

VIGO Photonics

On the way to mass applications

In 1H22 VIGO delivered PLN 32m in revenues (flat y/y, 40% of its annual target) and we expect it to reach PLN 77m in revenues in the full year, up 8% y/y. However, excluding the military segment (affected by the timing of contracts), revenues have increased in 1H22 by 30% y/y, which was achieved thanks to strong sales to industry (+44% y/y), and despite the clean room reconstruction limiting production capacity and starting of an economic slowdown. Moreover, unfavorable macroeconomic conditions could push companies to search for efficiency and increase investments in smart technologies like those provided by VIGO. We also believe that weak performance of the military segment is merely a transitional result of the longer decision-making process of public clients, yet increased spending on smart military equipment is currently a base case. Last but not least, VIGO is presently working on three EUR 10m plus projects which could reach production in the mid-term and provide a significant boost for the company's earnings. On our 2022/23E forecasts, VIGO trades at an attractive P/E of 20.4/12.4x. We maintain our BUY recommendation, but decrease our FV to PLN 660.0 (19% upside potential) due to, among others, higher RFR and premium risk.

2022-23E outlook – the next contract from Safran and new applications

We expect the industry sector to remain the major driver for revenue growth this year, with expected sales at PLN 42m, up 36% y/y (the management still does not see any recession-driven slowdown in new orders). We expect relatively weaker performance of the military segment with PLN 12m in revenues (down 48% y/y), and moderate result of semiconductor materials segment at PLN 7.8m (vs. PLN 4.3m year ago). In 2023E we expect VIGO to deliver a significant improvement in the military segment (PLN 19m in revenues, up 55% y/y), driven by a new contract from Safran, as well as strong performance of industry (PLN 52m, up 24% y/y) and materials for photonics at PLN 13m (driven by first significant contracts). Moreover, multiple key new applications are expected to enter production in 2023 as well. In total we forecast VIGO to reach PLN 77m/102m in revenues in 2022/23E (down 3%/5% vs. our previous forecasts) and PLN 20.0m/32.6m in norm. net income in those years with a norm. net margin of 26%/32% (vs. previously expected 36%). Significant decline in profitability this year is likely due to overall inflationary pressure on operating costs, which in our view in 2023 will be offset by significant upscale in production and catalogue price adjustments.

Mid-term outlook - Potential large-scale and mass-market contracts

Currently VIGO is working on at least three large-scale contracts, with a potential for annual revenues of EUR 10m or more. Among those we highlight SWIR III-V detector in biomedicine (demonstrator phase), IR array in military and MWIR III-V detector in automotive (both at product concept phase). The management estimates that these products could be introduced to the market in 2023-24. In our forecasts, we conservatively assume their chance for reaching production at respectively 15%/33%/20%, with initial deliveries in 2024E/24E/25E.

Figure 1. Summary of financial data (PLN m)

	2020	2021	2022E	2023E	2024E	2025E
Revenues	53.5	71.5	77.0	101.6	135.1	173.9
EBITDA	26.5	31.5	31.5	46.2	62.2	80.6
Norm. net income	18.1	24.4	20.0	32.8	46.9	62.3
EV/EBITDA (x)	17.4	17.5	16.8	11.0	7.7	5.3
P/E (x)	22.8	20.0	20.4	12.4	8.9	6.7
DY	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Source: Company, IPOPEMA Research

TMT | Technology

VIGO PHOTONICS

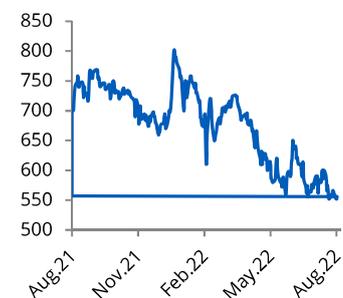
BUY

FV PLN 660.0 from PLN 750.0

19% upside

Price as of 23 August 2022 PLN 556.0

maintained



Share data

Number of shares (m)	0.7
Market cap (EUR m)	85.0
12M avg daily volume (k)	0.5
12M avg daily turnover (EUR m)	0.1
12M high/low (PLN)	840.0/536.0
WIG weight (%)	0.1
Reuters	VGOP.WA
Bloomberg	VGO PW

Total performance

1M	-4.0%
3M	-5.0%
12M	-21.0%

Shareholders

Warsaw Equity Management	14.3%
Józef Piotrowski	11.9%
TFI Investors SA	9.6%
Janusz Kubrak	6.6%
Mirosław Grudzień	5.1%
Others	52.5%

Analyst

Michał Wojciechowski
Michal.Wojciechowski@ipopema.pl
+ 48 22 236 92 69

This document has been prepared by IPOPEMA Securities S.A. with its registered seat in Warsaw, Próźna 9, 00-107 Warsaw, Poland, entered into the Register of Entrepreneurs of the National Court Register maintained by the District Court for the City of Warsaw, XII Commercial Division of the National Court Register under entry number KRS 0000230737, the initial capital and paid capital in the amount of PLN 2.993.783,60, NIP 5272468122, www.ipopema.pl. IPOPEMA Securities S.A. is supervised by the Polish Financial Supervision Authority (Komisja Nadzoru Finansowego), Piękna 20, 00-549 Warsaw, Poland.

This document has been prepared by IPOPEMA Securities S.A. as a part of the Warsaw Stock Exchange Research Coverage Support Program ("Program") and was commissioned by the Warsaw Stock Exchange SA ("WSE"). Information about the Program is available at <https://www.gpw.pl/gpwpa>. The copyright to the document is vested in the WSE. For preparation of the document, IPOPEMA Securities S.A. will be remunerated by the WSE on the terms specified in the agreement concluded between IPOPEMA Securities S.A. and the WSE.

This document was prepared by IPOPEMA Securities S.A. for information purposes only. This document is addressed to IPOPEMA Securities S.A. clients entitled to receive it on the basis of contracts for the provision of services. This document, using media distribution channels, may also reach other investors. It has been produced independently of the company mentioned in this document and any forecasts, opinions and expectations are entirely those of IPOPEMA Securities S.A. Unless otherwise specified, the estimates and opinions contained in the document constitute an independent assessment of IPOPEMA Securities S.A. analysts preparing the document as of the date of issuing the document.

IPOPEMA Securities S.A. prepared this document with the preservation of all adequate diligence, thoroughness and reliability on the basis of publicly available information which IPOPEMA Securities S.A. believes to be reliable. While due diligence has been taken by IPOPEMA Securities S.A. to ensure that the facts stated herein are accurate and that any forecasts, opinions and expectations contained herein are fair and reasonable, IPOPEMA Securities S.A. has not independently verified all the information given in this document. Accordingly, no representation or warranty, express or implied, is made as to the fairness, accuracy, completeness or correctness of the information and opinions contained in this document. The opinions expressed in the document can change without notice and IPOPEMA Securities S.A. is under no obligation to keep these opinion current. None of the IPOPEMA Securities S.A. or any other person accepts any liability whatsoever for any loss howsoever arising from any use of this document or its contents or otherwise arising in connection therewith. This document nor any copy hereof is not to be distributed directly or indirectly in the United States, Australia, Canada or Japan.

This document does not constitute any offer to sell or induce any offer to buy or sell any financial instruments, can not be relied on in connection with any contract or liability and does not constitute advertising or promotion of a financial instrument or the company. Investment decisions should only be made on the basis of a prospectus or other publicly available information and materials.

The document was prepared without taking into account the needs and situation of the recipients of the document. When preparing the document, IPOPEMA Securities S.A. does not examine the recipient's investment objectives, risk tolerance level, time horizon and financial standing of the investors. The company or the financial instruments discussed in the document may not be suitable for the users of the document, i.e. it may not be suitable for the specific objectives and time horizon or the financial situation. Information included in the document can not be regarded as a substitute for obtaining investment advice service. The value of financial instruments may fluctuate, including declines. Changes in FX rates may have an adverse effect on the value of investments. The investment in financial instruments is linked to investment risks including loss of entire or part of the invested capital. Past performance is not necessarily indicative of future results. IPOPEMA Securities S.A. points out that the price of financial instruments is affected by many different factors that are or may be independent of the company and the results of its operations. These include, among others changing economic, legal, political and tax conditions.

Investors should be aware that IPOPEMA Securities S.A. or its related entities may have a conflict of interest that could affect this document's objectivity. The investor should assume that IPOPEMA Securities S.A. or its related entities may provide services in favour of the company and obtain remuneration on this account. They may also have another financial interest with respect to the company. IPOPEMA Securities S.A. or its related entities may seek to do business with the company or other entities mentioned in this document. IPOPEMA Securities S.A. has an organizational structure and internal regulations in place to ensure that the client's interests are not compromised in the event of a conflict of interests, in relation to preparing this document. This document was prepared irrespective and independently of the interests of IPOPEMA Securities S.A., the company that is the subject of this document and holder of financial instrument issued by aforementioned company.

IPOPEMA Securities S.A. uses a number of valuation methodologies including discounted cash flows models (such as discounted operating earnings or dividend discount model), and earnings and cash-flow based models, which are often related to comparisons with selected peer companies. Cash flow models encapsulate the cash streams forecast to flow to a company, and are widely used in the investment industry. Peer comparisons factor in amongst other factors, differential growth rates, and indicate how expensive one company might appear relative to a chosen comparator. The subjective opinions of the document's author or authors, formed by their knowledge and experience, play a significant role in the valuation. Also included are assumptions on numerous economic variables, particularly interest rates, inflation and exchange rates and varying these assumptions could result in significantly different opinions. The strength of the earnings and cash flow based models is the closer attention to a company on a standalone basis, and tying the valuation to its fundamental value. The weakness of such method is the number of assumptions, which need to be adopted and resulting sensitivity to those assumptions. The peer comparisons methods are less dependent on the analyst's judgment as to the individual parameters, however the problem with this method appears when the peer comparator is over- or undervalued. Moreover, leading multiples (based on the future earnings, book values, operating profit or cash flows) include an analyst's estimate of those values.

This document was not transferred to the company prior to its publication. This document was prepared according to the author's own view, assumptions and knowledge.

It is intended that the analytical report concerning the company will be updated at least twice a year starting from the date of publication of the initiating report, and in the event of key operations and/or changes in the assumptions underlying the report.

Recommendations issued by IPOPEMA Securities S.A. they are valid for a period of 12 months from the date of issue, unless they are updated during this period. IPOPEMA Securities S.A. updates the issued recommendations depending on the market situation and subjective analysts' assessment. In the last 12 months IPOPEMA Securities S.A. has prepared recommendations concerning the company.

The date and the time stated on the front page is the date of the publication of this document. The price used throughout the recommendation to calculate adequate ratios is the "last" price stated on the front page of this document.

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.

The author of this document has no conflict of interest with the company that is the subject of this document.

Investors should be aware that flexible part of the author's compensation may depend on general financial performance of IPOPEMA Securities S.A.

IPOPEMA Securities S.A. shall act with due diligence, honestly, fairly, professionally and in accordance with the provisions of the applicable law.

IPOPEMA Securities S.A. does not guarantee achieving the investor's investment objective, the performance of company or prospective prices referred to herein.

When applying ratings for companies following criteria are used with regards to the difference between IPOPEMA's FV and company's price at the date of recommendation:

Rating	Difference between FV and price at recommendation
Buy	Above 10%
Hold	In between (and including) -10% and 10%
Sell	Below -10%

IPOPEMA Research - Distribution by rating category (1 April 2022 – 30 June 2022)

	Number	%
Buy	17	71%
Hold	5	21%
Sell	2	8%
Total	24	100%

Rating History – VIGO Photonics

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
13.12.2021	BUY	750.0	682.0	Michał Wojciechowski
24.08.2022	BUY	660.0	556.0	Michał Wojciechowski