

## Coronavirus could pose near term threat to our estimates

Detection Technology will report Q4 earnings next Monday, February 10th. As majority of DT's production and personnel is located in China, with Asia representing some 2/3 of DT's total net sales, the effects of the coronavirus will be a key focus. Despite possible headwinds related to coronavirus, we remain positive to the investment case. Our estimates, rating and target price of EUR 24 remain intact ahead of Q4.

### Q4 wraps up a year of decent growth

The security imaging market has been experiencing strong demand due to increasing CT investments related to new EU and US airport standards, while medical imaging market is going through a temporary slowdown. For Q4'19, we estimate SBU growing 23% and MBU declining 14% y/y, with total Q4 net sales growing 8% y/y to 27.7 MEUR (27.4 MEUR cons). Our Q4 EBIT estimate is 5.1 MEUR (4.7 MEUR cons), which is +15% compared to slightly low comparison figures of 4.4 MEUR in Q4'18. On a whole, we expect FY'19E sales growth of 12% (FY'18 5.5%) and flat EBIT growth due to increasing R&D investments and lower MBU sales and share in mix. Our DPS estimate is 0.38 (0.39 cons.), which is on par with last year's dividend due to flat net profit growth in 2019.

### Growth story to continue despite coronavirus posing a near term threat

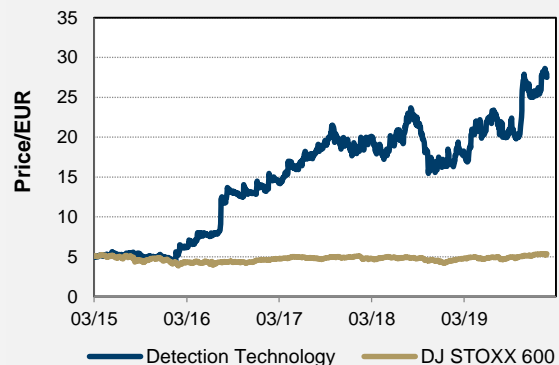
DT usually doesn't give full year guidance due to low visibility into customer demand. We look forward to hearing about the latest status of the medical imaging market and the effects of the coronavirus. Most of DT's production and ~80% of personnel are located in China, with Asia representing some 2/3 of DT's total sales. Our FY'20E sales growth estimate is +15% based on continued good growth, especially in China, and volume ramp-up of new Aurora and X-Panel CMOS products. Despite continued R&D spending, we expect EBIT improvement 2020E due to increase in sales growth and better GM's due to mix and new products. We note however that coronavirus poses a clear near-term threat to our estimates.

### Rating and TP of 24 euros maintained ahead of Q4

Despite the short visibility and possible headwinds related to coronavirus or trade politics, we see longer term investment case intact due to strong market drivers, especially in China, as well as DT's compelling strategy and execution capabilities. Our estimates, as well as our rating and target price of 24 euros remain unchanged ahead of the Q4 report.

Rating

BUY



Share price, EUR (Last trading day's closing price) 27.50

Target price, EUR 24.0

Latest change in recommendation 04-Feb-19

Latest report on company 28-Oct-19

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 395

Free float, % -

Exchange rate -

Reuters code DETEC.HE

Bloomberg code DETEC FH

Average daily volume, EURm -

Next interim report 10-Feb-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
2017	89.0	19.9	22.4%	16.8	1.09	16.5	2.6	11.5	6.7	0.35
2018	93.9	18.5	19.7%	1.4	1.03	15.1	2.2	11.1	0.6	0.38
2019E	105.2	18.9	18.0%	14.3	1.02	26.9	3.5	19.4	3.6	0.38
2020E	120.9	23.0	19.0%	14.4	1.27	21.6	3.0	15.6	3.6	0.47
2021E	138.2	27.6	20.0%	16.7	1.54	17.9	2.5	12.6	4.2	0.62
Market cap, EURm			395	Gearing 2019E, %		-44.8	CAGR EPS 2018-21, %			14.1
Net debt 2019E, EURm			-27	Price/book 2019E		6.5	CAGR sales 2018-21, %			13.7
Enterprise value, EURm			368	Dividend yield 2019E, %		1.4	ROE 2019E, %			26.2
Total assets 2019E, EURm			82	Tax rate 2019E, %		18.4	ROCE 2019E, %			31.4
Goodwill 2019E, EURm			0	Equity ratio 2019E, %		74.5	PEG, P/E 19/CAGR			2.0

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

## INTERIM FIGURES

EVLI ESTIMATES, EURm	2018Q1	2018Q2	2018Q3	2018Q4	2018	2019Q1	2019Q2	2019Q3	2019Q4E	2019E	2020E	2021E
Net sales	19.3	24.4	24.6	25.6	93.9	23.1	27.5	26.9	27.7	105.2	120.9	138.2
EBITDA	4.3	5.9	5.7	5.0	20.9	4.4	5.5	5.7	6.2	21.9	25.5	30.4
<i>EBITDA margin (%)</i>	<i>22.3</i>	<i>24.3</i>	<i>23.1</i>	<i>19.5</i>	<i>22.3</i>	<i>19.2</i>	<i>20.0</i>	<i>21.3</i>	<i>22.4</i>	<i>20.8</i>	<i>21.1</i>	<i>22.0</i>
EBIT	3.7	5.3	5.1	4.4	18.5	3.9	4.8	5.1	5.1	18.9	23.0	27.6
<i>EBIT margin (%)</i>	<i>19.2</i>	<i>21.7</i>	<i>20.7</i>	<i>17.3</i>	<i>19.7</i>	<i>16.7</i>	<i>17.5</i>	<i>19.1</i>	<i>18.5</i>	<i>18.0</i>	<i>19.0</i>	<i>20.0</i>
Net financial items	-0.3	0.2	-0.1	0.2	-0.1	0.0	-0.7	-0.1	-0.1	-1.0	-0.1	0.0
Pre-tax profit	3.4	5.5	5.0	4.6	18.4	3.9	4.2	5.0	5.0	18.0	22.8	27.6
Tax	-0.5	-1.1	-0.5	-1.5	-3.6	-0.3	-0.9	-1.0	-1.0	-3.3	-4.6	-5.5
<i>Tax rate (%)</i>	<i>14.3</i>	<i>20.6</i>	<i>9.6</i>	<i>32.3</i>	<i>19.4</i>	<i>9.1</i>	<i>22.9</i>	<i>20.0</i>	<i>20.1</i>	<i>18.4</i>	<i>20.0</i>	<i>20.0</i>
Net profit	2.9	4.4	4.5	3.1	14.9	3.5	3.2	4.0	4.0	14.7	18.3	22.1
EPS	0.20	0.31	0.31	0.22	1.03	0.24	0.22	0.28	0.28	1.02	1.27	1.54
EPS adjusted (diluted no. of shares)	0.20	0.30	0.30	0.21	1.00	0.24	0.22	0.27	0.27	0.99	1.23	1.49
Dividend per share	0.00	0.00	0.00	0.00	0.38	0.00	0.00	0.00	0.00	0.38	0.47	0.62
<b>SALES, EURm</b>												
MBU	7.5	9.2	11.5	10.1	38.3	8.6	8.1	8.4	8.7	33.8	38.9	44.7
SBU	11.8	15.2	13.1	15.5	55.6	14.5	19.4	18.6	19.0	71.5	82.0	93.5
Total	19.3	24.4	24.6	25.6	93.9	23.1	27.5	26.9	27.7	105.2	120.9	138.2
<b>SALES GROWTH, Y/Y %</b>												
<i>MBU</i>	<i>10.0</i>	<i>26.3</i>	<i>29.2</i>	<i>24.7</i>	<i>23.2</i>	<i>15.0</i>	<i>-12.1</i>	<i>-27.4</i>	<i>-13.9</i>	<i>-11.9</i>	<i>15.3</i>	<i>14.9</i>
<i>SBU</i>	<i>-2.5</i>	<i>16.0</i>	<i>-1.5</i>	<i>-20.1</i>	<i>-4.0</i>	<i>22.9</i>	<i>27.6</i>	<i>41.6</i>	<i>22.6</i>	<i>28.5</i>	<i>14.8</i>	<i>14.0</i>
<i>Total</i>	<i>2.0</i>	<i>19.7</i>	<i>10.8</i>	<i>-6.9</i>	<i>5.5</i>	<i>19.8</i>	<i>12.6</i>	<i>9.3</i>	<i>8.2</i>	<i>12.0</i>	<i>14.9</i>	<i>14.3</i>
<b>EBIT, EURm</b>												
MBU	0.0	0.0	0.0	0.0	0.0	1.4	1.4	1.6	1.6	6.1	7.4	8.9
SBU	0.0	0.0	0.0	0.0	0.0	2.4	3.4	3.5	3.5	12.9	15.6	18.7
Group	3.7	5.3	5.1	4.4	18.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total	3.7	5.3	5.1	4.4	18.5	3.9	4.8	5.1	5.1	18.9	23.0	27.6
<b>EBIT margin, %</b>												
<i>MBU</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>16.7</i>	<i>17.5</i>	<i>19.1</i>	<i>18.5</i>	<i>17.9</i>	<i>19.0</i>	<i>20.0</i>
<i>SBU</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>16.7</i>	<i>17.5</i>	<i>19.1</i>	<i>18.5</i>	<i>18.0</i>	<i>19.0</i>	<i>20.0</i>
<i>Total</i>	<i>19.2</i>	<i>21.7</i>	<i>20.7</i>	<i>17.3</i>	<i>19.7</i>	<i>16.7</i>	<i>17.5</i>	<i>19.1</i>	<i>18.5</i>	<i>18.0</i>	<i>19.0</i>	<i>20.0</i>

INCOME STATEMENT, EURm	2014	2015	2016	2017	2018	2019E	2020E	2021E
Sales	33.1	42.8	75.5	89.0	93.9	105.2	120.9	138.2
<i>Sales growth (%)</i>	<i>8.9</i>	<i>29.2</i>	<i>76.5</i>	<i>17.9</i>	<i>5.5</i>	<i>12.0</i>	<i>14.9</i>	<i>14.3</i>
EBITDA	4.8	5.8	17.3	22.1	20.9	21.9	25.5	30.4
<i>EBITDA margin (%)</i>	<i>14.6</i>	<i>13.4</i>	<i>22.9</i>	<i>24.9</i>	<i>22.3</i>	<i>20.8</i>	<i>21.1</i>	<i>22.0</i>
Depreciation	-0.7	-1.3	-2.5	-2.2	-2.4	-2.9	-2.5	-2.8
EBITA	4.1	4.5	14.8	19.9	18.5	18.9	23.0	27.6
Goodwill amortization / writedown	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EBIT	4.1	4.5	14.8	19.9	18.5	18.9	23.0	27.6
<i>EBIT margin (%)</i>	<i>12.4</i>	<i>10.5</i>	<i>19.6</i>	<i>22.4</i>	<i>19.7</i>	<i>18.0</i>	<i>19.0</i>	<i>20.0</i>
Reported EBIT	3.1	3.4	14.8	19.9	18.5	18.9	23.0	27.6
<i>EBIT margin (reported) (%)</i>	<i>9.4</i>	<i>8.0</i>	<i>19.6</i>	<i>22.4</i>	<i>19.7</i>	<i>18.0</i>	<i>19.0</i>	<i>20.0</i>
Net financials	-0.3	-2.4	-0.7	-0.5	-0.1	-1.0	-0.1	0.0
Pre-tax profit	3.8	2.1	14.1	19.4	18.4	18.0	22.8	27.6
Taxes	0.0	-0.1	-3.2	-4.2	-3.6	-3.3	-4.6	-5.5
Minority shares	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net profit	2.8	0.9	10.9	15.2	14.9	14.7	18.3	22.1
Cash NRIs	-1.0	-1.1	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
<b>BALANCE SHEET, EURm</b>								
Assets								
Fixed assets	4	7	6	6	9	11	11	12
Goodwill	0	0	0	0	0	0	0	0
Right of use assets	0	0	0	0	0	0	0	0
Inventory	6	7	11	9	13	15	17	19
Receivables	7	14	22	21	27	25	29	33
Liquid funds	3	7	16	27	22	32	36	46
Total assets	20	35	54	62	71	82	93	111
Liabilities								
Shareholder's equity	1	21	31	42	51	61	73	89
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	11	1	7	5	4	4	0	0
Non-interest bearing current liabilities	7	11	14	15	15	17	19	22
Other interest-free debt	1	2	3	1	0	0	0	0
Total liabilities	20	35	54	62	71	82	93	111
<b>CASH FLOW, EURm</b>								
+ EBITDA	5	6	17	22	21	22	26	30
- Net financial items	-1	4	8	11	0	-1	0	0
- Taxes	0	0	-1	-3	-5	-3	-5	-6
- Increase in Net Working Capital	0	-2	-11	1	-10	1	-3	-4
+/- Other	-1	-8	-9	-12	0	0	0	0
= Cash flow from operations	3	0	5	19	6	19	17	21
- Capex	-1	-5	-2	-2	-5	-5	-3	-4
- Acquisitions	0	0	0	0	0	0	0	0
+ Divestments	0	0	0	0	0	0	0	0
= Free cash flow	1	-4	3	17	1	14	14	17
+/- New issues/buybacks	0	19	0	-1	0	0	0	0
- Paid dividend	0	0	-1	-3	-5	-5	-5	-7
+/- Other	-3	-10	6	-2	0	0	-4	0
Change in cash	-1	4	8	11	-4	9	5	10

KEY FIGURES	2015	2016	2017	2018	2019E	2020E	2021E
M-cap	63	188	250	224	395	395	395
Net debt (excl. convertibles)	-6	-9	-22	-18	-27	-36	-46
Enterprise value	57	179	228	206	368	359	349
Sales	43	76	89	94	105	121	138
EBITDA	6	17	22	21	22	26	30
EBIT	5	15	20	19	19	23	28
Pre-tax	2	14	19	18	18	23	28
Earnings	2	11	15	15	15	18	22
Equity book value (excl. minorities)	21	31	42	51	61	73	89
<b>Valuation multiples</b>							
EV/sales	1.3	2.4	2.6	2.2	3.5	3.0	2.5
EV/EBITDA	9.9	10.3	10.3	9.8	16.8	14.1	11.5
EV/EBITA	12.7	12.1	11.5	11.1	19.4	15.6	12.6
EV/EBIT	12.7	12.1	11.5	11.1	19.4	15.6	12.6
EV/OCF	150.8	36.6	12.3	33.6	19.4	20.7	16.6
EV/FCFF	-15.0	48.3	13.3	142.7	24.4	24.7	20.9
P/FCFE	-14.5	57.3	14.9	162.4	27.7	27.4	23.6
P/E	14.2	17.2	16.5	15.1	26.9	21.6	17.9
P/B	3.0	6.1	6.0	4.4	6.5	5.4	4.5
Target EV/EBITDA	0.0	0.0	0.0	0.0	14.5	12.1	9.8
Target EV/EBIT	0.0	0.0	0.0	0.0	16.8	13.4	10.8
Target EV/FCF	0.0	0.0	0.0	0.0	22.2	21.4	17.9
Target P/B	0.0	0.0	0.0	0.0	5.7	4.7	3.9
Target P/E	0.0	0.0	0.0	0.0	24.3	19.5	16.1
<b>Per share measures</b>							
Number of shares	12,951	13,426	13,901	14,375	14,375	14,375	14,375
Number of shares (diluted)	12,951	13,426	13,901	14,849	14,875	14,875	14,875
EPS	0.15	0.81	1.09	1.03	1.02	1.27	1.54
Operating cash flow per share	0.03	0.36	1.34	0.43	1.32	1.21	1.47
Free cash flow per share	-0.34	0.24	1.21	0.10	0.99	1.00	1.16
Book value per share	1.63	2.30	3.00	3.57	4.21	5.11	6.18
Dividend per share	0.07	0.25	0.35	0.38	0.38	0.47	0.62
Dividend payout ratio, %	45.5	30.8	32.1	36.7	37.0	37.0	40.0
Dividend yield, %	1.4	1.8	1.9	2.4	1.4	1.7	2.2
FCF yield, %	-6.9	1.7	6.7	0.6	3.6	3.6	4.2
<b>Efficiency measures</b>							
ROE	17.7	41.9	41.8	32.0	26.2	27.3	27.3
ROCE	23.0	48.2	47.4	36.4	31.4	33.1	34.0
<b>Financial ratios</b>							
Inventories as % of sales	15.8	14.0	9.6	14.2	14.0	14.0	14.0
Receivables as % of sales	32.5	28.6	24.1	28.4	24.0	24.0	24.0
Non-interest bearing liabilities as % of sales	26.5	18.7	16.8	16.4	16.0	16.0	16.0
NWC/sales, %	19.6	21.5	15.7	25.9	21.8	21.9	21.9
Operative CAPEX/sales, %	11.1	2.1	2.1	5.0	4.5	2.4	3.1
CAPEX/sales (incl. acquisitions), %	11.1	2.1	2.1	5.0	4.5	2.4	3.1
FCFF/EBITDA	-0.7	0.2	0.8	0.1	0.7	0.6	0.6
Net debt/EBITDA, book-weighted	-1.1	-0.5	-1.0	-0.9	-1.2	-1.4	-1.5
Debt/equity, market-weighted	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Equity ratio, book-weighted	60.7	57.8	67.5	73.0	74.5	79.5	80.4
Gearing, %	-29.5	-29.2	-52.3	-35.6	-44.8	-49.2	-51.9

**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	143.142	36.2%
OP-Finland Value Fund	651,065	17.904	4.5%
Ilmarinen Mutual Pension Insurance Company	554,000	15.235	3.9%
Varma Mutual Pension Insurance Company	515,000	14.162	3.6%
Sijoitusrahasto Aktia Capital	484,762	13.331	3.4%
Fondita Nordic Micro Cap	390,000	10.725	2.7%
Evli Finnish Small Cap Fund	327,259	9.000	2.3%
Martola Hannu Veikko	322,875	8.879	2.2%
Saastopankki Kotimaa	200,000	5.500	1.4%
Ten largest	8,650,128	237.879	60%
Residual	5,725,302	157.446	40%
Total	14,375,430	395.324	100%

## EARNINGS CALENDAR

## OTHER EVENTS

## COMPANY MISCELLANEOUS

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IR: Johanna Tarkiainen

## 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, %	$\frac{\text{Profit before extraordinary items and taxes} - \text{income taxes}}{\text{Shareholder's equity} + \text{minority interest} + \text{taxed provisions (average)}}$		

**Important Disclosures**

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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 timer per year.

Recommendation	Percentage
Sell	8%
Hold	53%
Buy	39%

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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