

Challenging quarter ahead

Detection Technology will report Q2 earnings next Tuesday, August 4th at 9:00 EEST. DT's share price has been lagging the market due to its exposure to aviation segment, but we see the overall investment case intact. We maintain our target price of 22 euros and BUY recommendation ahead of the Q2 result.

Expecting declining sales and operating profit due to weakened demand in SBU

We expect Q2 net sales to decrease -9% to 25 MEUR (25,3 MEUR cons.) due to lower SBU sales affected by the pandemic. For Q2, we estimate SBU declining -21,6% as demand in security applications is lower due to COVID-19. We expect MBU growing 21% with the help of increased demand in medical CT solutions. Due to lower net sales, our Q2 EBIT estimate is 1,9 MEUR (3,0 MEUR cons), which is down -60% compared to 4,8 MEUR last year.

Focus on market outlook and situation in China

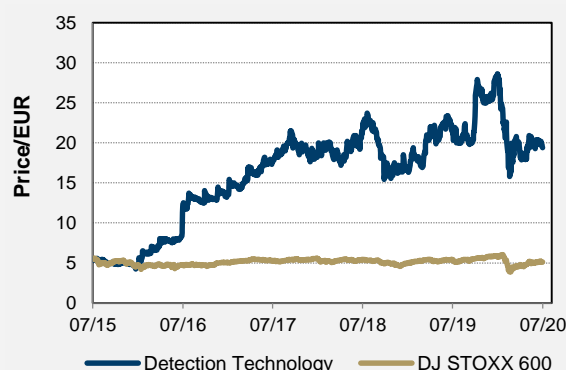
Our focus in the Q2 result will be on management's comments on the outlook for both security and medical imaging markets, as well as hearing the latest developments in China. DT has indicated that it expects healthy demand in MBU for Q2 and H2, whereas SBU sales are expected to decrease in Q2 and FY20. Looking at other industries, we note that Chinese market has been first to recover after the pandemic resided. That said, there is still a lot of uncertainty related to aviation, which is a crucial part of DT's security business, accounting for roughly 2/3 of DT's net sales. DT saw positive signs in demand for medical CT solutions at the end of Q1 (after a slowdown around end of 2019), stemming from CT imaging being used to detect pulmonary changes caused by the COVID-19 virus, as well as diagnosis and treatment of patients.

DT's share price has been lagging the market, we see investment case intact

DT's share price is YTD -23% vs. -5% HEX25, and since mid-March +26% vs. +41% HEX25. We see this relating to SBU's exposure to aviation segment. Although 2020e will be challenging, we see DT well positioned to weather out the storm and its competitive position with its new products remaining good, thus investment case is intact. We maintain our target price of 22 euros and BUY recommendation ahead of the Q2 result.

Rating

BUY



Share price, EUR (Last trading day's closing price) 19.40

Target price, EUR 22.0

Latest change in recommendation 21-Apr-20

Latest report on company 28-Apr-20

Research paid by issuer: YES

No. of shares outstanding, '000's 14,375

No. of shares fully diluted, '000's 14,875

Market cap, EURm 279

Free float, % -

Exchange rate -

Reuters code DETEC.HE

Bloomberg code DETEC FH

Average daily volume, EURm -

Next interim report 4-Aug-20

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BUY HOLD SELL

KEY FIGURES

	Sales EURm	EBIT EURm	EBIT %	FCF EURm	EPS EUR	P/E (x)	EV/Sales (x)	EV/EBIT (x)	FCF yield %	DPS EUR
2018	93.9	18.5	19.7%	1.4	1.03	15.1	2.2	11.1	0.6	0.38
2019	102.5	17.0	16.6%	7.6	0.87	29.5	3.4	20.4	2.1	0.38
2020E	99.2	13.0	13.1%	10.5	0.71	27.2	2.6	19.5	3.8	0.38
2021E	111.6	18.4	16.5%	11.1	1.02	18.9	2.2	13.5	4.0	0.41
2022E	125.2	21.9	17.5%	13.7	1.22	15.9	1.9	11.0	4.9	0.49
Market cap, EURm	279			Gearing 2020E, %	-40.3			CAGR EPS 2019-22, %	12.1	
Net debt 2020E, EURm	-25			Price/book 2020E	4.4			CAGR sales 2019-22, %	6.9	
Enterprise value, EURm	253			Dividend yield 2020E, %	1.9			ROE 2020E, %	16.9	
Total assets 2020E, EURm	76			Tax rate 2020E, %	20.0			ROCE 2020E, %	20.4	
Goodwill 2020E, EURm	0			Equity ratio 2020E, %	84.2			PEG, P/E 20/CAGR	1.6	

INTERIM FIGURES

EVLI ESTIMATES, EURm	2019Q1	2019Q2	2019Q3	2019Q4	2019	2020Q1	2020Q2E	2020Q3E	2020Q4E	2020E	2021E	2022E
Net sales	23.1	27.5	26.9	25.0	102.5	19.9	25.0	27.0	27.3	99.2	111.6	125.2
EBITDA	4.4	5.5	5.7	4.3	19.9	1.8	2.5	5.4	6.2	15.9	21.4	25.0
<i>EBITDA margin (%)</i>	<i>19.2</i>	<i>20.0</i>	<i>21.3</i>	<i>17.1</i>	<i>19.5</i>	<i>9.0</i>	<i>10.0</i>	<i>20.0</i>	<i>22.7</i>	<i>16.0</i>	<i>19.2</i>	<i>20.0</i>
EBIT	3.9	4.8	5.1	3.2	17.0	1.2	1.9	4.8	5.1	13.0	18.4	21.9
<i>EBIT margin (%)</i>	<i>16.7</i>	<i>17.5</i>	<i>19.1</i>	<i>12.8</i>	<i>16.6</i>	<i>6.0</i>	<i>7.6</i>	<i>17.8</i>	<i>18.7</i>	<i>13.1</i>	<i>16.5</i>	<i>17.5</i>
Net financial items	0.0	-0.7	-0.1	-0.2	-1.0	0.0	0.0	0.0	0.0	-0.2	0.0	0.0
Pre-tax profit	3.9	4.2	5.0	3.0	16.0	1.2	1.9	4.8	5.1	12.8	18.4	21.9
Tax	-0.3	-0.9	-1.0	-1.3	-3.6	-0.2	-0.4	-0.9	-1.0	-2.6	-3.7	-4.4
<i>Tax rate (%)</i>	<i>9.1</i>	<i>22.9</i>	<i>20.0</i>	<i>41.6</i>	<i>22.2</i>	<i>20.0</i>	<i>20.0</i>	<i>20.0</i>	<i>20.0</i>	<i>20.0</i>	<i>20.0</i>	<i>20.0</i>
Net profit	3.5	3.2	4.0	1.8	12.5	0.9	1.5	3.8	4.0	10.2	14.7	17.5
EPS	0.24	0.22	0.28	0.12	0.87	0.06	0.10	0.26	0.28	0.71	1.02	1.22
EPS adjusted (diluted no. of shares)	0.24	0.22	0.27	0.12	0.84	0.06	0.10	0.26	0.27	0.69	0.99	1.18
Dividend per share	0.00	0.00	0.00	0.00	0.38	0.00	0.00	0.00	0.00	0.38	0.41	0.49
SALES, EURm												
MBU	8.6	8.1	8.4	8.6	33.7	8.4	9.8	10.5	10.8	39.5	44.4	49.7
SBU	14.5	19.4	18.6	16.4	68.9	11.5	15.2	16.5	16.5	59.7	67.2	75.5
Total	23.1	27.5	26.9	25.0	102.5	19.9	25.0	27.0	27.3	99.2	111.6	125.2
SALES GROWTH, Y/Y %												
<i>MBU</i>	<i>15.0</i>	<i>-12.1</i>	<i>-27.4</i>	<i>-14.9</i>	<i>-12.1</i>	<i>-2.3</i>	<i>21.0</i>	<i>25.7</i>	<i>25.6</i>	<i>17.4</i>	<i>12.3</i>	<i>12.0</i>
<i>SBU</i>	<i>22.9</i>	<i>27.6</i>	<i>41.6</i>	<i>5.8</i>	<i>23.8</i>	<i>-20.7</i>	<i>-21.6</i>	<i>-11.1</i>	<i>0.6</i>	<i>-13.3</i>	<i>12.6</i>	<i>12.3</i>
<i>Total</i>	<i>19.8</i>	<i>12.6</i>	<i>9.3</i>	<i>-2.3</i>	<i>9.2</i>	<i>-13.9</i>	<i>-9.1</i>	<i>0.4</i>	<i>9.2</i>	<i>-3.2</i>	<i>12.5</i>	<i>12.2</i>

INCOME STATEMENT, EURm	2015	2016	2017	2018	2019	2020E	2021E	2022E
Sales	42.8	75.5	89.0	93.9	102.5	99.2	111.6	125.2
<i>Sales growth (%)</i>	<i>29.2</i>	<i>76.5</i>	<i>17.9</i>	<i>5.5</i>	<i>9.2</i>	<i>-3.2</i>	<i>12.5</i>	<i>12.2</i>
EBITDA	5.8	17.3	22.1	20.9	19.9	15.9	21.4	25.0
<i>EBITDA margin (%)</i>	<i>13.4</i>	<i>22.9</i>	<i>24.9</i>	<i>22.3</i>	<i>19.5</i>	<i>16.0</i>	<i>19.2</i>	<i>20.0</i>
Depreciation	-1.3	-2.5	-2.2	-2.4	-2.9	-2.9	-3.0	-3.1
EBITA	4.5	14.8	19.9	18.5	17.0	13.0	18.4	21.9
Goodwill amortization / writedown	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EBIT	4.5	14.8	19.9	18.5	17.0	13.0	18.4	21.9
<i>EBIT margin (%)</i>	<i>10.5</i>	<i>19.6</i>	<i>22.4</i>	<i>19.7</i>	<i>16.6</i>	<i>13.1</i>	<i>16.5</i>	<i>17.5</i>
Reported EBIT	3.4	14.8	19.9	18.5	17.0	13.0	18.4	21.9
<i>EBIT margin (reported) (%)</i>	<i>8.0</i>	<i>19.6</i>	<i>22.4</i>	<i>19.7</i>	<i>16.6</i>	<i>13.1</i>	<i>16.5</i>	<i>17.5</i>
Net financials	-2.4	-0.7	-0.5	-0.1	-1.0	-0.2	0.0	0.0
Pre-tax profit	2.1	14.1	19.4	18.4	16.0	12.8	18.4	21.9
Taxes	-0.1	-3.2	-4.2	-3.6	-3.6	-2.6	-3.7	-4.4
Minority shares	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net profit	0.9	10.9	15.2	14.9	12.5	10.2	14.7	17.5
Cash NRIs	-1.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non-cash NRIs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
BALANCE SHEET, EURm								
Assets								
Fixed assets	7	6	6	9	10	11	11	11
Goodwill	0	0	0	0	0	0	0	0
Right of use assets	0	0	0	0	0	0	0	0
Inventory	7	11	9	13	14	14	15	17
Receivables	14	22	21	27	27	26	29	32
Liquid funds	7	16	27	22	26	25	31	39
Total assets	35	54	62	71	77	76	86	100
Liabilities								
Shareholder's equity	21	31	42	51	58	63	72	84
Minority interest	0	0	0	0	0	0	0	0
Convertibles	0	0	0	0	0	0	0	0
Lease liabilities	0	0	0	0	0	0	0	0
Deferred taxes	0	0	0	0	0	0	0	0
Interest bearing debt	1	7	5	4	6	0	0	0
Non-interest bearing current liabilities	11	14	15	15	12	12	13	15
Other interest-free debt	2	3	1	0	1	1	1	1
Total liabilities	35	54	62	71	77	76	86	100
CASH FLOW, EURm								
+ EBITDA	6	17	22	21	20	16	21	25
- Net financial items	4	8	11	0	-1	0	0	0
- Taxes	0	-1	-3	-5	-4	-3	-4	-4
- Increase in Net Working Capital	-2	-11	1	-10	-3	1	-3	-4
+/- Other	-8	-9	-12	0	0	0	0	0
= Cash flow from operations	0	5	19	6	12	14	14	17
- Capex	-5	-2	-2	-5	-4	-4	-3	-3
- Acquisitions	0	0	0	0	0	0	0	0
+ Divestments	0	0	0	0	0	0	0	0
= Free cash flow	-4	3	17	1	8	10	11	14
+/- New issues/buybacks	19	0	-1	0	0	0	0	0
- Paid dividend	0	-1	-3	-5	-5	-5	-5	-6
+/- Other	-10	6	-2	0	2	-6	0	0
Change in cash	4	8	11	-4	4	-1	6	8

KEY FIGURES	2016	2017	2018	2019	2020E	2021E	2022E
M-cap	188	250	224	368	279	279	279
Net debt (excl. convertibles)	-9	-22	-18	-20	-25	-31	-39
Enterprise value	179	228	206	348	253	248	240
Sales	76	89	94	103	99	112	125
EBITDA	17	22	21	20	16	21	25
EBIT	15	20	19	17	13	18	22
Pre-tax	14	19	18	16	13	18	22
Earnings	11	15	15	12	10	15	18
Equity book value (excl. minorities)	31	42	51	58	63	72	84
Valuation multiples							
EV/sales	2.4	2.6	2.2	3.4	2.6	2.2	1.9
EV/EBITDA	10.3	10.3	9.8	17.4	15.9	11.6	9.6
EV/EBITA	12.1	11.5	11.1	20.4	19.5	13.5	11.0
EV/EBIT	12.1	11.5	11.1	20.4	19.5	13.5	11.0
EV/OCF	36.6	12.3	33.6	28.9	18.0	17.3	14.2
EV/FCFF	48.3	13.3	142.7	41.6	23.8	22.4	17.6
P/FCFE	57.3	14.9	162.4	48.5	26.6	25.2	20.4
P/E	17.2	16.5	15.1	29.5	27.2	18.9	15.9
P/B	6.1	6.0	4.4	6.3	4.4	3.8	3.3
Target EV/EBITDA	0.0	0.0	0.0	0.0	18.3	13.3	11.1
Target EV/EBIT	0.0	0.0	0.0	0.0	22.4	15.5	12.7
Target EV/FCF	0.0	0.0	0.0	0.0	27.7	25.8	20.3
Target P/B	0.0	0.0	0.0	0.0	5.0	4.4	3.8
Target P/E	0.0	0.0	0.0	0.0	32.0	22.2	18.7
Per share measures							
Number of shares	13,426	13,901	14,375	14,375	14,375	14,375	14,375
Number of shares (diluted)	13,426	13,901	14,849	14,875	14,875	14,875	14,875
EPS	0.81	1.09	1.03	0.87	0.71	1.02	1.22
Operating cash flow per share	0.36	1.34	0.43	0.84	0.98	1.00	1.17
Free cash flow per share	0.24	1.21	0.10	0.53	0.73	0.77	0.95
Book value per share	2.30	3.00	3.57	4.06	4.39	5.04	5.85
Dividend per share	0.25	0.35	0.38	0.38	0.38	0.41	0.49
Dividend payout ratio, %	30.8	32.1	36.7	43.9	53.0	40.0	40.0
Dividend yield, %	1.8	1.9	2.4	1.5	1.9	2.1	2.5
FCF yield, %	1.7	6.7	0.6	2.1	3.8	4.0	4.9
Efficiency measures							
ROE	41.9	41.8	32.0	22.7	16.9	21.7	22.4
ROCE	48.2	47.4	36.4	28.5	20.4	27.2	28.0
Financial ratios							
Inventories as % of sales	14.0	9.6	14.2	13.8	13.8	13.8	13.8
Receivables as % of sales	28.6	24.1	28.4	25.9	25.9	25.9	25.9
Non-interest bearing liabilities as % of sales	18.7	16.8	16.4	12.1	12.1	12.1	12.1
NWC/sales, %	21.5	15.7	25.9	27.0	27.0	27.1	27.1
Operative CAPEX/sales, %	2.1	2.1	5.0	4.4	3.6	2.9	2.5
CAPEX/sales (incl. acquisitions), %	2.1	2.1	5.0	4.4	3.6	2.9	2.5
FCFF/EBITDA	0.2	0.8	0.1	0.4	0.7	0.5	0.5
Net debt/EBITDA, book-weighted	-0.5	-1.0	-0.9	-1.0	-1.6	-1.5	-1.6
Debt/equity, market-weighted	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Equity ratio, book-weighted	57.8	67.5	73.0	76.6	84.2	84.4	84.9
Gearing, %	-29.2	-52.3	-35.6	-34.9	-40.3	-42.9	-46.2

COMPANY DESCRIPTION: Detection Technology is a global provider of off-the-shelf and customized X-ray imaging solutions for medical, security and industrial applications. DT's product portfolio ranges from photodiodes to complete detector systems with ASICs, electronics, mechanics and software. The company was established in 1991 and it listed on Nasdaq First North Finland in 2015. The company is headquartered in Finland and has volume production in Beijing, China. Detection Technology has over 500 employees in Finland, China, France and USA, serving 260 active customers in over 40 countries.

INVESTMENT CASE: Demand for Detection Technology's detector solutions is increasing due to expansion of healthcare to a wider share of population in the emerging economies, aging population, growth in travelling and freight transport, urbanization, increased security concerns and increasing need for X-ray imaging applications in industrial inspection. We see investment case attractive due to strong market drivers, especially in China, as well as DT's compelling strategy and execution capabilities, which should enable DT to grow faster than the market and maintain above target level margins. Due to its proximity to the fastest growing market China and inexpensive valuation, DT could be also become an acquisition target.

OWNERSHIP STRUCTURE	SHARES	EURm	%
Ac Invest Seven B.V.	5,205,167	100.980	36.2%
OP-Finland Value Fund	651,065	12.631	4.5%
Ilmarinen Mutual Pension Insurance Company	554,000	10.748	3.9%
Varma Mutual Pension Insurance Company	515,000	9.991	3.6%
Sijoitusrahasto Aktia Capital	484,762	9.404	3.4%
Fondita Nordic Micro Cap	390,000	7.566	2.7%
Evli Finnish Small Cap Fund	327,259	6.349	2.3%
Martola Hannu Veikko	322,875	6.264	2.2%
Saastopankki Kotimaa	200,000	3.880	1.4%
Ten largest	8,650,128	167.812	60%
Residual	5,725,302	111.071	40%
Total	14,375,430	278.883	100%

EARNINGS CALENDAR

OTHER EVENTS

COMPANY MISCELLANEOUS

CEO: Hannu Martola

CFO: Petri Hiljanen

IR: Johanna Tarkiainen

Elektroniikkatie 10, 90590 Oulu

Tel: +358 20 766 9700

DEFINITIONS

P/E	$\frac{\text{Price per share}}{\text{Earnings per share}}$	EPS	$\frac{\text{Profit before extraord. items and taxes} - \text{income taxes} + \text{minority interest}}{\text{Number of shares}}$
P/BV	$\frac{\text{Price per share}}{\text{Shareholders' equity} + \text{taxed provisions per share}}$	DPS	Dividend for the financial period per share
Market cap	Price per share * Number of shares	OCF (Operating cash flow)	EBITDA – Net financial items – Taxes – Increase in working capital – Cash NRIs ± Other adjustments
EV (Enterprise value)	Market cap + net debt + minority interest at market value – share of associated companies at market value	FCF (Free cash flow)	Operating cash flow – operative CAPEX – acquisitions + divestments
EV/Sales	$\frac{\text{Enterprise value}}{\text{Sales}}$	FCF yield, %	$\frac{\text{Free cash flow}}{\text{Market cap}}$
EV/EBITDA	$\frac{\text{Enterprise value}}{\text{Earnings before interest, tax, depreciation and amortization}}$	Operative CAPEX/sales	$\frac{\text{Capital expenditure} - \text{divestments} - \text{acquisitions}}{\text{Sales}}$
EV/EBIT	$\frac{\text{Enterprise value}}{\text{Operating profit}}$	Net working capital	Current assets – current liabilities
Net debt	Interest bearing debt – financial assets	Capital employed/Share	$\frac{\text{Total assets} - \text{non-interest bearing debt}}{\text{Number of shares}}$
Total assets	Balance sheet total	Gearing	$\frac{\text{Net debt}}{\text{Equity}}$
Div yield, %	$\frac{\text{Dividend per share}}{\text{Price per share}}$	Debt/Equity, %	$\frac{\text{Interest bearing debt}}{\text{Shareholders' equity} + \text{minority interest} + \text{taxed provisions}}$
Payout ratio, %	$\frac{\text{Total dividends}}{\text{Earnings before extraordinary items and taxes} - \text{income taxes} + \text{minority interest}}$	Equity ratio, %	$\frac{\text{Shareholders' equity} + \text{minority interest} + \text{taxed provisions}}{\text{Total assets} - \text{interest-free loans}}$
ROCE, %	$\frac{\text{Profit before extraordinary items} + \text{interest expenses} + \text{other financial costs}}{\text{Balance sheet total} - \text{non-interest bearing debt (average)}}$	CAGR, %	Cumulative annual growth rate = Average growth per year
ROE, %	$\frac{\text{Profit before extraordinary items and taxes} - \text{income taxes}}{\text{Shareholder's equity} + \text{minority interest} + \text{taxed provisions (average)}}$		

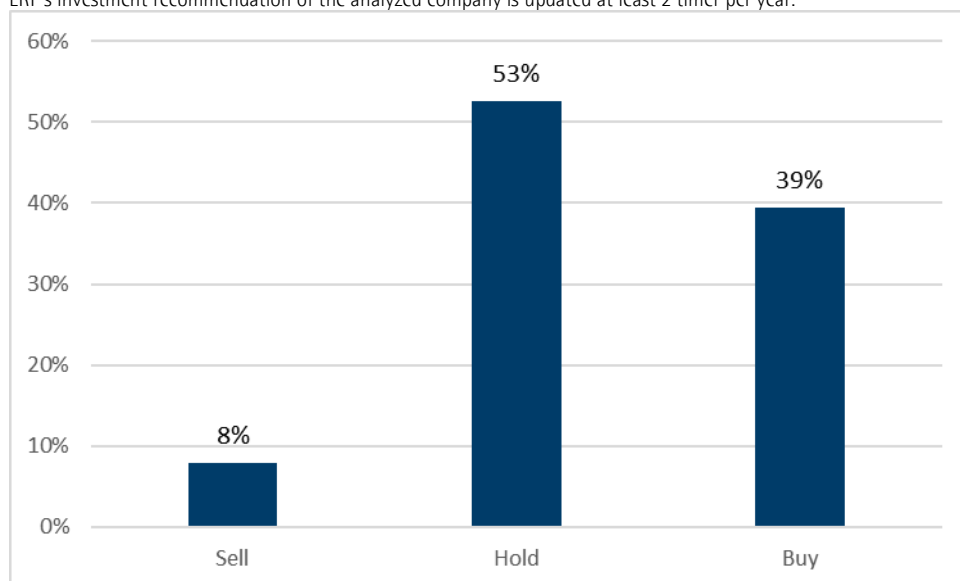
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Investment recommendations are defined as follows:

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

ERP's investment recommendation of the analyzed company is updated at least 2 times per year.



The graph above shows the distribution of ERP's recommendations of companies under coverage in 1st of February 2019. If recommendation is not given, it is not mentioned here.

Name(s) of the analyst(s): Forslund

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