

Indygotech Minerals S.A.

Fair Value: PLN 2.15

Update

Rating: n.a

Baltic Ceramics Investments (BCI) The construction of BCI's production facility for proppants in Lubsko (the first of its kind in Europe) is nearing the end. Due to the mild winter we reckon that it will likely be completed at year-end 2015 or early Q1/16E. In 9M/15, BCI generated revenues of PLN 810k compared to PLN 268k last year. Although there were no CoGS, EBIT deteriorated from PLN 595k in 9M/14 to PLN -245k as administrative expenses increased y-o-y (PLN 983k vs. PLN 756k in 9M/14) and other operating income was significantly lower (PLN 264k vs. PLN 1.7m). Nevertheless, net income improved y-o-y (PLN 149k vs. PLN -432k) as BCI had a tax refund of PLN 349k (9M/14: tax expense of PLN 1.1m).

Electroceramics (EC) Industry Technologies' (EC's SPV) plant for electro-insulating materials in Lubsko is completed and is now being made ready for production. As EC has already signed a letter-of-intent with a leading manufacturer of medium- to high-voltage fuses, who could buy up to 580k of its insulators per year in the future, we expect that its plant will already generate first revenues in Q1/16E. In 9M/15, EC generated an EBIT of PLN -906k vs. PLN -519k in 9M/14, while its net income deteriorated from PLN -445k to PLN -1.3m mainly due to higher administrative expenses y-o-y (PLN 997k vs. PLN 175k in 9M/14) and goodwill write-down of PLN 437k.

LZMO In 9M/15, LZMO's sales fell by 35.6% y-o-y to PLN 3.9m, which resulted from weak condition of the Polish construction sector and price reductions by producers of lower-quality chimneys. While EBIT improved from PLN 337k in 9M/14 to PLN 1.6m due to significantly lower personnel costs and higher other operating income, net income declined from PLN 1.1m to PLN 212k following a much worse net financial result y-o-y.

Our SOTP valuation (PLN 2.15) remains unchanged as adjustments of CAPEX '15 offset lower estimates for LZMO and BCI. Due to a difficult market environment in Poland we have lowered our 2015 revenue forecast for LZMO from previously PLN 7m to PLN 5m. Although the company wants to diversify its sales geographically, we have also slightly reduced our estimates for 2016E and 2017E. For BCI, we have lowered our assumption regarding capacity utilization in 2016E (from 16% to 12%) and 2017E (from 45% to 39%) as due to the record-low (and further declining) oil price energy companies limit their expenditures.

in PLNm	2009	2010	2011	2012	2013	2014
Net sales	1.75	2.83	12.62	4.46	0.74	3.46
EBITDA	-0.28	0.23	-2.82	-8.87	-2.93	0.38
EBIT	-0.36	0.17	-2.95	-8.99	-2.97	0.30
Net income	0.45	2.95	10.26	-4.95	5.10	-1.08
EPS	0.01	0.07	0.23	-0.11	0.12	-0.02
Diluted EPS	0.01	0.07	0.19	-0.09	0.10	-0.02
Dividend yield	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
RoE	2.16%	10.45%	25.07%	-11.32%	14.35%	-3.93%
Net gearing	0.26%	-18.44%	-62.51%	-95.62%	2.65%	8.40%
EV/Sales	26.73x	16.51x	3.70x	10.47x	63.03x	13.51x
EV/EBITDA	neg	203.94x	neg	neg	neg	122.58x
P/E	70.00x	10.00x	3.04x	neg	5.83x	neg
P/Diluted EPS	70.00x	10.00x	3.68x	neg	7.00x	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	0.70
Number of shares (m)	63.80
Market cap. (PLNm)	44.66
Market cap. (EURm)	10.25
52-weeks range	PLN 1.58 / PLN 0.58
Average volume	314,631

Performance

4-weeks	-19.54%
13-weeks	0.00%
26-weeks	-31.37%
52-weeks	-10.26%
YTD	-5.41%

Shareholder structure

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

Financial calendar

Q4/15 report (expect.)	March 2, 2016
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Analyst

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Valuation

We have valued Indygotech Minerals by using a DCF-based Sum-of-the-Parts model, which derives a fair value for the stock of PLN 2.15 compared to a current market price of PLN 0.70 per share. We now assume that IDG will use PLN 6m of its recent capital increase of PLN 10.3m to increase the share capital of its portfolio companies Baltic Ceramics Investments (PLN 2.5m), Electroceramics (PLN 2.5m) and LZMO (PLN 1m). Our model is based on the following target stakes of IDG in its subsidiaries: BCI – 57.1%, EC – 69.1%, LZMO – 63.5%.

DCF-based SOTP

Baltic Ceramic Investments S.A.	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E
Net sales	0.00	17.27	56.12	103.62	107.93	116.93	125.92	134.92	143.91
(y-o-y change)	n.a	n.a	225.0%	84.6%	4.2%	8.3%	7.7%	7.1%	6.7%
Operating profit	-0.33	2.59	9.54	19.69	22.67	26.89	28.84	30.76	32.67
(operating margin)	n.a	15.0%	17.0%	19.0%	21.0%	23.0%	22.9%	22.8%	22.7%
NOPLAT	-0.27	2.10	7.73	15.95	18.36	21.78	23.36	24.92	26.46
+ Depreciation & amortisation	0.45	0.86	2.81	5.18	5.40	5.85	6.30	6.75	7.20
= Net operating cash flow	0.18	2.96	10.53	21.13	23.76	27.63	29.65	31.66	33.66
- Total investments (Capex and WC)	-32.00	-2.59	-6.73	-12.43	-12.95	-14.03	-15.11	-16.19	-17.27
Capital expenditures	-32.00	-0.86	-2.81	-5.18	-5.40	-5.85	-6.30	-6.75	-7.20
Working capital	0.00	-1.73	-3.93	-7.25	-7.56	-8.18	-8.81	-9.44	-10.07
= Free cash flow (FCF)	-31.82	0.37	3.80	8.69	10.80	13.60	14.54	15.47	16.39
PV of FCFs	-31.64	0.33	2.96	5.98	6.58	7.32	6.93	6.52	6.11
Enterprise Value									
PV of FCFs in explicit period	11.08								
PV of FCFs in terminal period	85.94								
Enterprise value (EV)	97.02								
+ Net cash / - net debt (post-money)	9.25								
Shareholder value	106.27								
Post-money shares outstanding (m)	50.95								
WACC	13.1%								
Terminal EBIT margin									
		19.7%	20.7%	21.7%	22.7%	23.7%	24.7%	25.7%	
Cost of equity	9.1%	4.23	4.44	4.66	4.88	5.10	5.32	5.54	
Pre-tax cost of debt	10.1%	3.45	3.62	3.80	3.97	4.15	4.32	4.50	
Normal tax rate	11.1%	2.87	3.01	3.15	3.29	3.44	3.58	3.72	
After-tax cost of debt	12.1%	2.42	2.54	2.65	2.77	2.89	3.01	3.12	
Share of equity	13.1%	2.06	2.16	2.26	2.36	2.46	2.56	2.65	
Share of debt	14.1%	1.77	1.86	1.94	2.02	2.11	2.19	2.28	
Fair value per share in PLN	15.1%	1.53	1.61	1.68	1.75	1.82	1.89	1.96	
Fair value per share in PLN (in 12 months)									

Source: East Value Research GmbH

Electroceramics S.A.	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E
Net sales	0.00	2.48	9.92	25.79	30.75	34.72	39.68	44.64	49.60
(y-o-y change)	n.a	n.a	300.0%	160.0%	19.2%	12.9%	14.3%	12.5%	11.1%
Operating profit	-1.30	0.50	2.04	5.47	6.70	7.78	8.85	9.91	10.96
(operating margin)	0.0%	20.0%	20.6%	21.2%	21.8%	22.4%	22.3%	22.2%	22.1%
NOPLAT	-1.05	0.40	1.66	4.43	5.43	6.30	7.17	8.03	8.88
+ Depreciation & amortisation	0.10	0.12	0.50	1.29	1.54	1.74	1.98	2.23	2.48
= Net operating cash flow	-0.95	0.53	2.15	5.72	6.97	8.04	9.15	10.26	11.36
- Total investments (Capex and WC)	-20.00	-0.37	-1.19	-3.10	-3.69	-4.17	-4.76	-5.36	-5.95
Capital expenditures	-20.00	-0.12	-0.50	-1.29	-1.54	-1.74	-1.98	-2.23	-2.48
Working capital	0.00	-0.25	-0.69	-1.81	-2.15	-2.43	-2.78	-3.12	-3.47
= Free cash flow (FCF)	-20.95	0.15	0.96	2.62	3.28	3.87	4.39	4.90	5.41
PV of FCFs	-20.83	0.14	0.75	1.81	2.00	2.08	2.09	2.07	2.02
PV of FCFs in explicit period	-7.90								
PV of FCFs in terminal period	31.17								
Enterprise value (EV)	23.28								
+ Net cash / - net debt (post-money)	4.57								
Shareholder value	27.84								
Post-money shares outstanding (m)	2226.90								
							Terminal EBIT margin		
WACC	13.1%								
Cost of equity	13.1%	9.1%	0.03	0.03	0.03	0.03	0.04	0.04	0.04
Pre-tax cost of debt	10.4%	10.1%	0.02	0.02	0.03	0.03	0.03	0.03	0.03
Normal tax rate	19.0%	11.1%	0.02	0.02	0.02	0.02	0.02	0.02	0.03
After-tax cost of debt	6.5%	12.1%	0.01	0.02	0.02	0.02	0.02	0.02	0.02
Share of equity	100.0%	13.1%	0.01	0.01	0.01	0.01	0.01	0.02	0.02
Share of debt	0.0%	14.1%	0.01	0.01	0.01	0.01	0.01	0.01	0.01
Fair value per share in PLN	0.01	15.1%	0.01	0.01	0.01	0.01	0.01	0.01	0.01
Fair value per share in PLN (in 12 months)	0.01								

Source: East Value Research GmbH

LZMO S.A.	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E
Net sales	5.04	8.26	9.80	24.50	32.90	43.40	51.80	60.20	70.00
(y-o-y change)	n.a	63.9%	18.6%	150.0%	34.3%	31.9%	19.4%	16.2%	16.3%
Operating profit	1.93	1.65	2.02	5.19	7.17	9.72	11.55	13.36	15.47
(operating margin)	38.2%	20.0%	20.6%	21.2%	21.8%	22.4%	22.3%	22.2%	22.1%
NOPLAT	1.56	1.34	1.64	4.21	5.81	7.87	9.36	10.83	12.53
+ Depreciation & amortisation	0.34	0.41	0.49	1.23	1.65	2.17	2.59	3.01	3.50
= Net operating cash flow	1.90	1.75	2.13	5.43	7.45	10.04	11.95	13.84	16.03
- Total investments (Capex and WC)	-3.70	-0.99	-1.18	-2.94	-3.95	-5.21	-6.22	-7.22	-8.40
Capital expenditures	-3.35	-0.41	-0.49	-1.23	-1.65	-2.17	-2.59	-3.01	-3.50
Working capital	-0.35	-0.58	-0.69	-1.72	-2.30	-3.04	-3.63	-4.21	-4.90
= Free cash flow (FCF)	-1.80	0.76	0.95	2.49	3.51	4.84	5.73	6.61	7.63
PV of FCFs	-1.79	0.67	0.74	1.72	2.13	2.60	2.73	2.79	2.84
PV of FCFs in explicit period	14.43								
PV of FCFs in terminal period	44.50								
Enterprise value (EV)	58.93								
+ Net cash / - net debt (post-money)	6.00								
Shareholder value	64.93								
Post-money shares outstanding (m)	11.81								
							Terminal EBIT margin		
WACC	13.1%								
Cost of equity	13.1%	9.1%	10.37	10.83	11.29	11.75	12.21	12.68	13.14
Pre-tax cost of debt	10.4%	10.1%	8.64	9.01	9.38	9.74	10.11	10.48	10.85
Normal tax rate	19.0%	11.1%	7.36	7.66	7.96	8.26	8.56	8.85	9.15
After-tax cost of debt	6.5%	12.1%	6.37	6.62	6.87	7.12	7.36	7.61	7.86
Share of equity	100.0%	13.1%	5.59	5.80	6.01	6.22	6.42	6.63	6.84
Share of debt	0.0%	14.1%	4.97	5.14	5.32	5.49	5.67	5.85	6.02
Fair value per share in PLN	5.50	15.1%	4.45	4.60	4.75	4.90	5.05	5.20	5.35
Fair value per share in PLN (in 12 months)	6.22								

Source: East Value Research GmbH

Fair value calculation

in PLNm	
<u>Baltic Ceramics Investments</u>	
DCF-based fair equity value	106.27
Implied equity value of IDG's 57.13% share	60.71
<u>LZMO</u>	
DCF-based fair equity value	64.93
Implied equity value of IDG's 63.49% share	41.22
<u>Electroceramics</u>	
DCF-based fair equity value	27.84
Implied equity value of IDG's 69.14% share	19.25
Sum	121.19
Number of IDG's shares	63.80
Implied equity value per share (today)	1.90
Implied equity value per share (in 12-months)	2.15

Source: East Value Research GmbH

Profit and loss statement

in PLNm	2009	2010	2011	2012	2013	2014
Revenues	1.75	2.83	12.62	4.46	0.74	3.46
Cost of goods sold	-1.39	-1.55	-13.33	-11.59	-1.36	-0.13
Gross profit	0.36	1.28	-0.71	-7.13	-0.62	3.32
Other operating income	0.01	0.10	0.04	0.26	0.76	2.00
Administration and distribution costs	-0.64	-1.14	-1.77	-1.59	-1.94	-3.48
Other operating expenses	-0.01	-0.02	-0.38	-0.41	-1.12	-1.46
EBITDA	-0.28	0.23	-2.82	-8.87	-2.93	0.38
Depreciation	-0.08	-0.06	-0.13	-0.12	-0.05	-0.09
Operating income	-0.36	0.17	-2.95	-8.99	-2.97	0.30
Net financial result	0.85	3.28	15.67	3.95	4.93	-1.56
EBT	0.50	3.45	12.72	-5.04	1.96	-1.26
Income taxes	-0.05	-0.50	-2.47	0.09	2.56	0.26
Minorities	0.00	0.00	0.00	0.00	0.58	-0.08
Net income / loss	0.45	2.95	10.26	-4.95	5.10	-1.08
EPS	0.01	0.07	0.23	-0.11	0.12	-0.02
Diluted EPS	0.01	0.07	0.19	-0.09	0.10	-0.02
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	-79.45 %	-54.68 %	-105.59 %	-259.93 %	-183.94 %	-3.85 %
Gross profit	20.55 %	45.32 %	-5.59 %	-159.93 %	-83.94 %	96.15 %
Other operating income	0.52 %	3.68 %	0.29 %	5.76 %	102.16 %	57.75 %
Administration and distribution costs	-36.35 %	-40.12 %	-14.00 %	-35.65 %	-261.81 %	-100.75 %
Other operating expenses	-0.57 %	-0.78 %	-3.04 %	-9.08 %	-151.69 %	-42.13 %
EBITDA	-15.86 %	8.09 %	-22.35 %	-198.90 %	-395.28 %	11.02 %
Depreciation	-4.46 %	-2.01 %	-1.02 %	-2.65 %	-6.07 %	-2.49 %
Operating income	-20.32 %	6.08 %	-23.37 %	-201.55 %	-401.35 %	8.54 %
Net financial result	48.88 %	115.98 %	124.19 %	88.54 %	665.86 %	-45.05 %
EBT	28.56 %	122.06 %	100.82 %	-113.00 %	264.51 %	-36.52 %
Income taxes	-2.80 %	-17.71 %	-19.55 %	2.09 %	344.80 %	7.64 %
Minorities	0.00 %	0.00 %	0.00 %	0.00 %	78.68 %	-2.34 %
Net income / loss	25.76 %	104.35 %	81.27 %	-110.92 %	687.99 %	-31.22 %

Balance Sheet

in PLNm	2009	2010	2011	2012	2013	2014
Assets						
Cash and equivalents	0.11	0.08	0.88	0.01	0.05	0.49
Short-term financial assets	0.00	6.65	31.60	43.55	4.58	1.85
Inventories	0.61	0.00	0.00	0.00	0.22	0.00
Trade accounts and notes receivables	2.07	0.13	4.18	0.65	0.34	0.29
Other current assets	0.46	4.67	0.79	0.25	1.35	4.24
Current assets, total	3.25	11.53	37.45	44.45	6.53	6.87
Property, plant and equipment	0.51	0.32	0.22	0.10	28.18	53.14
Other intangible assets	0.01	0.01	0.00	0.00	0.00	0.00
Goodwill	0.00	0.00	0.00	0.00	17.00	17.00
At-equity investments	17.81	26.10	16.44	3.62	8.93	9.15
Other long-term assets	0.06	0.43	0.42	0.42	2.05	2.14
Other financial assets	0.00	0.00	0.00	0.00	0.01	0.02
Deferred tax assets	0.10	0.22	0.79	2.22	2.03	1.12
Non-current assets, total	18.50	27.08	17.86	6.36	58.20	82.58
Total assets	21.75	38.61	55.31	50.81	64.73	89.45
Liabilities						
Trade payables	0.57	1.60	1.54	0.06	1.54	3.76
Other short-term liabilities	0.08	0.57	0.18	0.27	5.76	3.42
Short-term financial debt	0.17	0.00	1.92	2.11	0.63	4.45
Pension provision	0.00	0.00	0.00	0.00	0.01	0.00
Provisions	0.00	0.02	0.14	0.13	0.07	0.49
Current liabilities, total	0.82	2.19	3.78	2.57	8.01	12.11
Long-term financial debt	0.00	0.16	1.71	2.03	4.77	0.00
Pension provision	0.00	0.00	0.00	0.00	0.00	0.00
Other long-term liabilities	0.06	0.00	0.00	0.00	0.43	21.75
Deferred tax liabilities	0.00	0.62	3.66	4.99	3.62	2.45
Long-term liabilities, total	0.06	0.78	5.37	7.03	8.82	24.21
Total liabilities	0.88	2.97	9.14	9.60	16.83	36.32
Shareholders equity, total	20.87	35.64	46.17	41.22	29.84	25.08
Minority interests	0.00	0.00	0.00	0.00	18.06	28.05
Total liabilities and equity	21.75	38.61	55.31	50.81	64.73	89.45

Cash Flow Statement

in PLNm	2009	2010	2011	2012	2013	2014
Net income / loss	0.45	2.95	10.26	-4.95	5.10	-1.08
Depreciation & amortization	0.08	0.06	0.13	0.12	0.05	0.09
Change of working capital	-0.73	-0.54	-1.26	2.33	4.88	2.07
Others	-0.85	-0.54	4.28	8.69	-8.85	-0.85
Net operating cash flow	-1.06	1.93	13.40	6.19	1.17	0.22
Cash flow from investing	1.83	-13.62	-16.34	-5.67	0.42	-26.76
Free cash flow	0.77	-11.69	-2.93	0.52	1.60	-26.53
Cash flow from financing	-0.91	11.65	3.74	-1.39	-1.61	26.98
Change of cash	-0.14	-0.04	0.81	-0.88	-0.02	0.45
Cash at the beginning of the period	0.25	0.11	0.08	0.88	0.06	0.05
Cash at the end of the period	0.11	0.08	0.88	0.01	0.05	0.49

Financial ratios

	2009	2010	2011	2012	2013	2014
Profitability and balance sheet quality						
Gross margin	20.55%	45.32%	-5.59%	-159.93%	-83.94%	96.15%
EBITDA margin	-15.86%	8.09%	-22.35%	-198.90%	-395.28%	11.02%
EBIT margin	-20.32%	6.08%	-23.37%	-201.55%	-401.35%	1.00%
Net margin	25.76%	104.35%	81.27%	-110.92%	687.99%	-31.22%
Return on equity (ROE)	2.16%	10.45%	25.07%	-11.32%	14.35%	-3.93%
Return on assets (ROA)	-1.86%	-0.85%	-9.79%	-17.51%	0.25%	0.53%
Return on capital employed (ROCE)	-1.53%	0.40%	-4.61%	-18.29%	-12.08%	0.30%
Net debt (in PLNm)	0.06	-6.57	-28.86	-39.41	0.79	2.11
Net gearing	0.26%	-18.44%	-62.51%	-95.62%	2.65%	8.40%
Equity ratio	95.97%	92.32%	83.47%	81.12%	46.10%	28.04%
Current ratio	3.97	5.27	9.92	17.30	0.82	0.57
Quick ratio	2.67	3.14	9.71	17.20	0.62	0.22
Net interest cover	0.42	-0.05	0.19	2.28	0.60	0.19
Net debt/EBITDA	-0.20	-28.70	10.23	4.44	-0.27	5.53
Tangible BVPS	0.46	0.85	1.04	0.92	0.30	0.15
Capex/Sales	n.a	-4.91%	0.13%	0.11%	6089.61%	724.65%
Working capital/Sales	142.36%	93.14%	25.76%	12.69%	-727.80%	-76.56%
Cash Conversion Cycle (in days)	442	-360	79	51	-187	-10294
Trading multiples						
EV/Sales	26.73	16.51	3.70	10.47	63.03	13.51
EV/EBITDA	-168.60	203.94	-16.56	-5.26	-15.94	122.58
EV/EBIT	-131.55	271.52	-15.84	-5.20	-15.70	158.31
P/Tangible BVPS	1.51	0.83	0.68	0.76	2.32	4.67
P/E	70.00	10.00	3.04	-6.36	5.83	-35.00
P/Diluted EPS	70.00	10.00	3.68	-7.78	7.00	-35.00
P/FCF	57.77	-3.82	-15.23	86.55	28.00	-1.68

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