

Sectra

Dependable operating delivery

- Pace of cloud implementation to accelerate
- Minor EBIT estimate upgrades
- We raise our TP to SEK 300 (275), implying nearly 20% upside

Do not fully extrapolate Q1 beat

Q1 beat on nearly all line items. Order intake was down ~80% y-o-y, but that is explained by a large, USD 227m contract that was booked in the comparison period. Adjusting for that, the order intake was approximately flat y-o-y. During the conference call, management made it clear that Sectra's cloud implementation capability must increase. The current pace of implementation is at least two hospitals per month, but the current pipeline of cloud orders means that the number would have to increase significantly. Our understanding, based on previous commentary, is that this capacity would have to at least triple from the current level. Therefore, additional capacity-increasing investments (i.e., higher opex) should be expected.

Minor estimate changes

We raise FY'25e-'26e EBIT by 4-2% on the back of the report. We have lowered our gross margin assumptions by 2pp due to a higher share of implementation-related (non-recurring) revenues that we believe will persist as cloud revenue ramps up. We remind investors that the current and the historical pace of hiring both indicate that Sectra is likely set to close a large Sectra One Cloud deal, most likely in North America.

Outperformance warrants closing of discount to Pro Medicus

We reiterate our BUY recommendation and raise our target price to SEK 300 (275) per share, indicating a run-rate NTM EBIT multiple of ~52x (for a period with low growth and low margins), which represents a ~20% discount to key peer and competitor Pro Medicus.

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SEKm	2023	2024	2025e	2026e	2027e
Sales	2,351	2,964	3,175	3,731	4,197
EBITDA	548	622	693	949	1,128
EBITDA margin (%)	23.3	21.0	21.8	25.4	26.9
EBIT adj.	393	505	601	840	1,012
EBIT adj. margin (%)	16.7	17.0	18.9	22.5	24.1
Pretax profit	479	553	608	874	1,065
EPS	1.95	2.22	2.49	3.58	4.37
EPS adj.	1.71	2.19	2.56	3.61	4.38
Sales growth (%)	20.6	26.1	7.1	17.5	12.5
EPS growth (%)	19.1	14.2	12.2	43.6	21.9

Source: ABG Sundal Collier, Company Data

Reason: Post-results comment

BUY



HOLD



SELL



IT

Estimate changes (%)

	2025e	2026e	2027e
Sales	0.5	0.4	0.2
EBIT	4.1	1.9	0.5
EPS	2.4	1.1	0.0

Source: ABG Sundal Collier

SECT.B-SE/SECTB SS

Share price (SEK)	5/9/2024	255.40
Target price	(275.0)	300.0

MCap (SEKm)	47,210
MCap (EURm)	3,861
No. of shares (m)	181.0
Free float (%)	71.9
Av. daily volume (k)	66

Next event Q2 Report 12 December 2024

Performance



— Sectra — OMX Stockholm All Share Index

	2025e	2026e	2027e
P/E (x)	102.4	71.3	58.5
P/E adj. (x)	99.6	70.8	58.3
P/BVPS (x)	26.71	21.56	17.36
EV/EBITDA (x)	69.6	50.4	42.0
EV/EBIT adj. (x)	80.2	57.0	46.8
EV/sales (x)	15.19	12.83	11.29
ROE adj. (%)	29.0	33.8	33.0
Dividend yield (%)	0.5	0.6	0.6
FCF yield (%)	0.6	1.3	1.6
Le. adj. FCF yld. (%)	0.5	1.3	1.6
Net IB debt/EBITDA (x)	-1.4	-1.4	-1.6
Le. adj. ND/EBITDA (x)	-1.5	-1.5	-1.7

Company description

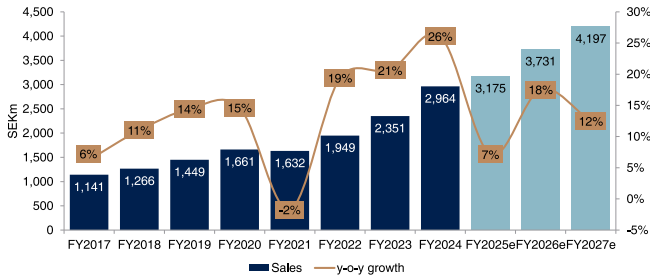
Sectra is a leading provider of medical imaging software for the healthcare industry and a provider of secure communications solutions. The company has three group-wide financial goals over a rolling five-year period: (i) equity ratio of at least 30%, (ii) EBIT margin of at least 15% and (iii) at least 50% EBIT growth. Once all goals have been met, the company's primary goal shifts to earnings growth.

[Sustainability information](#)

Risks

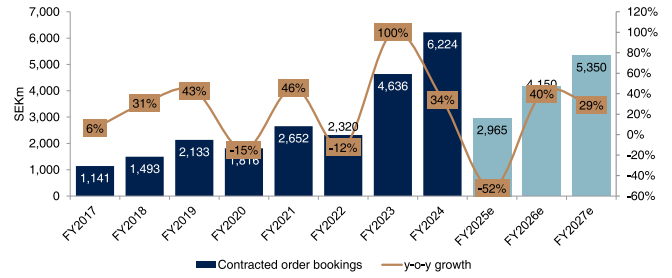
Risks include but are not limited to: (i) Technological changes within Imaging IT, (ii) tightening of regulatory requirements for the handling of patient data, (iii) inability to successfully execute on large orders and (iv) security incidents that would harm the company's brand and reputation.

Sales and y-o-y growth



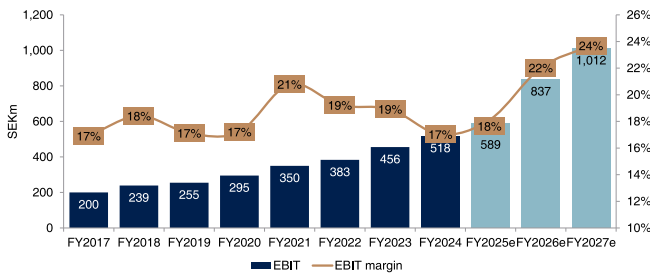
Source: ABG Sundal Collier, Company data.

Order bookings and y-o-y growth



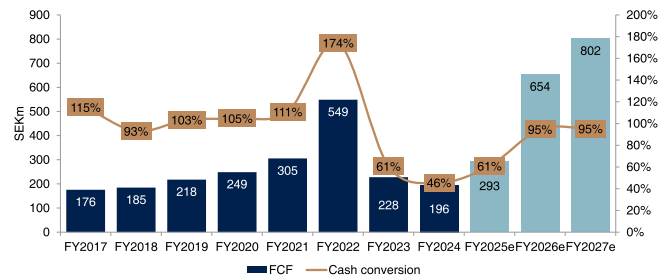
Source: ABG Sundal Collier, Company data.

EBIT and EBIT margin



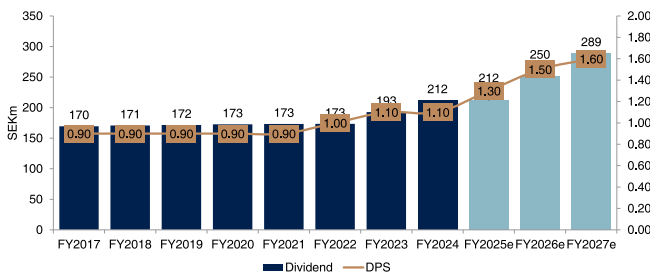
Source: ABG Sundal Collier, Company data.

Free cash flow and cash conversion



Source: ABG Sundal Collier, Company data.

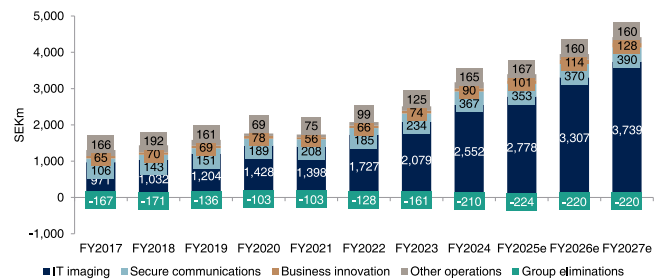
Dividend and DPS



Source: ABG Sundal Collier, Company data.

Footnote: Dividend cash flow lags the DPS figure by one year.

Segment sales



Source: ABG Sundal Collier, Company data.

Financials and estimates

Below, we provide granular historical figures and estimates at the segment level, based on the company's reporting standards and habits:

Key group financials

Group-level key financials and ratios													
SEKm	Quarterly data								Annual data				
	Q1'24	Q2'24	Q3'24	Q4'24	Q1'25	Q2'25e	Q3'25e	Q4'25e	FY2023	FY2024	FY2025e	FY2026e	FY2027e
Key financials													
Contracted order bookings	2,970	503	1,854	897	615	750	750	850	4,636	6,224	2,965	4,150	5,350
o/w guaranteed orders	344	460	1,653	762	543	700	650	800	2,607	3,219	2,693	3,200	3,600
Net sales	584	788	694	898	724	756	756	938	2,351	2,964	3,175	3,731	4,197
EBIT	69	177	74	197	100	118	110	260	456	518	589	837	1,012
FX adj. EBIT	61	169	75	194	100	129	110	262	393	499	601	840	1,012
Pre-tax profit	77	190	73	212	101	123	115	268	479	553	608	874	1,065
Net profit	62	151	58	158	80	97	91	212	375	428	481	690	841
EPS	0.32	0.78	0.30	0.82	0.42	0.51	0.47	1.10	1.95	2.22	2.49	3.58	4.37
Ratios and other KPIs													
Total growth y-o-y	21%	40%	20%	24%	24%	-4%	9%	4%	21%	26%	7%	18%	12%
Organic growth y-o-y	14%	36%	20%	23%	25%	-1%	9%	5%	13%	24%	8%	18%	12%
FX y-o-y	6%	4%	0%	1%	-1%	-3%	0%	0%	8%	2%	-1%	0%	0%
M&A y-o-y	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Recurring revenue	397	430	435	464	482	500	515	544	1,360	1,725	2,040	2,400	2,770
o/w cloud recurring rev.	86	93	103	114	123	133	148	164	255	397	568	803	1,103
Non-recurring revenue	187	358	259	435	242	257	242	395	991	1,239	1,135	1,331	1,427
EBIT margin	11%	22%	10%	22%	13%	15%	14%	27%	19%	17%	18%	22%	24%
Adj. EBIT margin	10%	21%	11%	21%	14%	17%	14%	27%	16%	16%	19%	22%	24%
EBIT growth y-o-y	8%	64%	-15%	0%	44%	-33%	48%	32%	19%	14%	14%	42%	21%
Adj. EBIT growth y-o-y	-5%	57%	-14%	-2%	45%	-27%	48%	33%	3%	9%	16%	43%	21%
Average FTEs	1,112	1,127	1,150	1,171	1,222	1,242	1,262	1,282	1,056	1,171	1,282	1,362	1,442
ROIC	62%	56%	59%	64%	50%	40%	44%	49%	90%	64%	49%	60%	68%
ROCE	27%	33%	30%	27%	27%	26%	26%	26%	28%	27%	26%	31%	30%
ROE	30%	36%	34%	30%	29%	27%	28%	28%	32%	30%	28%	33%	33%

Source: ABG Sundal Collier, Company data.

Our annual estimate revisions are summarised below:

Annual estimate changes

SEKm	Old estimates			New estimates			Percentage change		
	FY2025e	FY2026e	FY2027e	FY2025e	FY2026e	FY2027e	FY2025e	FY2026e	FY2027e
Net sales	3,159	3,717	4,186	3,175	3,731	4,197	1%	0%	0%
Total revenue	3,225	3,787	4,260	3,240	3,801	4,271	0%	0%	0%
Gross profit	2,870	3,370	3,792	2,812	3,307	3,715	-2%	-2%	-2%
EBITDA	669	934	1,123	693	949	1,128	4%	2%	0%
Adj. EBITDA	688	936	1,123	705	952	1,128	3%	2%	0%
EBIT	565	822	1,007	589	837	1,012	4%	2%	0%
FX adj. EBIT	584	824	1,007	601	840	1,012	3%	2%	0%
Total growth	6.6%	17.6%	12.6%	7.1%	17.5%	12.5%	0.5p.p.	-0.1p.p.	-0.2p.p.
Organic growth	8.0%	18.1%	12.6%	8.1%	17.8%	12.5%	0.1p.p.	-0.2p.p.	-0.2p.p.
Gross margin	89.0%	89.0%	89.0%	86.8%	87.0%	87.0%	-2.2p.p.	-2.0p.p.	-2.0p.p.
EBITDA margin	20.8%	24.7%	26.4%	21.4%	25.0%	26.4%	0.6p.p.	0.3p.p.	0.1p.p.
Adj. EBITDA margin	21.3%	24.7%	26.4%	21.8%	25.0%	26.4%	0.5p.p.	0.3p.p.	0.1p.p.
EBIT margin	17.5%	21.7%	23.6%	18.2%	22.0%	23.7%	0.6p.p.	0.3p.p.	0.1p.p.
Adj. EBIT margin	18.1%	21.8%	23.6%	18.6%	22.1%	23.7%	0.5p.p.	0.3p.p.	0.1p.p.

Source: ABG Sundal Collier.

The detailed estimates below represent a breakdown of the company's historical financials and estimates by segment:

Key financials by segment

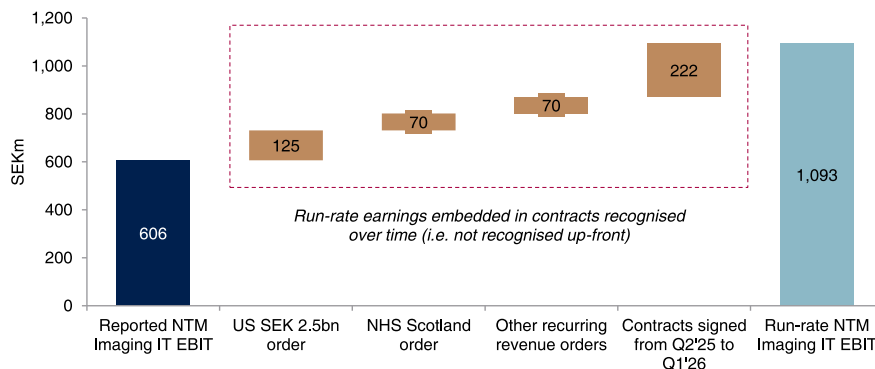
Segment financials													
SEKm	Quarterly data								Annual data				
	Q1'24	Q2'24	Q3'24	Q4'24	Q1'25	Q2'25e	Q3'25e	Q4'25e	FY2023	FY2024	FY2025e	FY2026e	FY2027e
Segment sales													
Imaging IT solutions	519	691	601	741	640	660	654	823	2,079	2,552	2,778	3,307	3,739
Total growth y-o-y	19%	37%	19%	17%	23%	-4%	9%	11%	20%	23%	9%	19%	13%
Total growth q-o-q	-18%	33%	-13%	23%	-14%	3%	-1%	26%	n.a.	n.a.	n.a.	n.a.	n.a.
Secure communication	56	83	84	144	78	85	90	100	234	367	353	370	390
Total growth y-o-y	35%	62%	32%	85%	38%	2%	8%	-31%	27%	57%	-4%	5%	5%
Total growth q-o-q	-28%	47%	1%	73%	-46%	10%	6%	11%	n.a.	n.a.	n.a.	n.a.	n.a.
Business Innovation	17	25	23	26	18	26	27	30	74	90	101	114	128
Total growth y-o-y	31%	56%	0%	14%	5%	6%	18%	17%	11%	22%	12%	13%	12%
Total growth q-o-q	-26%	47%	-7%	12%	-32%	48%	4%	11%	n.a.	n.a.	n.a.	n.a.	n.a.
Other operations	35	43	44	43	47	40	40	40	125	165	167	160	160
Total growth y-o-y	30%	33%	40%	27%	37%	-7%	-9%	-8%	26%	32%	1%	-4%	0%
Total growth q-o-q	1%	24%	3%	-2%	9%	-15%	0%	0%	n.a.	n.a.	n.a.	n.a.	n.a.
Group eliminations	-43	-54	-58	-56	-59	-55	-55	-55	-161	-210	-224	-220	-220
Total	584	788	694	898	724	756	756	938	2,351	2,964	3,175	3,731	4,197
Total growth y-o-y	21%	40%	20%	24%	24%	-4%	9%	4%	21%	26%	7%	18%	12%
Total growth q-o-q	-19%	35%	-12%	29%	-19%	4%	0%	24%	n.a.	n.a.	n.a.	n.a.	n.a.
Segment EBIT													
Imaging IT solutions	74	168	67	191	95	132	124	206	462	500	557	803	1,006
Margin	14%	24%	11%	26%	15%	20%	19%	25%	22%	20%	20%	24%	27%
Total growth y-o-y	-8%	53%	-25%	4%	28%	-22%	86%	8%	19%	15%	12%	42%	21%
Total growth q-o-q	-59%	127%	-60%	185%	-50%	39%	-6%	66%	n.a.	n.a.	n.a.	n.a.	n.a.
Secure communication	3	10	9	38	10	9	10	11	19	60	40	48	51
Margin	5%	11%	11%	27%	13%	11%	11%	11%	8%	16%	11%	13%	13%
Total growth y-o-y	n.m.	n.m.	11%	123%	288%	-2%	5%	-71%	n.m.	211%	-33%	19%	5%
Total growth q-o-q	-85%	265%	-1%	307%	-74%	-7%	6%	11%	n.a.	n.a.	n.a.	n.a.	n.a.
Business Innovation	-1	6	4	9	0	6	7	7	10	17	20	32	42
Margin	-6%	22%	17%	34%	-2%	23%	26%	23%	14%	19%	20%	28%	33%
Total growth y-o-y	n.m.	817%	-22%	34%	n.m.	9%	75%	-20%	70%	65%	15%	62%	31%
Total growth q-o-q	n.m.	n.m.	-27%	118%	n.m.	n.m.	17%	0%	n.a.	n.a.	n.a.	n.a.	n.a.
Other operations	-7	-7	-6	-40	-9	-29	-31	37	-36	-59	-33	-45	-87
Margin	-19%	-15%	-13%	-92%	-19%	-73%	-78%	92%	-29%	-36%	-20%	-28%	-54%
Total growth y-o-y	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.
Total growth q-o-q	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.a.	n.a.	n.a.	n.a.	n.a.
Total	69	177	74	197	100	118	110	260	456	518	589	837	1,012
Margin	12%	22%	11%	22%	14%	16%	15%	28%	19%	17%	19%	22%	24%
Total growth y-o-y	8%	64%	-15%	0%	44%	-33%	48%	32%	19%	14%	14%	42%	21%
Total growth q-o-q	-65%	155%	-58%	166%	-49%	18%	-7%	136%	n.a.	n.a.	n.a.	n.a.	n.a.

Source: ABG Sundal Collier, Company data.

Run-rate earnings

We illustrate what the company's earnings would look like had the earnings embedded in the announced contracts that are won been recognised up-front, rather than in two to three years when ramp-ups are finished. We start with our NTM estimate and then add earnings that will not be recognised for a couple of years, but that should be credited given that Sectra has already taken costs up-front (i.e. investments). This serves to illustrate the difference between NTM earnings (based on accounting rules) and the NTM run-rate earnings (as if earnings are credited immediately).

Illustrative earnings bridge*



Source: ABG Sundal Collier.

Footnote: (*) Note that this differs from our official estimates and only serves to show what earnings would look like if revenues were recognised up-front.

Below, we present our estimates vs. Bloomberg consensus figures:

ABGSC vs. Bloomberg consensus deviation table

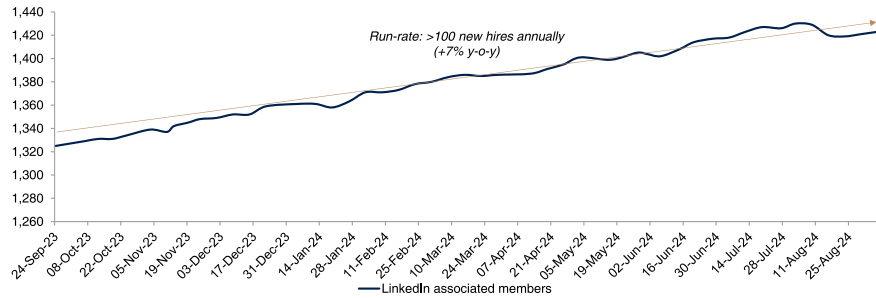
ABGSCe vs. FactSet & Bloomberg consensus															
SEKm	Last year Q2'24	ABGSC est. Q2'25e	y-o-y growth	BBG&FS cons.		ABGSC estimates			Bloomberg (BBG) consensus			Deviation vs. Bloomberg consensus			
				Q2'25e	y-o-y growth	FY2025e	FY2026e	FY2027e	FY2025e	FY2026e	FY2027e	Q2'25e	FY2025e	FY2026e	FY2027e
Group figures															
Contracted order bookings	503	750	49%	n.a.	n.a.	2,965	4,150	5,350	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Net sales	788	756	-4%	810	3%	3,175	3,731	4,197	3,513	4,043	4,194	-7%	-10%	-8%	0%
y-o-y growth	40%	-4%	-44pp	3%	-37pp	7%	18%	12%	19%	15%	4%	-7pp	-11pp	2pp	9pp
Organic growth	36%	-1%	-37pp	n.a.	n.a.	8%	18%	12%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
EBIT	177	118	-33%	147	-17%	589	837	1,012	656	828	932	-20%	-10%	1%	9%
Margin	22%	15%	-7pp	18%	-4pp	18%	22%	24%	19%	20%	22%	-3pp	-1pp	2pp	1pp
Adj. EBIT	169	129	-24%	n.a.	n.a.	601	840	1,012	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Margin	21%	17%	-4pp	n.a.	n.a.	19%	22%	24%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Pre-tax profit	190	123	-35%	150	-21%	608	874	1,065	667	847	961	-18%	-9%	3%	11%
Net profit	151	97	-35%	127	-16%	481	690	841	468	668	767	-23%	3%	3%	10%
EPS	0.78	0.51	-35%	0.51	-35%	2.49	3.58	4.37	2.72	3.47	3.98	-1%	-8%	3%	10%
Segment figures															
Imaging IT solutions															
Sales	691	660	-4%	714	3%	2,778	3,307	3,739	n.a.	n.a.	n.a.	-8%	n.a.	n.a.	n.a.
EBIT	168	132	-22%	160	-5%	557	803	1,006	n.a.	n.a.	n.a.	-17%	n.a.	n.a.	n.a.
Secure communication															
Sales	83	85	2%	96	16%	353	370	390	n.a.	n.a.	n.a.	-11%	n.a.	n.a.	n.a.
EBIT	10	9	-2%	13	37%	40	48	51	n.a.	n.a.	n.a.	-28%	n.a.	n.a.	n.a.
Business Innovation															
Sales	25	26	6%	26	6%	101	114	128	n.a.	n.a.	n.a.	0%	n.a.	n.a.	n.a.
EBIT	6	6	9%	6	9%	20	32	42	n.a.	n.a.	n.a.	0%	n.a.	n.a.	n.a.
Other ops. & Group elim.															
Sales	-11	-15	n.m.	n.a.	n.m.	-56	-60	-60	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
EBIT	-7	-29	n.m.	n.a.	n.m.	-33	-45	-87	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Revenue type															
Recurring revenue	430	500	16%	n.a.	n.a.	2,040	2,400	2,770	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
o/w cloud recurring rev.	93	133	43%	n.a.	n.a.	568	803	1,103	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Non-recurring revenue	358	257	-28%	n.a.	n.a.	1,135	1,331	1,427	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Source: ABG Sundal Collier, Company data, Bloomberg.

Hiring activity

Data from LinkedIn show that the company is continuing to hire at a rapid pace (~7% FTE growth y-o-y). Currently, Sectra is hiring additional FTEs at an annual run-rate of ~100.

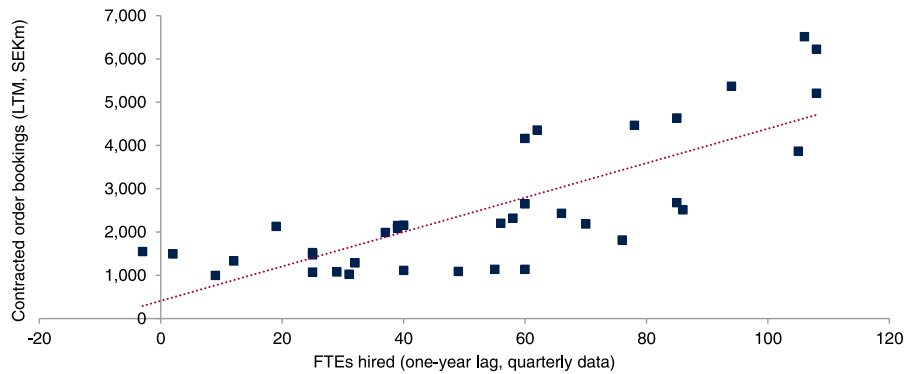
Sectra associated members on LinkedIn



Source: ABG Sundal Collier, LinkedIn (dated September 6, 2024).

We have performed a simple analysis: we plot LTM order bookings against LTM hiring for each quarter, with a one-year lag for the latter. The result shows that hiring has historically predicted order bookings relatively well. In the future, we expect this model to show larger order bookings per FTE hired, because Sectra One Cloud contracts in North America are generally larger. With an annual run-rate hiring pace of ~100 FTEs, our model would suggest order bookings of ~SEK 4-4.5bn. This is significantly higher than our estimate of ~SEK 3bn for the coming year.

Hiring activity predicts order bookings



Source: ABG Sundal Collier, Company data.

Peer overview

We have selected two peer groups for Sectra: (i) Imaging IT peers and (ii) Nordic high-growth & high-margin peers. We seek to benchmark Sectra against peers with similar business models and Nordic peers that are generally considered successful, high-growth businesses, but that may have somewhat different value drivers.

Imaging IT peers

There are two peers that are both operationally highly similar to Sectra: Pro Medicus and Mach7. Pro Medicus is arguably Sectra's number one competitor and is specialised in radiology and (soon) cardiology imaging, whereas Mach7 is specialised in Vendor Neutral Archiving.

Sectra's top-line growth is slightly lower than that of its Imaging IT peers, but that is due to the timing of the execution of a large contract (which is only included in half of calendar year '25e), as well as to Sectra's secure communications segment, which we assess grows at a slower pace than Imaging IT. Since nearly 100% of Sectra's EBITA is attributable to Imaging IT, it is a slightly better indicator of the Imaging IT segment's growth. At a calendar '24e-'26e EBIT growth rate of 35%, Sectra grows at a somewhat higher pace than Pro Medicus. All else equal, this would imply a faster growth rate in the Imaging IT segment compared to Pro Medicus – a mechanism that should warrant a slight premium.

Overall, we believe that Sectra should trade at a minor discount to Pro Medicus due to Sectra's lower share of recurring revenues. That said, we assess that the discount should be lower than it currently is.

Imaging IT peers

Valuation metrics	EV/Sales			EV/EBITA			FCFE yield			Sales CAGR	EBIT CAGR
	2024e	2025e	2026e	2024e	2025e	2026e	2024e	2025e	2026e	'24e-'26e	'24e-'26e
Imaging IT peers											
Pro Medicus	99x	77x	62x	133x	98x	76x	1%	1%	1%	27%	31%
Mach7 Technologies	4x	3x	3x	n.m.	n.m.	68x	1%	n.m.	2%	20%	-41%
Sectra*	16x	14x	12x	92x	60x	51x	0%	1%	1%	14%	35%
Sectra* (run-rate earnings)	n.m.	n.m.	n.m.	48x	42x	37x	n.m.	n.m.	n.m.	n.m.	n.m.
Peer average	51x	40x	32x	133x	98x	72x	1%	1%	1%	24%	-5%
Peer median	51x	40x	32x	133x	98x	72x	1%	1%	1%	24%	-5%

Source: ABG Sundal Collier, FactSet.

Footnote: Periods denote calendar rather than fiscal years.

Nordic high-growth & high-margin peers

We also include Nordic peers that are generally considered to have showed strong historical operating performance with top-tier financial profiles. Most, if not all, peers are likely earning margins that could be considered maintainable. However, the discrepancy between reported earnings and unit economics is currently substantial for Sectra, and that is why the company is trading at a meaningful premium to Nordic peers. That said, there are qualitative reasons for why Sectra should trade at a premium. In our opinion, those factors include: four growth pillars (price, volume, Licence-to-SaaS conversion and upselling), global scalability, and lower regulatory risks relative to some peers.

For clarity, Fortnox and Hemnet constitute core Nordic peers for Sectra.

Nordic high growth & high margin peers

Valuation metrics	EV/Sales			EV/EBITA			FCFE yield			Sales CAGR	EBITA CAGR
	2024e	2025e	2026e	2024e	2025e	2026e	2024e	2025e	2026e	'24e-'26e	'24e-'26e
Nordic high growth & high margin peers											
Vitec Software Group	7x	6x	6x	21x	19x	17x	2%	2%	3%	8%	10%
Fortnox	17x	13x	11x	37x	28x	22x	2%	2%	3%	24%	31%
Hemnet Group	25x	20x	17x	48x	36x	29x	2%	2%	3%	23%	29%
ChemoMetec	16x	15x	13x	39x	34x	29x	1%	2%	2%	14%	16%
CellaVision	8x	7x	6x	31x	25x	21x	2%	2%	3%	14%	21%
Sectra*	16x	14x	12x	92x	60x	51x	0%	1%	1%	14%	35%
Sectra* (run-rate earnings)	n.m.	n.m.	n.m.	48x	42x	37x	n.m.	n.m.	n.m.	n.m.	n.m.
Core peer average	21x	17x	14x	43x	32x	25x	2%	2%	3%	24%	30%
Core peer median	21x	17x	14x	43x	32x	25x	2%	2%	3%	24%	30%

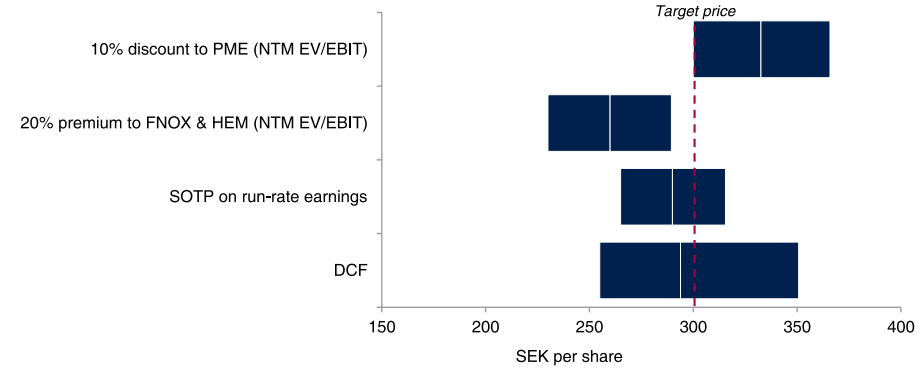
Source: ABG Sundal Collier, FactSet.

Footnote: (*) ABGSC estimates.

Valuation

Sectra is trading at a significant discount to its key competitor and peer Pro Medicus, and we argue that the discount should narrow given the two firms' near-identical operating profiles, growth and value drivers. We value Sectra at SEK 300 per share, implying nearly 20% upside, based on both our sum-of-the-parts analyses on reported and maintainable earnings, and a discounted cash flow valuation. On NTM EBIT (as if reported), our TP implies a multiple of ~89x while a normalised/maintainable NTM EBIT implies an NTM EV/EBIT multiple of ~52x.

Valuation summary

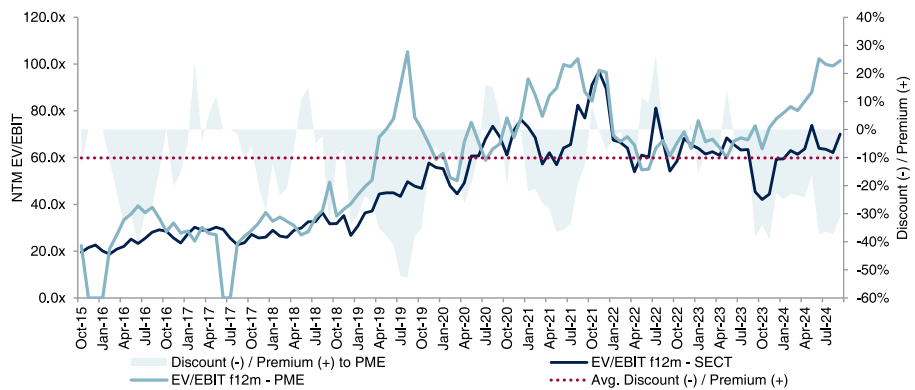


Source: ABG Sundal Collier.

In comparing Sectra to Pro Medicus, we find that Sectra has traded at an average discount of ~10% in the last 10 years. The discount has widened to ~30% in the last six months. We argue that the similarities between Sectra and Pro Medicus should warrant a closing of the valuation gap. In the context of a maintainable margin of 30-35% rather than a reported margin of 20%, the valuation discrepancy becomes even more significant (and in our view unjustified), as the two companies have near-identical value and growth drivers.

Should the discount to Pro Medicus narrow to the historical average of ~10%, Sectra's share price would be ~SEK 330.

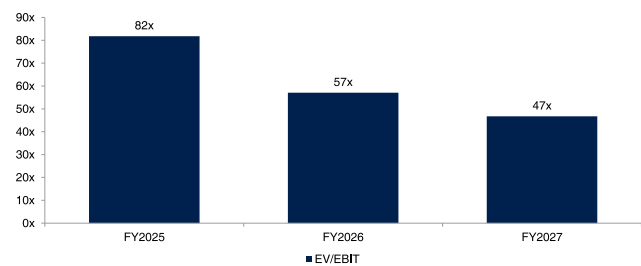
Sectra vs. Pro Medicus



Source: ABG Sundal Collier, FactSet.

Below, we show the impact of a SaaS transition on the company's valuation multiples. The left-hand graph shows multiples that are based on the company's reporting standards, which leave out revenues from contracts that have a longer ramp-up period. The right-hand graph shows what the multiple would be based on run-rate earnings, which includes the embedded earnings in contracts that are not fully ramped up nor live yet. In the near term, this effect is large, as the discrepancy between FY'25e multiples is large (82x vs. 46x). However, over time, the effect is smoothed out.

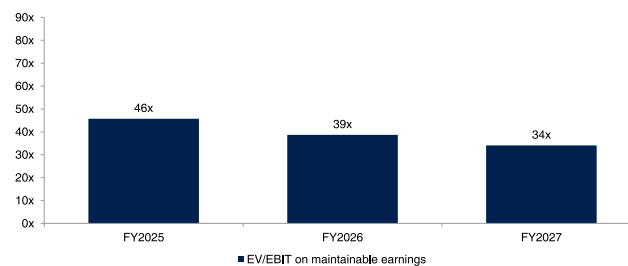
EV/EBIT multiples based on reporting standards*



Source: ABG Sundal Collier.

Footnote: (*) Based on the company's revenue recognition standards for recurring revenues being recognised over contract lifetime.

EV/EBIT multiples on run-rate earnings*



Source: ABG Sundal Collier.

Footnote: (*) Considers earnings for contracts that are won but not visible in the P&L due to revenue lag due to revenues being recorded over the contract lifetime in addition to earnings based on Sectra's reporting standards.

Income Statement (SEKm)	2018	2019	2020	2021	2022	2023	2024	2025e	2026e	2027e
Sales	1,266	1,449	1,661	1,632	1,949	2,351	2,964	3,175	3,731	4,197
COGS	-188	-255	-248	-196	-286	-263	-431	-428	-494	-555
Gross profit	1,079	1,195	1,413	1,436	1,663	2,088	2,532	2,746	3,237	3,641
Other operating items	-775	-877	-1,030	-1,003	-1,198	-1,540	-1,910	-2,054	-2,288	-2,514
EBITDA	304	318	382	433	465	548	622	693	949	1,128
Depreciation and amortisation of which leasing depreciation	-61	-59	-83	-79	-77	-88	-94	-100	-108	-112
EBITA	243	259	299	354	387	460	528	593	841	1,016
EO Items	-5	27	-7	-66	24	62	19	-13	-3	0
Impairment and PPA amortisation	-4	-4	-4	-4	-4	-4	-10	-4	-4	-4
EBIT	239	255	295	350	383	456	518	589	837	1,012
Net financial items	10	9	8	-2	11	24	35	19	37	53
Pretax profit	249	264	303	348	395	479	553	608	874	1,065
Tax	-51	-53	-66	-73	-80	-104	-124	-127	-184	-224
Net profit	198	210	237	276	315	375	428	481	690	841
Minority interest	0	0	0	0	0	0	0	0	0	0
Net profit discontinued	0	0	0	0	0	0	0	0	0	0
Net profit to shareholders	198	210	237	276	315	375	428	481	690	841
EPS	1.04	1.10	1.23	1.43	1.63	1.95	2.22	2.49	3.58	4.37
EPS adj.	1.08	1.00	1.28	1.72	1.55	1.71	2.19	2.56	3.61	4.38
Total extraordinary items after tax	-4	21	-5	-53	19	49	15	-10	-2	0
Leasing payments	0	0	-22	-28	-32	-32	-29	-28	-28	-28
<i>Tax rate (%)</i>	<i>20.5</i>	<i>20.2</i>	<i>21.7</i>	<i>20.9</i>	<i>20.2</i>	<i>21.8</i>	<i>22.5</i>	<i>20.9</i>	<i>21.0</i>	<i>21.0</i>
<i>Gross margin (%)</i>	<i>85.2</i>	<i>82.4</i>	<i>85.1</i>	<i>88.0</i>	<i>85.3</i>	<i>88.8</i>	<i>85.4</i>	<i>86.5</i>	<i>86.8</i>	<i>86.8</i>
<i>EBITDA margin (%)</i>	<i>24.0</i>	<i>21.9</i>	<i>23.0</i>	<i>26.5</i>	<i>23.8</i>	<i>23.3</i>	<i>21.0</i>	<i>21.8</i>	<i>25.4</i>	<i>26.9</i>
<i>EBITA margin (%)</i>	<i>19.2</i>	<i>17.9</i>	<i>18.0</i>	<i>21.7</i>	<i>19.9</i>	<i>19.6</i>	<i>17.8</i>	<i>18.7</i>	<i>22.5</i>	<i>24.2</i>
<i>EBIT margin (%)</i>	<i>18.9</i>	<i>17.6</i>	<i>17.8</i>	<i>21.4</i>	<i>19.7</i>	<i>19.4</i>	<i>17.5</i>	<i>18.5</i>	<i>22.4</i>	<i>24.1</i>
<i>Pre-tax margin (%)</i>	<i>19.7</i>	<i>18.2</i>	<i>18.2</i>	<i>21.3</i>	<i>20.2</i>	<i>20.4</i>	<i>18.6</i>	<i>19.1</i>	<i>23.4</i>	<i>25.4</i>
<i>Net margin (%)</i>	<i>15.7</i>	<i>14.5</i>	<i>14.3</i>	<i>16.9</i>	<i>16.2</i>	<i>16.0</i>	<i>14.5</i>	<i>15.1</i>	<i>18.5</i>	<i>20.0</i>
Growth Rates y-o-y	-	-	-	-	-	-	-	-	-	-
<i>Sales growth (%)</i>	<i>11.0</i>	<i>14.4</i>	<i>14.6</i>	<i>-1.7</i>	<i>19.4</i>	<i>20.6</i>	<i>26.1</i>	<i>7.1</i>	<i>17.5</i>	<i>12.5</i>
<i>EBITDA growth (%)</i>	<i>12.2</i>	<i>4.5</i>	<i>20.3</i>	<i>13.3</i>	<i>7.3</i>	<i>17.9</i>	<i>13.6</i>	<i>11.4</i>	<i>37.0</i>	<i>18.8</i>
<i>EBITA growth (%)</i>	<i>18.9</i>	<i>6.6</i>	<i>15.5</i>	<i>18.3</i>	<i>9.4</i>	<i>18.7</i>	<i>14.8</i>	<i>12.3</i>	<i>42.0</i>	<i>20.7</i>
<i>EBIT growth (%)</i>	<i>19.3</i>	<i>6.7</i>	<i>15.8</i>	<i>18.5</i>	<i>9.5</i>	<i>18.8</i>	<i>13.6</i>	<i>13.7</i>	<i>42.3</i>	<i>20.8</i>
<i>Net profit growth (%)</i>	<i>29.8</i>	<i>6.1</i>	<i>12.8</i>	<i>16.1</i>	<i>14.3</i>	<i>19.1</i>	<i>14.2</i>	<i>12.2</i>	<i>43.6</i>	<i>21.9</i>
<i>EPS growth (%)</i>	<i>29.0</i>	<i>5.5</i>	<i>12.3</i>	<i>16.0</i>	<i>14.2</i>	<i>19.1</i>	<i>14.2</i>	<i>12.2</i>	<i>43.6</i>	<i>21.9</i>
Profitability	-	-	-	-	-	-	-	-	-	-
<i>ROE (%)</i>	<i>32.6</i>	<i>30.3</i>	<i>30.7</i>	<i>32.2</i>	<i>31.9</i>	<i>31.5</i>	<i>29.9</i>	<i>28.2</i>	<i>33.5</i>	<i>32.9</i>
<i>ROE adj. (%)</i>	<i>34.0</i>	<i>27.8</i>	<i>31.9</i>	<i>38.8</i>	<i>30.3</i>	<i>27.8</i>	<i>29.6</i>	<i>29.0</i>	<i>33.8</i>	<i>33.0</i>
<i>ROCE (%)</i>	<i>40.3</i>	<i>37.5</i>	<i>37.1</i>	<i>37.2</i>	<i>37.2</i>	<i>37.9</i>	<i>37.0</i>	<i>34.8</i>	<i>41.4</i>	<i>40.8</i>
<i>ROCE adj. (%)</i>	<i>41.8</i>	<i>34.3</i>	<i>38.4</i>	<i>44.8</i>	<i>35.4</i>	<i>33.3</i>	<i>36.4</i>	<i>35.7</i>	<i>41.7</i>	<i>41.0</i>
<i>ROIC (%)</i>	<i>76.0</i>	<i>92.3</i>	<i>74.9</i>	<i>72.9</i>	<i>114.1</i>	<i>151.5</i>	<i>85.7</i>	<i>62.0</i>	<i>73.9</i>	<i>83.0</i>
<i>ROIC adj. (%)</i>	<i>77.7</i>	<i>82.7</i>	<i>76.6</i>	<i>86.5</i>	<i>107.1</i>	<i>130.9</i>	<i>82.6</i>	<i>63.3</i>	<i>74.1</i>	<i>83.0</i>
Adj. earnings numbers	-	-	-	-	-	-	-	-	-	-
<i>EBITDA adj.</i>	<i>310</i>	<i>291</i>	<i>389</i>	<i>500</i>	<i>441</i>	<i>485</i>	<i>603</i>	<i>705</i>	<i>952</i>	<i>1,128</i>
<i>EBITDA adj. margin (%)</i>	<i>24.4</i>	<i>20.1</i>	<i>23.4</i>	<i>30.6</i>	<i>22.6</i>	<i>20.6</i>	<i>20.3</i>	<i>22.2</i>	<i>25.5</i>	<i>26.9</i>
<i>EBITDA lease adj.</i>	<i>310</i>	<i>291</i>	<i>367</i>	<i>472</i>	<i>409</i>	<i>453</i>	<i>574</i>	<i>677</i>	<i>924</i>	<i>1,100</i>
<i>EBITDA lease adj. margin (%)</i>	<i>24.4</i>	<i>20.1</i>	<i>22.1</i>	<i>28.9</i>	<i>21.0</i>	<i>19.3</i>	<i>19.4</i>	<i>21.3</i>	<i>24.8</i>	<i>26.2</i>
<i>EBITA adj.</i>	<i>249</i>	<i>232</i>	<i>306</i>	<i>420</i>	<i>364</i>	<i>397</i>	<i>509</i>	<i>605</i>	<i>844</i>	<i>1,016</i>
<i>EBITA adj. margin (%)</i>	<i>19.6</i>	<i>16.0</i>	<i>18.4</i>	<i>25.8</i>	<i>18.7</i>	<i>16.9</i>	<i>17.2</i>	<i>19.1</i>	<i>22.6</i>	<i>24.2</i>
<i>EBIT adj.</i>	<i>245</i>	<i>228</i>	<i>302</i>	<i>416</i>	<i>360</i>	<i>393</i>	<i>505</i>	<i>601</i>	<i>840</i>	<i>1,012</i>
<i>EBIT adj. margin (%)</i>	<i>19.3</i>	<i>15.8</i>	<i>18.2</i>	<i>25.5</i>	<i>18.4</i>	<i>16.7</i>	<i>17.0</i>	<i>18.9</i>	<i>22.5</i>	<i>24.1</i>
<i>Pretax profit Adj.</i>	<i>259</i>	<i>241</i>	<i>314</i>	<i>419</i>	<i>375</i>	<i>421</i>	<i>544</i>	<i>625</i>	<i>880</i>	<i>1,069</i>
<i>Net profit Adj.</i>	<i>207</i>	<i>193</i>	<i>247</i>	<i>332</i>	<i>300</i>	<i>330</i>	<i>424</i>	<i>495</i>	<i>696</i>	<i>845</i>
<i>Net profit to shareholders adj.</i>	<i>207</i>	<i>193</i>	<i>247</i>	<i>332</i>	<i>300</i>	<i>330</i>	<i>424</i>	<i>495</i>	<i>696</i>	<i>845</i>
<i>Net adj. margin (%)</i>	<i>16.3</i>	<i>13.3</i>	<i>14.9</i>	<i>20.3</i>	<i>15.4</i>	<i>14.0</i>	<i>14.3</i>	<i>15.6</i>	<i>18.7</i>	<i>20.1</i>

Source: ABG Sundal Collier, Company Data

Cash Flow (SEKm)	2018	2019	2020	2021	2022	2023	2024	2025e	2026e	2027e
EBITDA	304	318	382	433	465	548	622	693	949	1,128
Net financial items	10	9	8	-2	11	24	35	19	37	53
Paid tax	-51	-53	-66	-73	-80	-104	-124	-127	-184	-224
Non-cash items	-107	-13	37	-12	1	76	12	3	0	0
Cash flow before change in WC	157	260	362	347	397	543	545	588	802	957
Change in working capital	51	-8	-34	25	220	-102	-218	-171	-33	-36

Cash Flow (SEKm)	2018	2019	2020	2021	2022	2023	2024	2025e	2026e	2027e
Operating cash flow	208	253	327	372	617	440	326	417	770	922
Capex tangible fixed assets	-15	-10	-33	-20	-30	-37	-179	-54	-36	-36
Capex intangible fixed assets	-8	-25	-46	-46	-38	-176	48	-70	-80	-84
Acquisitions and Disposals	-2	0	-3	-2	0	0	0	0	0	0
Free cash flow	183	217	246	303	549	228	196	293	654	802
Dividend paid	-171	-172	-173	-173	-173	-193	-212	-212	-250	-289
Share issues and buybacks	0	0	0	0	0	0	0	0	0	0
Leasing liability amortisation	0	0	-21	-22	-24	-27	-10	-25	-28	-28
Other non-cash items	225	20	-117	5	44	52	-49	-13	0	-0
Balance Sheet (SEKm)	2018	2019	2020	2021	2022	2023	2024	2025e	2026e	2027e
Goodwill	55	57	49	46	50	52	49	49	49	49
Other intangible assets	133	126	144	161	168	185	214	239	271	307
Tangible fixed assets	43	40	66	56	62	75	227	228	228	224
Right-of-use asset	0	0	84	73	65	85	35	69	69	69
Total other fixed assets	176	176	166	144	177	132	164	174	174	174
Fixed assets	408	399	510	480	522	528	689	758	790	822
Inventories	30	41	33	25	24	37	37	48	53	58
Receivables	253	259	276	236	340	386	572	573	633	697
Other current assets	313	284	348	456	497	840	1,109	1,375	1,518	1,673
Cash and liquid assets	282	332	345	455	809	945	805	859	1,234	1,719
Total assets	1,286	1,315	1,512	1,652	2,192	2,737	3,211	3,613	4,228	4,970
Shareholders equity	661	728	817	896	1,081	1,297	1,570	1,843	2,282	2,835
Minority	0	0	0	0	0	0	0	0	0	0
Total equity	661	728	817	896	1,081	1,297	1,570	1,843	2,282	2,835
Long-term debt	0	0	0	0	0	0	0	0	0	0
Pension debt	0	0	0	0	0	0	0	0	0	0
Convertible debt	0	0	0	0	0	0	0	0	0	0
Leasing liability	0	0	81	71	62	82	32	46	46	46
Total other long-term liabilities	49	28	25	5	9	18	33	40	40	40
Short-term debt	7	9	0	6	3	2	3	3	3	3
Accounts payable	46	55	0	0	0	0	0	0	0	0
Other current liabilities	524	494	588	674	1,037	1,338	1,574	1,680	1,856	2,045
Total liabilities and equity	1,286	1,315	1,512	1,652	2,192	2,737	3,211	3,613	4,228	4,970
Net IB debt	-448	-493	-426	-518	-916	-987	-925	-975	-1,350	-1,835
Net IB debt excl. pension debt	-448	-493	-426	-518	-916	-987	-925	-975	-1,350	-1,835
Net IB debt excl. leasing	-448	-493	-507	-589	-978	-1,069	-957	-1,021	-1,396	-1,881
Capital employed	668	737	898	973	1,146	1,381	1,604	1,892	2,332	2,884
Capital invested	213	235	391	377	165	310	644	867	932	1,000
Working capital	26	34	68	43	-177	-75	144	315	348	383
EV breakdown	-	-	-	-	-	-	-	-	-	-
Market cap. diluted (m)	48,679	48,977	49,172	49,197	49,206	49,207	49,207	49,207	49,207	49,207
Net IB debt adj.	-448	-493	-426	-518	-916	-987	-925	-975	-1,350	-1,835
Market value of minority	0	0	0	0	0	0	0	0	0	0
Reversal of shares and participations	0	0	0	0	0	0	0	0	0	0
Reversal of conv. debt assumed equity	-	-	-	-	-	-	-	-	-	-
EV	48,231	48,483	48,746	48,679	48,290	48,221	48,282	48,232	47,857	47,372
Total assets turnover (%)	103.4	111.4	117.5	103.2	101.4	95.4	99.7	93.1	95.2	91.3
Working capital/sales (%)	4.1	2.1	3.1	3.4	-3.4	-5.3	1.2	7.2	8.9	8.7
Financial risk and debt service	-	-	-	-	-	-	-	-	-	-
Net debt/equity (%)	-67.7	-67.8	-52.1	-57.9	-84.8	-76.1	-59.0	-52.9	-59.2	-64.7
Net debt / market cap (%)	-0.9	-1.0	-0.9	-1.1	-1.9	-2.0	-1.9	-2.0	-2.7	-3.7
Equity ratio (%)	51.4	55.4	54.1	54.2	49.3	47.4	48.9	51.0	54.0	57.0
Net IB debt adj. / equity (%)	-67.7	-67.8	-52.1	-57.9	-84.8	-76.1	-59.0	-52.9	-59.2	-64.7
Current ratio	1.52	1.64	1.70	1.72	1.60	1.65	1.60	1.70	1.85	2.02
EBITDA/net interest	29.9	37.2	49.7	236.7	41.8	23.1	17.8	35.7	26.0	21.1
Net IB debt/EBITDA (x)	-1.5	-1.6	-1.1	-1.2	-2.0	-1.8	-1.5	-1.4	-1.4	-1.6
Net IB debt/EBITDA lease adj. (x)	-1.4	-1.7	-1.4	-1.2	-2.4	-2.4	-1.7	-1.5	-1.5	-1.7
Interest coverage	--	--	--	--	--	--	--	--	--	--

Source: ABG Sundal Collier, Company Data

Share Data (SEKm)	2018	2019	2020	2021	2022	2023	2024	2025e	2026e	2027e
Actual shares outstanding	38	38	39	39	193	193	193	193	193	193
Actual shares outstanding (avg)	38	38	39	39	193	193	193	193	193	193

Share Data (SEKm)	2018	2019	2020	2021	2022	2023	2024	2025e	2026e	2027e
All additional shares	0	0	0	0	154	0	0	0	0	0
Issue month	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Assumed dil. of shares from conv.	0	0	0	0	0	0	0	0	0	0
As. dil. of shares from conv. (avg)	0	0	0	0	0	0	0	0	0	0
Conv. debt not assumed as equity	0	0	0	0	0	0	0	0	0	0
No. of warrants	0	0	0	0	0	0	0	0	0	0
Market value per warrant	0	0	0	0	0	0	0	0	0	0
Dilution from warrants	0	0	0	0	0	0	0	0	0	0
Issue factor	5.0	5.0	5.0	5.0	1.0	1.0	1.0	1.0	1.0	1.0
Actual dividend per share	0.90	0.90	0.90	0.90	1.00	1.10	1.10	1.30	1.50	1.60
Reported earnings per share	5.20	5.49	6.16	7.15	1.63	1.95	2.22	2.49	3.58	4.37

Source: ABG Sundal Collier, Company Data

Valuation and Ratios (SEKm)	2018	2019	2020	2021	2022	2023	2024	2025e	2026e	2027e
Shares outstanding adj.	191	192	193	193	193	193	193	193	193	193
Diluted shares adj.	191	192	193	193	193	193	193	193	193	193
EPS	1.04	1.10	1.23	1.43	1.63	1.95	2.22	2.49	3.58	4.37
Dividend per share	0.18	0.18	0.18	0.18	1.00	1.10	1.10	1.30	1.50	1.60
EPS adj.	1.08	1.00	1.28	1.72	1.55	1.71	2.19	2.56	3.61	4.38
BVPS	3.47	3.80	4.24	4.65	5.61	6.73	8.15	9.56	11.85	14.71
BVPS adj.	2.48	2.84	3.24	3.57	4.48	5.50	6.79	8.07	10.19	12.87
Net IB debt/share	-2.35	-2.57	-2.21	-2.69	-4.76	-5.12	-4.80	-5.06	-7.01	-9.52
Share price	255.40	255.40	255.40	255.40	255.40	255.40	255.40	255.40	255.40	255.40
Market cap. (m)	48,679	48,977	49,172	49,197	49,206	49,207	49,207	49,207	49,207	49,207
Valuation	-	-	-	-	-	-	-	-	-	-
P/E (x)	245.5	232.7	207.2	178.6	156.3	131.2	114.9	102.4	71.3	58.5
EV/sales (x)	38.08	33.46	29.35	29.82	24.77	20.51	16.29	15.19	12.83	11.29
EV/EBITDA (x)	158.6	152.5	127.5	112.4	103.9	88.1	77.6	69.6	50.4	42.0
EV/EBITA (x)	198.4	187.1	162.8	137.5	124.7	104.9	91.5	81.4	56.9	46.6
EV/EBIT (x)	201.7	190.1	165.0	139.1	126.0	105.8	93.3	81.9	57.2	46.8
Dividend yield (%)	0.1	0.1	0.1	0.1	0.4	0.4	0.4	0.5	0.6	0.6
FCF yield (%)	0.4	0.4	0.5	0.6	1.1	0.5	0.4	0.6	1.3	1.6
Le. adj. FCF yld. (%)	0.4	0.4	0.5	0.6	1.1	0.4	0.4	0.5	1.3	1.6
P/BVPS (x)	73.65	67.28	60.17	54.93	45.53	37.95	31.35	26.71	21.56	17.36
P/BVPS adj. (x)	80.37	72.98	64.02	57.92	47.73	39.52	32.36	27.43	22.03	17.66
P/E adj. (x)	236.6	254.9	200.0	148.5	164.6	149.4	116.7	99.6	70.8	58.3
EV/EBITDA adj. (x)	155.8	166.6	125.2	97.4	109.6	99.4	80.1	68.4	50.3	42.0
EV/EBITA adj. (x)	194.1	208.8	159.2	115.8	132.8	121.4	94.9	79.7	56.7	46.6
EV/EBIT adj. (x)	197.2	212.4	161.3	116.9	134.3	122.6	95.7	80.2	57.0	46.8
EV/CE (x)	72.2	65.8	54.3	50.0	42.1	34.9	30.1	25.5	20.5	16.4
Investment ratios	-	-	-	-	-	-	-	-	-	-
Capex/sales (%)	1.8	2.4	4.7	4.1	3.5	9.1	4.4	3.9	3.1	2.9
Capex/depreciation	0.4	0.6	1.3	1.3	1.5	3.8	2.0	1.7	1.5	1.4
Capex tangibles / tangible fixed assets	34.9	24.2	49.7	36.6	48.6	49.7	78.6	23.8	15.8	16.1
Capex intangibles / definite intangibles	--	--	--	--	--	--	--	--	--	--
Depreciation on intang / def. intang	--	--	--	--	--	--	--	--	--	--
Depreciation on tangibles / tangibles	81.11	66.60	39.35	27.15	14.89	26.74	11.64	13.66	15.79	17.86

Source: ABG Sundal Collier, Company Data

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Company: Sectra

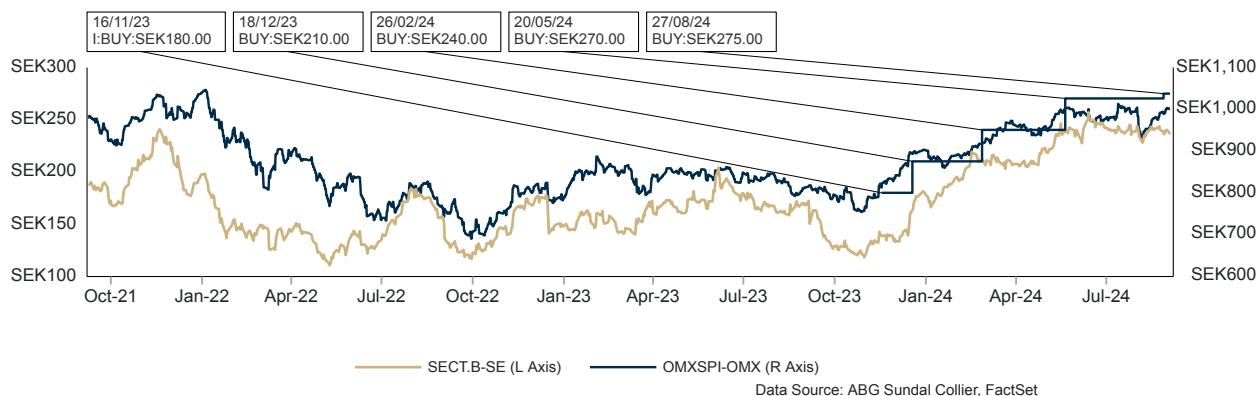
Currency: SEK

Current Recommendation: BUY

Date: 5/9/2024

Current Target price: 300.0

Current Share price: 255.40



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