

Indygotech Minerals S.A.



Fair Value: n.a.

Update

Rating: n.a

Baltic Ceramics Investments (BCI) In the first three months of 2016, BCI filed for certification of its ceramic proppants with the Polish Oil & Gas Institute, a process that in our view should be completed in the summer months and will allow the company to file for certification in North America. The installation of lines for mechanical granulation and preliminary preparation of raw materials in Q1/16 allows BCI to start production of ceramic powder in July, which could reduce future CoGS of IDG's other subsidiaries by 40-50%. However, we see a risk that the completion of the production facility for proppants will have to be postponed again (from 30 Sep 2016) as BCI still has not secured the necessary financing.

Electroceramics (EC) In Q1/16, Industry Technology (ECI's SPV) received the permit to produce, however in May again had to postpone the completion date of its plant to 30 Sep 2016, which still has to be approved by PARP. Due to existing letters-of-intent with three international B2B customers, who are ready to buy its products immediately after production start, we believe that the company will already generate revenues in full-year 2016.

LZMO In the period Jan-Mar 2016, LZMO continued to struggle from weak construction activity in the area of single-family homes and cheap competition on the Polish market. However, in May the company finally received the WG3 certificate from German Institute for Construction Technology, which allows it to start distribution to German clients (especially the large trade group hagebau, with which it has signed a contract with unlimited duration). We believe that this should allow LZMO to generate at least PLN 5m of revenues in full-year 2016. However, in Nov 2016 the company has to repay/refinance bonds worth PLN 6.1m.

In our view, the fact that LZMO is finally allowed to sell in Germany is very positive as it should allow the company to ramp up sales quickly. Nevertheless, there are still issues with the other IDG subsidiaries. While EC awaits approval of the new completion date, production of proppants at BCI remains uncertain as the completion of the plant requires external financing.

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	-3.37
EBIT	0.17	-2.95	-8.99	-2.97	0.30	-4.23
Net income	2.95	10.26	-4.95	5.10	-1.08	-4.49
EPS	0.07	0.23	-0.11	0.12	-0.02	-0.08
Diluted EPS	0.07	0.19	-0.09	0.10	-0.02	-0.08
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%	-24.79%
Net gearing	-18.44%	-62.51%	-95.62%	2.65%	8.40%	114.81%
EV/Sales	11.73x	2.63x	7.44x	44.79x	9.60x	11.97x
EV/EBITDA	144.95x	neg	neg	neg	87.12x	neg
P/E	4.57x	1.39x	neg	2.67x	neg	neg
P/Diluted EPS	4.57x	1.68x	neg	3.20x	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	0.32
Number of shares (m)	63.80
Market cap. (PLNm)	20.42
Market cap. (EURm)	4.65
52-weeks range	PLN 1.21 / PLN 0.30
Average volume	48,573

Performance

4-weeks	-25.00%
13-weeks	-36.17%
26-weeks	-58.33%
52-weeks	-71.70%
YTD	-56.52%

Shareholder structure

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

Financial calendar

Q2/16 report	August 31, 2016
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Analyst

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Current situation at IDG's subsidiaries

Baltic Ceramics Investments (38.3% owned by IDG)

On 8 January 2016, BCI announced that the completion of its production facility for proppants had to be postponed from 31 December 2015 to 30 September 2016 and that the state-owned agency PARP would not cover the expenses this year. In Q1/16, the subsidiary received and installed lines for mechanical granulation and preliminary preparation of raw materials, which should allow it to start the production of ceramic powder in July 2016. The ceramic powder is also a necessary raw material for production at IDG's other subsidiaries, which so far have bought it from third parties. We estimate that due to the supply by BCI LZMO and Electroceramics could be able to reduce their CoGS (Cost of Goods Sold) by 40-50% in the future.

Moreover, in Q1/16 BCI filed for certification of its ceramic proppants with the Polish Oil & Gas Institute in terms of compliance with the „PN-EN ISO 13503-5” and „PN-EN ISO 13503-2” norm, a process that is expected to be completed in the summer months. The certification in Poland will allow the company to file a respective application in North America, which is the most important market for proppants worldwide.

Currently, we see no risk that in 2017E BCI will not start production and distribution of proppants. We are confident that certification in North America will be granted by the end of 2016, which the company needs to be able to work together with its two North American customers, with whom it has already signed letters-of-intent. However, as management are still in discussions with potential investors, who are supposed to provide the necessary financing for completion of the plant in Lubsko, we believe that it is possible that the deadline on 30 September 2016 will not be met. Also, despite the fact that most analysts expect a much better environment for proppant suppliers from 2017E, we regard BCI's (revised) guidance as rather ambitious.

BCI's new guidance from 22 April 2016

	2016E		2017E		2018E	
in PLN m	old	new	old	new	old	new
Baltic Ceramics Investments						
Capacity utilisation	25.0%	n.a	50.0%	25.0%	90.0%	50.0%
Revenues (in USD)	9.75	n.a	19.50	9.00	35.10	18.00
Revenues (in PLN)	36.07	n.a	72.15	34.74	129.87	69.48
EBITDA	8.14	n.a	22.20	7.30	42.55	20.15
Net income	0.60	n.a	10.49	0.70	25.47	10.07

Source: Company information, East Value Research GmbH

According to the Q1/16 report, which was released on 9 May 2016, BCI generated an EBIT and net income of PLN -335k (Q1/15: PLN -242k) and PLN -766k (PLN 2.2m) respectively between January and March 2016. Last year's bottom line was positively impacted by a fair value adjustment of an investment amounting to PLN 3.1m. Cash flow from investing amounted to PLN -152k (Q1/15: PLN -7m). At the end of March, BCI conducted a private placement of PLN 3.6m, whereby it issued 10m new shares at PLN 0.36 per share. As of 31/03/2016, the company had cash of PLN 346k and estimated interest-bearing debt of PLN 100k.

Electroceramics (57.8%)

While EC's 100%-owned SPV Industry Technologies received the official permit for production in February 2016, it again had to postpone the completion date of the plant (from 31 May 2016 to 30 September 2016, which however still awaits approval by state-owned PARP) due to a breakdown of a control panel, which has made the synchronization of technological lines impossible. Nevertheless, given the three existing letters-of-intent with international clients, Electroceramics should be able to generate revenues already in 2016.

In Q1/16, EC generated an EBIT of PLN -328k (Q1/15: PLN -203k) and net income of PLN -1.4m (PLN -512k), which resulted from higher administration costs y-o-y and a write-down of goodwill. Cash flow from investing amounted to PLN -225k (PLN -213k). As of 31 March 2016, the company had cash of PLN 16k and estimated interest-bearing debt of PLN 500k.

LZMO (62.3%)

LZMO, which operates a plant for ceramic inserts that are used in isostatic chimneys and chimney systems, has released good news in the last weeks. In May, the company received the W3G certificate from the German Institute for Construction Technology (as one of only five producers), which allows it to sell its isostatic chimney ISOTECH in Germany, the largest chimney market in Europe. Given existing sales agreements especially in Germany and Austria and the partnership contract with the trade group hagebau, this should allow LZMO to ramp up sales quickly and reach at least PLN 5m of revenues in 2016. With yearly sales of more than EUR 6bn and >1,700 locations in eight countries, the hagebau Group is one of the largest players in the construction sector in Europe. In Germany, it operates c. 900 distribution centers. LZMO's contract with hagebau has an unlimited duration.

Between January and March 2016, LZMO generated revenues of PLN 390k (-42% y-o-y), EBIT of PLN 408k (Q1/15: PLN 91k) and net income of PLN 243k (PLN 413k). The capacity utilization at the company's plant in Q1/16 was less than 20%, which resulted from a price war among distributors of lower-quality chimneys in Poland and weak construction activity in the area of single-family houses. At the end of March 2016, LZMO had cash of PLN 30k, while we estimate its interest-bearing debt at PLN 15m. We would like to emphasize that in November 2016 the company has to repay/refinance bonds worth PLN 6.1m (PLN 3m of bonds are due in June 2017).

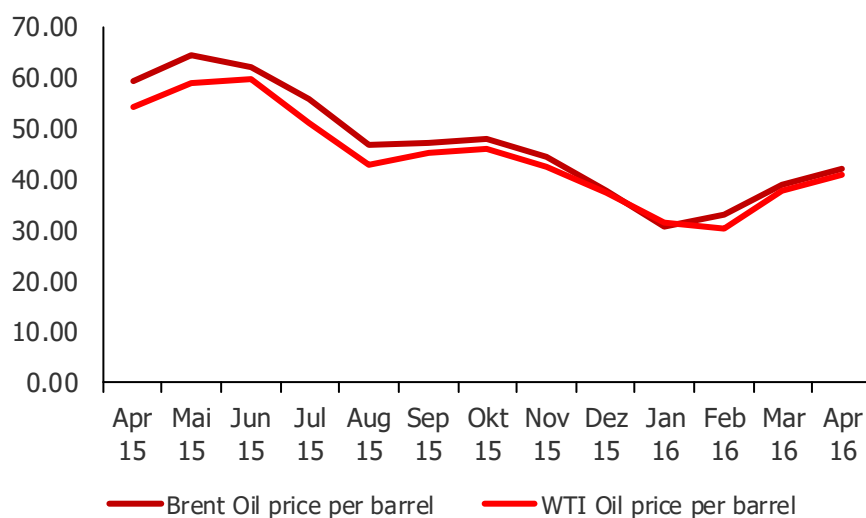
Market update

The global market for ceramic proppants

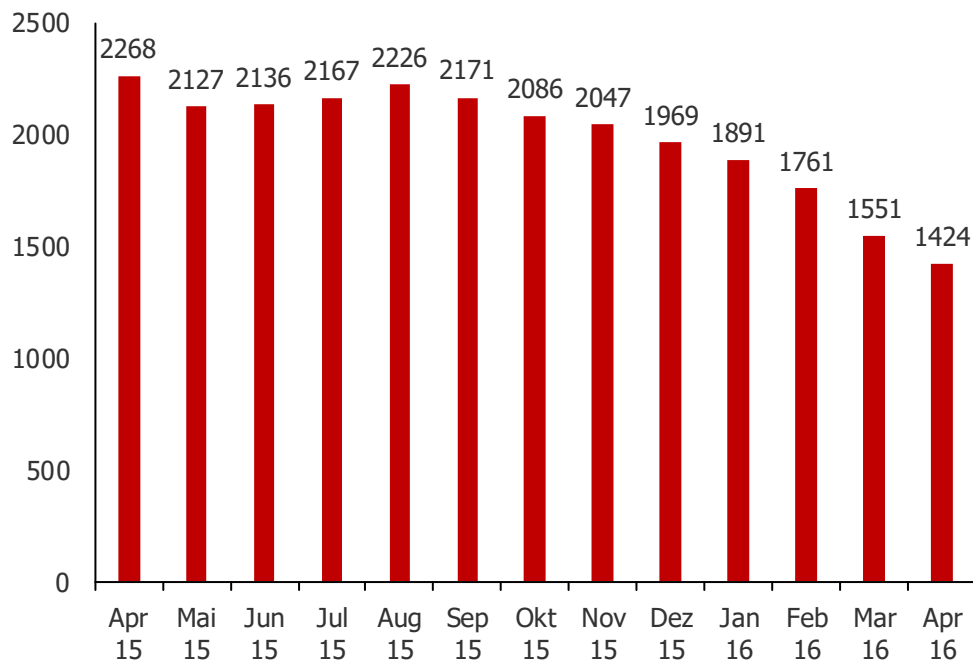
According to a study by market consulting firm Statistics NRC, which was released in Q1/16, the global proppants market is expected to grow at a CAGR of 13.7% to reach USD 115.7bn by 2022E. Cheap sand proppants account for 86% of the market, leaving resin-coated proppants and ceramic proppants with around 14%. Statistics NRC sees increasing demand for energy and industrial shift towards unconventional energy resources (e.g. shale gas) as key factors favoring the market growth in the future. However, at present demand for proppants continues to decrease due to the surplus on the proppant market and reduced drilling by companies from the oil and gas sector.

The oil price recovered significantly during Q1/16, however the development of the global rig count remained negative. Currently, the median of market analysts polled by Thomson Reuters estimates an oil price per barrel of at least USD 41.90 in 2016, which is supposed to increase to USD >53 in 2017E.

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



Source: indexmundi.com, East Value Research GmbH

Global rig count, Apr 2015-Apr 2016

Source: Baker & Hughes, East Value Research GmbH

Forecasts for the price per barrel of Brent and WTI (31/05/2016)

		Brent			
	Q2 2016	Q3 2016	2016	2017	2018
Median	44.0	45.0	43.6	55.0	64.5
Highest	47.0	63.0	53.0	79.0	80.0
Lowest	34.3	30.0	33.0	42.5	47.5
No of forecasts	31	31	33	33	24

		WTI			
	Q2 2016	Q3 2016	2016	2017	2018
Median	42.0	44.0	41.9	53.4	61.0
Highest	46.0	60.0	50.0	75.0	78.0
Lowest	33.2	30.0	32.1	41.5	46.5
No of forecasts	30	30	32	32	23

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 declined by 13.1% y-o-y in the period Jan-Apr 2016. The number of completed apartments increased by 18% y-o-y, while that of approved and initiated ones improved by 13% and 10.5% respectively. However, our research shows that in the area of single-family homes the trend continued to be negative.

The total output in the European construction sector (EU-28) increased by 0.3% q-o-q in Q1/16 according to Eurostat. In the area of building construction, it improved by 1.2% q-o-q. However, in March 2016 the negative trend in the construction sector, which had begun in February, accelerated.

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	0.86
Gross profit	1.28	-0.71	-7.13	-0.62	3.32	3.63
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	-1.09
EBITDA	0.23	-2.82	-8.87	-2.93	0.38	-3.37
Depreciation	-0.06	-0.13	-0.12	-0.05	-0.09	-0.86
Operating income	0.17	-2.95	-8.99	-2.97	0.30	-4.23
Net financial result	3.28	15.67	3.95	4.93	-1.56	-3.65
EBT	3.45	12.72	-5.04	1.96	-1.26	-7.88
Income taxes	-0.50	-2.47	0.09	2.56	0.26	1.18
Minorities	0.00	0.00	0.00	0.58	-0.08	2.22
Net income / loss	2.95	10.26	-4.95	5.10	-1.08	-4.49
EPS	0.07	0.23	-0.11	0.12	-0.02	-0.08
Diluted EPS	0.07	0.19	-0.09	0.10	-0.02	-0.08
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 %	30.89 %
Gross profit	45.32 %	-5.59 %	-159.93 %	-83.94 %	96.15 %	130.89 %
Other operating income	3.68 %	0.29 %	5.76 %	102.16 %	57.75 %	99.60 %
Administration and distribution costs	-40.12 %	-14.00 %	-35.65 %	-261.81 %	-100.75 %	-312.94 %
Other operating expenses	-0.78 %	-3.04 %	-9.08 %	-151.69 %	-42.13 %	-39.11 %
EBITDA	8.09 %	-22.35 %	-198.90 %	-395.28 %	11.02 %	-121.56 %
Depreciation	-2.01 %	-1.02 %	-2.65 %	-6.07 %	-2.49 %	-31.00 %
Operating income	6.08 %	-23.37 %	-201.55 %	-401.35 %	8.54 %	-152.56 %
Net financial result	115.98 %	124.19 %	88.54 %	665.86 %	-45.05 %	-131.61 %
EBT	122.06 %	100.82 %	-113.00 %	264.51 %	-36.52 %	-284.17 %
Income taxes	-17.71 %	-19.55 %	2.09 %	344.80 %	7.64 %	42.47 %
Minorities	0.00 %	0.00 %	0.00 %	78.68 %	-2.34 %	79.92 %
Net income / loss	104.35 %	81.27 %	-110.92 %	687.99 %	-31.22 %	-161.79 %

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	0.88
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	0.99
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	6.87	16.39
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	1.74
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	114.07
Total assets	38.61	55.31	50.81	64.73	89.45	130.46
Liabilities						
Trade payables	1.60	1.54	0.06	1.54	3.76	10.83
Other short-term liabilities	0.57	0.18	0.27	5.76	3.42	4.12
Short-term financial debt	0.00	1.92	2.11	0.63	4.45	12.63
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	27.81
Long-term financial debt	0.16	1.71	2.03	4.77	0.00	4.33
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	21.75	41.42
Deferred tax liabilities	0.62	3.66	4.99	3.62	2.45	7.43
Long-term liabilities, total	0.78	5.37	7.03	8.82	24.21	53.18
Total liabilities	2.97	9.14	9.60	16.83	36.32	80.99
Shareholders equity, total	35.64	46.17	41.22	29.84	25.08	11.13
Minority interests	0.00	0.00	0.00	18.06	28.05	38.34
Total liabilities and equity	38.61	55.31	50.81	64.73	89.45	130.46

Cash Flow Statement

in PLNm	2010	2011	2012	2013	2014	2015
Net income / loss	2.95	10.26	-4.95	5.10	-1.08	-4.49
Depreciation & amortization	0.06	0.13	0.12	0.05	0.09	0.86
Change of working capital	-0.54	-1.26	2.33	4.88	2.07	5.30
Others	-0.54	4.28	8.69	-8.85	-0.85	2.12
Net operating cash flow	1.93	13.40	6.19	1.17	0.22	3.79
Cash flow from investing	-13.62	-16.34	-5.67	0.42	-26.76	-24.01
Free cash flow	-11.69	-2.93	0.52	1.60	-26.53	-20.22
Cash flow from financing	11.65	3.74	-1.39	-1.61	26.98	22.99
Change of cash	-0.04	0.81	-0.88	-0.02	0.49	3.31
Cash at the beginning of the period	0.11	0.08	0.88	0.06	0.49	3.31
Cash at the end of the period	0.08	0.88	0.01	0.05	29.79	29.22

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%	130.89%
EBITDA margin	8.09%	-22.35%	-198.90%	-395.28%	11.02%	-121.56%
EBIT margin	6.08%	-23.37%	-201.55%	-401.35%	8.54%	-152.56%
Net margin	104.35%	81.27%	-110.92%	687.99%	-31.22%	-161.79%
Return on equity (ROE)	10.45%	25.07%	-11.32%	14.35%	-3.93%	-24.79%
Return on assets (ROA)	-0.85%	-9.79%	-17.51%	0.25%	0.53%	-0.64%
Return on capital employed (ROCE)	0.40%	-4.61%	-18.29%	-12.08%	0.30%	-3.51%
Net debt (in PLNm)	-6.57	-28.86	-39.41	0.79	2.11	12.78
Net gearing	-18.44%	-62.51%	-95.62%	2.65%	8.40%	114.81%
Equity ratio	92.32%	83.47%	81.12%	46.10%	28.04%	8.53%
Current ratio	5.27	9.92	17.30	0.82	0.57	0.59
Quick ratio	3.14	9.71	17.20	0.62	0.22	0.19
Net interest cover	-0.05	0.19	2.28	0.60	0.19	-1.16
Net debt/EBITDA	-28.70	10.23	4.44	-0.27	5.53	-3.79
Tangible BVPS	0.85	1.04	0.92	0.30	0.15	-0.10
Capex/Sales	-4.91%	0.13%	0.11%	6089.61%	724.65%	1446.50%
Working capital/Sales	93.14%	25.76%	12.69%	-727.80%	-76.56%	-99.39%
Cash Conversion Cycle (in days)	-360	79	51	-187	-10294	4160
Trading multiples						
EV/Sales	11.73	2.63	7.44	44.79	9.60	11.97
EV/EBITDA	144.95	-11.77	-3.74	-11.33	87.12	-9.84
EV/EBIT	192.98	-11.26	-3.69	-11.16	112.52	-7.84
P/Tangible BVPS	0.38	0.31	0.35	1.06	2.14	-3.14
P/E	4.57	1.39	-2.91	2.67	-16.00	-4.00
P/Diluted EPS	4.57	1.68	-3.56	3.20	-16.00	-4.00
P/FCF	-1.75	-6.96	39.57	12.80	-0.77	-1.01

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Reduce: Based on our analysis, we expect the stock to cause a negative return between 0% and -10% over the next twelve months

Sell: Based on our analysis, we expect the stock to cause a negative return exceeding -10% over the next twelve months

The respective supervisory authority is:

Bundesanstalt für Finanzdienstleistungsaufsicht
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60439 Frankfurt