

VIGO System

4Q20 Results Review

***Opinion. Positive.** Even though we do not find VIGO's results surprising (as they are in line with our forecasts) we believe that record level of sales and material improvement in net margins (which in our opinion is likely to be at least partially maintained in next quarters, moreover we note that materials for photonics segment was not profitable in 2020 and it has potential for improvement) seems to us as positive news. On our forecast VIGO trades at P/E 20.3x for 2021E which could be perceived as still attractive level for high-tech company in our view.*

VIGO System 4Q20 revenues arrived at PLN 14.3m (in line with preliminary numbers), EBITDA at PLN 8.2m (+60% y/y, 4% above IPOPEMA) and net profit at PLN 6.1m (+48% y/y, in line with IPOPEMA forecast):

- **Revenues.** The company's revenues arrived at PLN 14.3m (+29% y/y, +11% q/q), reaching record level. Sales were driven by industry segment (PLN 5.4m, +14% y/y, -1% q/q) and military (PLN 4.8m, +23% y/y, +3% q/q), the company also noted material, 159% increase in revenues from Medicine and Science, which reached PLN 2.5m. The new segment material for photonics reached PLN 0.6m in revenues, up 14% q/q. In whole 2020 the main VIGO's clients were Safran (18% share in sales vs. 17% in 2019), Caterpillar (11% vs. 14% year ago) and German industry segment client (10% vs. 18% share in 2019). The company noted material increase in sales on each market during last year, including strong 50% increase in revenues from NA, which was related to higher sales in medicine segment. In 2020 VIGO sold 8.4k detectors, up 16% y/y.
- **Gross margin.** Gross margin arrived at record level of 76% (vs. 60% in 3Q20), materially above our expectations of 65%. We believe that improvement was related to higher sales but also to ongoing production optimization.
- **SG&A costs.** SG&A cost arrived at PLN 5.4m, up 32% q/q.
- **EBITDA.** VIGO's EBITDA arrived at PLN 8.2m (+60% y/y, +40% q/q and 4% above IPOPEMA) and EBIT at PLN 6.5m (+80% y/y, +52% q/q and 5% above IPOPEMA forecast).
- **Net profit.** Net profit reached PLN 20.5m including on-off PLN 14.5m recognition of deferred tax (related to operation in special economic zone). The company noted negative PLN 0.5m net financial result and immaterial level of current income tax. Normalized net profit arrived at PLN 6.1m (up 48% y/y and up 58% q/q) in line with our forecast.
- **Operating cash flow.** OCF arrived at PLN 4.6m (down 12% y/y and down 24% q/q).
- **Capex.** Capex excl. grants reached PLN 9.3m, including PLN 3.7m on R&D (up 55% q/q), PLN 4.7m on investment program (including clean room) and PLN 1.3m on VIGO incubator. VIGO received grants of PLN 4.6m total value during the quarter. According to the company investment program VIGO plans to expend PLN 16.8m in 2021E and PLN 1.2m on cleanroom construction.
- **Net Debt.** Net Debt remained flat q/q at PLN 17.3m.

TMT

VIGO System

BUY**FV PLN 660.00**

4% downside

Price as of 4 March 2021 PLN 685.00

Analitik

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Figure 1. VIGO System 4Q20 results review

P&L (PLN m)	4Q19	1Q20	2Q20	3Q20	4Q20	y/y	q/q	4Q20E	Actual vs IPOPEMA
Sales revenues	11.1	12.4	13.9	12.9	14.3	29%	11%	14.4	-1%
Industry	4.7	5.3	7.5	5.4	5.4	14%	-1%		
Military	3.9	0.9	3.0	4.7	4.8	23%	3%		
Transport	0.7	2.3	1.9	1.1	0.8	14%	-30%		
Medicine and science	1.4	3.5	1.0	0.9	2.5	73%	159%		
Other	0.1	0.1	0.1	0.1	0.1	28%	57%		
Materials for photonics	0.2	0.4	0.4	0.5	0.6	293%	14%		
COGS	-3.9	-4.8	-4.5	-5.1	-3.4	-13%	-33%		
gross profit/(loss) on sales	7.2	7.6	9.4	7.8	10.8	51%	39%		
Other operating revenues	1.0	1.2	1.0	0.8	1.4	36%	69%		
Selling costs	-0.6	-0.6	-0.8	-0.8	-1.2	113%	50%		
G&A costs	-3.7	-4.2	-4.1	-3.3	-4.2	14%	28%		
Other operating costs	-0.3	-0.1	-0.1	-0.2	-0.3	-8%	31%		
EBITDA	5.1	5.5	7.0	5.8	8.2	60%	40%	7.9	4%
EBIT	3.6	4.0	5.4	4.3	6.5	80%	52%	6.3	5%
Net financial revenues	0.4	-1.3	0.2	-0.5	-0.5	na	-1%		
Profit (loss) before tax	4.1	2.6	5.6	3.8	6.1	48%	59%		
income tax	0.0	0.0	0.0	0.0	14.5	na	57736%		
Net profit	4.1	2.6	5.6	3.8	20.5	403%	436%		
Nrom. net profit	4.1	2.6	5.6	3.8	6.1	48%	58%	6.1	0%
Profitability ratios	4Q19	1Q20	2Q20	3Q20	4Q20	y/y	q/q	4Q20E	
Gross margin on sales	64.7%	61.4%	67.4%	60.4%	76.0%	11.4 pp	15.6 pp	67.9%	8.1 pp
EBITDA margin	46.2%	44.2%	50.1%	45.4%	57.3%	11.1 pp	11.9 pp	54.4%	2.9 pp
EBIT margin	32.9%	32.1%	38.9%	33.3%	45.9%	13 pp	12.6 pp	43.3%	2.6 pp
Nrom. net profit margin	36.9%	21.2%	40.2%	29.7%	42.4%	5.6 pp	12.7 pp	41.9%	0.5 pp
Cash Flow Statement (PLN m)	4Q19	1Q20	2Q20	3Q20	4Q20	y/y	q/q	4Q20E	
Net cash flow from operations	5.2	6.2	4.4	6.0	4.6	-12%	-24%		
Net cash flow from investment activities	1.4	-4.4	-1.6	-5.5	-4.5	na	-19%	-7.3	-39%
Grants	6.9	0.4	4.1	1.0	4.6	-33%	361%		
Gross capital expenditures	-5.4	-4.7	-5.7	-3.3	-9.3	71%	184%		
Net cash flows from financial activities	-4.8	-1.9	-1.6	-1.7	0.0	-100%	-99%		
Total net cash flow	1.8	0.0	1.4	-1.2	0.1	-95%	na		
Net Debt/ (Net cash)	20.5	19.6	17.0	17.0	17.3	-15%	2%	16.1	7%

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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IPOPEMA Research - Distribution by rating category (October 1 – December 31, 2020)

	Number	%
Buy	40	65%
Hold	18	29%
Sell	4	6%
Total	62	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
08.12.2020	BUY	660.0	550.0	Michał Wojciechowski