

# 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

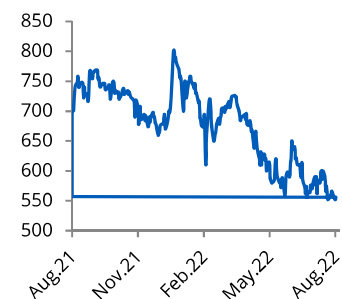
BUY

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

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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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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%
<b>Total</b>	<b>24</b>	<b>100%</b>

#### 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