

VIGO Photonics

Sense the future

We forecast VIGO Photonics to deliver PLN 75.6m in revenues and PLN 13.9m in norm. net income in 2023E (up 11%/81% y/y respectively), which presents the first step for a financials rebound, following the dip noted in 2022. We currently expect the company to further improve its profitability due to decreasing inflationary pressure and stabilized availability of components. We also highlight multiple growth factors: 1) the historically rapid growth of detector segment (2013-23E CAGR of 13%), is likely to be supported by high production capacity and new product lines; 2) materials for photonics segment's high growth potential from a low base; 3) a planned new IR arrays production line, likely substantially driving sales up in 2025-26E; 4) and last but not least commencement of the HyperPIC project, with EUR 102.9m in public aid approved by the EU with the potential to multiply VIGO's business over the long term, transforming the company into one of photonics technology leaders. On our forecast the company trades at 2024E/25E EV/EBITDA of 13.4x/8.7x at a 10% premium and 18% discount to peers. We resume our coverage for the company with a BUY recommendation and fair value of PLN 600.0 (24% upside).

Core business with potential for a rebound

We forecast the detector segment 2022-26E CAGR at 17% vs. 14% in 2018-22. In 2024E/2025E we estimate respectively PLN 94.1m and PLN 126.6m in VIGO total revenues (up 24%, 35% y/y), driven by the introduction of IR Arrays sales in mid-2025E, still relatively high growth of sales in the industry segment and acceleration of sales in the semiconductor segment. We forecast adjusted EBITDA at PLN 31.4/47.5m (up 33%/51% y/y) in 2024E/25E. The relatively high growth in revenues, increasing utilization of capacity and decreasing cost pressure should translate into an adj. EBITDA margin improvement to 33%/38% in 2024E/25E.

New IR Array production line driving sales growth and profitability

Considering recent positive client feedback and the letter of intent signed with PCO, we currently expect VIGO to successfully ink the final contract and complete an IR Arrays production line in mid-2025E (est. capex of PLN 55m). We forecast that in 2026E the company will reach full production with sales of EUR 8m.

HyperPIC with potential for multiplication of VIGO current operation scale

VIGO Photonics' HyperPIC was the only Polish project selected for prestigious EU IPCEI programme, with public aid approved by the EU for up to EUR 103m (total costs of EUR 253m). The project's goal is to become the first global manufacturer of PICs in MWIR, thanks to construction of a large-scale PIC foundry by 2028. Our simplified model presents the potential NPV value of the project at PLN 221m.

Figure 1. Summary of financial data (PLN m)

	2021	2022	2023E	2024E	2025E	2026E
Revenues	71.5	67.9	75.6	94.1	126.6	172.6
Norm. EBITDA	27.3	14.9	23.7	31.4	47.5	68.5
Norm. net profit	22.6	7.7	13.9	19.8	34.3	54.6
EV/EBITDA (x)	18.7	24.8	17.1	13.4	8.7	5.5
P/E (x)	21.6	42.9	30.9	21.4	12.4	7.8

Source: Company, IPOPEMA Research

TMT | Technology

VIGO PHOTONICS

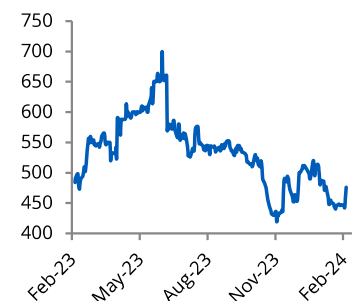
BUY

FV PLN 600.0

24% upside

Price as of 16 February 2024 PLN 484.0

Recommendation resumed



Share data

Number of shares (m)	0.875
Market cap (EUR m)	97.6
12M avg daily volume (k)	0.5
12M avg daily turnover (EUR m)	0.1
12M high/low (PLN)	730 / 416
WIG weight (%)	0.1
Reuters	VGOP.WA
Bloomberg	VGO PW

Total performance

1M	2.8%
3M	11.8%
12M	0.0%

Shareholders

Warsaw Equity Management	17.1%
Józef Piotrowski	9.8%
Others	73.1%

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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 (October 1 – December 31, 2023)

	Number	%
Buy	60	71%
Hold	18	21%
Sell	6	7%
Total	84	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
19.06.2023	UNDER REVIEW	-	652.0	Michał Wojciechowski
19.02.2024	BUY	600.0	484.0	Michał Wojciechowski