

VIGO System

3Q20E Results Preview

VIGO System is due to publish its 3Q20E results on 6 November 2020.

We forecast 3Q20E revenues at PLN 12.9m (+8% y/y, in line with preliminary numbers), EBITDA at PLN 6.2m (+11% y/y) and net profit at PLN 4.2m (+12% y/y) to be driven by:

Revenues. The company already published preliminary revenues of PLN 12.9m (+8% y/y, -7% q/q), which includes PLN 5.4m from Industry segment (-19% y/y, -28% q/q), PLN 4.7m from Military segment (+36% y/y, +58% q/q), PLN 1.1m from Transport segment (+34% y/y, -40% q/q) and PLN 0.9m from Medicine and Science (+28% y/y, -1% q/q). The new materials for semiconductors segment generated PLN 0.5m revenues, up 51% q/q.

Gross margin. We expect the company's gross margin to arrive at 65% vs 67% in 2Q20 (when the company reached record workload) and vs. 64% in average in 1H20.

SG&A costs. We expect PLN 4.7m of SG&A cost (-4% q/q), driven by lower selling costs (in 2Q the company opened new sales office in Asia).

EBITDA. We forecast EBITDA of PLN 6.2m (+11% y/y) and EBIT of PLN 4.6m (+5% y/y).

Net profit. We forecast PLN 4.2m of net profit (+12% y/y). We expect PLN 0.4m of foreign exchange rates negative impact and immaterial level of income tax.

CAPEX. We estimate VIGO 3Q20E gross CAPEX at PLN 5.1m, down 26% q/q including PLN 3.6m expenses for R&D (flat q/q) and PLN 1.5m CAPEX for investment program. We estimate that VIGO received PLN 2m of grants during the quarter.

Net Debt. We forecasts PLN 14.7m of net debt level at the quarter's end, (PLN 29.9m of gross debt and PLN 15.1m of cash).

Opinion. We estimate that in 9M20E VIGO reached PLN 39.2m of revenues (up 23% y/y) and PLN 12.4m of net income (up 26% y/y), which represents 67% and 61% of our full year estimate (PLN 58.5m and PLN 20.3m respectively). We currently perceive those forecasts as challenging and expect the company to not reach its financial goals of 10% y/y revenue growth in Industry segment (which is likely to stay flat y/y in 2020E in our view) and EUR 1m of revenues from semiconductors segment (PLN 1.3m achieved in 9M20). Nevertheless, we still expect 2021E to bring breakthrough in both affordable detectors sales and semiconductors segment, which remain as the basis of VIGO System equity story. We also look forward to announcement of VIGO new strategy, which is in our opinion likely to happen at the beginning of the next year.

TMT

VIGO System

BUY

FV PLN 650.00

18% upside

Price as of 9 October 2020 PLN 550.0

Analyst

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

Figure 1. VIGO System 3Q20E results preview

P&L (PLN m)	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20E	y/y	q/q
Sales revenues	11.5	8.4	11.9	11.1	12.4	13.9	12.9	8%	-7%
Industry	7.8	6.1	6.7	4.8	5.3	7.5	5.4	-19%	-28%
Military	0.2	0.5	3.5	3.9	0.9	3.0	4.7	36%	58%
Transport	2.9	1.3	0.9	0.7	2.3	1.9	1.1	34%	-40%
Medicine and science	0.5	0.4	0.7	1.4	3.5	1.0	0.9	28%	-1%
Other	0.1	0.1	0.1	0.1	0.1	0.1	0.1	-23%	-36%
Materials for photonics	0.0	0.0	0.0	0.2	0.4	0.4	0.5	na	51%
EBITDA	5.1	2.8	5.6	5.1	5.5	7.0	6.2	11%	-11%
EBIT	4.2	1.8	4.4	3.6	4.0	5.4	4.6	5%	-15%
Net profit	4.1	1.9	3.7	4.1	2.6	5.6	4.2	12%	-26%
Profitability ratios	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20E	y/y	q/q
Gross margin on sales	64.0%	58.3%	63.8%	64.7%	61.4%	67.4%	65.0%	1.2 pp	-2.4 pp
EBITDA margin	44.3%	33.4%	46.8%	46.2%	44.2%	50.1%	48.3%	1.4 pp	-1.8 pp
EBIT margin	36.4%	21.8%	36.7%	32.9%	32.1%	38.9%	35.7%	-1 pp	-3.2 pp
Net profit margin	36.1%	23.0%	31.3%	36.9%	21.2%	40.2%	32.2%	1 pp	-7.9 pp
Cash Flow Statement (PLN m)	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20E	y/y	q/q
Net CAPEX	-9.8	-13.3	-9.4	1.4	-4.4	-1.6	-3.1	-67%	97%
Net Debt/ (Net cash)	13.2	20.4	27.2	20.5	19.6	17.0	14.7	-46%	-13%

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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	Number	%
Buy	19	70%
Hold	6	22%
Sell	2	8%
Total	27	100%

Rating History – VIGO System

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