EDISON

Scale research report - Update

IBU-tec advanced materials

Technology

2 April 2019

Return to growth

FY18 was successful for IBU-tec on several fronts. Organic revenues rose by 13% to a record high, reversing the decline in FY17. There was strong growth in demand for battery materials and chemicals catalysts following the programme instigated in H217 to reduce dependence on sales of materials for automotive catalysts. Including BNT Chemicals (BNT), acquired in June 2018, revenues almost trebled, while EBITDA increased by 60%. Management expects growth to continue in FY19, supported by the first output from the new site in Bitterfeld, acquired in April 2018.

Revenues almost treble, boosted by acquisition

Excluding the BNT acquisition, FY18 revenues reached €19.0m due to strong demand for battery materials used in energy storage and for chemical catalysts. This was13% higher than FY17, when revenues were affected by a sudden and substantial reduction in sales of catalytically active powders for the automotive industry during H217 which was attributable to the Dieselgate scandal earlier in the year and 7% higher than FY16. Including BNT, revenues almost trebled to €46.7m, in line with management guidance. EBITDA increased by 60% to €6.9m, at the top end of management guidance. The published accounts show a movement from €12.7m net cash at end FY17 to €15.6m net debt at end FY18. Investments totalled €15.4m including the purchase of the Bitterfeld site, the new R&D centre in Weimar and the BNT acquisition. There was also €11.3m outflow relating to loans and receivables acquired with BNT and extended as part of the acquisition.

Battery materials to continue to deliver growth

Management's FY19 guidance is for €50–53m revenues and €7.2–7.5m EBITDA. This is based on a c 50% increase in sales of battery materials, continued growth in demand for chemical catalysts and a full-year benefit from BNT with its complementary chemistry and further beneficial synergistic effects. Management notes it is in negotiations regarding additional, larger orders, offering potential upside to guidance.

Valuation: Premium for battery materials

The share price has picked up from the record low of €14.00 at the end of December 2018. At the current level the shares are trading on FY19e EV/EBITDA and P/E multiples that are higher than the mean for our sample of listed peers (c 11.7x vs 9.8x EV/EBITDA and 50.2x vs 19.4x P/E). We believe a premium is merited because of IBU-tec's involvement in the battery materials market, which is expected to deliver revenue growth twice the average of its listed peers.

Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/17	16.8	1.9**	0.45	0.13	40.2	0.7
12/18*	19.0	2.1	0.35	0.0	51.7	N/A
12/19e	52.9	1.9	0.36	0.18	50.2	1.0
12/20e	58.6	3.9	0.73	0.20	24.8	1.1

Source: Refinitiv. Note: *Not consolidated for BNT Chemicals. **Adjusted for IPO costs.

Price €18.1

Market cap €72m

Share price graph

Share details

Code	IBU
Listing	Deutsche Börse Scale
Shares in issue	4.0m
Last reported net debt at end December 2018	€15.6m

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 (30.25%).

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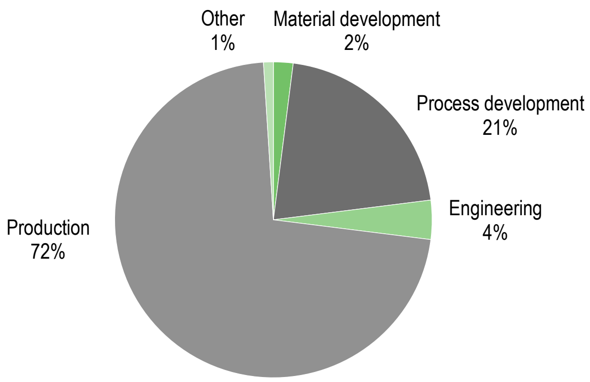
Complete recovery in FY18 after FY17 dip

On a like-for-like basis FY18 revenues increased by 13% y-o-y to €19.0m. Production revenues rose by 4% year-on-year because of a 36% jump in sales of battery materials following the signature at the end of 2017 of a framework agreement for the supply of materials used in stationary energy storage. Demand for chemical catalysts also increased. Importantly, IBU-tec was able to secure additional customers, including a well-known fertiliser group, thus broadening its customer base. The number of completed projects was a record 400 compared with 388 in FY17. Revenues attributable to process development grew by 45%, giving management confidence in future growth as some of these projects pass into volume production.

Compared to FY16, like-for-like revenues were 7% higher, confirming a full recovery after the problems in H217 when there was a sudden and substantial reduction in sales of catalytically active powders for the automotive industry which was attributable to the Dieselgate scandal earlier in FY17. During FY18 sales of catalysts for internal combustion engines were lower than in FY17 because of continuing weakness in the diesel vehicle market, but stabilised over the year. The group has not published consolidated accounts. Management states that BNT Chemicals, which was acquired in June 2018, performed well and fully met expectations, so total FY18 revenues almost trebled to €46.7m, in line with management guidance.

Exhibit 1: Analysis of FY18 revenues by type (excluding BNT)



Source: Company data

BNT and new Bitterfeld site dragging on margins

Excluding BNT, material costs as a percentage of sales increased by 2.8pp to 13.4%, reflecting a shift to carrying out contract manufacturing for some customers rather than working exclusively on a toll-processing basis. Personnel expenses rose by 10% y-o-y as the number of staff grew by 15 during the year to 160 at the end of December, reflecting the recruitment of staff for the new Bitterfeld site. Stripping out the costs of the IPO in FY17, EBITDA grew by 8% to €4.7m generating 24% margin compared to 26% in FY17. Profit before tax rose more slowly, by 7% to €2.1m, because of the interest payable on loans related to the two acquisitions. Including BNT, EBITDA increased by 60% to €6.9m, at the top end of management guidance post-acquisition. This gives an EBITDA margin of 14.8% which is close to the mean for its peers (see Exhibit 2), but substantially below IBU-tec's historic level, having consistently achieved EBITDA margins in excess of 20% from FY13 to FY17.

The group has not published a consolidated cash flow statement. The published accounts show a movement from €12.7m net cash at end FY17 to €15.6m net debt at end FY18. Cash generated from operations was €3.3m. This was a four-fold improvement on FY17, reflecting higher underlying profitability, an absence of IPO costs and higher levels of trade payables. Investments totalled €15.4m (€2.2m FY17) including the purchase of the Bitterfeld site, the new R&D centre in Weimar and the BNT acquisition. There was also €11.3m outflow relating to loans and receivables acquired with BNT and extended as part of the acquisition.

Outlook

Management's FY19 guidance is for €50–53m revenues and €7.2–7.5m EBITDA. This is based on a c 50% increase in sales of battery materials for electric mobility and stationary storage, continued growth in demand for chemical catalysts, and a full year benefit from BNT with its complementary wet chemistry processes. Management notes it is in negotiations regarding additional, larger orders, presenting potential upside to guidance. It expects EBT margins to decrease through a combination of higher depreciation relating to FY18 investments, increased financing expenses and a higher proportion of production where IBU-tec provides the raw materials, rather than manufacturing on a toll-processing basis. Management considers the expansion of non-toll-processing activity beneficial as it aids customer retention in the key battery materials segment. We note reports from Navigant Research which predict that advanced battery energy capacity for automotive applications will increase from 125 GWh in 2017 to 568 GWh in 2026 and that energy storage for renewables integration will grow from around 1.2MW capacity in 2017 to 30.5MW by 2026, making this a highly attractive market for IBU-tec to be involved in.

Management's EBITDA guidance includes a contribution from realising further acquisition synergies. Although BNT was consistently profitable prior to acquisition, operating margins were not as high as IBU-tec has achieved historically. IBU-tec's CEO, who has significant expertise in improving the efficiency of manufacturing operations, has begun to address 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. Importantly, the expansion of the value chain to include wet-chemical processes and downstream thermal process engineering, is generating both great market interest and demand. 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.

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 H119. 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 was paid in FY18.

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 in the manufacture of medicines, electro-plating in the automotive industry, coating glass and as raw materials, eg tin tetrachloride.

The transaction 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, 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.

Valuation: Premium for exposure to battery market

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. IBU-tec's share price has picked up from the record low of €14.00 at the end of December 2018 and is now c 8% higher than the IPO price of €16.5/share. At the current level the shares are trading on prospective EV/EBITDA and P/E multiples that are higher than the mean for our sample of listed peers.

Exhibit 2: Multiples for listed peers

Name	Market cap (€m)	EV/Sales FY1 (x)	EV/Sales FY2 (x)	EV/EBITDA FY1 (x)	EV/EBITDA FY2 (x)	P/E FY1 (x)	P/E FY2 (x)	Revenue growth*
Akzo Nobel	18,017	1.3	1.2	9.4	8.4	24.4	18.9	3.2%
Bodycote	1,824	2.0	2.0	7.3	7.0	14.7	14.0	3.0%
Croda International	7,579	4.8	4.6	16.1	15.1	24.4	22.8	4.1%
Elementis	1,089	1.8	1.7	8.1	7.6	11.2	10.4	3.0%
Evonik Industries	11,214	1.0	1.0	6.0	5.8	11.8	11.1	2.9%
Fuchs Petrolub	4,978	1.8	1.7	11.0	10.3	18.7	17.4	3.9%
Holland Colours	67	0.7	0.6	5.6	5.1	9.4	8.5	6.3%
Johnson Matthey	7,070	1.7	1.6	9.6	9.1	13.8	13.0	5.2%
Kemira	1,694	0.9	0.9	6.7	6.4	13.3	12.2	2.8%
Koninklijke DSM	17,675	1.9	1.8	10.8	10.1	18.9	16.7	5.0%
Nabaltec	277	1.7	1.6	10.2	8.1	26.4	18.4	11.5%
Nanogate	135	0.9	0.8	8.8	8.8	95.2	-	9.1%
Orapi	25	0.4	0.4	9.8	7.3	-	17.2	4.0%
Robertet	1,253	2.3	2.2	-!	-!	21.3	18.6	6.0%
Symrise	10,943	3.6	3.3	17.4	15.7	32.0	28.0	8.0%
Umicore	9,720	2.9	2.5	13.1	11.0	25.5	20.6	16.3%
Victrex	2,200	5.4	5.1	12.3	11.6	17.3	16.4	6.2%
Wacker Chemie	4,011	0.9	0.8	4.8	4.6	16.8	14.3	3.2%
Mean		**1.6**	**1.5**	**9.8**	**8.9**	**19.4**	**16.9**	**5.8%**
IBU-tec advanced materials	71	1.6	1.5	11.7	9.1	49.3	24.3	10.7%

Source: Refinitiv. Note: Prices at 28 March 2018. Grey shading indicates exclusion from mean. *Year 2 vs year 1.

Noting the statistics referred to earlier from Navigant Research regarding the potential growth rates for battery storage, and thus by implication for battery materials, we believe that IBU-tec's involvement in this market merits a premium as this should help the company deliver growth that is faster than average. CAGR metrics are distorted by the BNT acquisition. For example, revenue CAGR between FY17 and FY20 is 51.6% for IBU-tec compared with a mean of 6.1% for its peers. Looking only at the growth rate between year 1 and year 2, in which both years have a full 12 months' contribution from BNT, IBU-tec is forecast to grow at almost double the average rate (10.7% vs 5.8%) as it benefits from its engagement in the battery market.

To reinforce this thesis, we note that Umicore, which has invested heavily in capacity for production of cathode materials for lithium-ion rechargeable batteries, is trading on EV/EBITDA and P/E multiples that are substantially higher than the average for our sample. Consensus forecasts for Umicore also show growth above the average.

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