

# VIGO System

## 4Q19E Results Preview

VIGO System is due to publish its 4Q19 results on 6 March 2020. We expect 4Q19 revenues at PLN 11.1m (+20% y/y, in line with preliminary numbers), EBITDA at PLN 4.8m (+47% y/y) and net profit at PLN 3.5m (+44% y/y) to be driven by:

- **Revenues.** The company already published preliminary revenues of PLN 11.1m (+20% y/y), which includes PLN 4.8m from Industry segment (-21% y/y), PLN 3.9m from Military segment (+191% y/y), PLN 0.7m from Transport segment (+41% y/y) and PLN 1.4m from Medicine and Science (143% y/y).
- **Gross margin.** We expect the company's gross margin to decrease on q/q basis to 58% (vs. 64% in 3Q19), as a result of lower sales level and increase in fixed production costs, due to new production hall's opening (higher D&A cost).
- **SG&A costs.** We expect flat SG&A cost at PLN 3.6m.
- **EBITDA.** We forecast EBITDA of PLN 4.8m (+47% y/y) and EBIT of PLN 3.4m (+41% y/y).
- **Net profit.** We forecast PLN 0.2m net financial revenues driven by favourable changes in foreign exchange rates and immaterial level of income tax. Given the abovementioned we expect PLN 3.5m net income (+44% y/y).
- **Capex.** In 4Q19 we expect VIGO to spend PLN 3.1m, including PLN 1.6m on R&D and PLN 1.5m on ongoing investment program (mainly first investments in clean room).
- **Net Debt.** We forecasts PLN 24.1m net debt level at the year's end, driven by PLN 33.8m of gross debt and PLN 9.7m of cash (assuming the payment of PLN 6m grant for the new facility to be received in 4Q19E).

***Opinion.** VIGO 2019 revenues are likely to arrive at PLN 42.9m (5% below our estimates) and 2019 net income at PLN 13.3m (3% below our initial forecast). The average net margin in 2019 could reach 31%, slightly above our expectations of 30% for this year. On our forecast VIGO trades at P/E 23.2x and 18.6x for 2019E and 2020E respectively, which we see as neutral level. Currently investors should track carefully the information about renewal of Zodiac contract, potential contracts from China and information about new products (in particular low-cost detector).*

TMT

## VIGO System

**BUY**

**FV PLN 380.00**

12% downside

Price as of 4 February 2020 PLN 434.0

Figure 1. VIGO System 4Q19E results preview

P&L (PLN m)	4Q18	1Q19	2Q19	3Q19	4Q19E	y/y	q/q
<b>Sales revenues</b>	<b>9.2</b>	<b>11.5</b>	<b>8.4</b>	<b>11.9</b>	<b>11.1</b>	<b>20.1%</b>	<b>-7.1%</b>
Industry	6.0	7.8	6.1	6.7	4.8	-20.5%	-28.7%
Military	1.4	0.2	0.5	3.5	3.9	191.3%	13.0%
Transport	1.2	2.9	1.3	0.9	0.7	-41.1%	-18.1%
Medicine and science	0.6	0.5	0.4	0.7	1.4	143.2%	92.0%
Other	0.1	0.1	0.1	0.1	0.2	264.6%	100.1%
COGS	-4.9	-4.1	-3.5	-4.3	-4.7	-5.5%	8.1%
<b>gross profit/(loss) on sales</b>	<b>4.3</b>	<b>7.3</b>	<b>4.9</b>	<b>7.6</b>	<b>6.4</b>	<b>49.5%</b>	<b>-15.7%</b>
Other operating revenues	0.7	0.4	0.6	0.7	0.7	-2.6%	2.6%
Selling costs	-0.6	-0.7	-0.5	-0.6	-0.6	-3.7%	-6.1%
G&A costs	-2.1	-2.6	-3.0	-2.9	-3.1	47.9%	5.0%
Other operating costs	0.0	-0.4	-0.1	-0.4	-0.1	na	-68.0%
<b>EBITDA</b>	<b>3.3</b>	<b>5.1</b>	<b>2.8</b>	<b>5.6</b>	<b>4.8</b>	<b>46.8%</b>	<b>-13.1%</b>
<b>EBIT</b>	<b>2.4</b>	<b>4.2</b>	<b>1.8</b>	<b>4.4</b>	<b>3.4</b>	<b>40.6%</b>	<b>-23.2%</b>
Net financial revenues	0.1	0.0	0.1	-0.6	0.2	292.6%	na
<b>Profit (loss) before tax</b>	<b>2.4</b>	<b>4.1</b>	<b>1.9</b>	<b>3.7</b>	<b>3.6</b>	<b>46.2%</b>	<b>-4.9%</b>
income tax	0.0	0.0	0.0	0.0	0.0	na	nm
<b>Net profit</b>	<b>2.4</b>	<b>4.1</b>	<b>1.9</b>	<b>3.7</b>	<b>3.5</b>	<b>44.1%</b>	<b>-5.3%</b>
<b>Profitability ratios</b>	<b>4Q18</b>	<b>1Q19</b>	<b>2Q19</b>	<b>3Q19</b>	<b>4Q19E</b>	<b>y/y</b>	<b>q/q</b>
Gross margin on sales	46.5%	64.0%	58.3%	63.8%	57.9%	11.4 pp	-5.9 pp
EBITDA margin	35.7%	44.3%	33.5%	46.7%	43.7%	8 pp	-3 pp
EBIT margin	25.9%	36.4%	21.8%	36.7%	30.3%	4.4 pp	-6.4 pp
Net profit margin	26.6%	36.1%	23.0%	31.3%	31.9%	5.3 pp	0.6 pp
<b>Cash Flow Statement (PLN m)</b>	<b>4Q18</b>	<b>1Q19</b>	<b>2Q19</b>	<b>3Q19</b>	<b>4Q19E</b>	<b>y/y</b>	<b>q/q</b>
Gross capital expenditures	-12.5	-10.0	-14.3	-10.3	-3.1	-75.0%	-69.7%
Net Debt/ (Net cash)	4.0	13.2	20.4	27.2	24.1	505.0%	-11.4%

Source: Company, IPOPEMA Research

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The definitions of terms used in the document include:

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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Total	32	100%

Rating History – VIGO System

Date	Recommendation	Fair Value	Price at recommendation	Author
02.08.2019	BUY	380.00	330.00	Michał Wojciechowski