EVLI

DETECTION TECHNOLOGY

Electronic Equipment & Instruments/Finland, February 5, 2018
Spot comment

Upgraded to BUY

In Q4'17, DT's net sales beat our estimates due to strong SBU sales. DT keeps its mid-term targets unchanged but sees that the annual growth target (≥15% y/y) is challenging for 2018 due to expected decline in MBU sales. Meanwhile, we see that the industrial segment and the upcoming ECAC3 standard could boost SBU sales in 2018 and 2019. On the back of our DCF model, we upgrade DT to BUY (HOLD) with TP of EUR 21.6 (20.2) per share.

SBU saw strong growth in Q4'17

In Q4'17, DT's net sales beat our estimates due to strong SBU sales. Our understanding is that SBU's strength was not linked to any individual customer or product. In Q4'17, DT's EBIT margin increased to 25.5% which was partly due to lower than usual R&D costs (6.5% of revenue vs 10% target).

MBU sales to decline y/y in H2'18

DT keeps its mid-term targets unchanged but sees that the growth target (≥15% y/y) is challenging for 2018. While DT expects SBU sales to increase slightly y/y in 2018, MBU sales should decrease y/y in H2'18 as a key customer stops manufacturing a device that uses one of DT's products. The exact impact of this event is unknown but we estimate -12% y/y MBU sales growth in H2'18E.

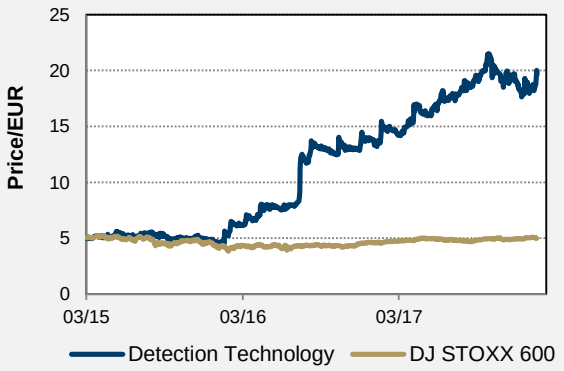
We see potential in SBU sales for 2018 and 2019

We raise our estimates on SBU sales in 2018E and 2019E by 12% and 18%, respectively. We expect the Q4'17 sales momentum to partially carry over to 2018E. In 2018E, we expect the industrial segment to support SBU's sales growth since DT renewed many of the segment's products in 2017. Meanwhile, the segment received most of DT's new customers. In 2019E, SBU's sales are likely supported by The European Civil Aviation Conference Standard 3 which takes effect in 2020 and will increase demand for computed tomography equipment at European airports.

Upgraded to BUY with TP of EUR 21.6 (20.2) per share

We raise DT's net sales estimates for 2018E and 2019E by 2.5% and 3.4%. We see that the growth potential in SBU offsets temporary weakness in MBU. We also raise our EBIT margin estimates by 2.1 and 1.5 percentage points, respectively, to reflect DT's continued high profitability.

Rating ✚ BUY



Share price, EUR (Last trading day's closing price)	19.60
Target price, EUR	21.6
Latest change in recommendation	05-Feb-18
Latest report on company	02-Feb-18
Research paid by issuer:	YES
No. of shares outstanding, '000's	13,901
No. of shares fully diluted, '000's	14,375
Market cap, EURm	272
Free float, %	-
Exchange rate	-
Reuters code	DETEC.HE
Bloomberg code	DETEC FH
Average daily volume, EURm	-
Next interim report	20-Jul-18
Web site	http://www.deetee.com

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✚ BUY ◯ HOLD ▬ SELL

KEY FIGURES

	Sales EURm	EBIT EURm	EBIT %	Ptx profit EURm	EPS EUR	P/E (x)	EV/Sales (x)	P/CF (x)	EV/EBIT (x)	DPS EUR
2016	76	15	19.6%	14	0.81	17.2	2.4	34.7	12.1	0.25
2017	89	20	22.4%	19	1.09	16.5	2.6	13.4	11.5	0.35
2018E	98	21	21.3%	20	1.14	17.2	2.5	20.3	11.7	0.46
2019E	110	21	19.0%	21	1.20	16.3	2.2	16.4	11.4	0.54
2020E	122	21	17.0%	21	1.19	16.4	1.9	16.5	11.2	0.54

Market cap, EURm	272	BV per share 2018E, EUR	3.8	CAGR EPS 2017-20, %	3.0
Net debt 2018E, EURm	-28	Price/book 2018E	5.2	CAGR sales 2017-20, %	11.1
Enterprise value, EURm	245	Dividend yield 2018E, %	2.3	ROE 2018E, %	33.7
Total assets 2018E, EURm	73	Tax rate 2018E, %	21.7	ROCE 2018E, %	42.2
Goodwill 2018E, EURm	0	Equity ratio 2018E, %	72.4	PEG, P/E 18/CAGR	5.8

All the important disclosures can be found on the last pages of this report.

VALUATION RESULTS		BASE CASE DETAILS		VALUATION ASSUMPTIONS		ASSUMPTIONS FOR WACC	
Current share price	19.60	PV of Free Cash Flow	104	Long-term growth, %	2.5	Risk-free interest rate, %	2.25
DCF share value	21.59	PV of Horizon value	175	WACC, %	8.4	Market risk premium, %	5.8
Share price potential, %	10.1	Unconsolidated equity	0	Spread, %	0.0	Debt risk premium, %	2.8
Maximum value	21.6	Marketable securities	27	Minimum WACC, %	8.4	Equity beta coefficient	1.15
Minimum value	21.6	Debt - dividend	-5	Maximum WACC, %	8.4	Target debt ratio, %	25
Horizon value, %	62.8	Value of stock	300	Nr of shares, Mn	13.9	Effective tax rate, %	20

DCF valuation, EURm	2017	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	Horizon
Net sales	89	98	110	122	135	147	156	165	175	186	190	195
Sales growth, %	*17.9*	*10.4*	*11.9*	*11.0*	*11.0*	*8.5*	*6.0*	*6.0*	*6.0*	*6.0*	*2.5*	*2.5*
Operating income (EBIT)	20	21	21	21	22	24	24	26	27	29	29	30
EBIT margin, %	*22.4*	*21.3*	*19.0*	*17.0*	*16.0*	*16.0*	*15.5*	*15.5*	*15.5*	*15.5*	*15.5*	*15.5*
+ Depreciation+amort.	2	3	2	2	3	3	3	3	4	4	4	
- Income taxes	-3	-5	-4	-4	-4	-5	-5	-5	-5	-6	-6	
- Change in NWC	1	-6	-2	-3	-3	-2	-2	-2	-2	-2	-1	
NWC / Sales, %	*15.7*	*19.9*	*20.0*	*20.1*	*20.2*	*20.3*	*20.3*	*20.3*	*20.4*	*20.4*	*20.4*	
+ Change in other liabs	0	0	0	0	0	0	0	0	0	0	0	
- Capital Expenditure	-2	-2	-3	-3	-3	-5	-4	-4	-4	-4	-4	-4
Investments / Sales, %	*2.1*	*2.1*	*2.7*	*2.6*	*2.6*	*3.1*	*2.5*	*2.4*	*2.4*	*2.4*	*2.3*	*2.3*
- Other items	-1	0	0	0	0	0	0	0	0	0	0	
= Unlevered Free CF (FCF)	17	11	14	13	14	15	17	18	19	20	22	388
= Discounted FCF (DFCF)		11	12	11	10	10	11	10	10	10	10	175

= DFCF min WACC	11	12	11	10	10	11	10	10	10	10	175
= DFCF max WACC	11	12	11	10	10	11	10	10	10	10	175

INTERIM FIGURES

EVLI ESTIMATES, EURm	2017Q1	2017Q2	2017Q3	2017Q4	2017	2018Q1E	2018Q2E	2018Q3E	2018Q4E	2018E	2019E	2020E
Net sales	19	20	22	28	89	25	24	23	27	98	110	122
EBITDA	4	5	6	8	22	6	6	5	6	23	23	23
EBITDA margin (%)	*22.7*	*22.7*	*25.2*	*27.6*	*24.9*	*25.1*	*24.2*	*22.3*	*23.9*	*23.9*	*21.1*	*19.0*
EBIT	4	4	5	7	20	6	5	5	5	21	21	21
EBIT margin (%)	*19.5*	*20.3*	*22.9*	*25.5*	*22.4*	*23.0*	*22.0*	*20.0*	*20.0*	*21.3*	*19.0*	*17.0*
Net financial items	0	0	0	0	-1	0	0	0	0	-1	0	0
Pre-tax profit	3	4	5	7	19	6	5	4	5	20	21	21
Tax	-1	-1	-1	-2	-4	-1	-1	-1	-1	-4	-4	-4
Tax rate (%)	*23.2*	*20.9*	*20.7*	*22.4*	*21.8*	*21.7*	*21.1*	*22.9*	*21.3*	*21.7*	*20.0*	*20.0*
Net profit	3	3	4	5	15	4	4	3	4	16	17	17
EPS	0.19	0.24	0.28	0.38	1.09	0.31	0.30	0.24	0.29	1.14	1.20	1.19
EPS adjusted (diluted no. of shares)	0.19	0.24	0.28	0.38	1.09	0.30	0.29	0.23	0.28	1.10	1.20	1.19
Dividend per share	0.00	0.00	0.00	0.00	0.35	0.00	0.00	0.00	0.00	0.46	0.54	0.54
SALES, EURm												
MBU	7	7	9	8	31	9	9	8	7	33	33	37
SBU	12	13	13	19	58	16	16	15	19	66	77	85
Total	19	20	22	28	89	25	24	23	27	98	110	122
SALES GROWTH, Y/Y %												
MBU	*94.3*	*192.0*	*74.5*	*-6.4*	*57.4*	*30.0*	*20.0*	*-12.0*	*-12.0*	*4.7*	*1.8*	*11.0*
SBU	*1.7*	*-12.7*	*-5.0*	*30.6*	*3.8*	*31.0*	*19.5*	*11.0*	*0.0*	*13.4*	*16.9*	*11.0*
Total	*22.7*	*16.6*	*16.2*	*17.0*	*17.9*	*30.6*	*19.7*	*1.8*	*-3.5*	*10.4*	*11.9*	*11.0*
EBIT, EURm												
MBU	0	0	0	0	0	2	2	2	1	7	6	6
SBU	0	0	0	0	0	4	3	3	4	14	15	14
Group	4	4	5	7	20	0	0	0	0	0	0	0
Total	4	4	5	7	20	6	5	5	5	21	21	21
EBIT margin, %												
MBU	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*23.0*	*22.0*	*20.0*	*20.0*	*21.4*	*19.0*	*17.0*
SBU	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*23.0*	*22.0*	*20.0*	*20.0*	*21.2*	*18.9*	*17.0*
Total	*19.5*	*20.3*	*22.9*	*25.5*	*22.4*	*23.0*	*22.0*	*20.0*	*20.0*	*21.3*	*19.0*	*17.0*

INCOME STATEMENT, EURm	2013	2014	2015	2016	2017	2018E	2019E	2020E
Sales	30	33	43	76	89	98	110	122
Sales growth (%)	*22.6*	*8.9*	*29.2*	*76.5*	*17.9*	*10.4*	*11.9*	*11.0*
Costs	-26	-28	-37	-58	-67	-75	-87	-99
Reported EBITDA	4	5	6	17	22	23	23	23
Extraordinary items in EBITDA	0	0	0	0	0	0	0	0
EBITDA margin (%)	*14.6*	*14.6*	*13.4*	*22.9*	*24.9*	*23.9*	*21.1*	*19.0*
Depreciation	-1	-1	-1	-3	-2	-3	-2	-2
EBITA	4	4	5	15	20	21	21	21
Goodwill amortization / writedown	0	0	0	0	0	0	0	0
Reported EBIT	4	4	5	15	20	21	21	21
EBIT margin (%)	*12.6*	*12.4*	*10.5*	*19.6*	*22.4*	*21.3*	*19.0*	*17.0*
Net financials	-1	0	-2	-1	-1	-1	0	0
Pre-tax profit	3	4	2	14	19	20	21	21
Extraordinary items	0	-1	-1	0	0	0	0	0
Taxes	0	0	0	-3	-4	-4	-4	-4
Minority shares	0	0	0	0	0	0	0	0
Net profit	3	3	1	11	15	16	17	17
BALANCE SHEET, EURm								
Assets								
Fixed assets	3	4	7	6	6	5	6	7
% of sales	*10*	*11*	*17*	*8*	*7*	*5*	*5*	*5*
Goodwill	0	0	0	0	0	0	0	0
% of sales	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
Inventory	5	6	7	11	9	14	15	17
% of sales	*16*	*17*	*16*	*14*	*10*	*14*	*14*	*14*
Receivables	7	7	14	22	21	27	30	33
% of sales	*22*	*22*	*33*	*29*	*24*	*27*	*27*	*27*
Liquid funds	4	3	7	16	27	28	35	41
% of sales	*15*	*10*	*17*	*21*	*30*	*28*	*32*	*34*
Total assets	19	20	35	54	62	73	86	98
Liabilities								
Equity	-2	1	21	31	42	53	63	72
% of sales	*-6*	*4*	*49*	*41*	*47*	*54*	*57*	*59*
Deferred taxes	0	0	0	0	0	0	0	0
% of sales	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
Interest bearing debt	14	11	1	7	5	0	0	0
% of sales	*45*	*33*	*3*	*9*	*5*	*0*	*0*	*0*
Non-interest bearing current liabilities	6	7	11	14	15	20	22	24
% of sales	*19*	*20*	*27*	*19*	*17*	*20*	*20*	*20*
Other interest free debt	1	1	2	3	1	1	1	1
% of sales	*4*	*4*	*4*	*3*	*1*	*1*	*1*	*1*
Total liabilities	19	20	35	54	62	73	86	98
CASH FLOW, EURm								
+ EBITDA	4	5	6	17	22	23	23	23
- Net financial items	-1	0	-2	-1	-1	-1	0	0
- Taxes	0	0	0	-1	-3	-4	-4	-4
- Increase in Net Working Capital	-1	0	-2	-11	1	-6	-2	-3
+/- Other	0	-1	1	1	0	0	0	0
= Cash flow from operations	2	3	3	5	19	13	17	17
- Capex	-1	-1	-5	-2	-2	-2	-3	-3
- Acquisitions	0	0	0	0	0	0	0	0
+ Divestments	0	0	0	0	0	0	0	0
= Net cash flow	1	2	-4	1	17	11	14	13
+/- Change in interest-bearing debt	0	-3	-10	5	-2	-5	0	0
+/- New issues/buybacks	4	0	18	-1	-3	0	0	0
- Paid dividend	0	0	0	-1	-3	-5	-6	-8
+/- Change in loan receivables	-1	0	-1	0	0	0	0	0
Change in cash	3	0	4	5	8	1	7	6

KEY FIGURES	2014	2015	2016	2017	2018E	2019E	2020E
M-cap	0	63	188	250	272	272	272
Net debt	7	-6	-9	-22	-28	-35	-41
Enterprise value	7	57	179	228	245	237	232
Sales	33	43	76	89	98	110	122
EBITDA	5	6	17	22	23	23	23
EBIT	4	5	15	20	21	21	21
Pre-tax	4	2	14	19	20	21	21
Earnings	4	2	11	15	16	17	17
Book value	1	21	31	42	53	63	72
Valuation multiples							
EV/sales	0.2	1.3	2.4	2.6	2.5	2.2	1.9
EV/EBITDA	1.5	9.9	10.3	10.3	10.4	10.2	10.0
EV/EBITA	1.8	12.7	12.1	11.5	11.7	11.4	11.2
EV/EBIT	1.8	12.7	12.1	11.5	11.7	11.4	11.2
EV/operating cash flow	2.4	21.8	33.0	12.3	18.3	14.3	14.0
EV/cash earnings	1.6	17.6	13.3	13.1	13.2	12.5	12.1
P/E	0.0	20.5	17.2	16.5	17.2	16.3	16.4
P/E excl. goodwill	0.0	20.5	17.2	16.5	17.2	16.3	16.4
P/B	0.0	3.0	6.1	6.0	5.2	4.3	3.8
P/sales	0.0	1.5	2.5	2.8	2.8	2.5	2.2
P/CF	0.0	24.2	34.7	13.4	20.3	16.4	16.5
Target EV/EBIT	*0.0*	*0.0*	*0.0*	*0.0*	*13.1*	*12.7*	*12.5*
Target P/E	*0.0*	*0.0*	*0.0*	*0.0*	*19.6*	*18.0*	*18.1*
Target P/B	*0.0*	*0.0*	*0.0*	*0.0*	*5.7*	*4.8*	*4.2*
Per share measures							
Number of shares	1,900	12,951	13,426	13,901	13,901	13,901	13,901
Number of shares (diluted)	1,900	12,951	13,426	13,901	14,375	13,901	13,901
EPS	1.99	0.15	0.81	1.09	1.14	1.20	1.19
EPS excl. goodwill	2.52	0.24	0.81	1.09	1.14	1.20	1.19
Cash EPS	2.37	0.25	1.00	1.25	1.33	1.37	1.37
Operating cash flow per share	1.62	0.20	0.40	1.34	0.96	1.19	1.19
Capital employed per share	4.57	1.15	1.63	1.43	1.79	2.01	2.24
Book value per share	0.72	1.63	2.30	3.00	3.79	4.53	5.18
Book value excl. goodwill	0.72	1.63	2.30	3.00	3.79	4.53	5.18
Dividend per share	0.00	0.07	0.25	0.35	0.46	0.54	0.54
Dividend payout ratio, %	0.0	45.5	30.8	32.1	40.0	45.0	45.0
Dividend yield, %	0.0	1.4	1.8	1.8	2.3	2.8	2.7
Efficiency measures							
ROE	0.0	17.7	41.9	41.8	33.7	28.9	24.5
ROCE	39.4	23.0	48.2	47.4	42.2	36.1	30.7
Financial ratios							
Capex/sales, %	3.9	11.1	2.1	2.1	2.1	2.7	2.6
Capex/depreciation excl. goodwill,%	177.2	380.4	63.9	82.6	77.6	126.5	125.9
Net debt/EBITDA, book-weighted	1.5	-1.1	-0.5	-1.0	-1.2	-1.5	-1.8
Debt/equity, market-weighted	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Equity ratio, book-weighted	7.0	60.7	57.8	67.5	72.4	73.8	74.4
Gearing	5.36	-0.30	-0.29	-0.52	-0.53	-0.56	-0.57
Number of employees, average	283	341	416	405	405	405	405
Sales per employee, EUR	116,961	125,458	181,512	219,753	242,540	271,445	301,304
EBIT per employee, EUR	14,488	13,197	35,577	49,136	51,543	51,487	51,136

COMPANY DESCRIPTION:

INVESTMENT CASE:

OWNERSHIP STRUCTURE	SHARES	EURm	%
Ac Invest Seven B.V.	5,205,167	102.021	37.4%
OP-Delta Fund	651,119	12.762	4.7%
Sijoitusrahasto Aktia Capital	627,000	12.289	4.5%
Ilmarinen Mutual Pension Insurance Company	554,000	10.858	4.0%
Evli Finnish Small Cap Fund	546,300	10.707	3.9%
Varma Mutual Pension Insurance Company	515,000	10.094	3.7%
Fondita Nordic Micro Cap	480,000	9.408	3.5%
Martola Hannu Veikko	226,060	4.431	1.6%
Danske Invest Finnish Small Cap Fund	220,000	4.312	1.6%
Saastopankki Kotimaa	200,000	3.920	1.4%
Ten largest	9,224,646	180.803	66%
Residual	4,675,949	91.649	34%
Total	13,900,595	272.452	100%

EARNINGS CALENDAR

OTHER EVENTS

COMPANY MISCELLANEOUS

CEO: Hannu Martola

CFO: Petri Hiljanen

IR: Johanna Tarkiainen

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DEFINITIONS

P/E $\frac{\text{Price per share}}{\text{Earnings per share}}$	EPS $\frac{\text{Profit before extraordinary items and taxes} - \text{income taxes} + \text{minority interest}}{\text{Number of shares}}$
P/Sales $\frac{\text{Market cap}}{\text{Sales}}$	DPS Dividend for the financial period per share
P/BV $\frac{\text{Price per share}}{\text{Shareholders' equity} + \text{taxed provisions per share}}$	CEPS $\frac{\text{Gross cash flow from operations}}{\text{Number of shares}}$
P/CF $\frac{\text{Price per share}}{\text{Operating cash flow per share}}$	EV/Share $\frac{\text{Enterprise value}}{\text{Number of shares}}$
EV (Enterprise value) Market cap + net debt + minority interest at market value – share of associated companies at market value	Sales/Share $\frac{\text{Sales}}{\text{Number of shares}}$
Net debt Interest bearing debt – financial assets	EBITDA/Share $\frac{\text{Earnings before interest, tax, depreciation and amortisation}}{\text{Number of shares}}$
EV/Sales $\frac{\text{Enterprise value}}{\text{Sales}}$	EBIT/Share $\frac{\text{Operating profit}}{\text{Number of shares}}$
EV/EBITDA $\frac{\text{Enterprise value}}{\text{Earnings before interest, tax, depreciation and amortisation}}$	EAFI/Share $\frac{\text{Pretax profit}}{\text{Number of shares}}$
EV/EBIT $\frac{\text{Enterprise value}}{\text{Operating profit}}$	Capital employed/Share $\frac{\text{Total assets} - \text{non interest bearing debt}}{\text{Number of shares}}$
Div yield, % $\frac{\text{Dividend per share}}{\text{Price per share}}$	Total assets Balance sheet total
Payout ratio, % $\frac{\text{Total dividends}}{\text{Earnings before extraordinary items and taxes} - \text{income taxes} + \text{minority interest}}$	Interest coverage (x) $\frac{\text{Operating profit}}{\text{Financial items}}$
Net cash/Share $\frac{\text{Financial assets} - \text{interest bearing debt}}{\text{Number of shares}}$	Asset turnover (x) $\frac{\text{Turnover}}{\text{Balance sheet total (average)}}$
ROA, % $\frac{\text{Operating profit} + \text{financial income} + \text{extraordinary items}}{\text{Balance sheet total} - \text{interest free short term debt} - \text{long term advances received and accounts payable (average)}}$	Debt/Equity, % $\frac{\text{Interest bearing debt}}{\text{Shareholders' equity} + \text{minority interest} + \text{taxed provisions}}$
ROCE, % $\frac{\text{Profit before extraordinary items} + \text{interest expenses} + \text{other financial costs}}{\text{Balance sheet total} - \text{noninterest bearing debt (average)}}$	Equity ratio, % $\frac{\text{Shareholders' equity} + \text{minority interest} + \text{taxed provisions}}{\text{Total assets} - \text{interest free loans}}$
ROE, % $\frac{\text{Profit before extraordinary items and taxes} - \text{income taxes}}{\text{Shareholders' equity} + \text{minority interest} + \text{taxed provisions (average)}}$	CAGR, % Cumulative annual growth rate = Average growth per year

Important Disclosures

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https://research.evli.com/JasperAllModels.action?authParam=key;461&authParam=x;G3rNagWrtf7K&authType=3
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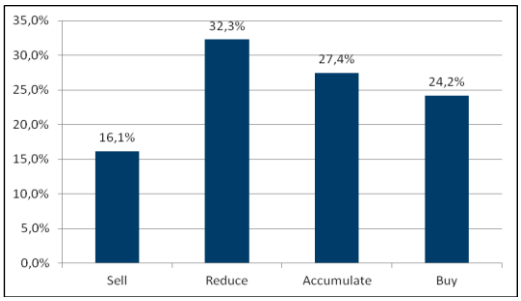
Investment recommendations are defined as follows:

Target price compared to share price	Recommendation
< -10 %	SELL
-10 – (+10) %	HOLD
> 10 %	BUY

ERP's investment recommendation of the analyzed company is in general updated 2 – 4 per year.



The graph above shows the distribution of ERP's recommendations of companies under coverage in 22nd of February 2017. If recommendation is not given, it is not mentioned here.

Name(s) of the analyst(s): Pöyhönen

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