

VIGO System

1Q20E Results Preview

VIGO System is due to publish its 1Q20E results on 8 May 2020.

We expect 1Q20E revenues at PLN 12.4m (+8% y/y, in line with preliminary numbers), EBITDA at PLN 5.4m (+6% y/y) and net profit at PLN 2.5m (-39% y/y) to be driven by:

- **Revenues.** The company already published preliminary revenues of PLN 12.4m (+8% y/y), which includes PLN 5.1m from Industry segment (-35% y/y, +6% q/q), PLN 0.9m from Military segment (+420% y/y), PLN 2.3m from Transport segment (-19% y/y) and PLN 3.5m from Medicine and Science (+621% y/y).
- **Gross margin.** We expect the company's gross margin to arrive at 65%, flat on q/q basis.
- **SG&A costs.** We expect PLN 4.6m of SG&A cost +8% q/q, due to higher costs of operations in new factory.
- **EBITDA.** We forecast EBITDA of PLN 5.4m (+6% y/y) and EBIT of PLN 3.8m (-8% y/y).
- **Net profit.** We forecast PLN 1.3m net financial costs driven by unfavorable changes in foreign exchange rates and we assume immaterial level of income tax. Given the abovementioned we expect PLN 2.5m net income (-39% y/y).
- **CAPEX.** In 1Q20E we expect VIGO to spend PLN 4.1m, including PLN 2.3m on R&D, PLN 2.1m on ongoing investment program and PLN 0.5m on VIGO Ventures investments. We expect the company to receive PLN 0.9m in grants.
- **Net Debt.** We forecasts PLN 21.2m net debt level at the quarter's end, driven by PLN 32.8m of gross debt and PLN 11.5m of cash.

***Opinion.** After publication of 1Q20 preliminary revenues we believe that currently the next potential drivers for VIGO's valuation could be the update about contract with Zodiac (we still expect confirmation), new contract from Caterpillar and VIGO's expansion in semiconductors area. On our forecast VIGO trades at P/E 19.1x and 12.8x for 2020E and 2021E respectively, which we see as an attractive level.*

TMT

VIGO System

BUY

FV PLN 480.00

20% upside

Price as of 20 April 2020 PLN 400.0

Figure 1. VIGO System 1Q20E results preview

P&L (PLN m)	1Q19	2Q19	3Q19	4Q19	1Q20E	y/y	q/q
Sales revenues	11.5	8.4	11.9	11.1	12.4	8.3%	12.0%
Industry	7.8	6.1	6.7	4.8	5.1	-34.9%	6.4%
Military	0.2	0.5	3.5	3.9	0.9	420.4%	-77.3%
Transport	2.9	1.3	0.9	0.7	2.3	-19.1%	233.1%
Medicine and science	0.5	0.4	0.7	1.4	3.5	620.9%	142.9%
Other	0.1	0.1	0.1	0.1	0.2	199.8%	352.5%
Materials for photonics	-	-	-	0.2	0.4	na	128.4%
EBITDA	5.1	2.8	5.6	5.1	5.4	6.3%	5.5%
EBIT	4.2	1.8	4.4	3.6	3.8	-7.8%	5.6%
Net profit	4.1	1.9	3.7	4.1	2.5	-38.7%	-38.0%
Profitability ratios	1Q19	2Q19	3Q19	4Q19	1Q20E	y/y	q/q
Gross margin on sales	64.0%	58.3%	63.8%	64.7%	65.4%	1.4 pp	0.7 pp
EBITDA margin	44.3%	33.4%	46.8%	46.2%	43.5%	-0.8 pp	-2.7 pp
EBIT margin	36.4%	21.8%	36.7%	32.9%	31.0%	-5.4 pp	-1.9 pp
Net profit margin	36.1%	23.0%	31.3%	36.9%	20.4%	-15.7 pp	-16.5 pp
Cash Flow Statement (PLN m)	1Q19	2Q19	3Q19	4Q19	1Q20E	y/y	q/q
Net CAPEX (after grants)	-9.8	-13.3	-9.4	1.4	-4.1	-31.9%	-57.0%
Net Debt/ (Net cash)	13.2	20.4	27.2	20.5	21.2	-315.6%	-22.1%

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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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 (Jan 1 – Mar 31, 2020)

	Number	%
Buy	2	29%
Hold	1	14%
Sell	4	57%
Total	7	100%

Rating History – VIGO System

Date	Recommendation	Fair Value	Price at recommendation	Author
02.08.2019	BUY	380.00	330.00	Michał Wojciechowski
16.04.2020	BUY	480.00	384.00	Michał Wojciechowski