

ML System

BIPV market leader with Covid Detector

We initiate coverage of ML System with a BUY recommendation and a Fair Value of PLN 127.00, which implies 17.2% upside. The company is a market leader in building integrated photovoltaics not only in Poland but also in Europe. The company to a large extent is dependent on the construction sector but also is exposed to the flourishing classical photovoltaic market in Poland with a growing footprint in select European markets (Benelux and Scandinavia). The company is undergoing a capacity expansion and is set to commission a brand new facility by year's end which will be dedicated to producing Quantum Glass panels, which is an entirely new product line. Following this, in 2022 the company will commission its 2D Glass product line, and in late 2023 an Active Glass product line is expected to be commissioned. The covid pandemic environment brought some delays to the schedule but also opened up new possibilities for the company, which invented a Covid Detector. All in all, we expect the firm to post EBITDA of PLN 27.5m (up 24.0% y/y) in 2021E, PLN 53.9m (up 96.4% y/y) in 2022E and PLN 61.9m (up 14.8% y/y) in 2023E, with the upward trajectory stemming from a rising backlog and production coming from Quantum, 2D and Active Glass product lines all supported by subsidies. We do not factor in any impact of the Covid Detector for now.

Adverse changes to the net metering system likely to be offset by new product sales: According to a draft proposal of the Ministry of Climate, the favourable net metering scheme in Poland is likely to be changed in a less favourable way for prosumers starting from 2022. The change is likely to impair sales levels of the classic PV modules in Poland starting next year. The company's revenues from this activity are roughly equal to 50% of its production facility capacities. The other half is being allocated for BIPV (building photovoltaics), which is also a higher margin product. Over the coming years 2021-2024, the company is also planning to commission a few brand new product lines: Quantum, 2D and Active Glass active and passive solutions using the technology of quantum dots. This and heightened demand from SMEs and commercial PV consumers is likely to cover for the fading revenues from the retailers.

Covid Detector: This device is able in real time to detect the SARS CoV2 virus in the exhaled air using spectrometry technology. ML System prides itself in the high specificity (97.15%) and sensitivity (86.86%) of this technology, which fulfils WHO standards (>97% and >80%, respectively) and Polish Agency for Medical Technology (AOTMiT) norms. The company now awaits a positive recommendation from the Polish Ministry of Health and any other European Ministry which would allow the company to commercially sell the product. For now we do not include its impact on our forecast, since we do not know how long the bureaucratic procedures may take, nor what their final outcome will be.

Figure 1. ML System financial data, (PLN m)

	2018	2019	2020	2021E	2022E	2023E
Revenue	123.3	93.4	127.3	160.5	200.4	250.1
EBIT	7.2	5.1	11.5	7.7	32.2	38.1
EBITDA	14.6	14.0	22.1	27.5	53.9	61.9
Net profit	5.7	3.5	10.2	7.4	29.9	35.7
EPS	1.1	0.6	1.7	1.2	4.6	5.5
DPS	0.0	0.0	0.0	0.0	0.0	0.0
P/E (x)	97.2	176.8	63.2	90.2	23.7	19.9
EV/EBITDA (x)	38.6	46.0	30.8	26.7	15.1	12.6

Source: Company, IPOPEMA Research

Construction

ML System

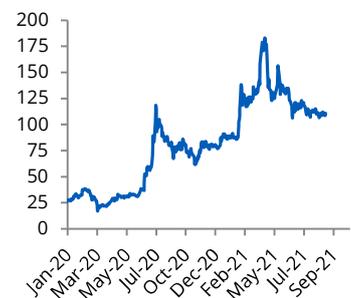
BUY

FV PLN 127.00

17.2% upside

Price as of 08 September 2021 PLN 108.40

Initiation of coverage



Share data

Number of shares (m)	6.6
Market cap (EUR m)	157.5
12M avg daily volume (k)	31.2
12M avg daily turnover (EUR m)	0.8
12M high/low (PLN)	187.8/58.2
WIG weight (%)	0.07
Reuters	MLSP.WA
Bloomberg	MLS PW

Total performance

1M	-4.91%
3M	-16.87%
12M	+60.83%

Shareholders

Dawid Cycoń	31.62%
Edyta Stanek	31.35%
Rockbridge TFI	5.25%

Analysts

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ML SYSTEM

BUY

FV PLN 127.00

Mkt Cap EUR 157.5m

Upside/downside +17.2%

Valuation multiples	2018	2019	2020	2021E	2022E
P/E (x)	97.2	176.8	63.2	90.2	23.7
EV/EBITDA (x)	38.6	46.0	30.8	26.7	15.1
EV/Sales (x)	4.55	6.91	5.35	4.57	4.06
P/BV (x)	7.34	7.92	4.45	4.38	3.90
FCF yield (%)	-5%	-7%	2%	1%	11%
DY (%)	0%	0%	0%	0%	0%

Per share	2018	2019	2020	2021E	2022E
No. of shares (m units)	5.1	5.7	5.9	6.1	6.5
EPS (PLN)	1.12	0.61	1.72	1.20	4.57
BVPS (PLN)	14.76	13.69	24.33	24.75	27.76
FCFPS (PLN)	-5.86	-7.57	2.05	0.65	12.25
DPS (PLN)	0.00	0.00	0.00	0.00	0.00

Change y/y (%)	2018	2019	2020	2021E	2022E
Revenues	96.4%	-24.3%	36.3%	26.1%	24.8%
EBITDA	-76.8%	-3.6%	57.7%	24.0%	96.4%
EBIT	-87.2%	-29.0%	125.6%	-33.3%	317.8%
Pre-tax	-89.9%	-38.2%	191.9%	-26.7%	305.9%
Net profit	-90.0%	-38.7%	193.7%	-27.5%	305.6%

Leverage and return	2018	2019	2020	2021E	2022E
Gross margin (%)	12.9%	12.8%	24.1%	13.7%	25.6%
EBITDA margin (%)	11.8%	15.0%	17.4%	17.1%	26.9%
EBIT margin (%)	5.8%	5.5%	9.1%	4.8%	16.1%
Net margin (%)	4.6%	3.7%	8.0%	4.6%	14.9%
Net debt / EBITDA (x)	0.83	2.36	1.72	2.48	1.92
Net debt / Equity (x)	0.16	0.43	0.26	0.45	0.57
Leverage Ratio (x)	0.47	0.42	0.37	0.36	0.40
ROE (%)	10.2%	4.6%	9.2%	5.0%	17.9%
ROA (%)	21.6%	10.7%	24.6%	13.9%	44.9%
ROIC (%)	6.5%	3.1%	5.6%	3.4%	10.5%

Assumptions	2018	2019	2020	2021E	2022E
Sales (PLN m)	123.5	93.4	127.3	160.5	200.4
General constr.	21.6	19.7	2.0	3.8	3.9
PV	101.4	68.0	123.3	154.1	123.3
R&D	0.2	1.6	0.3	0.6	0.6
Unallocated	0.3	4.1	1.8	1.9	2.0
Quantum Glass	0.0	0.0	0.0	0.0	65.9
2D Glass	0.0	0.0	0.0	0.0	4.6
Active Glass	0.0	0.0	0.0	0.0	0.0
Poland GDP (%)	5.2%	4.1%	-2.8%	5.4%	5.3%
Poland CPI (%)	2.1%	2.2%	3.4%	4.1%	3.3%
Constr. activity(%)	9.2%	2.6%	-2.2%	2.8%	1.9%
USD PLN (avg)	3.61	3.84	3.89	3.76	3.51
EURPLN (avg)	4.26	4.30	4.44	4.54	4.39

P&L (PLN m)	2018	2019	2020	2021E	2022E	2023E
Revenues	123.3	93.4	127.3	160.5	200.4	250.1
COGS	-107.3	-81.4	-96.6	-138.4	-149.0	-176.8
EBIT	7.2	5.1	11.5	7.7	32.2	38.1
General constr.	2.5	1.8	0.7	3.8	0.6	0.6
PV	8.8	6.6	12.8	2.5	7.4	7.7
R&D	-1.3	-1.9	-3.7	-3.3	0.1	0.1
Unallocated	-4.4	-3.1	0.5	4.4	10.5	6.4
Quantum Glass	0.0	0.0	0.0	0.0	13.2	16.3
2D Glass	0.0	0.0	0.0	0.0	0.5	1.0
Active Glass	0.0	0.0	0.0	0.0	0.0	6.1
EBITDA	14.6	14.0	22.1	27.5	53.9	61.9
Financial income (cost) net	-1.5	-1.6	-1.3	-0.2	-1.6	-1.7
Pre-tax	5.7	3.5	10.3	7.5	30.5	36.5
Tax	0.0	0.0	-0.1	-0.1	-0.6	-0.7
Net profit	5.7	3.5	10.2	7.4	29.9	35.7

BALANCE SHEET (PLN m)	2018	2019	2020	2021E	2022E	2023E
Non-current assets	111.8	146.1	184.8	239.4	293.8	295.1
Intangible assets	6.6	7.2	11.0	12.0	12.0	12.0
PP&E	104.8	135.2	168.5	221.9	276.2	277.3
Receivables	0.2	0.2	0.5	0.7	0.9	1.1
Current assets	67.5	70.1	118.8	126.3	149.1	182.6
Inventories	7.3	9.6	38.3	49.3	53.1	63.0
Trade receivables	12.7	29.8	40.3	44.0	54.9	68.5
Cash and equivalents	14.7	15.1	20.5	8.0	10.0	12.5
Other current assets	32.9	15.6	19.6	25.0	31.1	38.6
Total assets	179.3	216.2	303.5	365.7	442.9	477.7
Equity	74.8	77.4	144.4	151.9	181.8	217.6
Minorities	0.0	0.0	0.0	0.0	0.0	0.0
Non-current liabilities	59.9	92.7	95.3	119.5	128.0	147.7
Loans and leasing	12.0	32.7	27.7	28.6	28.8	29.5
Other non-current liabilities	47.9	60.0	67.6	90.9	99.2	118.3
Current liabilities	44.7	46.1	63.9	94.3	133.1	112.5
Trade payables	23.9	24.7	25.2	36.0	36.7	43.6
Loans and leasing	16.4	15.6	30.9	47.4	84.7	55.1
Other current liabilities	4.3	5.8	7.8	10.8	11.7	13.7
Equity & liabilities	179.3	216.2	303.5	365.7	442.9	477.7
Inventories turnover (days)	24.8	43.1	144.6	130.0	130.0	130.0
Receivable turnover (days)	37.6	116.3	115.6	100.0	100.0	100.0
Net debt (PLN m)	12.1	33.2	38.0	68.0	103.5	72.1

CASH FLOW (PLN m)	2018	2019	2020	2021E	2022E	2023E
Operating cash flow	-4.2	-7.6	-21.9	44.1	40.6	56.2
Net income	5.7	3.5	10.2	7.4	29.9	35.7
D&A	7.4	8.9	10.6	19.8	21.8	23.8
Change in WC	-9.8	-2.2	-44.4	-9.2	-20.0	-24.2
Other	-7.4	-17.7	1.7	26.2	8.9	20.9
Investment cash flow	-25.5	-38.7	-49.0	-74.2	-76.1	-24.8
CAPEX	-25.5	-38.7	-49.0	-74.2	-76.1	-24.8
Dividends received	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0
Financial cash flow	42.0	46.8	76.3	17.6	37.5	-28.9
Change in equity	32.6	0.0	56.0	0.2	0.0	0.0
Change in debt	-8.0	17.5	9.4	16.9	37.0	-29.8
Dividend	0.0	-1.1	0.0	0.0	0.0	0.0
Other	17.4	30.4	10.9	0.6	0.4	0.9
Change in cash	12.3	0.5	5.4	-12.5	2.0	2.5
Cash as of eop	14.7	15.1	20.5	8.0	10.0	12.5

Source: Company data, 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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Buy	Above 10%
Hold	In between (and including) -10% and 10%
Sell	Below -10%

IPOPEMA Research - Distribution by rating category (A pr 1 – June 30, 2021)

	Number	%
Buy	15	94%
Hold	0	0%
Sell	1	6%
Total	16	100%

Rating History – ML System

Date	Recommendation	Fair Value	Price at recommendation	Author
09/09/2021	BUY	PLN 127.00	PLN 108.40	Robert Maj