

Voxel

Sector: Health care
Fundamental rating: Buy (→)
Market relative: Overweight (→)
Price: PLN 40.80
12M EFV: PLN 54.7 (↑)

Market Cap: US\$ 116,6 m
Bloomberg code: VOX PW
Av. daily turnover: US\$ 0.06 m
12M range: PLN 26.00-45.90
Free float: 51%

Key points

- COVID-19 impact.** In the aftermath of the pandemic outbreak, the Company's 1H20 financials were materially lower yoy. In June 2020, Vito-Med started to perform RT-PCR test for SARS-CoV-2 while Alteris started to offer the infrastructure related to Covid-19. The new activities translated into superb financial results in 3Q20 and we have also great expectations towards 4Q20.

Though it is difficult to predict the pandemic development, it seems likely that it will take at least several months before it will be contained by means of vaccination. In the meantime, the Group will perform tests and afterwards we expect a strong demand for diagnostic imaging services, previously deferred by the pandemic, to surface.

Moreover, new laboratories can perform highly sensitive and accurate evidence-based genetic and molecular RT-PCR tests, mainly in the field of oncology. It may develop Voxel's offer into the full package of personalized medicine, namely genetic, molecule tests coupled with the medical imaging.

- Infrastructure.** Since Jan. 1 the Group has been consolidating 2 new entities: Rezonans Powiśle (RP) and Scanix, which also perform diagnostic tests reimbursed by NFZ. At the end of 3Q20 the Group was equipped with 67 diagnostic machines in total, including 26/ 19/ 7 MRI/ CT/ PET-CT scanners and 4 SPECT scan machines. There were two new facilities in 3Q20. The Company's infrastructure has been expanding (5 MR in Bochnia, Sochaczew, Tarnów, Zabrze, Bielsko-Biała, 1 PET in Warsaw).

- Diagnostics.** In January/ February/ March/ April/ May/ June/ July/ August/ September/ October the parent company carried out 20,200 (+27% yoy)

Guide to adjusted profits

Results adjusted for (i) gains on the occasional purchase of Scanix, (ii) real estate disposal, and (iii) compensation.

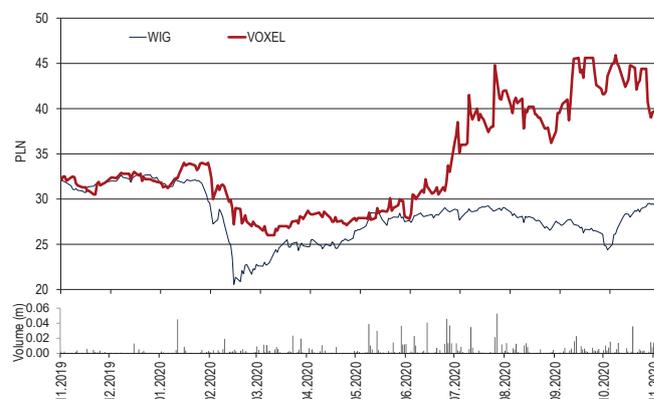
Key data

IFRS consolidated		2019	2020E	2021E	2022E
Sales	PLN m	211.7	309.6	319.8	280.3
EBITDA	PLN m	57.2	91.2	96.4	83.9
Adj EBITDA	PLN m	57.7	82.0	96.4	83.9
EBIT	PLN m	34.3	57.1	62.4	48.3
Adj EBIT	PLN m	34.8	47.8	62.4	48.3
Net income	PLN m	22.9	38.9	46.6	34.8
Adj NI	PLN m	24.2	32.0	46.6	34.8
EPS	PLN	2.18	3.70	4.44	3.32
EPS yoy chg	%	-2	69	20	-25
Adj EPS	PLN	2.31	3.05	4.44	3.32
Adj EPS yoy chg	%	8	32	46	-25
Net debt	PLN m	106.4	109.1	81.9	69.8
P/E	x	18.3	10.8	9.0	12.1
Adj P/E	x	17.3	13.1	9.0	12.1
P/CE	x	9.2	5.8	5.2	6.0
Adj P/CE	x	8.9	6.4	5.2	6.0
EV/EBITDA	x	9.2	5.8	5.2	5.8
Adj EV/EBITDA	x	9.1	6.5	5.2	5.8
EV/EBIT	x	15.3	9.3	8.1	10.1
Adj EV/EBIT	x	15.1	11.1	8.1	10.1
DPS	PLN	0.99	0.91	1.63	1.95
Gross dividend yield	%	2.5	2.3	4.1	4.9
Number of shares (eop)	m	10.5	10.5	10.5	10.5

Multiples priced as of the close of December 2, 2020

Source: Company, DM BOS SA estimates

Stock performance



Source: Bloomberg

Upcoming events

- Release of FY20 financials: March, 2021

20,300 (+34% yoy)/ 14,200 (-21% yoy)/ 8,500 (-57% yoy)/ 12,100 (-38% yoy)/ 16,200 (-14% yoy)/ 18,000 (-13% yoy)/ 17,100 (-14% yoy)/ 17,900 (-5% yoy)/ 18,700 (-9% yoy) tests. This implies that the volume decline trend has been reduced despite the second wave of pandemic. Moreover, Exira performed 145 procedures, +14% yoy, mainly due to the Gamma Knife upgrade. We expect 193,805 tests in FY20, down 14% yoy, and assume a rebound in 2021. We assume the shift towards higher volumes of MRI and PET vs TK procedures to be continued (supportive for the average price). We also expect a growth in the radiopharmaceuticals sales, mainly newly approved fluorocholine (FCH).

- **Vito-Med.** The newly modernized stroke/neurological ward has started to operate since August 1. Moreover, the hospital was granted the third level of reference to help patients with strokes in the aftermath of the Covid-19. This means a higher price per bed and per procedure.
- **Alteris** has been offering medical module units (7 projects worth PLN 12 million in 2/3Q20) as well as been active in development of other Covid-19 related infrastructure (TK, RTG), and supplies Vito-Med with necessary materials. The backlog for 4Q20 exceeds PLN 55 million.
- **4Q20E earnings.** In 1Q20/ 2Q20/ 3Q20 the volume of CT/ MRI/ PET scans reached 54,600 (+12% yoy)/36,800 (-37% yoy)/ 53,000 (-11% yoy). We assume 49,405 procedures, -16% yoy, in 4Q20. A number of SARS-CoV-2 tests performed in June/ July/ August/ September/ October stood at 5,100/ 14,800/ 31,100/ 26,700/ 65,485 with the sales at PLN 1 million/ PLN 4 million/ PLN 9 million/ PLN 8 million/ PLN 18 million. We conservatively assume a lower mom number of tests in November and December albeit the Group has new laboratories, in Nowy Sącz, Warsaw, and Krosno (the monthly capacity may reach 100,000 SARS-CoV-2 tests at the year-end). The number of performed tests at Voxel's laboratories should be higher than in other laboratories, as the Company has 22 swab points and 2 swab buses. Assuming Voxel/ RP/ Scanix/ Exira/ Vito-Med/ Alteris revenues at PLN 33 million/ PLN 2 million/ PLN 4 million/ PLN 2 million/ PLN 43 million/ PLN 35 million, we arrive at PLN 120 million of consolidated sales and PLN 33 million of EBIT in 4Q20.
- **FY financial forecasts.** 1-3Q20 sales and adjusted NP reached PLN 190 million (+31% yoy) and PLN 7 million (-56% yoy). At the end of 3Q20 the Company had PLN 10 million as future income (to be accounted for till the mid-2021). We increase our forecasts and expect FY20 NP/ adjusted NP at PLN 39 million (+69% yoy)/ PLN 32 million (+32% yoy).
- **2021E outlook.** We assume a quite flattish yoy volume of SARS-CoV-2 tests in FY21, to be performed mainly in 1H21, and do not expect any testing in the following years. Yet, we believe that the results should be supported by: (i) lack of limits for TK and MR, (ii) increase in PET procedures (after the source upgrade), (iii) new infrastructure, (iii) new business lines (genetic and molecular RT-PCR tests in the aftermath of SARS-CoV-2 tests), (iv) radiomic development (diagnostic standardization, deep learning (AI – structure reporting)), and (v) subsequent acquisitions (yet without impact on the dividend level).

Fig. 1. Voxel; Changes in DM BOŚ SA forecast

IFRS consolidated (PLN m)	2020E			2021E			2022E		
	current	previous	change	current	previous	change	current	previous	change
Sales	309.6	301.1	3%	319.8	317.4	1%	280.3	277.1	1%
EBITDA	91.2	76.1	20%	96.4	95.7	1%	83.9	82.9	1%
Adj EBITDA	82.0	66.9	23%	96.4	95.7	1%	83.9	82.9	1%
EBIT	57.1	44.7	28%	62.4	61.7	1%	48.3	47.6	1%
Adj EBIT	47.8	35.5	35%	62.4	61.7	1%	48.3	47.6	1%
Net profit	38.9	30.4	28%	46.6	46.6	0%	34.8	34.9	0%
Adj net profit	32.0	23.5	36%	46.6	46.6	0%	34.8	34.9	0%
Net debt	109.1	117.9	-7%	81.9	82.6	-1%	69.8	71.6	-3%

Source: DM BOŚ SA estimates

- **Risks to financial forecasts.** Our forecasts are encumbered with high risk (both ways).
- **Valuation.** The update of our financial forecasts results in a 5% increase of our 12M EFV for the Company, being a 50% – 50% mix of DCF FCFF method and peer-relative valuation, to PLN 54.7 from PLN 52.3 per share. The DCF FCF/ peer relative valuation implies PLN 59/ PLN 51 (previously PLN 57/ 48) per share.
- **Recommended action.** We believe that the Company is well positioned to strengthen during the current turmoil. It offers not only growth prospects but also a nice dividend stream. The currently lowered demand for CT and MRI procedures seems to be deferred, not lost, while new laboratories will enhance the offer towards the personalized medicine.

Risk factors

1. Drop of public spending on healthcare (high exposure to NFZ)
2. The decline in medical services pricing, in particular, CT, MRI, PET-CT treatments
3. Change in the State's policy regarding private medical contractors
4. Changes in the Company's contracts with NFZ (the majority secured to 2023/2024)
5. Changes in legislation regarding the funding of hospitals/treatments
6. The decline in the society's affluence (FFS and commercial clients contribute up to 20% of Voxel's revenues)
7. New innovative methods of cancer diagnostics/treatment
8. Medical errors – reputational risk
9. Low and deteriorating availability of radiologists
10. Loss/low labor supply
11. Salary pressure (in particular of medical and IT staff)
12. Oversized investments
13. Lagging behind the technological progress in diagnostics

Catalysts

1. Aging society
2. The number of diagnostic imaging treatments below the standards in developed countries
3. Change of PET funding in hospital treatments
4. Medical services pricing increase
5. Development of the market of private medical services
6. Improvement of the treatment mix (towards more advanced)
7. New medical services (such as micro-invasive treatments, fusion biopsy, radiofrequency liver ablation, TI, BI, BMN)
8. Development of a profitable segment of pharmaceutical research (clinical trials)
9. Organic growth, new centres (high barriers to entry)
10. Acquisitions – economies of scale
11. Cooperation with Warsaw University; new radio tracers
12. Consolidation of the sector; potential acquisition target
13. AI development and new algorithms for test descriptions
14. IT software development for cloud diagnostics
15. New business lines (SARS-CoV-2 tests, swabs)

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	41	28	5	9	0
Percentage	49%	34%	6%	11%	0%

Distribution of DM BOŠ's current market relative recommended weightings

	Overweight	Neutral	Underweight	Suspended	Under revision
Numbers	33	29	12	9	0
Percentage	40%	35%	14%	11%	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 = $\text{provisions created} - \text{provisions released}$

DM BOŠ S.A. generally values the covered banks via two methods: comparative method and fundamental target fair P/E and target fair P/BV multiples method. 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 fundamental target fair P/E and target fair P/BV multiples method is its independence of 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. Assumptions used in valuation can change, influencing thereby the level of the valuation. Among the most important assumptions are: GDP growth, forecasted level of inflation, changes in interest rates and currency prices, employment level and change in wages, demand on the analysed company products, raw material prices, competition, standing of the main customers and suppliers, legislation changes, etc. Changes in the environment of the analysed company are monitored by analysts involved in the preparation of the recommendation, estimated, incorporated in valuation and published in the recommendation whenever needed.

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	5	5	0	2	0
Percentage	42%	42%	0%	17%	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	3	5	2	2	0
Percentage	25%	42%	17%	17%	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 Jaśkiewicz	Buy	21.07.2019	-	22.07.2019	25.06.2020	10%	32%	28.00	35.10 -
Sylwia Jaśkiewicz	-	-	30.07.2019	31.07.2019	-	-	-	29.60	35.10 →
Sylwia Jaśkiewicz	-	-	18.08.2019	19.08.2019	-	-	-	29.50	34.10 ↓
Sylwia Jaśkiewicz	-	-	21.08.2019	22.08.2019	-	-	-	30.20	34.10 →
Sylwia Jaśkiewicz	-	-	01.09.2019	02.09.2019	-	-	-	30.90	34.10 →
Sylwia Jaśkiewicz	-	-	10.09.2019	11.09.2019	-	-	-	32.00	35.70 ↑
Sylwia Jaśkiewicz	-	-	13.10.2019	14.10.2019	-	-	-	31.50	35.70 →
Sylwia Jaśkiewicz	-	-	24.10.2019	25.10.2019	-	-	-	31.00	35.70 →
Sylwia Jaśkiewicz	-	-	17.11.2019	18.11.2019	-	-	-	32.50	35.70 →
Sylwia Jaśkiewicz	-	-	25.11.2019	26.11.2019	-	-	-	34.00	35.70 →
Sylwia Jaśkiewicz	-	-	04.12.2019	05.12.2019	-	-	-	32.40	38.40 ↑
Sylwia Jaśkiewicz	-	-	08.12.2019	09.12.2019	-	-	-	31.50	38.40 →
Sylwia Jaśkiewicz	-	-	09.01.2020	10.01.2020	-	-	-	32.70	38.40 →
Sylwia Jaśkiewicz	-	-	02.02.2020	03.02.2020	-	-	-	31.20	39.50 ↑
Sylwia Jaśkiewicz	-	-	04.02.2020	05.02.2020	-	-	-	32.20	39.50 →
Sylwia Jaśkiewicz	-	-	06.02.2020	07.02.2020	-	-	-	32.30	39.50 →
Sylwia Jaśkiewicz	-	-	03.03.2020	04.03.2020	-	-	-	31.00	39.50 →
Sylwia Jaśkiewicz	-	-	30.03.2020	31.03.2020	-	-	-	26.50	39.50 →
Sylwia Jaśkiewicz	-	-	14.04.2020	15.04.2020	-	-	-	27.00	34.00 ↓
Sylwia Jaśkiewicz	-	-	22.04.2020	23.04.2020	-	-	-	28.10	34.00 →
Sylwia Jaśkiewicz	-	-	19.05.2020	20.05.2020	-	-	-	27.30	34.00 →
Sylwia Jaśkiewicz	-	-	15.06.2020	16.06.2020	-	-	-	28.60	34.00 →
Sylwia Jaśkiewicz	Hold	25.06.2020	-	26.06.2020	29.07.2020	29%	26%	29.80	34.00 →
Sylwia Jaśkiewicz	-	-	13.07.2020	14.07.2020	-	-	-	30.60	34.00 →
Sylwia Jaśkiewicz	Buy	29.07.2020	-	30.07.2020	Not later than 29.07.2021	6%	0%	38.50	43.00 ↑
Sylwia Jaśkiewicz	-	-	23.08.2020	24.08.2020	-	-	-	44.80	50.40 ↑
Sylwia Jaśkiewicz	-	-	01.09.2020	02.09.2020	-	-	-	39.50	50.40 →
Sylwia Jaśkiewicz	-	-	08.10.2020	09.10.2020	-	-	-	43.40	50.40 →
Sylwia Jaśkiewicz	-	-	08.11.2020	09.11.2020	-	-	-	44.70	50.40 →
Sylwia Jaśkiewicz	-	-	11.11.2020	12.11.2020	-	-	-	42.40	52.30 ↑
Sylwia Jaśkiewicz	-	-	22.11.2020	23.11.2020	-	-	-	44.40	52.30 →
Sylwia Jaśkiewicz	-	-	06.12.2020	07.12.2020	-	-	-	40.80	54.70 ↑

* 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 Jaśkiewicz	Overweight	21.07.2019	-	22.07.2019	25.06.2020	28.00	32%
Sylwia Jaśkiewicz	-	-	30.07.2019	31.07.2019	-	29.60	-
Sylwia Jaśkiewicz	-	-	18.08.2019	19.08.2019	-	29.50	-
Sylwia Jaśkiewicz	-	-	21.08.2019	22.08.2019	-	30.20	-
Sylwia Jaśkiewicz	-	-	01.09.2019	02.09.2019	-	30.90	-
Sylwia Jaśkiewicz	-	-	10.09.2019	11.09.2019	-	32.00	-
Sylwia Jaśkiewicz	-	-	13.10.2019	14.10.2019	-	31.50	-
Sylwia Jaśkiewicz	-	-	24.10.2019	25.10.2019	-	31.00	-
Sylwia Jaśkiewicz	-	-	17.11.2019	18.11.2019	-	32.50	-
Sylwia Jaśkiewicz	-	-	25.11.2019	26.11.2019	-	34.00	-
Sylwia Jaśkiewicz	-	-	04.12.2019	05.12.2019	-	32.40	-
Sylwia Jaśkiewicz	-	-	08.12.2019	09.12.2019	-	31.50	-
Sylwia Jaśkiewicz	-	-	09.01.2020	10.01.2020	-	32.70	-
Sylwia Jaśkiewicz	-	-	02.02.2020	03.02.2020	-	31.20	-
Sylwia Jaśkiewicz	-	-	04.02.2020	05.02.2020	-	32.20	-
Sylwia Jaśkiewicz	-	-	06.02.2020	07.02.2020	-	32.30	-
Sylwia Jaśkiewicz	-	-	03.03.2020	04.03.2020	-	31.00	-
Sylwia Jaśkiewicz	-	-	30.03.2020	31.03.2020	-	26.50	-
Sylwia Jaśkiewicz	-	-	14.04.2020	15.04.2020	-	27.00	-
Sylwia Jaśkiewicz	-	-	22.04.2020	23.04.2020	-	28.10	-
Sylwia Jaśkiewicz	-	-	19.05.2020	20.05.2020	-	27.30	-
Sylwia Jaśkiewicz	-	-	15.06.2020	16.06.2020	-	28.60	-
Sylwia Jaśkiewicz	Neutral	25.06.2020	-	26.06.2020	29.07.2020	29.80	26%
Sylwia Jaśkiewicz	-	-	13.07.2020	14.07.2020	-	30.60	-
Sylwia Jaśkiewicz	Overweight	29.07.2020	-	30.07.2020	Not later than 29.07.2021	38.50	0%
Sylwia Jaśkiewicz	-	-	23.08.2020	24.08.2020	-	44.80	-
Sylwia Jaśkiewicz	-	-	01.09.2020	02.09.2020	-	39.50	-
Sylwia Jaśkiewicz	-	-	08.10.2020	09.10.2020	-	43.40	-
Sylwia Jaśkiewicz	-	-	08.11.2020	09.11.2020	-	44.70	-
Sylwia Jaśkiewicz	-	-	11.11.2020	12.11.2020	-	42.40	-
Sylwia Jaśkiewicz	-	-	22.11.2020	23.11.2020	-	44.40	-
Sylwia Jaśkiewicz	-	-	06.12.2020	07.12.2020	-	40.80	-

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

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