

Update: Report Q1 2021

2021-05-20

Magle Chemoswed: Progressing as planned

- Revenues lower but margins higher than expected
- Acquisition of PharmaCept closed during the quarter
- We keep our valuation interval of SEK 42.70 – 57.30 per share

Analysts

Alf Rippe, CFA
073-840 4008
alf.riple@vhcorp.se

Jens Jacob Aabel Nordkvist
073-422 5876
jensjacob.aabelnordkvist@vhcorp.se

Stock ticker: **MAGLE**
Industry: **Healthcare**
Listed on: **First North Stockholm**
Latest stock price (SEK): **36,00**
Market cap (MSEK): **399,6**
Enterprise Value (MSEK): **410,1**
Total number of shares (M): **10,80**
- of which free float (M): **1,73**

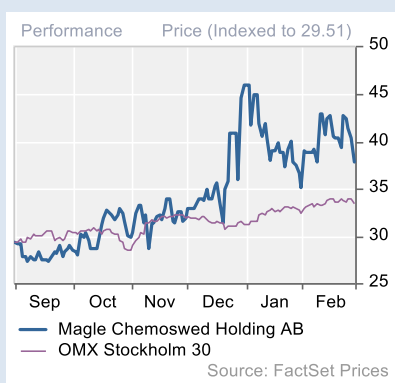
VHCF fair value per share
DCF model **SEK 42.70 - 57.30**

Magle Chemoswed Holding AB
Address: **Agneslundsvägen 27**
212 15, Malmö
Webpage: **maglechemoswed.com**
CEO: **Justin Pierce**

Main owners (23 Sept 2020)

	Capital (%)
Magle AB (H.H. Lidgard)	74,0%
Fosielund Holding AB	10,0%
Others	16,0%

Stock price history



	-1m	-3m	-12m
Change (%)	-2,7	-8,7	na
52 w k range (Low /H) - SEK	19,28	49,00	

Source: FactSet

Magle Chemoswed's report for the first quarter of 2021 came in largely as expected; actual revenues were somewhat lower than we had forecast but the company's margins were slightly better than our estimates. The COVID-19 pandemic meant that demand for manufacturing was lower this past quarter than in the first quarter of 2020, thereby decreasing revenues. Some of this revenue decrease was, however, offset by an increase in demand for their development services within CDMO. Royalty payments increased as well compared to the same period last year. No changes are made to the valuation model, hence we retain our valuation interval of SEK 42.70 – 57.30 per share.

The company's reported decrease in revenue is mainly attributable to a decreased demand within the manufacturing of advanced pharmaceutical ingredients; a decrease anticipated by Magle Chemoswed. Currency headwinds and a change in product focus furthermore decreased revenues, but, despite this revenue decrease, the company state that no customers within the segment have been lost during the period. During the [web conference](#) with the company's CEO Justin Pierce and CFO Petra Jönsson Sjölin, the more evenly distributed revenue across the company's different segments was also highlighted. This is illustrated in Figure 1 (next page) where all the three segments have similar revenues.

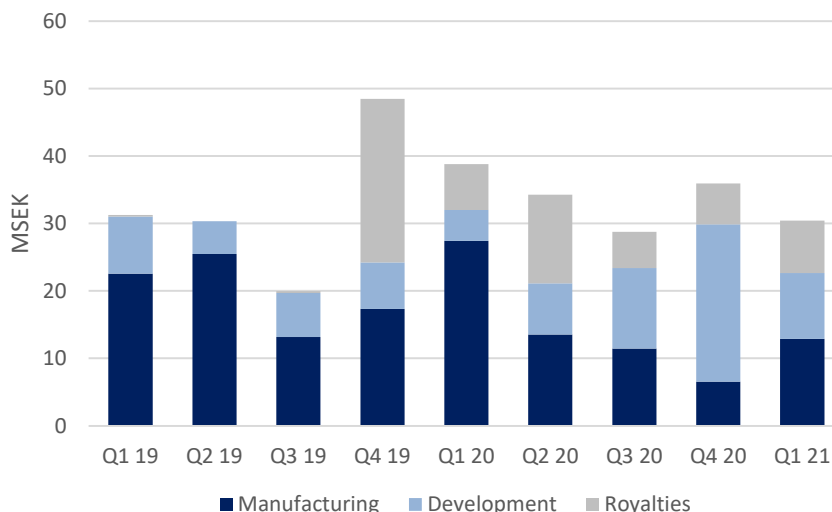
Magle Chemoswed illustrated impressive cost control during the quarter, helping them beat our estimates for both gross margin and net profit. The company's cost of goods sold decreased more than the decrease in revenue. This is mainly attributable to three factors: the renegotiation of contracts with suppliers, the implementation of a lean manufacturing process and the use of a more accurate costing model for inventory allowing for efficient inventory use. This entails a sustainable gross margin further on.

Table 1: Financial Overview

MSEK	2019	2020	2021e	2022e	2023e
Net turnover	127,6	137,7	147,4	187,5	223,9
Growth (%)	20,4%	8,0%	7,0%	27,3%	19,4%
Gross margin (%)	78,4%	77,9%	81,9%	81,7%	82,5%
EBIT	0,1	4,5	8,2	32,3	58,1
EBIT margin (%)	0,1%	3,1%	5,3%	16,5%	24,9%
Cash holdings	3,3	6,1	44,1	66,8	118,9
Total assets	212,3	198,1	220,6	248,1	302,3
Total equity	113,7	116,1	142,7	167,9	221,1
Solidity (%)	53,5%	58,6%	64,7%	67,7%	73,1%
P/E	534,9	219,7	61,7	15,9	8,7
ROE	0,7%	1,6%	4,5%	15,0%	20,7%
EV/EBIT (x)	3 015,6	90,6	50,1	12,7	7,1
EV/Sales (x)	3,2	3,0	2,8	2,2	1,8

Source: Västra Hamnen Corporate Finance

Figure 1: Revenue by business areas



Source: Västra Hamnen Corporate Finance

Lower revenue but higher profit margins than expected

Compared to our forecasts, Magle Chemoswed beat the majority of our estimates. Net revenue, as discussed, was around SEK 1 million lower due to the decreased demand within manufacturing. This, combined with other revenues, which pertain to media sales, resulted in total revenues that were SEK 2.4 million lower than expected. The cost of goods sold, an impressive SEK 3.4 million lower than forecasted, meant the gross profit was almost SEK 1 million better. The company's cost control is also evident in their lower other operating expenses, meaning EBITDA and net profit were significantly better than we expected. Lastly, the difference in cash and equivalents is primarily explained by the fact that we expected the acquisition of PharmaCept, which is discussed below, to result in a cash payment in Q1 2021 for Magle Chemoswed, however that payment will instead occur in Q2 2021. This has been adjusted for in our forecasts.

Table 2: Estimates vs actual, Q1 2021

kSEK	Q1 '20	Q1 '21est	Q1 '21act	Diff
Net Revenues	38 793	31 526	30 429	(1 097)
Other Revenues	2 569	2 293	966	(1 327)
Total Revenues	41 362	33 819	31 395	(2 424)
Cost of Goods Sold	(13 627)	(7 280)	(3 912)	3 368
Gross Profit	27 735	26 540	27 483	943
Personnel Expenses	(16 584)	(13 857)	(15 004)	(1 147)
Other Operating Expenses	(8 296)	(10 940)	(8 943)	1 997
Total OPEX	(24 880)	(24 797)	(23 947)	850
EBITDA	2 855	1 742	3 536	1 794
Amortisation and Depreciation	(2 668)	(3 325)	(2 754)	571
EBIT	187	(1 582)	782	2 364
Net Financial Items	351	(171)	498	669
EBT	538	(1 753)	1 280	3 033
Tax	(128)	361	(276)	(637)
Net Profit	410	(1 392)	1 004	2 396
				-
Cash and Equivalents	2 684	15 396	23 464	8 067
Total Equity	113 516	134 729	137 271	2 542

Source: Västra Hamnen Corporate Finance

Acquisition of PharmaCept closed during the quarter

During the quarter, Magle Chemoswed announced that the acquisition of PharmaCept was closed. During the web conference it was also disclosed that PharmaCept is due to be consolidated as of the 1st of June 2021 and that around SEK 16 million of the abovementioned cash will be used as payment during the next quarter. The acquisition will help Magle Chemoswed grow their direct sales and marketing channels within Europe. This means Magle Chemoswed will have to increase their personnel as they currently lack staff within sales and marketing. However, in November 2020 [Magle Chemoswed stated](#) that the acquisition will increase net revenue by EUR 1.7 – 2.5 million and increase EBIT by EUR 0.2 –

0.3 million. The net effect will therefore be positive and should become visible during the end of the second quarter and during the third quarter of 2021.

Potential for increase in development and royalties

Looking further ahead and turning to the company's product portfolio, capacity within development services still exists. As Figure 1 shows, development revenue during Q4 2020 was uniquely high. This was due to the addition of three long-term customers and high demand for certain one-off jobs carried out during the quarter. CEO Justin Pierce stated during the web conference that after a more normal quarter revenue-wise for development services, capacity still exists for one or two more customers during 2021 and that offers are being considered. Royalties, which are received from the American company Becton Dickinson, also increased from the previous quarter. This signals that the US market is starting to open up after the progression of COVID-19 vaccinations and that customers will start to increase their inventory as a result.

SmartPan and SmartGel progressing as planned

As for the pipeline's progress, SmartPan and SmartGel are progressing as planned. As we wrote in our [update for Q4 2020](#), reimbursement codes are being filed and pricing points for the product are being assessed currently. SmartPan is expected to launch sometime between the end of Q2 and beginning of Q3 2021. The work with SmartGel's distributor is progressing as planned and revenue from the product is expected sometime between June and July 2021.

One development not previously mentioned is Magle Chemoswed's application during the quarter to the Swedish Medicines Agency for a practice licence to develop and manufacture sterile drug products. This will increase the company's capabilities within CDMO and will help meet the expected global demand from pharmaceutical companies interested in developing or manufacturing sterile drug products.

We retain our valuation interval of SEK 42.70 – 57.30 per share

However, clinical testing for pharmaceutical development has decreased as a result of the COVID-19 pandemic and the impact is not expected to subside in the near-term. Nonetheless, the strong balance sheet, with less than 20 percent debt to total assets, allows for future acquisitions or investments to be made, but as of now no such actions are imminent. This entails no changes in our valuation model are made, except for the small adjustment of the PharmaCept payment to Q2. Despite the minimal changes, we will monitor the gross margin going forward more closely since an increase in our gross margin estimates may become relevant if Magle Chemoswed succeed in sustaining current levels. But for now, we choose to hold our valuation unchanged while we await further evidence. **Hence, we maintain our valuation interval of SEK 42.70 – 57.30 per share.**

Income Statement - Annual Data

kSEK	2019	2020	2021e	2022e	2023e	2024e	2025e	2026e
Net sales	127 569	137 749	147 367	187 540	223 868	251 392	276 938	296 419
Capitalized development cost	4 214	-	-	-	-	-	-	-
Other revenues	7 706	8 502	7 288	8 797	9 237	9 699	10 183	10 693
Total revenues	139 489	146 251	154 655	196 337	233 105	261 091	287 122	307 112
Cost of goods sold	(27 576)	(30 395)	(26 615)	(34 298)	(39 142)	(43 774)	(48 134)	(51 611)
Gross profit	111 913	115 856	128 040	162 038	193 962	217 316	238 987	255 500
Other external expenses	(38 416)	(40 801)	(45 720)	(52 688)	(56 515)	(59 162)	(61 474)	(63 164)
Personnel costs	(57 345)	(58 859)	(61 601)	(64 598)	(67 537)	(70 610)	(73 823)	(77 182)
Other operating expenses	(2 759)	(3)	-	-	-	-	-	-
EBITDA	13 393	16 193	20 720	44 753	69 910	87 544	103 690	115 155
Amortisation & depreciation	(13 257)	(11 667)	(12 530)	(12 440)	(11 820)	(11 259)	(10 753)	(10 295)
EBIT	136	4 526	8 189	32 313	58 090	76 285	92 937	104 860
Net financial items	927	(2 093)	(12)	(650)	(570)	(490)	(410)	(330)
EBT	1 063	2 433	8 177	31 663	57 520	75 796	92 528	104 531
Taxes	(316)	(614)	(1 697)	(6 523)	(11 849)	(15 614)	(19 061)	(21 533)
Net profit	747	1 819	6 481	25 140	45 671	60 182	73 467	82 997
Earnings per share (SEK)	-	0,14	0,60	2,33	4,20	5,42	6,62	7,48
Growth (%)								
Net turnover	20,4%	8,0%	7,0%	27,3%	19,4%	12,3%	10,2%	7,0%
EBITDA	284,3%	20,9%	28,0%	116,0%	56,2%	25,2%	18,4%	11,1%
EBIT	na	3227,6%	81,0%	294,6%	79,8%	31,3%	21,8%	12,8%
Net profit	na	143,4%	256,4%	287,9%	81,7%	31,8%	22,1%	13,0%
% of revenues (%)								
Gross margin	78,4%	77,9%	81,9%	81,7%	82,5%	82,6%	82,6%	82,6%
EBITDA margin	9,6%	11,1%	13,4%	22,8%	30,0%	33,5%	36,1%	37,5%
EBIT margin	0,1%	3,1%	5,3%	16,5%	24,9%	29,2%	32,4%	34,1%
EBT margin	0,8%	1,7%	5,3%	16,1%	24,7%	29,0%	32,2%	34,0%
Profit margin	0,5%	1,2%	4,2%	12,8%	19,6%	23,1%	25,6%	27,0%
Personnel costs	45,0%	42,7%	41,8%	34,4%	30,2%	28,1%	26,7%	26,0%
Total OPEX	77,2%	72,4%	72,8%	62,5%	55,4%	51,6%	48,9%	47,3%
Profitability (%)								
ROE	0,7%	1,6%	4,5%	15,0%	20,7%	21,4%	20,7%	19,0%
ROIC	0,1%	2,0%	3,9%	15,0%	26,8%	34,9%	42,2%	47,8%
ROCE	0,1%	2,4%	3,7%	12,9%	18,6%	19,9%	19,8%	18,4%

Source: Västra Hamnen Corporate Finance

Balance Sheet - Annual Data

kSEK	2019	2020	2021e	2022e	2023e	2024e	2025e	2026e
Cash and cash eq	3 294	6 121	44 139	66 761	118 850	177 360	249 166	330 978
Inventory	27 243	18 348	17 175	19 882	22 393	24 947	27 160	28 737
Trade payables	18 424	26 271	20 112	25 501	28 865	32 276	35 153	37 054
Other payables	8 838	14 271	12 235	15 513	17 560	19 635	21 385	22 541
Prepayments and accrued income	19 677	-	-	-	-	-	-	-
Derivative instruments	-	-	-	-	-	-	-	-
Total current assets	77 476	65 011	93 661	127 656	187 668	254 218	332 863	419 309
Tangible assets	102 090	104 029	100 017	96 163	92 680	89 533	86 688	84 118
Intangible assets	27 998	28 966	26 847	24 262	21 925	19 813	17 905	16 181
Financial assets	4 714	56	56	56	56	56	56	56
Total fixed assets	134 802	133 051	126 921	120 481	114 661	109 402	104 649	100 354
Total assets	212 278	198 062	220 582	248 137	302 329	363 620	437 512	519 663
Short-term debt	10 365	12 723	10 020	10 020	10 020	10 020	10 020	10 020
Trade payables	17 190	12 365	8 587	9 941	11 196	12 474	13 580	14 368
Liabilities to Group companies	16 000	-	-	-	-	-	-	-
Other short-term debt	16 682	22 671	25 762	29 823	33 589	37 421	40 740	43 105
Accrued expenses and prepaid income	25 583	-	-	-	-	-	-	-
Total current liabilities	85 820	47 759	44 369	49 784	54 806	59 915	64 340	67 493
Long-term liabilities	12 799	34 183	33 980	30 980	26 980	22 980	18 980	14 980
Total equity	113 659	116 121	142 748	167 888	221 059	281 241	354 708	437 705
Total equity and liabilities	212 278	198 063	221 097	248 653	302 845	364 136	438 028	520 179

Source: Västra Hamnen Corporate Finance

Cash flow statement

kSEK	2019	2020	2021e	2022e	2023e	2024e	2025e	2026e
Operating activities	14 606	16 180	19 011	37 580	57 491	71 441	84 220	93 292
Changes in working capital	(21 691)	(1 720)	9 297	(5 959)	(2 901)	(2 931)	(2 414)	(1 480)
Investing activities	(66 600)	(7 350)	(7 352)	(6 000)	(6 000)	(6 000)	(6 000)	(6 000)
Financing activities	-	4 951	19 764	(3 000)	3 500	(4 000)	(4 000)	(4 000)
Cash flow for the period	1 053	2 826	38 018	22 622	52 090	58 510	71 806	81 812
Beginning cash balance	2 241	3 294	6 121	44 139	66 761	118 850	177 360	249 166
Adjustments	-	1	1	-	-	-	-	-
Ending cash balance	3 294	6 121	44 139	66 761	118 850	177 360	249 166	330 978

Source: Västra Hamnen Corporate Finance

Income Statement - Quarterly Data

kSEK	Q2 2020	Q3 2020	Q4 2020	Q1 2021	Q2 2021e	Q3 2021e	Q4 2021e	Q1 2022e
Net sales	34 263	28 779	35 914	30 429	37 218	38 936	40 784	42 786
Capitalized development cost	-	-	-	-	-	-	-	-
Other revenues	2 642	2 799	492	966	2 082	2 107	2 133	2 159
Total revenues	36 905	31 578	36 406	31 395	39 300	41 043	42 917	44 945
Cost of goods sold	(3 208)	(5 664)	(7 896)	(3 912)	(7 301)	(7 566)	(7 836)	(8 113)
Gross profit	33 697	25 914	28 510	27 483	31 999	33 478	35 081	36 832
Other external expenses	(13 320)	(10 117)	(9 068)	(8 943)	(12 042)	(12 255)	(12 479)	(12 715)
Personnel costs	(13 683)	(12 015)	(16 577)	(15 004)	(15 360)	(15 532)	(15 705)	(15 881)
Other operating expenses	-	(3)	-	-	-	-	-	-
EBITDA	6 694	3 779	2 865	3 536	4 597	5 691	6 896	8 236
Amortisation & depreciation	(3 645)	(2 686)	(2 668)	(2 754)	(3 304)	(3 258)	(3 214)	(3 172)
EBIT	3 049	1 093	197	782	1 294	2 432	3 682	5 064
Net financial items	126	(1 565)	(1 005)	498	(170)	(170)	(170)	(170)
EBT	3 175	(472)	(808)	1 280	1 124	2 262	3 512	4 894
Taxes	(692)	88	118	(276)	(231)	(466)	(723)	(1 008)
Net profit	2 483	(384)	(690)	1 004	892	1 796	2 788	3 886
Earnings per share (SEK)	0,25	(0,04)	(0,07)	0,09	0,08	0,17	0,26	0,36
Y-o-Y Growth (%)								
Net turnover	7,4%	(9,8%)	12,6%	(21,6%)	8,6%	35,3%	13,6%	40,6%
EBITDA	99,9%	12,9%	(14,4%)	23,9%	(31,3%)	50,6%	140,7%	132,9%
EBIT	8867,6%	3120,6%	476,8%	318,2%	(57,6%)	122,1%	1777,4%	547,6%
Net profit	1229,6%	na	na	144,9%	(64,1%)	na	na	287,1%
% of revenues (%)								
Gross margin	90,6%	80,3%	78,0%	87,1%	80,4%	80,6%	80,8%	81,0%
EBITDA margin	18,1%	12,0%	7,9%	11,3%	11,7%	13,9%	16,1%	18,3%
EBIT margin	8,3%	3,5%	0,5%	2,5%	3,3%	5,9%	8,6%	11,3%
EBT margin	8,6%	neg	neg	4,1%	2,9%	5,5%	8,2%	10,9%
Profit margin	6,7%	neg	neg	3,2%	2,3%	4,4%	6,5%	8,6%
Personnel costs	39,9%	41,7%	46,2%	49,3%	41,3%	39,9%	38,5%	37,1%
Total OPEX	78,8%	76,9%	71,4%	78,7%	73,6%	71,4%	69,1%	66,8%
Profitability (%)								
ROE	2,1%	neg	neg	0,7%	0,6%	1,3%	2,0%	2,7%
ROIC	1,6%	0,6%	0,1%	0,4%	0,8%	1,5%	2,2%	3,1%
ROCE	1,6%	0,6%	0,1%	0,4%	0,6%	1,1%	1,7%	2,2%

Source: Västra Hamnen Corporate Finance

Balance Sheet - Quarterly Data

kSEK	Q2 2020	Q3 2020	Q4 2020	Q1 2021	Q2 2021e	Q3 2021e	Q4 2021e	Q1 2022e
Cash and cash eq	2 386	15 092	6 121	23 464	37 737	40 509	44 139	48 715
Inventory	17 756	18 632	18 348	18 093	16 002	16 582	17 175	17 782
Trade payables	22 572	14 110	26 271	21 750	18 354	19 201	20 112	21 100
Other payables	20 920	7 874	14 271	16 858	11 165	11 681	12 235	12 836
Prepayments and accrued income	-	-	-	-	-	-	-	-
Derivative instruments	-	-	-	-	-	-	-	-
Total current assets	63 634	55 708	65 011	80 165	83 259	87 973	93 661	100 432
Tangible assets	104 827	105 405	104 029	103 175	102 096	101 043	100 017	99 017
Intangible assets	27 427	27 622	28 966	28 966	28 242	27 536	26 847	26 176
Financial assets	55	56	56	56	56	56	56	56
Total fixed assets	132 309	133 083	133 051	132 197	130 393	128 635	126 921	125 249
Total assets	195 943	188 791	198 062	212 362	213 652	216 608	220 582	225 681
Short-term debt	6 393	3 854	12 723	10 020	10 020	10 020	10 020	10 020
Trade payables	9 544	7 501	12 365	8 427	8 001	8 291	8 587	8 891
Liabilities to Group companies	-	-	-	-	-	-	-	-
Other short-term debt	28 644	27 153	22 671	23 179	24 003	24 873	25 762	26 672
Accrued expenses and prepaid income	-	-	-	-	-	-	-	-
Total current liabilities	44 581	38 508	47 759	41 626	42 025	43 185	44 369	45 583
Long-term liabilities	35 139	34 442	34 183	33 980	33 980	33 980	33 980	33 980
Total equity	116 223	115 840	116 121	137 271	138 163	139 959	142 748	146 634
Total equity and liabilities	195 943	188 790	198 063	212 877	214 168	217 124	221 097	226 197

Source: Västra Hamnen Corporate Finance

Cash flow statement

kSEK	Q2 2020	Q3 2020	Q4 2020	Q1 2021	Q2 2021e	Q3 2021e	Q4 2021e	Q1 2022e
Operating activities	9 292	2 303	1 978	3 758	4 196	5 055	6 003	7 058
Changes in working capital	(13 824)	9 491	(3 416)	(625)	11 578	(783)	(873)	(981)
Investing activities	(4 694)	(773)	32	(2 852)	(1 500)	(1 500)	(1 500)	(1 500)
Financing activities	8 928	1 683	(7 565)	17 061	-	-	-	-
Cash flow for the period	(298)	12 705	(8 971)	17 343	14 273	2 772	3 630	4 577
Beginning cash balance	2 684	2 386	15 092	6 121	23 464	37 737	40 509	44 139
Adjustments	-	1	-	1	-	-	-	-
Ending cash balance	2 386	15 092	6 121	23 464	37 737	40 509	44 139	48 715

Source: Västra Hamnen Corporate Finance

Disclaimer

This marketing material has been prepared by Västra Hamnen Corporate Finance AB ("Västra Hamnen").

The material has not been prepared in accordance with the regulations designed to promote the independence of investment research and it is not subject to any legal prohibition on dealing ahead of the dissemination of the report.

The material has been prepared on the basis of publicly available information that Västra Hamnen has deemed to be reliable. However, it cannot be guaranteed that the information is correct. The material is published for marketing purposes and does not purport to constitute a basis for any investment decision. The information provided herein does not constitute investment advice and neither does the information take into consideration the individual needs, goals and circumstances of any particular recipient of this material. The reader is recommended to seek supplementary information elsewhere and to obtain relevant and specific professional advice before making any investment decision.

All views, opinions and conclusions communicated through this material shall be seen as valid on the publication date of this report only and are subject to change without notice. None of the information herein shall be construed as a recommendation or solicitation for the purchase or sale of any financial instrument.

In no event will Västra Hamnen be liable for direct, indirect or incidental damages resulting from the information in this report. Financial instruments can decrease as well as increase in value. Past performance is not indicative of future results.

The material is not directed at any such person, physical or legal, to whom the distribution of such material would imply a risk of violation of any laws or regulations applicable in Sweden or any other jurisdiction.

Contents of this report shall not be copied, reproduced or distributed to any third party without prior written permission from Västra Hamnen.

Conflicts of interest

Recipients should note that this material has been commissioned by the company mentioned in this report and that Västra Hamnen has received remuneration from the company for the production of the report. The remuneration is fixed and predetermined and in no way dependent on the content of the report or the views expressed herein.

The company mentioned in the report has reviewed the material prior to publication. The recipient may assume that this review has led to changes in the factual information presented in the report. Any assumptions, conclusions and scenarios are however the result of Västra Hamnen's own analysis of available information.

Västra Hamnen has internal rules prohibiting all of its employees from buying or selling shares issued by companies with which Västra Hamnen has ongoing agreements to produce marketing material like the present.

Västra Hamnen has a separate agreement with Magle Chemoswed Holding AB to act as its Certified Adviser on Nasdaq First North Growth Market Stockholm.

Västra Hamnen Corporate Finance AB
Jungmansgatan 12, 211 11 Malmö, Sweden
Bredgade 30, 1260 Copenhagen, Denmark
+46 40 200 250
info@vhcorp.se
www.vhcorp.se

