

VIGO Photonics

Breakthrough contracts for now out of sight

Following the substantial decline in share price in 2H22, the stock has already returned to its previous levels, delivering a 25% YTD gain. Such performance was possible because the supply chain-related risk, which initiated the sell-off, is currently in our view relatively low (ca. 5% of 2023E sales at risk). Moreover, the company announced a one-time increase in product pricing of effectively ca. 20%. Nevertheless, despite expected strong y/y growth and inclusion of hikes in our forecasts, we expect VIGO to deliver 2023E revenues at PLN 96.0m (up 43% y/y, down 5% vs. prev.) and adj. net income at PLN 22.5m (vs. PLN 7.2m in 2022E, down 31% vs. prev., with the margin at 23% vs. 11% in 2022E). Our new forecasts arrive 4% below the company's revenue target and below our previous expectations, due to lower sales volumes (compensated by higher pricing), weaker than previously expected performance in the military segment (lack of a large contract from Safran), as well as weaker performance in the semiconductor sector (major orders are likely in our view on the verge of 2023E/24E). The company still possesses a strong project pipeline, but we believe a breakthrough in most cases is more likely in 2H23E+. On our 2023E/24E forecasts, VIGO trades at a P/E of 18.5x/11.2x, which we perceive as neutral for the company with solid revenue/adj. net income 2021-25E CAGR of 22%/19%, yet substantial CAPEX. We decrease our recommendation to HOLD from BUY, with a new FV of PLN 600.0 (6% upside), down from PLN 660.0.

Pricing increase is a supportive, yet one-time event

Following the weak 2022 with a revenue decline of 6% y/y (affected by a substantial decline in military), we expect the company to deliver strong 43% y/y growth to PLN 96m in 2023E. The major driver will be an increase in detector unitary prices, which we expect to be effectively 18% higher y/y this year. Considering individual segments, we forecast industry to deliver PLN 55m in revenues (up 37% y/y, without signs of a macro-driven slow-down), military at PLN 13m (up 61% y/y, driven by high investment in the Polish Army), transport at PLN 11.5m (up 48% y/y, with a potentially large EUR 2m contract starting this year) and semiconductor materials at PLN 8m (the second epitaxy machine should be operative for nearly a full year). Even though we expect substantial improvement in adjusted net margins in 2023E to 23%, (vs. 11% in 2022E and on average 33% in 2019-21) thanks to increased pricing, effects of scale and OPEX discipline, our new forecast is substantially below previous estimates of an adjusted net margin of 32%.

Breakthrough contract for now out of sight

Out of the three major projects in the R&D pipeline (IR array, biomedical sensor and IR in automotive), we believe signing a framework production contract for IR array is the most possible to happen in the coming months, whereas for the remaining two projects we expect a potential breakthrough rather in 2H23/2024E. All three contracts, if successful, are likely to effectively support results starting in 2024E/25E and we include them in our forecast, adjusted by a probability ratio (we expect VIGO's accelerated revenue growth rate at 30% y/y in 2025E to PLN 158m).

Figure 1. Summary of financial data (PLN m)

	2020	2021	2022E	2023E	2024E	2025E
Revenues	53.5	71.5	67.3	96.0	121.1	157.7
EBITDA	26.5	31.5	17.8	35.3	52.7	68.6
Norm. net income	18.1	24.4	7.2	22.5	37.2	49.7
EV/EBITDA (x)	17.4	17.5	31.2	14.9	9.5	6.8
P/E (x)	22.8	20.0	57.2	18.5	11.2	8.4
DY	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Source: Company, IPOPEMA Research

TMT | Technology

VIGO PHOTONICS

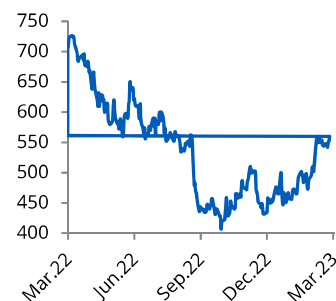
HOLD

FV PLN 600.0 from PLN 660.0

6% upside

Price as of 27 March 2023 PLN 566.0

Downgraded from BUY



Share data

Number of shares (m)	0.7
Market cap (EUR m)	88.0
12M avg daily volume (k)	0.4
12M avg daily turnover (EUR k)	49.9
12M high/low (PLN)	738.0/401.0
WIG weight (%)	0.1
Reuters	VGOP.WA
Bloomberg	VGO PW

Total performance

1M	+16.0%
3M	+30.0%
12M	-20.0%

Shareholders

Warsaw Equity Management	14.3%
Józef Piotrowski	11.9%
TFI Investors SA	9.6%
Janusz Kubrak	6.6%
Allianz OFE	5.3%
Mirosław Grudzień	5.1%
Others	47.2%

Analyst

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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 (1 October 2022 – 31 December 2022)

	Number	%
Buy	58	75%
Hold	3	4%
Sell	16	21%
Total	77	100%

Rating History – VIGO Photonics

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
19.05.2021	BUY	850.0	760.0	Michał Wojciechowski
13.12.2021	BUY	750.0	682.0	Michał Wojciechowski
24.08.2022	BUY	660.0	556.0	Michał Wojciechowski
28.03.2023	HOLD	600.0	566.0	Michał Wojciechowski