

## IBU-tec

Speciality chemicals

1 September 2021

### Greentech to drive future growth

Management's stated expectation of a recovery in FY21 appears justified as sales jumped 40% year-on-year in H121 and the group returned to profit at EBITDA level. Management predicts further improvement in H221, supported by the launch of the group's own battery materials for electric vehicles (EVs). Management expects demand for battery materials, together with coatings that extend the number of times glass bottles can be reused and service revenues from recycling battery materials to raise turnover to between €80m and €100m or more by 2025.

### H121 results show recovery from pandemic

Group sales rose by €5.7m year-on-year during H121 to €20.0m, in line with management's target, as customers started to outsource production again following the drop in demand caused by the pandemic. Stripping out insurance payments relating to a fire in December 2019 and the cost of the February placing, the group moved from a €0.4m EBITDA loss in H120 to a €1.6m EBITDA profit in H121.

### Battery materials continue to drive growth

Management has reiterated the guidance given in January of an increase in sales to €37–39m (assuming no significant change in raw material prices) during FY21 with an EBITDA margin of 17–19%. The key growth driver is the battery materials segment, where management expects sales to increase by over 50% as the group starts to sell its battery product for use in lithium iron phosphate (LFP) battery cells for EVs and stationary applications during the autumn. Management has set itself a target of growing turnover to between €80m and €100m or more by 2025, representing average growth of 20–25% each year, with an EBITDA margin of more than 20%. It expects demand for battery materials and, to a lesser extent, for glass coatings and recycling services to be the main drivers of this growth. In February 2021, IBU-tec raised €25.5m (gross) through a placing at €34/share to finance further growth, particularly in the area of proprietary battery materials.

### Valuation: Premium for faster growth

IBU-tec's share price has risen by more than 60% since the start of 2021. We believe this is attributable to investor appetite for shares linked to the EV sector. At the current level, IBU-tec's shares are trading on prospective multiples that are above the peer group average on all metrics (eg year 1 EV/EBITDA: 33.7x versus 8.8x). Further share price appreciation depends on the level of premium investors are prepared to pay for IBU-tec's higher rate of growth (15.0% 3Y revenue CAGR versus 4.9% mean).

#### Consensus estimates

Year end	Revenue (€m)	PBT (€m)	PAT (€m)	DPS (€)	P/E (x)	Yield (%)
12/19	48.5	1.5	0.9	0.19	N/A	0.4
12/20	33.0	1.6	1.0	0.00	N/A	N/A
12/21e	40.2	1.1	1.0	0.16	N/A	0.3
12/22e	62.8	7.0	4.2	0.19	N/A	0.4

Source: IBU-tec accounts, Refinitiv

Price €47.3  
Market cap €225m

#### Share price graph



#### Share details

Code	IBU
Listing	Deutsche Börse Scale
Shares in issue	4.75m
Net cash at end June 2021 (including €13.0m short-term securities and €1.9m shareholder loan)	€11.2m

#### Business description

IBU-tec is an international full-service provider in the field of thermal process engineering, predominantly treating inorganic materials. The acquisition of BNT added complementary wet chemical processes for manufacturing tin-based products.

#### Bull

- Serving high-growth segments such as battery materials.
- BNT integration complements existing thermal treatments with wet chemical processes.
- New Bitterfeld site supports expansion into new thermal process applications.

#### Bear

- Reliance on key customers, although this is reducing.
- Lockdown delayed commissioning of new glass coating materials line at BNT.
- Low free float.

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## H121 performance

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### Revenues affected by fire as well as coronavirus pandemic

Group sales rose by €5.7m year-on-year during H121 to €20.0m. The result was in line with management's target but substantially below the €27.6m reported in H119. Part of this increase compared to H120 is attributable to a recovery in output from the original IBU-tec site in Weimar, which operates under a service model. During Q220 and Q320, the site's customers experienced lower demand themselves because of the coronavirus pandemic and therefore used their in-house production capacity in preference to outsourcing production to IBU-tec. Sales of catalytic powders for the automotive industry were significantly higher than H120, slightly exceeding management's expectations. Demand for battery materials for the automotive industry and for chemical catalysts were also well above H120 levels, even though Q121 output was adversely affected by interruptions to raw material supplies caused by severe winter conditions. Encouragingly, small-scale project business, which dominated Q121 revenues, is increasingly being supplemented by longer-term projects for contract production.

Sales from the BNT subsidiary continued to be affected by the fire at the site in December 2019, which affected parts of the plant used in the production of glass coating and pharmaceutical products, and the production area dedicated to the manufacture of chemical catalysts used for dip painting in the automotive industry. Travel restrictions imposed during the coronavirus outbreak delayed reconstruction work, so production of glass coatings has not yet resumed, although BNT is sourcing product from third parties for resale to maintain the customer relationships. BNT is seeing a positive impact on revenues from selling a higher proportion of glass coating product compared to metal oxides and from higher prices as it passes on rising raw material costs to customers.

### EBITDA comparisons distorted by insurance payouts

The cost of materials rose by €2.4m in H121, reflecting higher sales volumes and price increases. Personnel costs were flat. Other operating expenses grew by €1.2m because of the costs associated with the capital increase (see below). EBITDA benefited from insurance pay-outs of €4.3m in H120 and only €1.0m in H121. The distorting effect of the fund-raising costs plus insurance payments resulted in unadjusted EBITDA decreasing by €2.5m year-on-year to €1.4m. Stripping out both of these distorting effects, the group moved from a €0.4m EBITDA loss in H120 to a €1.6m EBITDA profit in H121 and losses before tax narrowed by €2.0m to €0.9m.

### Fund-raising to finance growth in battery materials

In February 2021, IBU-tec raised €25.5m (gross) through a placing of 750,000 new shares at €34/share. At the same time, the CEO sold 250,000 shares, also at €34/share, to satisfy institutional demand. The funds are being used to finance further growth, particularly in the area of proprietary battery materials. As a result of this activity, the group moved from €11.3m net debt at end December 2020 to €11.2m net cash at end H121 (including €13.0m in short-term securities and a €1.9m shareholder loan). Cash consumed in operations was €1.3m, reflecting higher working capital associated with rising revenues. €1.6m was allocated to capital expenditure, primarily equipment following the fire at BNT. The equipment is not being replaced on a like-for-like basis. Instead, management is adapting the production facilities to make the processes more efficient and environmentally friendly, and accommodate rising demand for its monobutyltin trichloride (MBTC) glass coating product (see below). This investment will still be covered by insurance.

## Prospects: Developing new markets in greentech

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### Management guiding for growth in FY21

Management has reiterated the guidance given in January of an increase in sales to €37–39m (assuming no significant change in raw material prices) during FY21 with an EBITDA margin of 17–19%. One of the key drivers of this growth is the battery materials segment, where management expects sales to increase by more than 50% as the group starts to sell its battery product for use in LFP battery cells during the autumn.

### Management targeting €80–100m revenues by 2025

Management has set itself a target of growing turnover to between €80m and €100m or more by 2025, representing average growth of 20–25% each year, with an EBITDA margin of more than 20%. It expects demand for battery materials and, to a lesser extent, glass coatings and recycling services to be the main drivers of this growth.

### Battery materials: Launching own product in H221

LFP is currently the dominant battery technology in e-buses, e-bikes, fleet vehicles and entry-level mass-market EVs because although its energy density is less than that of lithium cobalt oxide (LCO), which was the original lithium-ion battery technology, LFP has a longer cycle life and good thermal stability. LFP is also relatively low cost because the cathode does not contain cobalt. In February this year, Elon Musk announced that Tesla was shifting standard range cars from a nickel cathode to an iron cathode (ie LFP battery technology) to reduce the risk of potential cobalt and nickel shortages. LFP is also becoming increasingly popular for stationary storage applications. (See our sector report [EV outlook #2 – Driving better performance from EV batteries](#) for details.)

IBU-tec's thermal treatment processes, which use either rotary kilns or its proprietary pulsation reactors, provide higher-quality, more homogenous materials than most Asian suppliers. During FY19, IBU-tec started supplying materials directly to a major EV battery manufacturer in the Far East. In addition to significant volumes for stationary energy storage applications, IBU-tec has worked with several major battery manufacturers on the development of materials for use in EV battery cathodes and anodes. Until now, IBU-tec has acted only as a service provider and contract manufacturer in this area. However, the patent protection of LFP battery material that IBU-tec previously produced under licence for a third party expired at the end of 2020, leaving the company free to start producing its own LFP product in Q421. The company already has approved production capacity of around 4,000 tonnes per year of the material at its Weimar site and has projects for increasing this capacity in progress. So far IBU-tec has won German battery company Varta and cathode manufacturer Blackstone Technology as customers for the new product. During the first year covered by the letter of intent signed in August 2021, IBU-tec expects to supply Blackstone with hundreds of tonnes of LFP material annually, corresponding (according to Blackstone) to sufficient cathode material for around 2GWh of battery cells. IBU-tec expects tonnages sold to Blackstone to increase to 'up to the middle four-digit range' in subsequent years. Management is targeting a tenfold increase in sales of battery materials overall to c €21m between 2020 and 2025.

### Glass production

MBTC is used as a coating for glass bottles to improve mechanical strength and seal micro cracks caused by roughness in the mould. As a result, glass bottles can be reused more times before needing to be replaced. Glass packaging is becoming more and more important in Europe as an environmentally friendly alternative to plastic. In addition, the growing middle class in the emerging countries of South America and Asia is driving demand for glass products in these regions.

Following the closure of Lanxess's organotin specialities facility, IBU-tec will become the sole European producer of glass coatings by 2022 and one of only three worldwide, so management is

aiming to double the group's sales in this segment to c €12m by 2025. During H121 IBU-tec built a new pilot plant for MBTC glass coating and applied for a patent to cover the associated process that improves output and generates material cost savings by enhancing yield. Since engineering and the approval procedure for the associated full-scale production plant are already well advanced, management expects to commission the plant in H122.

### Service/recycling

The group's service offer was significantly expanded following the acquisition of BNT in June 2018, which added complementary wet chemistry processes to the original thermal processing capabilities. Management is targeting a doubling in service revenues by 2025 to €23m. It expects to achieve some of this growth through cross-selling and providing a more complete package to new customers. In addition, the group is beginning to offer its services to potential customers interested in recycling, focusing primarily on recycling battery materials and building materials and processing sewage sludge to extract phosphorus. Management is targeting €20m revenues from recycling battery materials by 2025, in addition to €23m other service revenues, potentially making revenues from sales of battery materials and recycling them around one-third of the group total.

## Valuation: Premium for faster growth

**Exhibit 1: Multiples for listed peers**

Name	Ytd performance (%)	Market cap (€m)	EV/sales 1FY (x)	EV/sales 2FY (x)	EV/EBITDA 1FY (x)	EV/EBITDA 2FY (x)	P/E 1FY (x)	P/E 2FY (x)	Revenue CAGR*
BASF	3.2	61,465	1.1	1.1	7.0	7.5	10.9	12.0	5.7%
Johnson Matthey	23.4	6,773	1.5	1.4	7.9	7.4	12.5	11.5	3.9%
Nabaltec	25.5	300	1.7	1.6	9.2	8.0	22.7	17.9	5.0%
Nippon Shokubai	0.9	1,839	0.8	0.8	4.7	4.7	13.5	12.6	2.6%
Umicore	44.8	14,054	3.6	3.4	11.5	12.3	19.7	22.5	9.2%
W R Grace & Co	27.0	3,923	3.6	3.3	12.7	11.4	18.2	15.0	3.0%
Mean			<b>2.1</b>	<b>1.9</b>	<b>8.8</b>	<b>8.5</b>	<b>16.3</b>	<b>15.2</b>	<b>4.9%</b>
IBU tec	62.3	225	5.9	3.8	33.7	17.6	295.6	47.3	15.0%

Source: Refinitiv. Note: Prices at 31 August 2021. \*Year -1 (ie FY19 for IBU-tec) to year 3.

For our peer group, we use a sample of companies in Europe, North America and Asia involved in the manufacture of mobile and process catalysts and battery materials. IBU-tec's share price has risen much more strongly since the start of 2021 than its peers. We believe this is attributable to investor appetite for shares linked to the EV sector. At the current level, IBU-tec's shares are trading on prospective multiples that are above the peer group average on all metrics. However, consensus estimates show IBU-tec's revenues growing substantially more strongly than both the average for our sample and the fastest growing company, Umicore. This growth is underpinned by an increasing focus on manufacturing and recycling battery materials, which management intends to grow from around 5% of revenues in FY20 to one-third by 2025. The companies in our sample of peers are typically much larger and more diversified, so consensus estimates do not show them growing as quickly as IBU-tec. Further share price appreciation depends on the level of premium investors are prepared to pay for IBU-tec's higher rate of growth.

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