

# VIGO System

## 3Q20 Results Review

*Opinion. Slightly negative. Lower than expected results were primarily driven by weaker margins in semiconductor segment. VIGO also postponed and upgraded its target for this segment from EUR 1m in 2020 to EUR 1.5m in 2021.*

VIGO System 3Q20 revenues arrived at PLN 12.9m (in line with preliminary numbers), EBITDA at PLN 5.9m (+6% y/y, 5% below IPOPEMA) and net profit at PLN 3.8m (3% y/y, 9% below IPOPEMA):

- **Revenues.** The company's revenues arrived at PLN 12.9m (+8% y/y, in line with already published preliminary data), which includes PLN 12.3m revenues from IR detectors segment (+4% y/y and -9% q/q) and PLN 0.5m revenues from Semiconductors segment (up 46% q/q). Again, revenues were driven by industry segment (42% of revenues in 3Q20) and military (37% of revenues). The company already completed 22% of EUR 5.4m order from Safran Aerotechnics and 21% of EUR 3m order from Caterpillar.
- **Gross margin.** Gross margin arrived at 60.4% (vs. 67.4% in 2Q20), 4.6pp below our expectations, which was primarily driven by lower margins in semiconductors segment.
- **SG&A costs.** SG&A cost arrived at PLN 4.1m, 16% down q/q.
- **EBITDA.** VIGO's EBITDA arrived at PLN 5.9m (+6% y/y, -15% q/q and 5% below IPOPEMA) and EBIT at PLN 4.3m (-2% y/y, -21% q/q and 7% below IPOPEMA forecast).
- **Net profit.** Net profit reached PLN 3.8m (+3% y/y and -31% q/q, 9% below our expectations). The company noted negative PLN 0.5m net financial result (impact of foreign exchange rates) and immaterial level of income tax.
- **Operating cash flow.** OCF arrived at PLN 6.0m (up 72% y/y and 55% q/q) and was driven by positive changes in working capital.
- **Capex.** Capex excl. grants reached PLN 3.3m, including PLN 2.4m on R&D (down 33% q/q). VIGO received grants of PLN 1.0m total value for R&D projects.
- **Net Debt.** Net Debt remained flat q/q at PLN 17.0m.
- **Materials for photonics.** The company announced new target for the segment, which is expected to reach at least EUR 1.5m of revenues in 2021.
- **New grant.** VIGO won a new grant for the R&D project related to MID-IR detectors. The company's expenses for the project are estimated at PLN 9.6m with PLN 6.9m secured in grant (72% of total).

TMT

## VIGO System

BUY

FV PLN 650.00

26% upside

Price as of 5 November 2020 PLN 515.00

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### Analitik

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Figure 1. VIGO System 3Q20 results review

P&L (PLN m)	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	y/y	q/q	3Q20E	Actual vs IPOPEMA
<b>Sales revenues</b>	<b>11.5</b>	<b>8.4</b>	<b>11.9</b>	<b>11.1</b>	<b>12.4</b>	<b>13.9</b>	<b>12.9</b>	<b>8%</b>	<b>-7%</b>	<b>12.9</b>	<b>0%</b>
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	46%		
COGS	-4.1	-3.5	-4.3	-3.9	-4.8	-4.5	-5.1	18%	12%		
<b>gross profit/(loss) on sales</b>	<b>7.3</b>	<b>4.9</b>	<b>7.6</b>	<b>7.2</b>	<b>7.6</b>	<b>9.4</b>	<b>7.8</b>	<b>2%</b>	<b>-17%</b>		
Other operating revenues	0.4	0.6	0.7	1.0	1.2	1.0	0.8	22%	-16%		
Selling costs	-0.7	-0.5	-0.6	-0.6	-0.6	-0.8	-0.8	32%	2%		
G&A costs	-2.6	-3.0	-2.9	-3.7	-4.2	-4.1	-3.3	14%	-19%		
Other operating costs	-0.4	-0.1	-0.4	-0.3	-0.1	-0.1	-0.2	-49%	264%		
<b>EBITDA</b>	<b>5.1</b>	<b>2.8</b>	<b>5.6</b>	<b>5.1</b>	<b>5.5</b>	<b>7.0</b>	<b>5.9</b>	<b>6%</b>	<b>-15%</b>	<b>6.2</b>	<b>-5%</b>
<b>EBIT</b>	<b>4.2</b>	<b>1.8</b>	<b>4.4</b>	<b>3.6</b>	<b>4.0</b>	<b>5.4</b>	<b>4.3</b>	<b>-2%</b>	<b>-21%</b>	<b>4.6</b>	<b>-7%</b>
Net financial revenues	0.0	0.1	-0.6	0.4	-1.3	0.2	-0.5	-20%	na		
<b>Profit (loss) before tax</b>	<b>4.1</b>	<b>1.9</b>	<b>3.7</b>	<b>4.1</b>	<b>2.6</b>	<b>5.6</b>	<b>3.8</b>	<b>1%</b>	<b>-32%</b>		
income tax	0.0	0.0	0.0	0.0	0.0	0.0	0.0	na	na		
<b>Net profit</b>	<b>4.1</b>	<b>1.9</b>	<b>3.7</b>	<b>4.1</b>	<b>2.6</b>	<b>5.6</b>	<b>3.8</b>	<b>3%</b>	<b>-31%</b>	<b>4.2</b>	<b>-9%</b>
<b>Profitability ratios</b>	<b>1Q19</b>	<b>2Q19</b>	<b>3Q19</b>	<b>4Q19</b>	<b>1Q20</b>	<b>2Q20</b>	<b>3Q20</b>	<b>y/y</b>	<b>q/q</b>	<b>3Q20E</b>	
Gross margin on sales	64.0%	58.3%	63.8%	64.7%	61.4%	67.4%	60.4%	-3.4 pp	-6.9 pp	65.0%	-4.6 pp
EBITDA margin	44.3%	33.4%	46.8%	46.2%	44.2%	50.1%	45.9%	-0.9 pp	-4.1 pp	48.3%	-2.4 pp
EBIT margin	36.4%	21.8%	36.7%	32.9%	32.1%	38.9%	33.3%	-3.3 pp	-5.6 pp	35.7%	-2.4 pp
Net profit margin	36.1%	23.0%	31.3%	36.9%	21.2%	40.2%	29.7%	-1.6 pp	-10.5 pp	32.2%	-2.5 pp
<b>Cash Flow Statement (PLN m)</b>	<b>1Q19</b>	<b>2Q19</b>	<b>3Q19</b>	<b>4Q19</b>	<b>1Q20</b>	<b>2Q20</b>	<b>3Q20</b>	<b>y/y</b>	<b>q/q</b>	<b>3Q20E</b>	
<b>Net cash flow from operations</b>	<b>0.6</b>	<b>6.1</b>	<b>3.5</b>	<b>5.2</b>	<b>6.7</b>	<b>3.9</b>	<b>6.0</b>	<b>72%</b>	<b>55%</b>		
<b>Net cash flow from investment activities</b>	<b>-9.8</b>	<b>-13.3</b>	<b>-9.4</b>	<b>1.4</b>	<b>-4.4</b>	<b>-1.6</b>	<b>-5.5</b>	<b>-42%</b>	<b>251%</b>	<b>-3.1</b>	<b>78%</b>
Grants	0.2	0.9	0.9	6.9	0.4	4.1	1.0	15%	-76%		
Gross capital expenditures	-10.0	-14.3	-10.3	-5.4	-4.7	-5.7	-3.3	-68%	-43%		
Net Debt/(Net cash)	13.2	20.4	27.2	20.5	19.6	17.0	17.0	-38%	0%	14.7	15%

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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	Number	%
Buy	23	55%
Hold	11	26%
Sell	8	19%
Total	42	100%

## Rating History – VIGO System

Date	Recommendation	Fair Value	Price at recommendation	Author
02.08.2019	BUY	PLN 380.00	PLN 334.00	Michał Wojciechowski
16.04.2020	BUY	PLN 480.00	PLN 384.00	Michał Wojciechowski
29.07.2020	BUY	PLN 650.00	PLN 550.00	Michał Wojciechowski