Indygotech Minerals S.A.

East Value Research

Fair Value: n.a. | Update | Rating: n.a

Indygotech Minerals' (IDG) share price has recently taken a hit. The reason was a delay of completion of the production facilities for ceramic proppants and electro-insulating materials, which IDG originally had to finish by year-end 2015. Moreover, subsidiary LZMO performed significantly worse than guided by management.

Baltic Ceramics Investments (BCI) According to our information, a bank refused to provide pre-financing for the equipment that is still needed for BCI's plant in Lubsko. State-owned agency PARP agreed to postpone the deadline for completion of the company's production facility from 31 December 2015 to 30 September 2016, however it will not cover the costs of the remaining investments. As machines are by far the largest cost factor, we estimate that BCI still needs c. PLN 28m of capital in order to complete its plant.

Electroceramics (EC) Although Industry Technology's (ECI's SPV) plant for electro-insulating materials received the permit to produce on 3 February 2016, we estimate that it still needs c. PLN 6m for equipment. That capital should however be provided by a financial institution soon and the plant should be able to initiate production in Q3/16. Like BCI, EC already has letters-of-intent with several international B2B customers, who are willing to buy its products as soon as its plant is ready.

LZMO LZMO's 2015 results came in much lower than its guidance from June 2015. Revenues amounted to PLN 4.5m (Guid.: PLN 7.4m), while net income was also significantly weaker than previously expected (PLN 0.04m vs. PLN 0.45m). LZMO is suffering from weak construction activity in the area of single-family homes in Poland, cheap competition by online shops and later-than-expected start of sales to Germany and Austria.

We think IDG needs c. PLN 27m of additional financing in order to complete BCI's and EC's plant. While we see little risk for EC, we expect that in order to acquire a financing partner for BCI IDG will have to raise additional equity. In our view, the most likely scenario is a capital increase of max. PLN 10m, which at current market price would increase IDG's shares outstanding by 21.3m (33.3% dilution). Due to high uncertainty we have decided not to provide any estimates or valuations for IDG or its subsidiaries.

in PLNm	2010	2011	2012	2013	2014	2015
Net sales	2.83	12.62	4.46	0.74	3.46	2.77
EBITDA	0.23	-2.82	-8.87	-2.93	0.38	-3.55
EBIT	0.17	-2.95	-8.99	-2.97	0.30	-4.27
Net income	2.95	10.26	-4.95	5.10	-1.08	-7.66
EPS	0.07	0.23	-0.11	0.12	-0.02	-0.12
Diluted EPS	0.07	0.19	-0.09	0.10	-0.02	-0.12
Dividend yield	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
RoE	10.45%	25.07%	-11.32%	14.35%	-3.93%	-29.72%
Net gearing	-18.44%	-62.51%	-95.62%	2.65%	8.40%	-31.95%
EV/Sales	7.61x	1.71x	4.83x	29.05x	6.23x	7.77x
EV/EBITDA	94.00x	neg	neg	neg	56.50x	neg
P/E	6.71x	2.04x	neg	3.92x	neg	neg
P/Diluted EPS	6.71x	2.47x	neg	4.70x	neg	neg

Company profile

Indygotech Minerals S.A. is a Polish holding, which through subsidiaries operates in the area of ceramic technology.

Website	www.indygotechminerals.com
Sector	Industrials
Country	Poland
ISIN	PLLSTIA00018
Reuters	IDGP.WA
Bloomberg	IDG PW

Share information

Last price	0.47
Number of shares (m)	63.80
Market cap. (PLNm)	29.99
Market cap. (EURm)	6.76
52-weeks range	PLN 1.58 / PLN 0.38
Average volume	978,427

Performance

4-weeks	-7.84%
13-weeks	-34.72%
26-weeks	-28.79%
52-weeks	-26.56%
YTD	-31.88%

Shareholder structure

Dariusz Janus (CEO)	19.25%
Innovators Capital (Cyprus)	6.99%
Artur & Malgorzata Slawinski	7.56%
Free float	66.20%

Financial calendar

Q1/16 report	May 14, 2016

Analyst

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Current situation at IDG's subsidiaries

Baltic Ceramics Investments (46.3% owned by IDG)

According to our information, BCI had to postpone the completion of its production facility from 31/12/2015 to 30/09/2016 as a bank unexpectedly withdrew its approval of pre-financing at the end of December. While the state-owned agency PARP, which was supposed to provide EU funding for BCI's project, agreed to the new date, BCI now has to cover all investments in 2016 itself. As machines and equipment are by far the most expensive part of the project, we estimate that BCI still needs c. PLN 28m in order to complete its plant. In our view, the most likely scenario is that BCI will finance this by a combination of leasing and additional equity.

However, despite the significant delay we think that its project still looks promising. First of all, BCI has already signed two letters-of-intent with North American customers, who want to use its ceramic proppants for exploration activities in Middle East and Asia. Second, on 11 February 2016 BCI announced an agreement with several research institutes from Germany, Italy and Greece, with whom it plans to co-operate on a project relating to a new method of production of solar energy that is supposed to be financed by funds from the >EUR 77bn EU program "Horizon 2020" and use the company's ceramic proppants. And third, BCI's plant is also important as a future supplier of raw materials (ceramic powder) to IDG's other subsidiaries. Upon granting of a certificate for its proppants from North American authorities and successful testing of its plant, which will likely take six months after completion of construction work, we believe that BCI will start generating revenues in mid-2017. Most market analysts expect significantly higher oil prices by then.

According to the Q4/15 report, which was released on 16 February 2016, BCI's EBIT and net income reached PLN -1.3m (2014: PLN -0.2m) and PLN -2.4m (PLN -1.6m) respectively in full-year 2015. Cash flow from investing amounted to PLN -27m. We estimate the company's net cash as of 31/12/2015 at PLN 9.6m.

Electroceramics (57.8%)

Through its 100%-owned SPV Industry Technologies, IDG's subsidiary Electroceramics plans to produce electro-insulating materials and corps for B2B clients. Although its plant received the official permit for production on 3 February 2016, it still needs some machines, whose cost we estimate at c. PLN 6m. If EC receives the necessary debt financing by June, which we think is likely, the plant should be able to generate first revenues in Q3/16.

EC has already signed letters-of-intent with three international companies, which have expressed strong interest in its products. Thus, we think that upon successful completion of the plant it should be able to ramp up revenues very quickly.

In full-year 2015, EC generated an EBIT of PLN -1.3m (2014: PLN -2.8m) and net income of PLN -1.7m (PLN -3.4m). Cash flow from investing amounted to PLN -11.1m. We estimate that as of 31 December 2015 the company had net cash of PLN 45.6k.

LZMO (62.2%)

In its production facility, which is also located in Lubsko, LZMO produces ceramic inserts for isostatic chimneys and chimney systems. In Poland, the company mainly distributes its products through regional sales representatives, however according to our information is currently not present in the most important Polish province Mazowsze. LZMO planned to generate first revenues in the German-speaking region in 2015, but this has been postponed by one year as the acquisition of necessary permits and certificates took longer than expected. Outside Poland, LZMO has already signed sales agreements in Germany, Austria and the Czech Republic. In Germany, which is the most important chimney market in Europe, it has partnered with a large distributor that sells chimneys worth EUR 35m per year.

The delay in Germany was one of the reasons, why LZMO's 2015 results were significantly below its guidance from June 2015. The other ones were a weak construction activity in the area of single-family houses in Poland and strong competition by cheap online distributors of chimney systems. In order to defend its market share, LZMO has responded by launching an own online shop at the end of December 2015, where customers can find both cheaper chimney systems and premium isostatic ones.

LZMO's 2015 results vs. its guidance from June 2015

in PLN m	2015 results	2015 Guid. from Jun 15
Net sales	**4.51**	**7.40**
EBITDA	**2.08**	**2.00**
EBITDA margin	*46.2%*	*27.0%*
Net income	**0.04**	**0.45**
Net margin	*0.9%*	*6.1%*

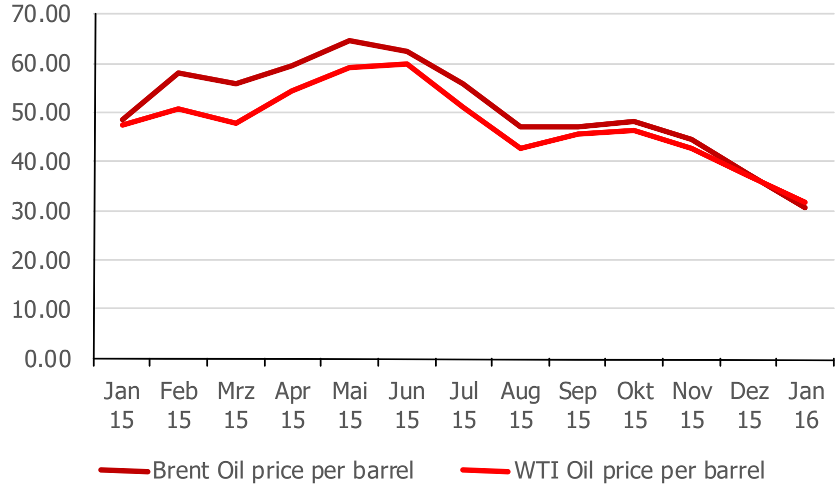
Source: Company information, East Value Research GmbH

Market update

The global market for ceramic proppants

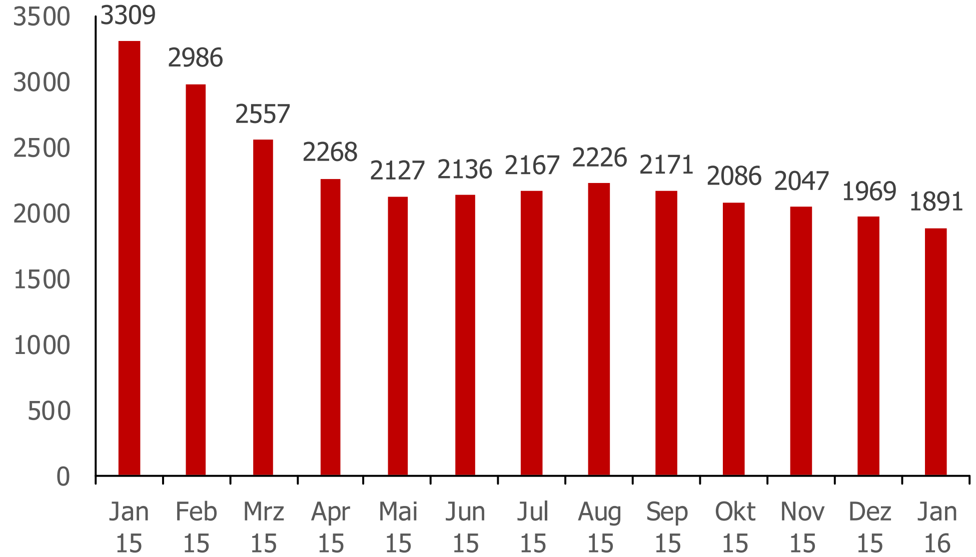
In-line with the oil price, the global rig count has declined significantly since January 2015. This has also been reflected in the demand for proppants. Currently, market analysts estimate that the oil price will start increasing again from Q2/16. However, a price of USD 50 per barrel, which is necessary for proppant manufacturers in order to be profitable, will only be reached in 2017.

Development of the oil price in USD, Jan 2015-Jan 2016



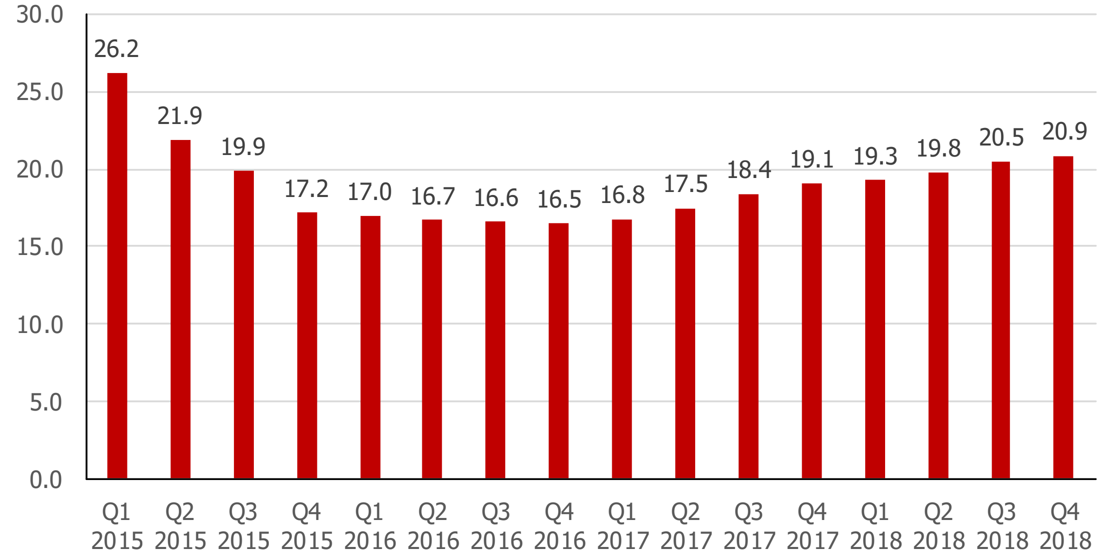
Source: indexmundi.com, East Value Research GmbH

Global rig count, Jan 2015-Jan 2016



Source: Baker & Hughes, East Value Research GmbH

Demand for proppants in the US (in bn lbs)



∗ According to Grand View Research Inc., North America accounts for >75% of the global market for proppants

Source: ProppantIQ by PacWest Consulting Partners, East Value Research GmbH

Forecasts for the price per barrel of Brent and WTI (29/02/2016)

			Brent		
	Q1 2016	**Q2 2016**	**2016**	**2017**	**2018**
Median	33.0	36.8	39.5	55.0	64.5
Highest	50.0	50.0	53.0	79.0	80.0
Lowest	28.0	25.0	30.0	40.0	45.0
No of forecasts	30.0	30.0	30.0	28.0	20.0

			WTI		
	Q1 2016	**Q2 2016**	**2016**	**2017**	**2018**
Median	32.0	36.0	37.9	52.8	61.5
Highest	48.0	48.0	50.0	75.0	78.0
Lowest	27.0	26.0	28.5	38.5	44.0
No of forecasts	30.0	30.0	30.0	28.0	20.0

Source: Thomson Reuters, East Value Research GmbH

Construction sector in Poland and Europe

According to the Central Statistical Office (GUS), the volume of construction work in Poland increased by 2.8% y-o-y in 2015. At the same time, the number of initiated and approved apartment constructions grew by 13.7% y-o-y and 20.5% y-o-y respectively. However, according to our information in the segment of single-family houses the situation was difficult.

The total output in the European construction sector grew by 1.6% y-o-y in 2015 according to Euroconstruct. In 2016 and 2017, it is expected to increase by 3% and 2.7% respectively. With a yearly growth of 7%-9%, Poland and Ireland are expected to develop most dynamically over the next few years.

Profit and loss statement

in PLNm	2010	2011	2012	2013	2014	2015
Revenues	**2.83**	**12.62**	**4.46**	**0.74**	**3.46**	**2.77**
Cost of goods sold	-1.55	-13.33	-11.59	-1.36	-0.13	0.72
Gross profit	**1.28**	**-0.71**	**-7.13**	**-0.62**	**3.32**	**3.49**
Other operating income	0.10	0.04	0.26	0.76	2.00	2.76
Administration and distribution costs	-1.14	-1.77	-1.59	-1.94	-3.48	-8.68
Other operating expenses	-0.02	-0.38	-0.41	-1.12	-1.46	-1.12
EBITDA	**0.23**	**-2.82**	**-8.87**	**-2.93**	**0.38**	**-3.55**
Depreciation	-0.06	-0.13	-0.12	-0.05	-0.09	-0.72
Operating income	**0.17**	**-2.95**	**-8.99**	**-2.97**	**0.30**	**-4.27**
Net financial result	3.28	15.67	3.95	4.93	-1.56	-6.66
EBT	**3.45**	**12.72**	**-5.04**	**1.96**	**-1.26**	**-10.93**
Income taxes	-0.50	-2.47	0.09	2.56	0.26	1.33
Minorities	0.00	0.00	0.00	0.58	-0.08	1.94
Net income / loss	**2.95**	**10.26**	**-4.95**	**5.10**	**-1.08**	**-7.66**
EPS	0.07	0.23	-0.11	0.12	-0.02	-0.12
Diluted EPS	0.07	0.19	-0.09	0.10	-0.02	-0.12
DPS	0.00	0.00	0.00	0.00	0.00	0.00
Share in total sales						
Revenues	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %
Cost of goods sold	-54.68 %	-105.59 %	-259.93 %	-183.94 %	-3.85 %	25.80 %
Gross profit	45.32 %	-5.59 %	-159.93 %	-83.94 %	96.15 %	125.80 %
Other operating income	3.68 %	0.29 %	5.76 %	102.16 %	57.75 %	99.75 %
Administration and distribution costs	-40.12 %	-14.00 %	-35.65 %	-261.81 %	-100.75 %	-313.28 %
Other operating expenses	-0.78 %	-3.04 %	-9.08 %	-151.69 %	-42.13 %	-40.49 %
EBITDA	8.09 %	-22.35 %	-198.90 %	-395.28 %	11.02 %	-128.22 %
Depreciation	-2.01 %	-1.02 %	-2.65 %	-6.07 %	-2.49 %	-25.80 %
Operating income	6.08 %	-23.37 %	-201.55 %	-401.35 %	8.54 %	-154.02 %
Net financial result	115.98 %	124.19 %	88.54 %	665.86 %	-45.05 %	-240.42 %
EBT	122.06 %	100.82 %	-113.00 %	264.51 %	-36.52 %	-394.44 %
Income taxes	-17.71 %	-19.55 %	2.09 %	344.80 %	7.64 %	48.14 %
Minorities	0.00 %	0.00 %	0.00 %	78.68 %	-2.34 %	69.83 %
Net income / loss	104.35 %	81.27 %	-110.92 %	687.99 %	-31.22 %	-276.47 %

Balance Sheet

in PLNm	2010	2011	2012	2013	2014	2015
Assets						
Cash and equivalents	0.08	0.88	0.01	0.05	0.49	3.31
Short-term financial assets	6.65	31.60	43.55	4.58	1.85	22.25
Inventories	0.00	0.00	0.00	0.22	0.00	1.37
Trade accounts and notes receivables	0.13	4.18	0.65	0.34	0.29	0.59
Other current assets	4.67	0.79	0.25	1.35	4.24	9.84
Current assets, total	**11.53**	**37.45**	**44.45**	**6.53**	**6.88**	**37.37**
Property, plant and equipment	0.32	0.22	0.10	28.18	53.14	90.81
Other intangible assets	0.01	0.00	0.00	0.00	0.00	1.78
Goodwill	0.00	0.00	0.00	17.00	17.00	16.85
At-equity investments	26.10	16.44	3.62	8.93	9.15	0.00
Other long-term assets	0.43	0.42	0.42	2.05	2.14	2.93
Other financial assets	0.00	0.00	0.00	0.01	0.02	0.01
Deferred tax assets	0.22	0.79	2.22	2.03	1.12	1.73
Non-current assets, total	**27.08**	**17.86**	**6.36**	**58.20**	**82.58**	**114.10**
Total assets	**38.61**	**55.31**	**50.81**	**64.73**	**89.45**	**151.47**
Liabilities						
Trade payables	1.60	1.54	0.06	1.54	3.76	10.17
Other short-term liabilities	0.57	0.18	0.27	5.76	3.42	10.18
Short-term financial debt	0.00	1.92	2.11	0.63	4.45	11.44
Pension provision	0.00	0.00	0.00	0.01	0.00	0.00
Provisions	0.02	0.14	0.13	0.07	0.49	0.22
Current liabilities, total	**2.19**	**3.78**	**2.57**	**8.01**	**12.11**	**32.02**
Long-term financial debt	0.16	1.71	2.03	4.77	0.00	5.66
Pension provision	0.00	0.00	0.00	0.00	0.00	0.00
Other long-term liabilities	0.00	0.00	0.00	0.43	21.76	41.42
Deferred tax liabilities	0.62	3.66	4.99	3.62	2.45	7.27
Long-term liabilities, total	**0.78**	**5.37**	**7.03**	**8.82**	**24.21**	**54.35**
Total liabilities	**2.97**	**9.14**	**9.60**	**16.83**	**36.32**	**86.37**
Shareholders equity, total	**35.64**	**46.17**	**41.22**	**29.84**	**25.08**	**26.48**
Minority interests	0.00	0.00	0.00	18.06	28.05	38.62
Total liabilities and equity	**38.61**	**55.31**	**50.81**	**64.73**	**89.45**	**151.47**

Cash Flow Statement

in PLNm	2010	2011	2012	2013	2014	2015
Net income / loss	2.95	10.26	-4.95	5.10	-1.08	-7.66
Depreciation & amortization	0.06	0.13	0.12	0.05	0.09	0.72
Change of working capital	-0.54	-1.26	2.33	4.88	2.07	24.47
Others	-0.54	4.28	8.69	-8.85	-0.85	-15.73
Net operating cash flow	**1.93**	**13.40**	**6.19**	**1.17**	**0.22**	**1.80**
Cash flow from investing	**-13.62**	**-16.34**	**-5.67**	**0.42**	**-26.76**	**-32.77**
Free cash flow	-11.69	-2.93	0.52	1.60	-26.53	-30.97
Cash flow from financing	**11.65**	**3.74**	**-1.39**	**-1.61**	**26.98**	**33.74**
Change of cash	-0.04	0.81	-0.88	-0.02	0.45	2.77
Cash at the beginning of the period	0.11	0.08	0.88	0.06	0.05	0.54
Cash at the end of the period	0.08	0.88	0.01	0.05	0.49	3.31

Financial ratios

	2010	2011	2012	2013	2014	2015
Profitability and balance sheet quality						
Gross margin	45.32%	-5.59%	-159.93%	-83.94%	96.15%	125.80%
EBITDA margin	8.09%	-22.35%	-198.90%	-395.28%	11.02%	-128.22%
EBIT margin	6.08%	-23.37%	-201.55%	-401.35%	8.54%	-154.02%
Net margin	104.35%	81.27%	-110.92%	687.99%	-31.22%	-276.47%
Return on equity (ROE)	10.45%	25.07%	-11.32%	14.35%	-3.93%	-29.72%
Return on assets (ROA)	-0.85%	-9.79%	-17.51%	0.25%	0.53%	-0.66%
Return on capital employed (ROCE)	0.40%	-4.61%	-18.29%	-12.08%	0.30%	-3.14%
Net debt (in PLNm)	-6.57	-28.86	-39.41	0.79	2.11	-8.46
Net gearing	-18.44%	-62.51%	-95.62%	2.65%	8.40%	-31.95%
Equity ratio	92.32%	83.47%	81.12%	46.10%	28.04%	17.48%
Current ratio	5.27	9.92	17.30	0.82	0.57	1.17
Quick ratio	3.14	9.71	17.20	0.62	0.22	0.82
Net interest cover	-0.05	0.19	2.28	0.60	0.19	-0.64
Net debt/EBITDA	-28.70	10.23	4.44	-0.27	5.53	2.38
Tangible BVPS	0.85	1.04	0.92	0.30	0.15	0.15
Capex/Sales	-4.91%	0.13%	0.11%	6089.61%	724.65%	1443.99%
Working capital/Sales	93.14%	25.76%	12.69%	-727.80%	-76.53%	-308.66%
Cash Conversion Cycle (in days)	-360	79	51	-187	-10294	4570
Trading multiples						
EV/Sales	7.61	1.71	4.83	29.05	6.23	7.77
EV/EBITDA	94.00	-7.63	-2.43	-7.35	56.50	-6.06
EV/EBIT	125.16	-7.30	-2.39	-7.24	72.97	-5.04
P/Tangible BVPS	0.56	0.45	0.51	1.55	3.14	3.12
P/E	6.71	2.04	-4.27	3.92	-23.50	-3.92
P/Diluted EPS	6.71	2.47	-5.22	4.70	-23.50	-3.92
P/FCF	-2.57	-10.22	58.11	18.80	-1.13	-0.97

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