

ELEKTA

Sweden

Healthcare / Medical devices - equipment

BUY

May 6, 2019

Company description

Elekta AB is an international medical-technology group, providing meaningful clinical solutions, comprehensive information systems and services for treatment of neurological disorders and radiation of cancer. Clinical solutions include among others Leksell Gamma Knife, a non-invasive surgical tool for the management of small and hard to locate intracranial lesions, Elekta Synergy for image guided radiation therapy (IGRT) as well as a complete system for stereotactic neurosurgery. Elekta employs nearly 4'000 employees worldwide. Elekta is listed on NASDAQ Stockholm Exchange.

Recent developments

February 22, 2019: the Company reported Q3 numbers. The 12% order growth beat consensus, as well as net sales beat but EBITA is behind and cash flow disappoint (due to a high level in invoicing late in the quarter).

Lower than expected margins have driven another year where the company has had to downgrade guidance. EBITA missed consensus by a material 17%. On the back of this, the group cut its FY 2018/19 EBITA margin outlook from c. 20% to c. 18%. Management maintained that product mix should improve and that it is targeting further cost savings. Additionally, R&D capitalization is expected to increase. As a result, it reiterated its mid-term-margin expectations (>20% EBITA).

Upcoming events:

May 29, 2019: Q4 report (fiscal year ending in April)
August 22, 2019: Q1 report & 2019 Annual General Meeting
November 22, 2019: Q2 report

Investment conclusion

Elekta's Q3 margin growth was a clear disappointment. Many analysts cut their earnings forecasts and target price. Investors could react negatively. After a strong run the weak margin, lowered guidance and weak cash flow is likely to disappoint despite the strong revenue growth and Linac MR orders (magnetic resonance images/radiation therapy).

A short-term risk some analysts see is that Q4, Elekta's most important quarter (36% of last year's EBITA), is no easy feed. With this short-term risk with the upcoming Q4 results, the stock could exhibit some volatility around this event. However, we can mention the following positives: The top-line dynamic for both orders and sales remains promising with underlying market remaining healthy. In addition, there is a major investment programme in China that at some stage should start to contribute to order growth.

Performance



	1m	3m	12m
Absolute perf.	0.7%	-5.2%	13.8%
DMX Stockholm	1.7%	8.1%	4.6%
30 Index perf			

Market data

Share price (SEK), as of May 6, 2019:	112.85
52-wk range:	97.12–131.35
Mkt cap (SEK m):	43'900
Nb of shares issued:	368.6 m
Bloomberg ticker:	EKTAB SS
Isin:	SE0000163628

Financial summary (In mio SEK) & Valuation

	Q4/2017	Q4/2018	Q4/2019e	Q4/2020e
Sales	10'704	11'333	13'226	14'743
Operating income	1'314	1'502	1'768	2'176
Net Income adj.	527	1'115	1'241	1'575
EPS adj.	1.38	2.92	3.19	4.08
DPS (per SEK)	1.00	1.40	1.34	1.65
Div. yield (%)	1.1%	1.4%	1.2%	1.5%
P/E adj. (x)	67.0	34.1	35.4	27.7

Source: Bloomberg

Equity rating—Bloomberg consensus

		Nb of analysts
Buys	50.0%	8
Holds	12.5%	2
Sells	37.5%	6