

VIGO System

3Q19 Results Review

Opinion. Neutral, as results are in line with our forecast. In 9M19 the company generated PLN 32m of revenues which stands for 71% of our annual forecast (we expect PLN 45m in 2019E, +20% y/y) and PLN 9.8m of net income (71% of our forecast of PLN 13.7m +5% y/y). We expect better earnings momentum in 2020E with net income increase to PLN 17m (+24% y/y). We believe that currently the main drivers for VIGO's share price will be the newsflow about new contracts. VIGO is expecting to finish the current order for Zodiac in December 2019 and see potential to receive first orders from China partners. The company is also expecting to reach at least 10% y/y growth in industry segment in 2020E and at least EUR 1m of revenues from materials for photonics segment in next year. On our forecast VIGO trades at P/E 16.5x and 13.3x for 2019E and 2020E respectively, which we see as attractive level.

VIGO System 3Q19 revenues arrived at PLN 11.9m (in line with preliminary numbers), EBITDA at PLN 5.6m (+24% y/y, +4% vs. IPOPEMA) and net profit at PLN 3.7m (+10% y/y, in line with IPOPEMA):

- **Revenues.** The company's revenues arrived at PLN 11.9m (+29% y/y, in line with already published preliminary data), which includes PLN 6.7m from Industry segment (+42% in 3Q19 and +44% y/y YTD), PLN 3.5m from Military segment (+33% y/y) and PLN 0.9m from Transport segment (flat y/y).
- **Gross margin.** Gross margin arrived at 63.8%, 0.7 pp above our expectations, due to strong sales during the quarter.
- **SG&A costs.** SG&A cost arrived at PLN 3.5m (vs PLN 3.8m expected by us) up 71% y/y and flat q/q. We expect stronger increase in 4Q19 (driven mainly by starting depreciation of new facility).
- **EBITDA.** VIGO's EBITDA arrived at PLN 5.6m (+24% y/y, 4% above IPOPEMA) and EBIT at PLN 4.4m (+21% y/y, 5% above IPOPEMA forecast).
- **Net profit.** Net profit reached PLN 3.7m (+10% y/y and in line with our expectations). The company noted PLN 0.6m of net financial costs (mainly negative impact of foreign exchange rates) and immaterial level of income tax.
- **Capex.** 3Q19 Capex excl. grants reached PLN 10.3m (in line with IPOPEMA), including PLN 1.6m capex for R&D. The company has received grants of PLN 0.9m total value during that period.
- **Net Debt.** Net Debt has reached PLN 27.2m at the 3Q19 end (vs PLN 32.6m expected by IPOPEMA). Gross debt has reached PLN 38.3m (+ PLN 8m q/q).

Figure 1. VIGO System financial forecasts summary 2016-21E

(PLN m)	2016	2017	2018	2019E	2020E	2021E
Revenues	25.6	27.2	37.4	45.0	57.6	70.8
EBITDA	12.0	12.6	16.2	19.4	27.4	35.5
Net profit	10.0	9.5	13.0	13.7	17.0	24.1
P/E (x)	22.6	23.7	17.4	16.5	13.3	9.4
EV/EBITDA (x)	17.9	17.1	14.2	13.3	9.2	6.8

Source: Company, IPOPEMA Research

TMT

VIGO System

BUY

FV PLN 380.00

23% upside

Price as of 7 November 2019 PLN 310.0

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Figure 2. VIGO System 3Q19E results review

P&L (PLN m)	3Q18	4Q18	1Q19	2Q19	3Q19	y/y	q/q	3Q19E	Actual vs IPOPEMA
Sales revenues	9.3	9.2	11.5	8.4	11.9	27.6%	-26.3%	11.9	0%
Industry	4.7	6.0	7.8	6.1	6.7	42.5%	10.6%	6.7	0%
Military	2.6	1.4	0.2	0.5	3.5	33.8%	643.4%	3.5	1%
Transport	0.9	1.2	2.9	1.3	0.9	0.7%	-36.3%	0.9	-5%
Medicine and science	0.9	0.6	0.5	0.4	0.7	-18.2%	65.8%	0.9	-18%
Other	0.2	0.1	0.1	0.1	0.1	-33.8%	-3.5%	0.2	-34%
COGS	-4.2	-4.9	-4.1	-3.5	-4.3	2.0%	22.3%	-4.4	-2%
gross profit/(loss) on sales	5.1	4.3	7.3	4.9	7.6	48.9%	54.5%	7.5	1%
Other operating revenues	0.6	0.7	0.4	0.6	0.7	5.1%	17.8%	0.6	14%
Selling costs	-0.6	-0.6	-0.7	-0.5	-0.6	9.9%	17.4%	-0.6	-5%
G&A costs	-1.5	-2.1	-2.6	-3.0	-2.9	93.2%	-4.3%	-3.2	-9%
Other operating costs	-0.1	0.0	-0.4	-0.1	-0.4	315.8%	307.2%	-0.1	212%
EBITDA	4.5	3.3	5.1	2.8	5.6	23.5%	96.8%	5.3	4%
EBIT	3.6	2.4	4.2	1.8	4.4	21.4%	137.6%	4.1	5%
Net financial revenues	-0.2	0.1	0.0	0.1	-0.6	217.4%	na	-0.4	60%
Profit (loss) before tax	3.4	2.4	4.1	1.9	3.7	10.2%	92.9%	3.8	0%
income tax	0.0	0.0	0.0	0.0	0.0	nm	nm	0.0	-39%
Net profit	3.4	2.4	4.1	1.9	3.7	9.5%	91.7%	3.7	0%
Profitability ratios	3Q18	4Q18	1Q19	2Q19	3Q19	y/y	q/q	3Q19E	
Gross margin on sales	54.7%	46.5%	64.0%	58.3%	63.8%	9.1 pp	5.6 pp	63.1%	0.7 pp
EBITDA margin	48.3%	35.7%	44.3%	33.5%	46.7%	-1.6 pp	13.2 pp	44.8%	1.9 pp
EBIT margin	38.5%	25.9%	36.4%	21.8%	36.7%	-1.9 pp	14.9 pp	34.8%	1.8 pp
Net profit margin	36.4%	26.6%	36.1%	23.0%	31.3%	-5.2 pp	8.3 pp	31.3%	0 pp
Cash Flow Statement (PLN m)	3Q18	4Q18	1Q19	2Q19	3Q19	y/y	q/q	3Q19E	
Net cash flow from operations	6.6	-1.6	0.4	6.3	3.5	110.3%	1399.3%		
Net cash flow from investment activities	-6.5	-10.6	-9.8	-13.3	-9.4	123.5%	36.5%		
Grants	0.1	0.1	0.2	0.9	0.9	nm	-6.7%	0.9	-7%
Gross capital expenditures	-6.5	-12.5	-10.0	-14.3	-10.3	58.5%	-27.7%	-10.1	2%
Net cash flows from financial activities	0.1	11.4	8.1	9.0	6.9	5179.2%	-23.9%		
Total net cash flow	0.2	-0.8	-1.2	2.0	1.0	364.6%	-51.8%	-5.4	-1.2
Net Debt/ (Net cash)	-10.1	4.0	13.2	20.4	27.2	na	33.6%	32.6	-17%

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.
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Rating History – VIGO System

Date	Recommendation	Fair Value	Price at recommendation	Author
02.08.2019	BUY	PLN 380.0	PLN 334.0	Michał Wojciechowski