

VIGO System

2Q21E Results Preview

2Q21E preview

VIGO has already reported 2Q21 revenues of PLN 18.0m (up 24% q/q) driven primarily by the industry (PLN 7.3m) and military (PLN 6.8m) segments. We also underline material improvement in the semiconductor materials segment, which reached PLN 1.1m in revenues (up over 100% q/q). We forecast VIGO's gross margin on sales to arrive at 68%, up 4pp q/q and close to the company's 2021E target. We estimate SG&A costs to remain at a flattish level q/q at PLN 5.3m, which should translate into norm. net income of PLN 7.8m (we do not expect material financial costs and tax). We estimate VIGO's net CAPEX at PLN 4.6m and net cash at PLN 23m.

2021E full-year outlook

In 1H21 VIGO's revenues arrived at PLN 32.6m, up 24% y/y and representing 48% of our annual forecast of PLN 68.1m (up 26% y/y). We expect that our forecast should remain achievable, especially concerning the scaling process in the material for photonics segment and introduction of new products. We also note that our forecast of norm. EBITDA of PLN 28.7m is broadly in line with VIGO's 2021 target (PLN 29.5m). At the norm. net level, we expect VIGO to deliver PLN 24.8m (up 37% y/y), reaching a norm. net margin of 36% vs. 34% in 2020. As the military and transport segments seems to deliver their targets for this year, the major goal for VIGO is to maintain good momentum in the industry segment, as well as to reach further milestones in the medicine and material for photonics segments.

***Opinion.** During the recent strategy update the company presented multiple growth opportunities for its business, starting with the MID-IR detector segment and materials for semiconductors (current business), but also revealing new areas of growth (MID-IR sources, PIC systems, IR matrices). As it makes a lot of sense in our view for a high-tech company like VIGO to focus on long-term strategy, the negative aspect is that the first financial benefits from these investments could be expected in 2022-23E at earliest. In 2022E we see a more substantial chance for an initial partnering contract, which could imply that VIGO's products are aimed at the mass market. Financial targets provided by the company suggest targeted 2020-23E revenue CAGR of 23%, which is slightly below our expectation of 25%. The company also assumed a material decline in adj. EBITDA margins to 40% in 2023E, down from 47% reached in 2020 (vs. our expectation of 42%), which in our view is a rather cautious assumption, concerning VIGO's rather prudent approach to cost budgets. The company trades on our forecasts at a P/E of 21.8x and 18.0x in 2021/22E.*

TMT

VIGO System**BUY****FV PLN 850.00**

15% upside

Price as of 22 July 2021 PLN 740.0

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Figure 1. VIGO System 2Q21E results preview

P&L (PLNm)	2Q20	3Q20	4Q20	1Q21	2Q21E	y/y	q/q
Sales revenues	13.9	12.9	14.3	14.6	18.0	30%	24%
Industry	7.5	5.4	5.4	5.4	7.3	-4%	34%
Military	3.0	4.7	4.8	5.0	6.8	127%	35%
Transport	1.9	1.1	0.8	2.4	1.9	1%	-19%
Medicine and science	1.0	0.9	2.5	1.0	0.9	-9%	-16%
Other	0.1	0.1	0.1	0.2	0.1	-48%	-59%
Materials for photonics	0.4	0.5	0.6	0.5	1.1	190%	102%
COGS	-4.5	-5.1	-3.4	-5.2	-5.8	20.4%	10.4%
gross profit/(loss) on sales	9.4	7.8	10.8	9.4	12.2	60.8%	30.8%
Other operating revenues	1.0	0.8	1.4	1.4	1.4	18.5%	-1.5%
Selling costs	-0.8	-0.8	-1.2	-0.7	-0.9	63.3%	21.1%
G&A costs	-4.1	-3.3	-4.2	-4.4	-4.4	5.4%	0.5%
Other operating costs	-0.1	-0.2	-0.3	-0.4	-0.4	614.3%	-5.4%
EBITDA	7.0	5.8	8.2	6.8	9.5	73.4%	39.0%
EBIT	5.4	4.3	6.5	5.2	7.9	98.6%	52.0%
Net financial revenues	0.2	-0.5	-0.5	-0.3	-0.1	-93.6%	-71.1%
Profit (loss) before tax	5.6	3.8	6.1	4.9	7.8	196.9%	59.6%
income tax	0.0	0.0	14.5	0.5	0.0	-100.0%	-100.0%
Net profit	5.6	3.8	20.5	5.4	7.8	198.1%	45.1%
Norm. net profit	5.6	3.8	6.1	4.9	7.8	198.1%	59.6%
Profitability ratios	2Q20	3Q20	4Q20	1Q21	2Q21E	y/y	q/q
Gross margin on sales	67.4%	60.4%	76.0%	64.2%	68.0%	6.6 pp	3.8 pp
EBITDA margin	50.1%	45.4%	57.3%	46.9%	52.8%	8.6 pp	5.9 pp
EBIT margin	38.9%	33.3%	45.9%	35.7%	43.9%	11.8 pp	8.2 pp
Norm. net profit margin	40.2%	29.7%	42.4%	33.6%	43.4%	22.3 pp	9.8 pp
Cash Flow Statement (PLN m)	2Q20	3Q20	4Q20	1Q21	2Q21E	y/y	q/q
Grants	4.1	1.0	4.6	3.0	2.0	423.6%	-32.6%
Gross capital expenditures	-5.4	-3.3	-9.3	-8.7	-6.6	29.6%	-24.2%
Net Debt/(Net cash)	17.0	17.0	17.3	21.7	23.0	17.4%	6.2%

Source: Company, IPOPEMA Research

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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.

FV – Fair Value, calculated based on valuation methods outlined in the document.

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	Number	%
Buy	19	76%
Hold	6	4%
Sell	0	0%
Total	25	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