EDISON **Scale research report - Update**

IBU-tec

Technology

13 September 2018

A new dimension

H118 was successful for IBU-tec on several fronts. Revenues were back to almost H117 levels, as strong growth in demand for battery materials offset continued weakness in demand for materials used in automotive catalytic converters. Management achieved the objective set out at the IPO of purchasing a new site in Bitterfeld where more complex and hazardous materials can be processed in volume. It also purchased BNT Chemicals, more than doubling the revenues and adding complementary chemistries.

H118 revenue recovery driven by battery materials

Last year, revenues fell from €9.4m in H117 to €7.4m in H217 because of a sudden and substantial reduction in sales of catalytically active powders for the automotive industry attributable to the Dieselgate scandal earlier in the year. However, during H118 strong demand for battery materials used in energy storage and for chemical catalysts pushed revenues back up to €9.2m, close to the prior year levels. Stripping out the costs (€1.5m) of the IPO in March 2017, H118 EBITDA margin declined by 7pp year-on-year to 25%. Pre-tax profit (adjusted for IPO costs) reduced by 46% to €1.0m. Net cash reduced from €12.7m at end FY17 to €3.1m, following €4.8m in capex including the purchase of the Bitterfeld site.

BNT acquisition more than doubles revenues

Management has reiterated the guidance it gave immediately following the BNT acquisition in June. This is for annualised pro-forma revenues of €45–50m and EBITDA (prior to one-off transaction costs) of €5.5–7m. Prior to that, revenue guidance was €18.5–20.0m, generating EBITDA of €4.7–5.2m, so while the transaction more than doubles revenues, the improvement in profits is not expected to be as pronounced because of BNT's comparatively low margin at present.

Valuation: Trading in line with peers

Management guidance gives a pro forma FY18 EV/sales multiple of 1.5–1.7x and EV/EBITDA multiple of 10.7–13.6x. Both these multiples are in line with means for our peer group sample (1.6x year 1 EV/sales and 11.9x year 1 EV/EBITDA). The BNT acquisition and new site development will have a short-term negative effect on EBITDA margin. Historically however, IBU-tec's FY17 EBITDA margin has been towards the upper end of the range for its peers, which has justified a premium to the mean. This suggests potential for share price improvement if management can drive margin improvement in the BNT business post-acquisition.

Historical financials

Year end	Revenue (€m)	PBT* (€m)	EPS** (€)	DPS (€)	P/E (x)	Yield (%)
12/14	12.5	2.5	0.45	0.0	39.6	N/A
12/15	16.6	4.5	0.79	0.0	22.5	N/A
12/16	17.7	4.3	0.77	0.0	23.1	N/A
12/17	16.8	1.9	0.45	0.13	39.6	0.7

Source: Bloomberg. Note: *Adjusted for IPO costs. **On number of shares at listing date.

Price	**€17.80**
Market cap	**€71m**

Share price graph

Share details

Code	IBU
Listing	Deutsche Börse Scale
Shares in issue	4.0m
Last reported net cash at end June 2018	€3.1m

Business description

IBU-tec is an international full service provider in the field of thermal process engineering, predominantly treating inorganic materials. It helps clients create enhanced performance materials, reduce energy consumption and use input materials more efficiently.

Bull

- BNT acquisition adds wet chemical processes to existing thermal treatments.
- New Bitterfeld site supports expansion into new thermal process applications.
- Serving high-growth segments such as e-mobility and energy storage.

Bear

- Acquisitions drag on margins.
- Additional bank loans to support BNT purchase.
- Low free float (26.5%).

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Progress on execution of strategy

Bitterfeld site extends capacity and supports new chemistries

Part of the €16.5m (gross) raised at the IPO in March 2017 was allocated for the purchase of a new site where more complex and hazardous materials can be processed in volume. This was accomplished in April 2018 through the purchase of a site in Bitterfeld.

The 15,500m^2 site is in an industrial area approved for chemical activity which is c 140km from the headquarters in Weimar. It will be used to process materials that cannot be produced at the Weimar site because of regulatory and permitting restrictions as well as providing additional capacity. IBU-tec has already built up a provisional pipeline of suitable projects for the proposed facility with existing and new customers, which will potentially deliver meaningful revenues when production commences at the site in Q119. It will start by installing two rotary kilns for processing battery materials and chemical catalysts. Together with the facility and technical equipment, these will cost €6m, most of which will be paid in FY18. A pulsation reactor will be installed at the site in FY19.

BNT Chemicals acquisition immediately doubles revenues

An alternative option for securing a site where more complex materials could be processed was to purchase an existing company. In June 2018 IBU-tec acquired BNT Chemicals for an undisclosed amount, payable in cash. BNT uses wet chemical processes to manufacture tin-based products, which it sells for use as catalysts in the chemical industry and manufacture of medicines, electro-plating in the automotive industry, coating glass and as raw materials, eg tin tetrachloride. We believe the transaction is an excellent fit as it adds complementary processing techniques, takes IBU-tec into new market niches such as the production of catalysts used in manufacturing medicines, and enlarges the customer base. Importantly, with annual revenues of €23-28m per year between 2015 and 2017, the acquisition is of sufficient scale to substantially reduce IBU-tec's historic exposure to demand for car exhaust catalysts which was behind the revenue drop in H217. We estimate that this will reduce from 40-50% of FY17 revenues to 20% of the annualised revenues of the enlarged group.

Scope to improve BNT's operating margin

While BNT has been consistently profitable, it does not currently generate the operating margins that IBU-tec has achieved historically. IBU-Tec's CEO, who has significant expertise in improving the efficiency of manufacturing operations, is addressing this. Since BNT is located 1.5km from IBU-tec's new thermal processing facility on the Bitterfeld chemical site, there is plenty of scope to achieve synergistic benefits as activity at the new site ramps up. In the medium term, management intends to establish toll-manufacturing capability at BNT so it can provide a range of wet processing treatments to customers that are already using IBU-tec for thermal processing of materials under a toll-processing arrangement.

Back on track in H118 after H217 dip

H118 revenues close to H117 levels

Total revenues declined by 3% year-on-year during H118 to €9.2m. Putting this in context, revenues had fallen from €9.4m in H117 to €7.4m in H218 because of a sudden and substantial reduction in sales of catalytically active powders for the automotive industry attributable to the Dieselgate scandal earlier in the year. H118's revenues therefore represent a good recovery compared with the previous six months. This was driven by strong growth (40%+ compared with H217 in demand for

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battery materials deployed in e-mobility and stationary energy storage following signature of a framework agreement for the supply of materials used in stationary energy storage at the end of 2017. Demand for chemical catalysts also increased compared with H217. Importantly, IBU-tec was able to secure additional customers, including a well-known fertilizer group, thus broadening its customer base.

Bitterfeld costs dragging on margins

Personnel expenses rose by 7% y-o-y, in part due to the shift from automotive catalyst production to more labour-intensive small-scale project business, partly reflecting the recruitment of staff for the new Bitterfeld site. Material costs as a percentage of sales increased by 3.9pp to 12.6%, reflecting a shift to carrying out contract manufacturing for some customers rather than working exclusively on a toll-processing basis. Stripping out the costs (€1.5m) of the IPO in March 2017, EBITDA margin declined by 7pp to 25%. This remains high compared with the EBITDA margin of industry peers (see Exhibit 1). Pre-tax profit (adjusted for IPO costs) reduced by 46% to €1.0m.

Net cash reduced from €12.7m at end FY17 to €3.1m at end H118. Cash generated from operations was €1.9m. Capital expenditure totalled €4.8m including the purchase of the Bitterfeld site and the R&D centre in Weimar. The company also spent €6.3m as partial pre-payment for the BNT acquisition.

FY18 revenue guidance more than doubled following BNT deal

Prior to the BNT acquisition in June this year, management had forecast FY18 revenues of €18.5–20.0m generating EBITDA of €4.7–5.2m. Following the acquisition management raised guidance to annualised pro-forma revenues of €45–50m and EBITDA (prior to one-off costs associated with the transaction) of €5.5–7m. This guidance was reiterated when the H118 results were announced.

Valuation: Trading in line with peers

Exhibit 1: Multiples for listed peers

Name	Market cap (€m)	EV/Sales current year (x)	EV/EBITDA current year (x)	EBITDA margin last year (%)
Akzo Nobel	20,549	2.5	20.2	14.9
Bodycote	2,019	2.5	9.1	0.6
Croda International	7,479	5.1	17.7	27.5
Elementis	1,314	2.1	10.4	16.7
Evonik industries	14,932	1.2	7.0	14.8
Fuchs Petrolub	6,735	2.5	14.8	17.5
Holland Colours	73	0.8	6.1	12.2
Johnson Matthey	7,512	0.5	10.0	4.3
Kemira	1,810	0.9	7.3	11.4
Koninklijke	16,349	1.8	9.6	15.6
Nabaltec	225	1.4	8.4	18.4
Nanogate	182	1.2	10.6	11.6
Orapi	40	0.4	9.4	3.6
Robertet	1,184	2.3	13.3	17.4
Explosifs Prod CHI	169	-	-	6.2
Symrise	10,429	3.9	18.7	21.0
Umicore	11,838	0.9	16.4	4.2
Victrex	3,054	8.1	18.4	44.3
Wacker Chemie	6,461	1.4	6.6	19.1
Mean		**1.6**	**11.9**	
IBU-tec	78	1.5–1.7*	10.7–13.6*	25.6

Source: Bloomberg. Note: Prices at 3 September 2018. *Based on management guidance (annualised) and net cash at end H118.

As there are no listed peers involved in toll manufacturing of inorganic chemicals, we use a sample of European companies involved in the manufacture of speciality chemicals or that use specialist chemical processes to provide a service. Management guidance implies a pro forma FY18 EV/sales multiple of 1.5–1.7x and EV/EBITDA multiple of 10.7–13.6x. (There is no guidance on earnings, precluding use of P/E multiples.) Since the share price has picked up from a low of €15.65 in February as investors have responded positively to the acquisitions of the site in Bitterfeld and of BNT Chemicals, both these multiples are in line with means for our peer group sample (1.6x year 1 EV/sales and 11.9x year 1 EV/EBITDA). The acquisitions currently have a dilutive impact on EBITDA margin with management guidance giving a range of 12.2-14.0% for FY18 on an annualised basis compared with 25.6% achieved in FY17. In FY17, IBU-tec's EBITDA margin was towards the upper end of the range for its peers, justifying a premium to the mean at that time. This suggests potential for share price improvement if management can drive margin improvement in the BNT business post-acquisition.

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