

# VIGO System

## 3Q19 Results Preview

**Opinion.** In 9M19 the company generated PLN 32m revenues which stands for 71% of our annual forecast (we expect PLN 45m in 2019E, +20% y/y). The average net margin in 1H19 was 30%, in line with our expectations for this year (we forecast PLN 14m net income, +5% y/y). We believe that 3Q19 also should be supportive for our 2019E forecast. Currently in our opinion investors should focus on potential update about renewals of the contracts with the main clients (Zodiac Aerotechnics, Catterpillar) and potential orders from new clients (possibility of contract in China where VIGO's US competitors could have weaker position due to ongoing trade war, potential new applications and products in 2020). On our forecast VIGO trades at P/E 15.5x and 12.4x for 2019E and 2020E respectively, which we see as attractive level.

VIGO System reports its 3Q19 results on 15 November 2019. We expect 3Q19 revenues at PLN 11.9m (in line with preliminary numbers), EBITDA at PLN 5.3m (+18% y/y) and net profit at PLN 3.7m (+9% y/y) to be driven by:

- **Revenues.** The company already published preliminary revenues of PLN 11.9m (+29% y/y), which includes PLN 6.7m from Industry segment (+42% in 3Q19 and +44% y/y YTD), PLN 3.5m from Military segment (+33% y/y) and PLN 0.9m from Transport segment (+6% y/y).
- **Gross margin.** We expect the company to improve gross margin on both y/y and q/q basis to 63% (vs. 55% in 3Q18 and 58% in 2Q19), which will be similar to the level reported in 1Q19, when sales volumes also reached nearly PLN 12m.
- **SG&A costs.** We expect increase in SG&A cost to PLN 3.8m (+8% q/q) driven mainly by starting depreciation of new facility (from September 2019) and slightly higher selling costs.
- **EBITDA.** We forecast EBITDA of PLN 5.3m (+18% y/y) and EBIT of PLN 4.1m (+15% y/y).
- **Net profit.** We forecast PLN 0.4m net financial costs driven by growing indebtedness and unfavorable changes in foreign exchange rates. We expect the immaterial level of income tax. Given the abovementioned we expect PLN 3.7m net income (+9% y/y).
- **Capex.** In 3Q19 we expect VIGO to spend PLN 10m, including PLN 2m on R&D and PLN 8m on ongoing investment program. We expect this amount to decrease significantly in 4Q19, as the main investment will be already settled and Clean Room reconstruction is more likely to start in 1Q20 than 4Q19.
- **Net Debt.** We assume that ongoing CAPEX is financed from loans, therefore we expect gross debt to increase from PLN 30m to PLN 40m. We expect it to decrease after the payment of PLN 6m grant for the new facility which could be received in 1Q20. At the 3Q19 end we forecast net debt of PLN 32.6m.

Figure 1. VIGO System financial forecasts summary

(PLN m)	2016	2017	2018	2019F	2020F	2021F
Revenues	25.6	27.2	37.4	45.0	57.6	70.8
EBITDA	12.0	12.6	16.2	19.4	27.4	35.5
Net profit	10.0	9.5	13.0	13.7	17.0	24.1
P/E (x)	21.1	22.2	16.2	15.5	12.4	8.8
EV/EBITDA (x)	16.7	15.9	13.3	12.6	8.7	6.4

Source: Company, IPOPEMA Research

TMT

## VIGO System

BUY

FV PLN 380.00

25% upside

Price as of 28 October 2019 PLN 304.0

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Figure 2. VIGO System 3Q19E results preview

P&L (PLN m)	3Q18	4Q18	1Q19	2Q19	3Q19	y/y	q/q
<b>Sales revenues</b>	<b>9.3</b>	<b>9.2</b>	<b>11.5</b>	<b>8.4</b>	<b>11.9</b>	<b>27.5%</b>	<b>-26.3%</b>
Industry	4.7	6.0	7.8	6.1	7.8	66.0%	28.8%
Military	2.6	1.4	0.2	0.5	0.2	-93.4%	-63.3%
Transport	0.9	1.2	2.9	1.3	2.9	239.7%	115.0%
Medicine and science	0.9	0.6	0.5	0.4	0.5	-47.1%	7.2%
Other	0.2	0.1	0.1	0.1	0.1	-49.9%	-27.0%
COGS	-4.2	-4.9	-4.1	-3.5	-4.4	3.8%	24.5%
<b>Gross profit/(loss) on sales</b>	<b>5.1</b>	<b>4.3</b>	<b>7.3</b>	<b>4.9</b>	<b>7.5</b>	<b>47.1%</b>	<b>52.6%</b>
Other operating revenues	0.6	0.7	0.4	0.6	0.6	-7.6%	3.6%
Selling costs	-0.6	-0.6	-0.7	-0.5	-0.6	15.2%	23.1%
G&A costs	-1.5	-2.1	-2.6	-3.0	-3.2	112.1%	5.0%
Other operating costs	-0.1	0.0	-0.4	-0.1	-0.1	33.2%	30.4%
<b>EBITDA</b>	<b>4.5</b>	<b>3.3</b>	<b>5.1</b>	<b>2.8</b>	<b>5.3</b>	<b>18.3%</b>	<b>88.4%</b>
<b>EBIT</b>	<b>3.6</b>	<b>2.4</b>	<b>4.2</b>	<b>1.8</b>	<b>4.1</b>	<b>15.3%</b>	<b>125.6%</b>
Net financial revenues	-0.2	0.1	0.0	0.1	-0.4	99.0%	na
<b>Profit (loss) before tax</b>	<b>3.4</b>	<b>2.4</b>	<b>4.1</b>	<b>1.9</b>	<b>3.8</b>	<b>10.5%</b>	<b>93.5%</b>
income tax	0.0	0.0	0.0	0.0	0.0	nm	nm
<b>Net profit</b>	<b>3.4</b>	<b>2.4</b>	<b>4.1</b>	<b>1.9</b>	<b>3.7</b>	<b>9.4%</b>	<b>91.5%</b>
<b>Profitability ratios</b>	<b>3Q18</b>	<b>4Q18</b>	<b>1Q19</b>	<b>2Q19</b>	<b>3Q19</b>	<b>y/y</b>	<b>q/q</b>
Gross margin on sales	54.7%	46.5%	64.0%	58.3%	63.1%	8.4 pp	4.9 pp
EBITDA margin	48.3%	35.7%	44.3%	33.5%	44.8%	-3.5 pp	11.3 pp
EBIT margin	38.5%	25.9%	36.4%	21.8%	34.8%	-3.7 pp	13.1 pp
Net profit margin	36.4%	26.6%	36.1%	23.0%	31.3%	-5.2 pp	8.3 pp
<b>Cash Flow Statement (PLN m)</b>	<b>3Q18</b>	<b>4Q18</b>	<b>1Q19</b>	<b>2Q19</b>	<b>3Q19</b>	<b>y/y</b>	<b>q/q</b>
Grants	0.1	0.1	0.2	0.9	0.9	nm	0.0%
Gross capital expenditures	-6.5	-12.5	-10.0	-14.3	-10.1	55.3%	-29.2%
Net Debt/ (Net cash)	-10.1	4.0	13.2	20.4	32.6	na	60.1%

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