

This report is prepared for the Warsaw Stock Exchange SA within the framework of the Analytical Coverage Support Pilot Program.

Voxel

7/2020/GPW (20) March 23, 2020

Analyst: Sylwia Jaśkiewicz, CFA

Sector: Health care
 Fundamental rating: Buy (→)
 Market relative: Overweight (→)
 Price: PLN 27.00
 12M EFV: PLN 39.5 (→)

Market Cap: US\$ 66.1 m
 Bloomberg code: VOX PW
 Av. daily turnover: US\$ 0.022 m
 12M range: PLN 24.80-34.00
 Free float: 51%

4Q19 financial results

On March 22, after the market close, Voxel released its 4Q19 financial results which are quite in line with our expectations as far as EBITDA is concerned, though slightly lower as regards NI mainly due to a one-off (PLN 0.5 million) and higher financial costs than we assumed (one-time valuation/a write-off for loans and receivables in the amount of PLN 1.1 million).

The Company's financial results were supported by (i) continuation of the existing contracts with NFZ and the new ones emerging, (ii) increase in the number of facilities (MRI facilities in Limanowa and Gliwice, PET-CT facility in Jelenia Góra, SPECT in Kraków, 3T MRI and CT facility in Warsaw, MRI and CT in Elbląg, CT in Bolesławiec, MRI and CT in Łańcut (change of location)), (iii) unlimited reimbursement of CT/ MRI procedures (since April 2019), (iv) introduction of changes in the valuation of PET-CT and SPECT services (increase by 3% from July 1, 2019).

The volumes. At 4Q19-end the Company comprised imaging diagnostics centers equipped with (i) 18 MRI devices, (ii) 15 CT devices, (iii) 7 PET-CT devices and (iv) 4 SPECT devices. The volumes of CT/ MRI/ PET scans increased by 17% yoy to 58,800 while we expected 58,000 scans (+9%/ +37%/ +26% yoy to 48,841/ 58,323/ 59,354 scans in 1Q/ 2Q/ 3Q19). The Group carried out 23,100 (+7% yoy)/ 32,800 (+25% yoy)/ 2,900 (+11% yoy) scans in 4Q19 while the respective revenues increased by 3%/ 17%/13% yoy to PLN 6.4 million/15.9 million/8.8 million.

The total number of scans performed in FY19 amounted to 275,000 (+15% yoy) including 225,00 CT, MRI and PET scans (+22% yoy). Exira conducted 477 gamma knife surgeries (+23% yoy) and 4,200 MRI scans (flat yoy).

Guide to adjusted profits

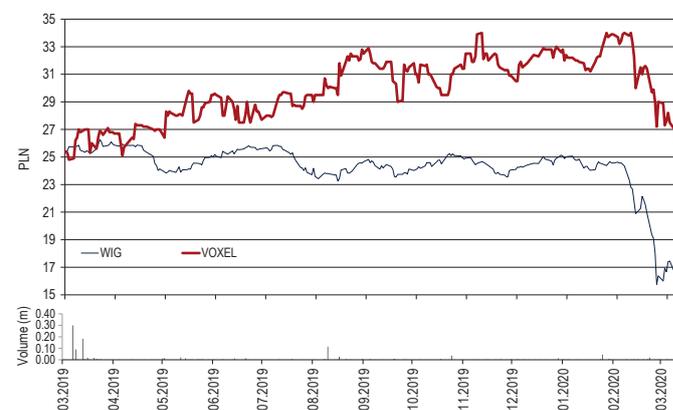
No factors necessitating adjustments.

Key data

IFRS consolidated		2018	2019	2020E	2021E
Sales	PLN m	170.4	211.7	256.8	266.9
EBITDA	PLN m	45.3	57.2	68.4	73.3
EBIT	PLN m	31.0	34.3	40.3	42.8
Net income	PLN m	23.4	23.0	27.4	29.7
EPS	PLN	2.2	2.2	2.6	2.8
EPS yoy chg	%	18	-2	20	8
Net debt	PLN m	55.9	106.4	102.2	85.6
P/E	x	12.1	12.3	10.3	9.5
P/CE	x	7.5	6.2	5.1	4.7
EV/EBITDA	x	7.5	6.8	5.6	5.0
EV/EBIT	x	10.9	11.4	9.6	8.6
DPS	PLN	1.00	0.99	1.04	1.16
Gross dividend yield	%	3.7	3.7	3.8	4.3
Number of shares (eop)	m	10.5	10.5	10.5	10.5

Source: Company, DM BOŚ SA estimates

Stock performance



Source: Bloomberg

Upcoming events

1. Release of 1Q20 results: May 26, 2020
2. Release of 1H20 results: August 21, 2020
3. Release of 3Q20 results: November 23, 2020

The sales. Voxel's 4Q19 revenues (including Hannah) reached PLN 36 million (+14% yoy), Exira and Vito-Med delivered PLN 2 million and PLN 6 million, respectively. Revenues in Alteris noted a 13% yoy decline to PLN 33 million which stems from 4Q18

Fig. 1. Voxel; 4Q19 financials vs. forecasts

IFRS consolidated (PLN m)	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19	4Q19E	4Q19 vs forecasts	yoy chg	2018	2019	2019E	yoy chg
Sales	32.6	33.8	38.5	65.6	49.1	46.6	48.6	67.3	70.4	→	3%	170.4	211.7	214.7	24%
Profit on sales	4.8	5.6	7.2	11.7	7.2	7.8	8.5	10.0	10.8	→	-14%	29.3	33.6	34.4	15%
Profit on sales margin	14.9%	16.7%	18.6%	17.8%	14.7%	16.8%	17.5%	14.9%	15.4%	-	-	17.2%	15.9%	16.0%	-
EBITDA	8.8	9.2	11.8	15.6	12.8	13.7	14.6	16.2	16.9	→	4%	45.3	57.2	58.0	26%
EBITDA margin	26.9%	27.2%	30.7%	23.7%	26.1%	29.3%	30.0%	24.0%	24.1%	-	-	26.6%	27.0%	27.0%	-
EBIT	5.3	5.7	8.3	11.8	7.4	8.1	8.8	10.0	11.1	→	-15%	31.0	34.3	35.4	11%
EBIT margin	16.2%	16.8%	21.6%	18.0%	15.1%	17.4%	18.1%	14.8%	15.8%	-	-	18.2%	16.2%	16.5%	-
Pre-tax profit	4.8	5.5	7.9	11.0	6.2	6.9	7.6	7.8	9.9	↓	-29%	29.1	28.5	30.5	-2%
Pre-tax profit margin	14.8%	16.2%	20.5%	16.7%	12.5%	14.8%	15.6%	11.6%	14.0%	-	-	17.1%	13.4%	14.2%	-
Net profit	3.9	4.3	6.4	8.8	5.0	5.5	6.0	6.5	7.9	↓	-27%	23.4	23.0	24.4	-2%
Net profit margin	12.0%	12.6%	16.6%	13.5%	10.1%	11.8%	12.4%	9.6%	11.3%	-	-	13.7%	10.9%	11.4%	-

Source: The Company, DM BOS SA

high base and shifting of some projects to 2020. The Group's quarterly sales arrived at PLN 67 million (+3% yoy).

The results. The Group's 4Q19 profit on sales reached PLN 10 million and was in line with our expectations at PLN 10.8 million. A yoy decline was due to lifting a limit on CT and MRI scans (the respective revenues recognized as they are delivered, thus differently than in 2018). We assumed a tad higher other operating revenues and slightly lower D&A. However both EBITDA and EBIT are close to our expectations, the more so they are lowered by a PLN 0.5 million contractual penalty booked in 4Q19.

The margin. 4Q19 EBIT margin was at 14.8% vs 18.0% and 18.1% in 4Q18 and 3Q19, respectively. The margin drop results from (i) changes in the Group's structure (acquisitions of less profitable entities), (ii) new facilities results (lower utilization), (iii) medical services costs hike and (iv) increase in the number of NFZ-reimbursed tests at the expense of private tests.

Financial costs. The Group's 4Q19 financial costs amounted to PLN 2.2 million vs PLN 1.3 million expected by us and PLN 0.8 million a year before; this increase stems from a mounting debt and IFRS 16 introduction. Besides, financial costs were elevated in 4Q19 by one-time valuation/a write-off for loans and receivables in the amount of PLN 1.1 million. The effective tax rate stood at 18% vs 19% in 4Q18.

NI. 4Q19 NI reached PLN 6 million (-27% yoy) and turned out lower than we forecasted under the impact of a PLN 0.5 million one-off cost and higher financial costs than we expected.

Net debt. The Group's net debt at 2019-end stood at PLN 110 million vs PLN 56 million at 2018-end and was fully in line with our expectations.

COVID-19. The Company expects the COVID-16 pandemic to affect the financial performance. A decline in the number of diagnostic tests is expected though urgent tests are carried out on an ongoing basis. Additionally the Group runs diagnostic units in 4 hospitals for infectious diseases with one acting as a hospital subcontractor. Testing has been suspended in 2 facilities (in Warsaw and in Łańcut). The number of tests is also likely to decrease due to disinfection procedures and longer intervals between tests required.

The Company intends to offset the above mentioned negative factors with an introduction of work schedules changes and staff leaves. Besides, the Ministry of Health has temporarily facilitated a comparable monthly payments due to pending contracts with NFZ corresponding to 1/12 of the annual plan. Thus both Voxel and Vito-Med will receive monthly inflows from NFZ for services which can be delivered in the subsequent months. Additionally, it transpired that CT is useful in diagnostics and assessment of COVID-16 aftereffects which may lead to an increase in the number of performed CT scans. The COVID-19 pandemic impact on the activities of Voxel and Vito-Med is limited due to a range and nature of services provided (urgent treatments and oncology services). Alteris may face some limitations with respect to construction works and equipment supplies, however usually this time is not seasonally favorable.

The summary. Voxel's results are much in line with our forecasts. We believe that at the moment with the COVID-19 pandemic the key issue will be further developments in the health care. The Company is likely to face some negative effects of COVID-19 in the ST, albeit we assume that after the epidemic will have faded out a high increase in testing will follow. We also expect higher demand for CT scans and we would like to note that our ST forecasts for the Company will have to be revised.

BASIC DEFINITIONS

A/R turnover (in days) = $365/(\text{sales}/\text{average A/R})$
Inventory turnover (in days) = $365/(\text{COGS}/\text{average inventory})$
A/P turnover (in days) = $365/(\text{COGS}/\text{average A/P})$
Current ratio = $(\text{current assets} - \text{ST deferred assets})/\text{current liabilities}$
Quick ratio = $(\text{current assets} - \text{ST deferred assets} - \text{inventory})/\text{current liabilities}$
Interest coverage = $(\text{pre-tax profit before extraordinary items} + \text{interest payable})/\text{interest payable}$
Gross margin = $\text{gross profit on sales}/\text{sales}$
EBITDA margin = $\text{EBITDA}/\text{sales}$
EBIT margin = EBIT/sales
Pre-tax margin = $\text{pre-tax profit}/\text{sales}$
Net margin = $\text{net profit}/\text{sales}$
ROE = $\text{net profit}/\text{average equity}$
ROA = $(\text{net income} + \text{interest payable})/\text{average assets}$
EV = $\text{market capitalization} + \text{interest bearing debt} - \text{cash and equivalents}$
EPS = $\text{net profit}/\text{no. of shares outstanding}$
CE = $\text{net profit} + \text{depreciation}$
Dividend yield (gross) = $\text{pre-tax DPS}/\text{stock market price}$
Cash sales = $\text{accrual sales corrected for the change in A/R}$
Cash operating expenses = $\text{accrual operating expenses corrected for the changes in inventories and A/P, depreciation, cash taxes and changes in the deferred taxes}$

DM BOŠ S.A. generally values the covered non bank companies via two methods: comparative method and DCF method (discounted cash flows). The advantage of the former is the fact that it incorporates the current market assessment of the value of the company's peers. The weakness of the comparative method is the risk that the valuation benchmark may be mispriced. The advantage of the DCF method is its independence from the current market valuation of the comparable companies. The weakness of this method is its high sensitivity to undertaken assumptions, especially those related to the residual value calculation. Please note that we also resort to other valuation techniques (e.g. NAV-, DDM- or SOTP-based), should it prove appropriate in a given case.

KEY TO INVESTMENT RANKINGS

This is a guide to expected price performance in absolute terms over the next 12 months:

Buy – fundamentally undervalued (upside to 12M EFV in excess of the cost of equity) + catalysts which should close the valuation gap identified;
Hold – either (i) fairly priced, or (ii) fundamentally undervalued/overvalued but lacks catalysts which could close the valuation gap;
Sell – fundamentally overvalued (12M EFV < current share price + 1-year cost of equity) + catalysts which should close the valuation gap identified.

This is a guide to expected relative price performance:

Overweight – expected to perform better than the benchmark (WIG) over the next quarter in relative terms
Neutral – expected to perform in line with the benchmark (WIG) over the next quarter in relative terms
Underweight – expected to perform worse than the benchmark (WIG) over the next quarter in relative terms

The recommendation tracker presents the performance of DM BOŠ S.A.'s recommendations. A recommendation expires on the day it is altered or on the day 12 months after its issuance, whichever comes first.

Relative performance compares the rate of return on a given recommended stock in the period of the recommendation's validity (i.e. from the date of issuance to the date of alteration or – in case of maintained recommendations – from the date of issuance to the current date) in a relation to the rate of return on the benchmark in this time period. The WIG index constitutes the benchmark. For recommendations that expire by an alteration or are maintained, the ending values used to calculate their absolute and relative performance are: the stock closing price on the day the recommendation expires/ is maintained and the closing value of the benchmark on that date. For recommendations that expire via a passage of time, the ending values used to calculate their absolute and relative performance are: the average of the stock closing prices for the day the recommendation elapses and four directly preceding sessions and the average of the benchmark's closing values for the day the recommendation expires and four directly preceding sessions.

Distribution of DM BOŠ's current recommendations

	Buy	Hold	Sell	Suspended	Under revision
Numbers	32	38	5	13	0
Percentage	36%	43%	6%	15%	0%

Banks

Net Interest Margin (NIM) = $\text{net interest income}/\text{average assets}$
Non interest income = $\text{fees\&commissions} + \text{result on financial operations (trading gains)} + \text{FX gains}$
Interest Spread = $(\text{interest income}/\text{average interest earning assets})/(\text{interest cost}/\text{average interest bearing liabilities})$
Cost/Income = $(\text{general costs} + \text{depreciation})/(\text{profit on banking activity} + \text{other net operating income})$
ROE = $\text{net profit}/\text{average equity}$
ROA = $\text{net income}/\text{average assets}$
Non performing loans (NPL) = loans in 'basket 3' category
NPL coverage ratio = $\text{loan loss provisions}/\text{NPL}$
Net provision charge = $\text{provisions created} - \text{provisions released}$

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Distribution of DM BOŠ's current recommendations for the companies which DM BOŠ has supplied with material investment services within the last 12 months

	Buy	Hold	Sell	Suspended	Under revision
Numbers	2	5	2	3	0
Percentage	17%	42%	17%	25%	0%

Distribution of DM BOŠ's current market relative recommended weightings

	Overweight	Neutral	Underweight	Suspended	Under revision
Numbers	30	31	14	13	0
Percentage	34%	35%	16%	15%	0%

Distribution of DM BOŠ's current market relative recommended weightings for the companies which DM BOŠ has supplied with material investment services within the last 12 months

	Overweight	Neutral	Underweight	Suspended	Under revision
Numbers	1	5	3	3	0
Percentage	8%	42%	25%	25%	0%

LT fundamental recommendation tracker

Analyst	Recommendation	Report date	Reiteration date	Distribution date	Expiry date	Performance	Relative performance	Price at issue/reiteration*	EFV (12 months)
Voxel									
Sylwia Jaškiewicz	Buy	21.07.2019	-	22.07.2019	Not later than 21.07.2020	0%	55%	28.00	35.10 →
Sylwia Jaškiewicz	-	→	30.07.2019	31.07.2019	-	-	-	29.60	35.10 →
Sylwia Jaškiewicz	-	→	18.08.2019	19.08.2019	-	-	-	29.50	34.10 ↓
Sylwia Jaškiewicz	-	→	21.08.2019	22.08.2019	-	-	-	30.20	34.10 →
Sylwia Jaškiewicz	-	→	01.09.2019	02.09.2019	-	-	-	30.90	34.10 →
Sylwia Jaškiewicz	-	→	10.09.2019	11.09.2019	-	-	-	32.00	35.70 ↑
Sylwia Jaškiewicz	-	→	13.10.2019	14.10.2019	-	-	-	31.50	35.70 →
Sylwia Jaškiewicz	-	→	24.10.2019	25.10.2019	-	-	-	31.00	35.70 →
Sylwia Jaškiewicz	-	→	17.11.2019	18.11.2019	-	-	-	32.50	35.70 →
Sylwia Jaškiewicz	-	→	25.11.2019	26.11.2019	-	-	-	34.00	35.70 →
Sylwia Jaškiewicz	-	→	04.12.2019	05.12.2019	-	-	-	32.40	38.40 ↑
Sylwia Jaškiewicz	-	→	08.12.2019	09.12.2019	-	-	-	31.50	38.40 →
Sylwia Jaškiewicz	-	→	09.01.2020	10.01.2020	-	-	-	32.70	38.40 →
Sylwia Jaškiewicz	-	→	02.02.2020	03.02.2020	-	-	-	31.20	39.50 ↑
Sylwia Jaškiewicz	-	→	04.02.2020	05.02.2020	-	-	-	32.20	39.50 →
Sylwia Jaškiewicz	-	→	06.02.2020	07.02.2020	-	-	-	32.30	39.50 →
Sylwia Jaškiewicz	-	→	03.03.2020	04.03.2020	-	-	-	31.00	39.50 →
Sylwia Jaškiewicz	-	→	23.03.2020	24.03.2020	-	-	-	27.00	39.50 →

* prices at issue/reiteration are the closing prices at the report or reiteration date

Market-relative recommendation tracker

Analyst	Relative Recommendation	Report date	Reiteration date	Distribution date	Expiry date	Price at issue/reiteration*	Relative performance
Voxel							
Sylwia Jaškiewicz	Overweight	21.07.2019	-	22.07.2019	Not later than 21.07.2020	28.00	55%
Sylwia Jaškiewicz	-	→	30.07.2019	31.07.2019	-	29.60	-
Sylwia Jaškiewicz	-	→	18.08.2019	19.08.2019	-	29.50	-
Sylwia Jaškiewicz	-	→	21.08.2019	22.08.2019	-	30.20	-
Sylwia Jaškiewicz	-	→	01.09.2019	02.09.2019	-	30.90	-
Sylwia Jaškiewicz	-	→	10.09.2019	11.09.2019	-	32.00	-
Sylwia Jaškiewicz	-	→	13.10.2019	14.10.2019	-	31.50	-
Sylwia Jaškiewicz	-	→	24.10.2019	25.10.2019	-	31.00	-
Sylwia Jaškiewicz	-	→	17.11.2019	18.11.2019	-	32.50	-
Sylwia Jaškiewicz	-	→	25.11.2019	26.11.2019	-	34.00	-
Sylwia Jaškiewicz	-	→	04.12.2019	05.12.2019	-	32.40	-
Sylwia Jaškiewicz	-	→	08.12.2019	09.12.2019	-	31.50	-
Sylwia Jaškiewicz	-	→	09.01.2020	10.01.2020	-	32.70	-
Sylwia Jaškiewicz	-	→	02.02.2020	03.02.2020	-	31.20	-
Sylwia Jaškiewicz	-	→	04.02.2020	05.02.2020	-	32.20	-
Sylwia Jaškiewicz	-	→	06.02.2020	07.02.2020	-	32.30	-
Sylwia Jaškiewicz	-	→	03.03.2020	04.03.2020	-	31.00	-
Sylwia Jaškiewicz	-	→	23.03.2020	24.03.2020	-	27.00	-

* prices at issue/reiteration are the closing prices at the report or reiteration date

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