VIGO System

2021-26 Strategy update

Opinion. *Strategic targets are close to our assumptions on revenue level and 3-16% below our forecast on norm. EBITDA. We believe the current goals seems much more realistic than it was in previous strategy, as the management did not included all potential revenue streams in the forecast, leaving some space for positive surprise. On the other hand technology switch from MCT to III-V detectors as well as risk of delay in introduction of new products/technologies seems as a main risk for the company in the mid-term. We also believe that investors could expected higher results growth rate concerning the high level of CAPEX planned by the board. On our forecasts VIGO trades at 2021E P/E of 23x.*

New strategy.

On 16 June 2021 the company published new strategy for years 2021-26. According to the strategy VIGO plans to develop its operations in areas including: 1) MCT _HgCdTe_ IR detectors; 2) III-V IR detectors; 3) epitaxy technology for semiconductors materials including VCSEL lasers; 4) infrared sources technology; 5) optoelectronic and photonic integrated circuits for mid and near IR; 6) matrix for IR detectors technology.

VIGO also published its financial targets for years 2021-23. The company targets 20-30% annual growth in revenues as well as gross margin and EBITDA margin above 60% and above 40% respectively in coming years. In greater details VIGO's targets includes:

- In 2021: PLN 67m in revenues and PLN 29.5m in EBITDA
- In 2022: PLN 80m in revenues and PLN 33.5m in EBITDA
- In 2023: PLN 100m in revenues and PLN 40m in EBITDA
- Average CAPEX in 2021-23 including infrastructure as well as R&D at PLN 30-40m funded from own cash as well as public grants.

The management proposed change in dividend policy, with all earrings to be recommended for reinvestment during the strategy period (no dividend payments planned in the mid-term).

Below are our main takeaways from VIGO System conference call on new 2021-26 strategy announcement held on 17 June 2021:

Revenue outlook. In the mid-term the management expects that MCT detectors will remain as a major source of revenues for the company, however the share of III-V detectors should materially increase from 2022-23. By the end of 2023 the company sees also potential for material revenue streams from semiconductor materials as well as IR sources.

Operating costs. According to strategy targets the expected margins on VIGO operations are going to decrease as the company sees the need to invest more in areas like production quality and infrastructure as well as elimination of bottlenecks. The company plans also to invest in professional staff not only in Poland but also in Asia and Western Europe.

CAPEX outlook. VIGO plans to maintain CAPEX at PLN 30-40m level in 2021-23, including ca. PLN 20m of CAPEX on R&D per year. The management board believes that VIGO is well prepared to maintain high level of grants in financing structure, however there is a risk that the share of own funds could increase in coming years. The management also sees a need to increase production capacity in the mid-term.

TMT

VIGO System

BUY
FV PLN 850.00

9% upside

Price as of 17 June 2021 PLN 778.0

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Technology shift from MCT to III-V detectors. In the mid-term outlook one of the key points is shift to III-V detectors in Europe, which is required by RoHS directive to happen by the end of 2024 (effective date could be delayed as the industry is still not ready for the full implementation). As of now the vast majority of VIGO's sales are related to MCT products (however sales in the US and Asia should not be affected as well as sales to selected sectors like military). The management conservatively assumes that VIGO's revenues from MCT products will reach peak in coming years. The company has already developed III-V detectors with technical parameters nearly as good as MCT which are also RoHS compliant. According to the management VIGO's III-V detectors are best in class, however competitors are already active on III-V detectors market, whereas VIGO is initiating its activities.

Expansion in the US and Asia. VIGO mid-term strategy includes plans of expansion in new markets especially in the US and Asia. The company expects investments and costs related to this activity to reach several million PLN this year. The management wants to invest not only in sales offices but also in overall customer support including customized solutions for local clients.

New areas of growth. VIGO sees potential to grow in new areas like infrared sources technology and matrix for IR detectors (mainly potential application in military and space industry). The company did not exclude potential cooperation in new projects to speed-up R&D process.

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NII – Net interest income – interest income minus interest expense.
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.
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Buy	Above 10%
Hold	In between (and including) -10% and 10%
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IPOPEMA Research - Distribution by rating category (January 1 – March 31, 2021)

	Number	%
Buy	15	94%
Hold	0	0%
Sell	1	6%
Total	16	100%

Rating History – VIGO System

Date	Recommendation	Fair Value	Price at recommendation	Author
02.08.2019	BUY	380.0	330.0	Michał Wojciechowski
16.04.2020	BUY	480.0	384.0	Michał Wojciechowski
29.07.2020	BUY	650.0	550.0	Michał Wojciechowski
08.12.2020	BUY	660.0	550.0	Michał Wojciechowski
19.05.2021	BUY	850.0	760.0	Michał Wojciechowski