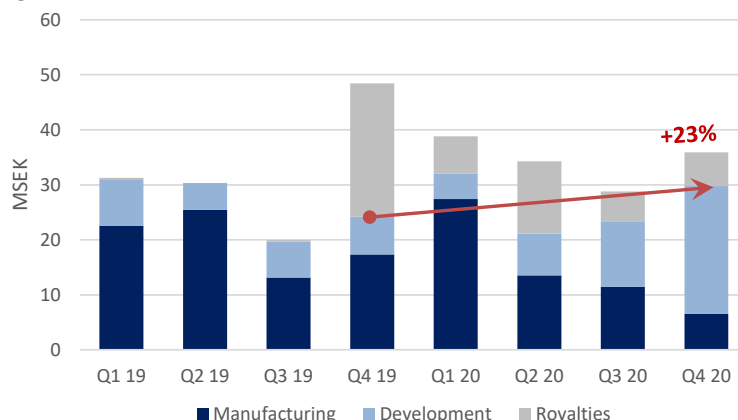
Manufacturing recorded a 62 percent drop in Q4 revenues compared with the year before, largely due to unusually high revenues in Q4 2019 related to the completion of an order for clinical trial materials. In addition, manufacturing faced challenges such as currency fluctuations and increased cost of raw materials. Development revenues in contrast shot up by 239 percent through a combination of new customer projects and the acquisition of Adroit AB at the close of 2019. As for the pipeline projects, Magle Chemoswed reports that they progressed in line with the company's goals.

Table 1: Financial Overview

MSEK	2019	2020	2021e	2022e	2023e
Net turnover	127,6	137,7	156,5	198,7	235,6
Growth (%)	20,4%	8,0%	13,6%	27,0%	18,6%
Gross margin (%)	78,4%	77,9%	79,4%	81,1%	82,0%
EBIT	0,1	4,5	11,0	39,9	66,5
EBIT margin (%)	0,1%	3,1%	6,6%	19,1%	27,0%
Cash holdings	3,3	6,1	31,8	62,1	122,4
Total assets	212,3	198,1	229,7	263,5	324,5
Total equity	113,7	116,1	145,1	176,2	236,0
Solidity (%)	53,5%	58,6%	63,1%	66,9%	72,7%
P/E	565,4	232,2	47,3	13,6	8,1
ROE	0,7%	1,6%	6,2%	17,7%	22,2%
EV/EBIT (x)	3 243,7	97,5	40,2	11,1	6,6
EV/Sales (x)	3,5	3,2	2,8	2,2	1,9

Source: Västra Hamnen Corporate Finance

Figure 1: Business areas



Source: Västra Hamnen Corporate Finance

Solid beat thanks to higher revenues

Compared to our forecasts, Magle Chemoswed beat our estimates on almost all counts, cf. Table 2 below. Net revenues came in SEK 5.9 million higher than our forecast. On Total revenues we were off by only SEK 4.1 million, the difference being that we had expected a higher outcome for Other revenues. Despite price increases for some raw materials and the higher sales volumes, COGS were almost in line with our expectations, implicating a gross margin of 78 percent as opposed to our forecast of 76 percent. Operating expenses were somewhat higher than our projection, largely because Personnel expenses came in SEK 2.8 million higher than we expected. Taken together, EBITDA beat our forecast by SEK 2.3 million. Amortisation and Depreciation also came in better than expected at SEK 2.7 million below our estimate, which explains why Pre-tax profit beat our forecast by a full SEK 4.1 million.

Table 2: Estimates vs actual, Q4 2020

kSEK	Q4 '19	Q4 '20est	Q4 '20act	Diff
Net Revenues	48 464	29 970	35 914	5 944
Other Revenues	4 594	2 365	492	(1 873)
Total Revenues	53 058	32 335	36 406	4 071
Cost of Goods Sold	(5 272)	(7 203)	(7 896)	(693)
Gross Profit	47 786	25 132	28 510	3 378
Personnel Expenses	(15 726)	(13 789)	(16 577)	(2 788)
Other Operating Expenses	(15 618)	(10 730)	(9 068)	1 662
Total OPEX	(31 344)	(24 519)	(25 645)	(1 126)
EBITDA	16 442	613	2 865	2 252
Amortisation and Depreciation	(5 857)	(5 397)	(2 668)	2 729
EBIT	10 585	(4 784)	196	4 979
Net Financial Items	1 595	(134)	(1 005)	(871)
EBT	12 180	(4 919)	(809)	4 110
Tax	(3 536)	1 013	118	(895)
Net Profit	8 644	(3 906)	(691)	3 215
Cash and Equivalents	3 294	17 303	6 121	(11 182)
Total Equity	113 659	111 934	116 121	4 187

Source: Västra Hamnen Corporate Finance

Cash balance affected by working capital and repayments

The company's cash holdings at the end of 2020 stood at SEK 6.1 million, which was SEK 11.2 million below our forecast. This is explained in equal parts by higher working capital investments and higher loan repayments compared to our estimates. The liquidity reserve appears rather low for a company of Magle Chemoswed's size. However, one should keep in mind that the company completed a rights issue of SEK 20 million just after of New Year. The proceeds from the rights issue will be spent in full on the acquisition of PharmaCept, but we expect the net cash flow from all other items to add around SEK 9 million to cash balances during the current quarter.

As alluded to earlier, one of the consequences of the pandemic was the fluctuation in price of raw materials that the company experienced. During our [web conference](#) with Magle

Chemoswed's CEO Justin Pierce and CFO Petra Jönsson Sjölin, the former discussed different actions that have been taken to minimize their impact. Discussions with suppliers have led to the company having contractually secured future delivery of their raw materials, albeit at higher prices. This will avert raw material shortages and make sure that future projects can be completed as planned.

Development customers tend to stay loyal

Looking further ahead, the Q4 report supports our expectations regarding the company's future growth. The increase in development sales has not only had a positive impact for Q4 2020 but will also prove beneficial in the coming years. The majority of new projects within development are at an early stage, hence, the customers can be expected to stay with Magle Chemoswed for several years. It is also positive that the higher workload within development does not imply less capacity in manufacturing; investments made in 2018 and 2019 mean that the two business areas can handle high workloads simultaneously.

SmartPan and SmartGel speeding towards markets

The company's technology products and near-term pipeline are also showing signs of promise. EmboCept S is marketed across Europe, Singapore as well as Israel, and the plan is to grow its market by expanding into new territories. SmartPan and SmartGel were, as we wrote in our [initial research report](#), approved for sale in Europe (CE marked) earlier this year. The next step is to discuss reimbursement codes within a variety of European countries in order to secure support from healthcare financing authorities. During last week's web conference, CEO Justin Pierce also expressed confidence that the products will receive a warm welcome among medical professionals, who already show eagerness to start using these products.

EmboCept M and L: Filing for approval before mid-year

Progress is also being made within other products in the near-term pipeline. The plan for EmboCept L is to file for approval during Q2 2021 while EmboCept M is due to be filed shortly thereafter, probably before the end of Q2. Some of the regulatory and clinical data collected through EmboCept S' filing will support the registration process for both products, which could contribute to a faster and easier approval process than usual.

Magle Chemoswed will use the distribution network of acquired PharmaCept in order to sell all five proprietary products along with PlatiCept within Europe. In order to achieve this, one or two salespeople will be recruited within this calendar year, assuming that the pandemic subsides. With EmboCept S already on the market, SmartPan and SmartGel having been CE marked, and EmboCept L and EmboCept M progressing towards approval, Magle Chemoswed will most likely meet their objective of having five internally produced proprietary products on the market before the end of 2022.

Our next valuation change likely to be upwards

In our valuation model, we have so far only included the prospective income from two of the products in the pipeline, SmartPan and SmartGel. We have also been fairly conservative in our growth assumptions for the CDMO business. Given the strong outcome in Q4 2020 and EmboCept M and EmboCept L yet to be added to our valuation, we have a bias to the upside with our next valuation revision. But for now, we choose to hold our valuation unchanged while we await further evidence. **Hence, we maintain our valuation interval of SEK 42.70 – 57.30 per share.**

Income Statement - Annual Data

kSEK	2019	2020	2021e	2022e	2023e	2024e	2025e	2026e
Net sales	127 569	137 749	156 491	198 710	235 597	263 707	289 870	309 997
Capitalized development cost	4 214	-	-	-	-	-	-	-
Other revenues	7 706	8 502	9 343	9 810	10 301	10 816	11 357	11 924
Total revenues	139 489	146 251	165 835	208 521	245 898	274 523	301 226	321 921
Cost of goods sold	(27 576)	(30 395)	(32 294)	(37 515)	(42 520)	(47 321)	(51 859)	(55 522)
Gross profit	111 913	115 856	133 541	171 005	203 377	227 202	249 368	266 400
Other external expenses	(38 416)	(40 801)	(47 624)	(52 376)	(56 021)	(58 567)	(60 801)	(62 450)
Personnel costs	(57 345)	(58 859)	(60 454)	(64 598)	(67 537)	(70 610)	(73 823)	(77 182)
Other operating expenses	(2 759)	(3)	-	-	-	-	-	-
EBITDA	13 393	16 193	25 462	54 031	79 819	98 025	114 743	126 768
Amortisation & depreciation	(13 257)	(11 667)	(14 493)	(14 139)	(13 355)	(12 646)	(12 006)	(11 428)
EBIT	136	4 526	10 969	39 893	66 464	85 379	102 737	115 340
Net financial items	927	(2 093)	(684)	(654)	(574)	(494)	(414)	(334)
EBT	1 063	2 433	10 285	39 239	65 890	84 885	102 323	115 006
Taxes	(316)	(614)	(1 350)	(8 083)	(13 573)	(17 486)	(21 079)	(23 691)
Net profit	747	1 819	8 935	31 156	52 317	67 399	81 245	91 315
Earnings per share (SEK)	-	0,14	0,83	2,88	4,81	6,07	7,32	8,23
Growth (%)								
Net turnover	20,4%	8,0%	13,6%	27,0%	18,6%	11,9%	9,9%	6,9%
EBITDA	284,3%	20,9%	57,2%	112,2%	47,7%	22,8%	17,1%	10,5%
EBIT	na	3227,6%	142,4%	263,7%	66,6%	28,5%	20,3%	12,3%
Net profit	na	143,4%	391,3%	248,7%	67,9%	28,8%	20,5%	12,4%
% of revenues (%)								
Gross margin	78,4%	77,9%	79,4%	81,1%	82,0%	82,1%	82,1%	82,1%
EBITDA margin	9,6%	11,1%	15,4%	25,9%	32,5%	35,7%	38,1%	39,4%
EBIT margin	0,1%	3,1%	6,6%	19,1%	27,0%	31,1%	34,1%	35,8%
EBT margin	0,8%	1,7%	6,2%	18,8%	26,8%	30,9%	34,0%	35,7%
Profit margin	0,5%	1,2%	5,4%	14,9%	21,3%	24,6%	27,0%	28,4%
Personnel costs	45,0%	42,7%	38,6%	32,5%	28,7%	26,8%	25,5%	24,9%
Total OPEX	77,2%	72,4%	69,1%	58,9%	52,4%	49,0%	46,4%	45,0%
Profitability (%)								
ROE	0,7%	1,6%	6,2%	17,7%	22,2%	22,2%	21,1%	19,2%
ROIC	0,1%	2,0%	4,6%	16,6%	27,8%	35,6%	42,9%	48,5%
ROCE	0,1%	2,4%	4,9%	15,3%	20,0%	20,8%	20,2%	18,6%

Source: Västra Hamnen Corporate Finance

Balance Sheet - Annual Data

kSEK	2019	2020	2021e	2022e	2023e	2024e	2025e	2026e
Cash and cash eq	3 294	6 121	31 791	62 105	122 353	189 443	270 254	361 490
Inventory	27 243	18 348	18 884	21 677	24 278	26 927	29 238	30 919
Trade payables	18 424	26 271	21 448	26 903	30 338	33 823	36 776	38 758
Other payables	8 838	14 271	13 048	16 366	18 456	20 575	22 372	23 578
Prepayments and accrued income	19 677	-	-	-	-	-	-	-
Derivative instruments	-	-	-	-	-	-	-	-
Total current assets	77 476	65 011	85 171	127 052	195 424	270 767	358 641	454 745
Tangible assets	102 090	104 029	109 057	104 332	100 063	96 204	92 717	89 566
Intangible assets	27 998	28 966	35 445	32 031	28 946	26 158	23 639	21 362
Financial assets	4 714	56	56	56	56	56	56	56
Total fixed assets	134 802	133 051	144 558	136 419	129 065	122 418	116 412	110 984
Total assets	212 278	198 062	229 729	263 471	324 489	393 185	475 053	565 729
Short-term debt	10 365	12 723	12 723	12 723	12 723	12 723	12 723	12 723
Trade payables	17 190	12 365	9 442	10 839	12 139	13 463	14 619	15 459
Liabilities to Group companies	16 000	-	-	-	-	-	-	-
Other short-term debt	16 682	22 671	28 327	32 516	36 417	40 390	43 857	46 378
Accrued expenses and prepaid income	25 583	-	-	-	-	-	-	-
Total current liabilities	85 820	47 759	50 492	56 078	61 278	66 576	71 199	74 560
Long-term liabilities	12 799	34 183	34 183	31 183	27 183	23 183	19 183	15 183
Total equity	113 659	116 121	145 056	176 212	236 029	303 428	384 673	475 988
Total equity and liabilities	212 278	198 063	229 731	263 473	324 490	393 187	475 054	565 731

Source: Västra Hamnen Corporate Finance

Cash flow statement

kSEK	2019	2020	2021e	2022e	2023e	2024e	2025e	2026e
Operating activities	14 606	16 180	23 428	45 294	65 672	80 045	93 251	102 743
Changes in working capital	(21 691)	(1 720)	8 243	(5 980)	(2 924)	(2 955)	(2 439)	(1 507)
Investing activities	(66 600)	(7 350)	(26 000)	(6 000)	(6 000)	(6 000)	(6 000)	(6 000)
Financing activities	-	4 951	20 000	(3 000)	3 500	(4 000)	(4 000)	(4 000)
Cash flow for the period	1 053	2 826	25 671	30 314	60 248	67 090	80 812	91 236
Beginning cash balance	2 241	3 294	6 121	31 791	62 105	122 353	189 443	270 254
Adjustments	-	1	-	-	-	-	-	-
Ending cash balance	3 294	6 121	31 791	62 105	122 353	189 443	270 254	361 490

Source: Västra Hamnen Corporate Finance

Income Statement - Quarterly Data

kSEK	Q2 2020	Q3 2020	Q4 2020	Q1 2021e	Q2 2021e	Q3 2021e	Q4 2021e	Q1 2022e
Net sales	34 263	28 779	35 914	31 526	39 861	41 612	43 492	45 527
Capitalized development cost	-	-	-	-	-	-	-	-
Other revenues	2 642	2 799	492	2 293	2 321	2 350	2 379	2 408
Total revenues	36 905	31 578	36 406	33 819	42 183	43 962	45 871	47 935
Cost of goods sold	(3 208)	(5 664)	(7 896)	(7 280)	(8 062)	(8 336)	(8 616)	(8 902)
Gross profit	33 697	25 914	28 510	26 540	34 120	35 625	37 255	39 033
Other external expenses	(13 320)	(10 117)	(9 068)	(10 940)	(12 022)	(12 225)	(12 437)	(12 661)
Personnel costs	(13 683)	(12 015)	(16 577)	(13 857)	(15 360)	(15 532)	(15 705)	(15 881)
Other operating expenses	-	(3)	-	-	-	-	-	-
EBITDA	6 694	3 779	2 865	1 742	6 738	7 869	9 112	10 490
Amortisation & depreciation	(3 645)	(2 686)	(2 668)	(3 325)	(3 779)	(3 722)	(3 667)	(3 613)
EBIT	3 049	1 093	197	(1 582)	2 959	4 147	5 445	6 878
Net financial items	126	(1 565)	(1 005)	(171)	(171)	(171)	(171)	(171)
EBT	3 175	(472)	(808)	(1 753)	2 788	3 976	5 275	6 707
Taxes	(692)	88	118	361	(574)	(50)	(1 087)	(1 382)
Net profit	2 483	(384)	(690)	(1 392)	2 214	3 925	4 188	5 325
Earnings per share (SEK)	0,25	(0,04)	(0,07)	(0,13)	0,20	0,36	0,39	0,49
Y-o-Y Growth (%)								
Net turnover	7,4%	(9,8%)	12,6%	(18,7%)	16,3%	44,6%	21,1%	44,4%
EBITDA	99,9%	12,9%	(14,4%)	(39,0%)	0,7%	108,2%	218,1%	502,1%
EBIT	8867,6%	3120,6%	476,8%	na	(2,9%)	278,7%	2676,9%	na
Net profit	1229,6%	na	na	na	(10,8%)	na	na	na
% of revenues (%)								
Gross margin	90,6%	80,3%	78,0%	76,9%	79,8%	80,0%	80,2%	80,4%
EBITDA margin	18,1%	12,0%	7,9%	5,2%	16,0%	17,9%	19,9%	21,9%
EBIT margin	8,3%	3,5%	0,5%	neg	7,0%	9,4%	11,9%	14,3%
EBT margin	8,6%	neg	neg	neg	6,6%	9,0%	11,5%	14,0%
Profit margin	6,7%	neg	neg	neg	5,2%	8,9%	9,1%	11,1%
Personnel costs	39,9%	41,7%	46,2%	44,0%	38,5%	37,3%	36,1%	34,9%
Total OPEX	78,8%	76,9%	71,4%	78,7%	68,7%	66,7%	64,7%	62,7%
Profitability (%)								
ROE	2,1%	neg	neg	neg	1,6%	2,8%	2,9%	3,5%
ROIC	1,6%	0,6%	0,1%	neg	1,6%	2,2%	2,9%	3,7%
ROCE	1,6%	0,6%	0,1%	neg	1,4%	1,9%	2,4%	3,0%

Source: Västra Hamnen Corporate Finance

Balance Sheet - Quarterly Data

kSEK	Q2 2020	Q3 2020	Q4 2020	Q1 2021e	Q2 2021e	Q3 2021e	Q4 2021e	Q1 2022e
Cash and cash eq	2 386	15 092	6 121	15 396	20 955	26 315	31 791	38 243
Inventory	17 756	18 632	18 348	15 955	17 671	18 271	18 884	19 512
Trade payables	22 572	14 110	26 271	20 730	19 658	20 521	21 448	22 452
Other payables	20 920	7 874	14 271	11 034	11 958	12 484	13 048	13 658
Prepayments and accrued income	-	-	-	-	-	-	-	-
Derivative instruments	-	-	-	-	-	-	-	-
Total current assets	63 634	55 708	65 011	63 115	70 242	77 590	85 171	93 865
Tangible assets	104 827	105 405	104 029	112 928	111 605	110 315	109 057	107 831
Intangible assets	27 427	27 622	28 966	38 242	37 286	36 354	35 445	34 559
Financial assets	55	56	56	56	56	56	56	56
Total fixed assets	132 309	133 083	133 051	151 226	148 947	146 725	144 558	142 445
Total assets	195 943	188 791	198 062	214 341	219 189	224 315	229 729	236 311
Short-term debt	6 393	3 854	12 723	12 723	12 723	12 723	12 723	12 723
Trade payables	9 544	7 501	12 365	10 371	8 835	9 136	9 442	9 756
Liabilities to Group companies	-	-	-	-	-	-	-	-
Other short-term debt	28 644	27 153	22 671	22 337	26 506	27 407	28 327	29 268
Accrued expenses and prepaid income	-	-	-	-	-	-	-	-
Total current liabilities	44 581	38 508	47 759	45 431	48 065	49 265	50 492	51 748
Long-term liabilities	35 139	34 442	34 183	34 183	34 183	34 183	34 183	34 183
Total equity	116 223	115 840	116 121	134 729	136 943	140 868	145 056	150 381
Total equity and liabilities	195 943	188 790	198 063	214 343	219 190	224 317	229 731	236 312

Source: Västra Hamnen Corporate Finance

Cash flow statement

kSEK	Q2 2020	Q3 2020	Q4 2020	Q1 2021e	Q2 2021e	Q3 2021e	Q4 2021e	Q1 2022e
Operating activities	9 292	2 303	1 978	1 933	5 993	7 648	7 855	8 938
Changes in working capital	(13 824)	9 491	(3 416)	8 843	1 065	(788)	(878)	(986)
Investing activities	(4 694)	(773)	32	(21 500)	(1 500)	(1 500)	(1 500)	(1 500)
Financing activities	8 928	1 683	(7 565)	20 000	-	-	-	-
Cash flow for the period	(298)	12 705	(8 971)	9 276	5 559	5 360	5 476	6 452
Beginning cash balance	2 684	2 386	15 092	6 121	15 396	20 955	26 315	31 791
Adjustments	-	1	-	-	-	-	-	-
Ending cash balance	2 386	15 092	6 121	15 396	20 955	26 315	31 791	38 243

Source: Västra Hamnen Corporate Finance

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Västra Hamnen Corporate Finance AB
Jungmansgatan 12, 211 11 Malmö, Sweden
Bredgade 30, 1260 Copenhagen, Denmark
+46 40 200 250
info@vhcorp.se
www.vhcorp.se

