

VIGO System

4Q19 Results Review

***Opinion. Slightly positive.** In total VIGO generated PLN 42.9m revenues which was slightly below our forecast from last recommendation, a result of weak performance in Industry segment in 4Q19. Nevertheless VIGO's net margin was slightly better than we expected (32% vs 30%) which resulted in 2019 net income of PLN 13.9m (2% above our forecast).*

We believe that with finished new production hall the company will have substantial chance for increase in production volumes from 7.2k detectors prepared in 2019. We also note that in 2020 VIGO expect first material revenues from Material from Photonics segment (at least EUR 1m), which should provide better earnings momentum in this year (we expect nearly 30% y/y revenues growth and 25% y/y growth of net income). On our forecast VIGO trades at P/E 18.8x and 13.3x for 2020E and 2021E respectively, which we see as attractive level.

VIGO System 4Q19 revenues arrived at PLN 11.1m (in line with preliminary numbers), EBITDA at PLN 5.1m (+56% y/y, +7% vs. IPOPEMA) and net profit at PLN 4.1m (+67% y/y, +17% vs. IPOPEMA):

- **Revenues.** The company's revenues arrived at PLN 11.1m (+20% y/y, in line with already published preliminary data), which includes PLN 4.8m from Industry segment (-21% y/y), PLN 3.9m from Military segment (+191% y/y) and PLN 0.7m from Transport segment (-41% y/y). In whole 2019 VIGO sold 7.2k IR detectors, -6% y/y.
- **Gross margin.** Gross margin arrived at 64.7%, 6.8pp above our expectations (likely the positive effect of new production hall, with lower production cost per detector).
- **SG&A costs.** SG&A cost arrived at PLN 4.3m (vs PLN 3.7m expected by us) up 60% y/y and +21% q/q.
- **EBITDA.** VIGO's EBITDA arrived at PLN 5.1m (+56% y/y, 7% above IPOPEMA) and EBIT at PLN 3.6m (+53% y/y, 7% above IPOPEMA forecast).
- **Net profit.** Net profit reached PLN 4.1m (+68% y/y and 17% above our expectations). The company noted PLN 0.4m of net financial result (mainly positive impact of foreign exchange rates) and immaterial level of income tax.
- **Capex.** 4Q19 Capex excl. grants reached PLN 5.4m (vs our expectation of PLN 3.1m), including PLN 2.3m capex for R&D (up from PLN 1.6m) in 3Q19). The company has received grants of PLN 6.9m total value during that period.
- **Capex plan for 2020.** The company informed that it plan to expend in total 27.1m (vs 27.4m expected by IPOPEMA) in 2020 including PLN 2.1m on new production hall, PLN 1.8m on Materials for photonics segment and PLN 23.2m on new cleanroom.
- **Net Debt.** Net Debt has reached PLN 20.5m at the 4Q19 end (vs PLN 24.1m expected by IPOPEMA). Gross debt has arrived at PLN 33.3m (- PLN 5m q/q, as the company received grant for factory and could partially repay the short-term investment loan).

TMT

VIGO System

BUY

FV PLN 380.00

14% downside

Price as of 3 March 2020 PLN 440.0

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Figure 1. VIGO System 4Q19 results review

P&L (PLN m)	4Q18	1Q19	2Q19	3Q19	4Q19	y/y	q/q	4Q19E	Actual vs IPOPEMA
Sales revenues	9.2	11.5	8.4	11.9	11.1	20.1%	-7.1%	11.1	0%
Industry	6.0	7.8	6.1	6.7	4.8	-20.5%	-28.7%	4.8	
Military	1.4	0.2	0.5	3.5	3.9	191.3%	13.0%	3.9	
Transport	1.2	2.9	1.3	0.9	0.7	-41.1%	-18.1%	0.7	
Medicine and science	0.6	0.5	0.4	0.7	1.4	143.2%	92.0%	1.4	
Other	0.1	0.1	0.1	0.1	0.2	264.6%	100.1%	0.2	
COGS	-4.9	-4.1	-3.5	-4.3	-3.9	-20.7%	-9.3%	-4.7	-17%
gross profit/(loss) on sales	4.3	7.3	4.9	7.6	7.2	66.9%	-5.8%	6.4	12%
Other operating revenues	0.7	0.4	0.6	0.7	1.0	35.0%	42.4%	0.7	39%
Selling costs	-0.6	-0.7	-0.5	-0.6	-0.6	-4.5%	-6.9%	-0.6	-5%
G&A costs	-2.1	-2.6	-3.0	-2.9	-3.7	78.9%	27.0%	-3.1	19%
Other operating costs	0.0	-0.4	-0.1	-0.4	-0.2	na	-43.3%	-0.1	124%
EBITDA	3.3	5.1	2.8	5.6	5.1	55.7%	-7.9%	4.8	7%
EBIT	2.4	4.2	1.8	4.4	3.6	52.7%	-16.6%	3.4	7%
Net financial revenues	0.1	0.0	0.1	-0.6	0.4	720.4%	na	0.2	122%
Profit (loss) before tax	2.4	4.1	1.9	3.7	4.1	67.5%	8.9%	3.6	13%
income tax	0.0	0.0	0.0	0.0	0.0	na	-95.65%	0.0	
Net profit	2.4	4.1	1.9	3.7	4.1	66.7%	9.6%	3.5	17%
Profitability ratios	4Q18	1Q19	2Q19	3Q19	4Q19	y/y	q/q	4Q19E	
Gross margin on sales	46.5%	64.0%	58.3%	63.8%	64.7%	18.2 pp	0.9 pp	57.9%	6.8 pp
EBITDA margin	35.7%	44.3%	33.5%	46.7%	46.4%	10.6 pp	-0.4 pp	43.7%	2.7 pp
EBIT margin	25.9%	36.4%	21.8%	36.7%	32.9%	7 pp	-3.8 pp	30.3%	2.6 pp
Net profit margin	26.6%	36.1%	23.0%	31.3%	36.9%	10.3 pp	5.6 pp	31.9%	5 pp
Cash Flow Statement (PLN m)	4Q18	1Q19	2Q19	3Q19	4Q19	y/y	q/q	4Q19E	
Net cash flow from operations	-1.6	0.4	6.3	3.5	5.2	na	46.9%		
Net cash flow from investment activities	-10.6	-9.8	-13.3	-9.4	1.4	na	na		
Grants	0.1	0.2	0.9	0.9	6.9	2194.6%	691.3%		
Gross capital expenditures	-12.5	-10.0	-14.3	-10.3	-5.4	19.3%	-47.2%	-3.1	76%
Net cash flows from financial activities	11.4	8.1	9.0	6.9	-4.8	na	na		
Total net cash flow	-0.8	-1.2	2.0	1.0	1.8	na	90.8%		
Net Debt/ (Net cash)	4.0	13.2	20.4	27.2	20.5	-307.9%	-24.9%	24.1	-15%

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