

VIGO System

1Q20 Results Review

Opinion. Neutral as results are broadly in line with our expectations.

We note that the company maintained expectations of 10% growth in industry segment this year, which in our view would be an optimistic scenario considering high level of uncertainty. There was no material update regarding contracts with Zodiac and Caterpillar which could be slightly negative as we believe that both deals should be confirmed already.

VIGO System 1Q20 revenues arrived at PLN 12.4m (in line with preliminary numbers), EBITDA at PLN 5.5m (+9% y/y, in line with IPOPEMA) and net profit at PLN 2.6m (-37% y/y, +5% vs. IPOPEMA):

- **Revenues.** The company's revenues arrived at PLN 12.4m (+9% y/y, in line with already published preliminary data), which includes PLN 12.0m revenues from IR detectors segment (+5% y/y and +10% q/q) and PLN 0.4m revenues from Semiconductors segment (+128% q/q). The revenues was driven by industry segment (43.6% of revenues in 1Q20) and medicine and science (28.8% of revenues).
- **Gross margin.** Gross margin arrived at 61.4% (vs. 64.7% in 4Q19), 4pp below our expectations. According to the report COGS increased due to higher cost of materials and salaries resulted from higher sales volumes.
- **SG&A costs.** SG&A cost arrived at PLN 4.8m up 12% q/q due to higher costs of D&A, energy and maintenance of new production hall. Growth in SG&A costs was also related to new segment (material for photonics) and investment in representative on Asia market.
- **EBITDA.** VIGO's EBITDA arrived at PLN 5.5m (+9% y/y, +8% q/q and in line with IPOPEMA) and EBIT at PLN 4.0m (-5% y/y, +9% q/q and 5% above IPOPEMA forecast).
- **Net profit.** Net profit reached PLN 2.6m (-37% y/y and -36% q/q, 5% above our expectations). The company noted negative PLN 1.3m net financial result (mainly negative impact of foreign exchange rates) and immaterial level of income tax.
- **Capex.** 1Q20 Capex excl. grants reached PLN 4.4m and was 7% above our expectations. The company expended PLN 2.3m on R&D (flat q/q) and PLN 1.2m on investments in subsidiaries. VIGO received grants of PLN 0.4m total value during that period.
- **Net Debt.** Net Debt has reached PLN 19.6m at the 1Q20 end (vs PLN 21.2m expected by IPOPEMA). The level of cash was slightly better than our expectations primarily due to better receivables collection.

TMT

VIGO System

BUY

FV PLN 480.00

12% upside

Price as of 7 May 2020 PLN 428.0

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Figure 1. VIGO System 1Q20 results review

P&L (PLN m)	1Q19	2Q19	3Q19	4Q19	1Q20	y/y	q/q	1Q20E	Actual vs IPOPEMA
Sales revenues	11.5	8.4	11.9	11.1	12.4	8%	12%	12.4	0%
COGS	-4.1	-3.5	-4.3	-3.9	-4.8	16%	22%		
gross profit/(loss) on sales	7.3	4.9	7.6	7.2	7.6	4%	6%		
Other operating revenues	0.4	0.6	0.7	1.0	1.2	165%	14%		
Selling costs	-0.7	-0.5	-0.6	-0.6	-0.6	-17%	-4%		
G&A costs	-2.6	-3.0	-2.9	-3.7	-4.2	62%	14%		
Other operating costs	-0.4	-0.1	-0.4	-0.3	-0.1	-84%	-80%		
EBITDA	5.1	2.8	5.6	5.1	5.5	9%	8%	5.4	2%
EBIT	4.2	1.8	4.4	3.6	4.0	-5%	9%	3.8	5%
Net financial revenues	0.0	0.1	-0.6	0.4	-1.3	3450%	na		
Profit (loss) before tax	4.1	1.9	3.7	4.1	2.6	-36%	-35%		
income tax	0.0	0.0	0.0	0.0	0.0	na	900%		
Net profit	4.1	1.9	3.7	4.1	2.6	-37%	-36%	2.5	5%
Profitability ratios	1Q19	2Q19	3Q19	4Q19	1Q20E	y/y	q/q	1Q20E	
Gross margin on sales	64.0%	58.3%	63.8%	64.7%	61.4%	-2.6 pp	-3.3 pp	65.4%	-4 pp
EBITDA margin	44.3%	33.4%	46.8%	46.2%	44.6%	0.3 pp	-1.6 pp	43.5%	1.1 pp
EBIT margin	36.4%	21.8%	36.7%	32.9%	32.1%	-4.3 pp	-0.8 pp	31.0%	1.1 pp
Net profit margin	36.1%	23.0%	31.3%	36.9%	21.2%	-14.9 pp	-15.7 pp	20.4%	0.8 pp
Cash Flow Statement (PLN m)	1Q19	2Q19	3Q19	4Q19	1Q20E	y/y	q/q	1Q20E	
Net cash flow from operations	0.6	6.3	3.5	5.0	6.7	na	33%		
Net cash flow from investment activities	-9.8	-13.3	-9.4	1.4	-4.4	-59%	na	-4.1	7%
Grants	0.2	0.9	0.9	6.9	0.4	506%	-94%		
Gross capital expenditures	-10.0	-14.3	-10.3	-5.4	-4.7	-62%	-13%		
Net cash flows from financial activities	8.1	9.0	6.9	-4.8	-1.9	na	-61%		
Total net cash flow	-1.0	2.0	0.9	1.7	0.5	na	-72%		
Net Debt/ (Net cash)	13.2	20.4	27.2	20.5	19.6	391%	-4%	21.2	-8%

Source: Company, IPOPEMA Research

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 Net F&C – Net fee and commission income – fee and commission income minus fee and commission expense.
 LLP – loan loss provisions – an expense set aside as an allowance for bad loans.
 NPL – non-performing loan – loans that are in default or close to be in default.
 Cost/Income – operating expenses divided by total banking revenue.
 ROE – return on equity – net income (or adjusted net income) divided by the average shareholders' equity.
 ROA – return on assets – net income (or adjusted net income) divided by the average assets.
 EBIT – earnings before interests and tax.
 EBITDA – earnings before interests, tax, depreciation and amortization.
 EPS – earnings per share – the net income (or adjusted net income) divided by the number of shares outstanding.
 P/E – price to earnings ratio – price divided by earnings per share.
 PEG – P/E ratio divided by the annual EPS growth, usually over a certain period of time.
 CAGR – compound annual growth rate.
 BVPS – book value per share, the book value of the Company's equity divided by the number of shares outstanding.
 P/BV – price to book value - price divided by the BVPS.
 DPS – dividend per share – dividend of a given year divided by the number of shares outstanding.
 DY – dividend yield – dividend of a given year divided by the current price.
 DDM – dividend discount model – a fundamental method of valuation based on the assumption that the value of stock equals the sum of all discounted future dividends.
 FV – Fair Value, calculated based on valuation methods outlined in the document.

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	Number	%
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Sell	4	57%
Total	7	100%

Rating History – VIGO System

Date	Recommendation	Fair Value	Price at recommendation	Author
02.08.2019	BUY	PLN 380.00	PLN 334.00	Michał Wojciechowski
16.04.2020	BUY	PLN 480.00	PLN 384.00	Michał Wojciechowski