

IBU-tec

EBIT margin ahead of target

IBU-tec beat its EBIT margin target for H117 despite bearing the increased costs associated with a new logistics facility and selective investment in engineering and sales personnel. Sales benefitted from diversification into the fast growing battery energy storage market. Management is pushing ahead to acquire a third site where it can manufacture more complicated materials by 2018 at the latest.

Benefit of diversification

H117 revenues grew by 3% year-on-year to €9.4m, ahead of management's target. The demand for battery materials for e-mobility and stationary energy storage continued to grow very strongly, but this was partly offset by a reduction in sales of catalytically active powders for the automotive industry. Stripping out the costs of the IPO in March, EBIT margin dropped by 7pp to 20%, slightly ahead of management's short-term target of 19%. The decrease was the result of selective investment in sales and engineering capability, the new logistics site and the ongoing costs of a listing. Pre-tax profit (adjusted for IPO costs) reduced by 22% to €1.9m. Following the IPO, which raised €16.5m (gross) at €16.5/share, the group moved from €2.0m net debt at end FY16 to €13.3m net cash.

Good progress on execution of strategy

The new logistics facility improves service levels for customers and frees up space for a new rotary kiln that can manufacture larger batches of materials more quickly for customers. Investment in engineering personnel is intended to accelerate the development of new materials and drive efficiency gains, while the increase in sales people is intended to expand the customer base internationally. The Placing provides funding to purchase an additional site where more complex and hazardous materials can be processed. Management expect to complete this by FY18 at the latest.

Valuation: EBIT margins justify high multiples

IBU-tec's implied historical EV/EBITDA and P/E multiples, including the funds from the IPO, are close to the mean for our sample of European speciality chemical companies. Given IBU-tec's consistently higher than average EBIT margin, we believe that IBU-tec deserves a premium to the mean. We see potential for share price appreciation going forward as IBU-tec demonstrates that it is able to continue to deliver revenue growth at EBIT margins of 20% and above, particularly once the third site is acquired and starts contributing to the bottom line.

Historical financials

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/14	12.5	2.5	0.45*	0.0	37.9	N/A
12/15	16.6	4.5	0.79*	0.0	21.6	N/A
12/16	17.7	4.1	0.71*	0.0	24.0	N/A

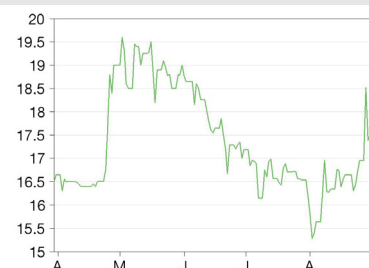
Source: IBU-tec accounts. Note: *On number of shares at listing date.

Speciality chemicals

05 September 2017

Price **€17.04**
Market cap **€68m**

Share price graph



Share details

Code **IBU**
Listing **Deutsche Börse Scale**
Shares in issue **4.0m**
Last reported net cash as at end June 2017 **€13.3m**

Business description

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

Bull

- Patented IP for processing chemicals with pulsation reactor.
- Serving high-growth segments such as exhaust catalysts, e-mobility and energy storage.
- Blue-chip customer base.

Bear

- High customer concentration.
- Expansion into new applications dependent on acquiring site with appropriate approvals.
- Low free-float.

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H117 performance shows benefit of diversification

H117 revenues grew by 3% year-on-year to €9.4m, ahead of management's target. Demand for battery materials for e-mobility and stationary energy storage grew by around 50%. There was also a rise in demand for chemical catalysts used to clean up factory exhaust gases. These positive trends were partly offset by a reduction in sales of catalytically active powders for the automotive industry potentially related to the Dieselgate scandal, which found discrepancies between actual levels of polluting emissions from diesel cars and the levels claimed by the car manufacturers. IBU-tec's ability to grow sales overall despite weaker demand for automotive catalysts emphasises the importance of recent initiatives to broaden the customer base. Importantly, although revenues attributable to product manufacture declined by 4% to €7.5m (80% of total sales) because of the weakness in the automotive sector, revenues from process and material development grew by 45%. This is encouraging, as a high proportion of project work eventually converts to volume production.

Stripping out the costs (€1.5m) of the IPO in March, the EBIT margin dropped by 7pp to 20%. This level is slightly ahead of management's short-term target of 19% stated in the listing prospectus, and remains high compared with the EBIT margin of industry peers (see Exhibit 1). Pre-tax profit (adjusted for IPO costs) reduced by 22% to €1.9m. Personnel expenses rose by 12% as management invested in sales and engineering capability. Other expenses (excluding IPO costs) increased by 9% reflecting the additional cost of the new logistics site, which was formally opened at the beginning of July, and ongoing costs associated with being a listed company.

Following the IPO, which raised €16.5m (gross) at €16.5/share, the group moved from €2.0m net debt at end FY16 to €13.3m net cash. Most of the funds raised are allocated for the purchase of a new site where more complex and hazardous materials can be processed. Management expects to complete this in FY18 at the latest. Stripping out the IPO costs, cash generated from operations was €1.7m after deducting €0.7m to cover a temporary increase in receivables. Capital expenditure, which was primarily on completing construction of a new rotary kiln (see below) and fitting out the logistics site, was substantially lower than in H116 (€0.9m vs €2.4m).

Progress on execution of strategy

Enhancement of service offer

The new logistics facility is located on an 8,686m² site with a storage hall of 1,944m² that is able to accommodate up to 1400 pallets. It is located around 10km from the main Weimar site. IBU-tec processes raw materials for customers on a tolling basis, so it stores raw materials for customers, processes them and then returns the resultant speciality chemicals to the customers on a pre-agreed schedule. The new site has substantially more storage space, so customers can purchase larger volumes of raw materials in one go and thus benefit from better pricing. In addition, IBU-tec can store more of the finished product until it is needed, which is particularly helpful for customers in the automotive industry who prefer to receive their materials on a "just-in-time basis". The logistics activity was previously located at the main site in Weimar.

Moving the logistics function from the production site has freed up space for a new rotary kiln that is larger than any of the other rotary kilns on the site. The greater size means that IBU-tec can produce larger batches of product more quickly. This kiln was commissioned in June 2017 and is already over 50% utilised, primarily for the manufacture of catalysts used to clean up factory exhaust gases.

One of the existing pulsation reactors has been fitted with a gas cleaning system that removes nitrous oxide pollutants from the exhaust gas. This enables IBU-tec to process a broader range of materials for customers.

The additional engineering personnel are engaged on several programmes associated with the pulsation reactor technology. One aspect of the work is the investigation of potential new applications with the intention of further broadening the type of chemicals that IBU-tec can manufacture. Another is the modification of gas flows in the reactor, potentially improving throughput. A third aspect is gaining greater understanding of what is happening to the crystal structure of materials during the pulsation reactor process. This may help identify new processes and materials. It will also help when explaining the process to potential customers, giving them greater confidence in the technology.

IBU-tec is also involved in some R&D programmes that will further broaden the range of materials it offers. These new application areas have been identified following discussions with potential customers. They include the development of novel nano-oxide corrosion inhibitors with the potential to improve efficiencies in steel manufacturing, innovative catalyst carriers and a process for refining zeolites. Zeolites are highly absorbent materials that are widely used in the petrochemical industry in fluid catalytic cracking and hydrocracking.

Expansion on third site

Now that IBU-tec has secured the funds required to establish a third facility, it is actively evaluating potential sites. This additional site is needed to process materials such as metal and metal oxide based catalysts that cannot be produced at the Weimar site because of regulatory and permitting restrictions. The new site will also be used to house more challenging processes involving reactions in reducing atmospheres including hydrogen gas, which have an attendant risk of fire or explosion. These chemicals and processes must be carried out in accordance with regulations intended to protect personnel, infrastructure and the environment. The rising regulatory burden means that large international companies are keen to outsource some of these manufacturing processes. IBU-tec has the expertise required but needs a site with the requisite approval to host these activities. IBU-tec intends to secure a suitable site either by purchasing an existing chemical company, or by establishing a greenfield facility. IBU-tec has already built up a provisional pipeline of suitable projects for the proposed facility with existing and new customers.

Intensification of sales activities

Almost 90% of IBU-tec's sales are attributable to customers in Germany. IBU-tec has recently expanded its sales team to build on this strong domestic base, seeking new customers in markets it already serves and developing new international markets such as Austria, Switzerland, France, the UK and, in the longer term, the US.

Outlook

Since it is difficult to ascertain the development of demand for catalysts from the German automotive industry for the remainder of FY17, management has not issued any guidance. However, it is optimistic about potential performance based on potential demand for materials used in battery energy storage systems. A report from Bloomberg New Energy Finance in June 2016 estimated that battery energy storage will rise from around 1GW today to around 25GW by 2028, making it the same size as the small-scale photovoltaic industry today. A key driver of this growth will be the need to provide a mechanism for storing surplus energy produced by wind and solar installations, both of which are intermittent sources of renewable energy, for use when there is no wind and at night time. The absence of any suitable storage is a serious limitation on the proportion

of energy that can be generated from renewable sources. It is also limits the growth of battery powered electric vehicles, as the current grid will not be able to cope with the charging requirements if a substantial proportion of automobiles switches to this technology. We note the formation in May 2017 of a consortium headed by TerraE Holding to establish two facilities in Germany for manufacturing large-scale lithium-ion battery cells to exploit this emerging opportunity.

Valuation

Following the IPO placing at €16.5/share, the share price peaked at €20.20 in May, dropped to €15.04 in early August and is now back above its IPO price. As there are no listed peers involved in toll manufacturing of inorganic chemicals, we are using a sample of European companies involved in the manufacture of speciality chemicals or using specialist chemical processes to provide a service. The historical EV/EBITDA and P/E multiples including the funds from the IPO are close to the respective means for our sample. Given IBU-tec's consistently higher than average EBIT margin and potential for strong sales growth once the third site comes on line, we believe that IBU-tec deserves a premium to the mean, We see potential for share price appreciation as IBU-tec demonstrates that it is able to continue to deliver revenue growth at EBIT margins of 20%, which it has consistently achieved from FY14, particularly once the third site is acquired and starts contributing to the bottom line.

Exhibit 1: Historical multiples for listed peers

Name	Market cap (\$m)	EV/sales last (x)	EV/EBITDA last (x)	P/E last (x)	Historical EBIT margin
Akzo Nobel	23,360	1.6	10.4	19.8	10.7%
Bodycote	2,354	3.0	11.7	25.6	0.6%
Clariant	8,009	1.6	13.7	22.0	7.3%
Croda International	6,480	4.3	16.3	25.1	22.7%
Elementis	1,629	2.9	17.3	20.6	12.8%
Evonik Industries	15,170	1.2	7.5	14.8	10.8%
FUCHS PETROLUB	7,247	2.7	15.2	21.8	15.4%
Givaudan	18,858	4.2	17.5	30.1	18.8%
Holland Colours	85	0.8	7.0	13.3	9.3%
Johnson Matthey	6,906	0.5	9.1	13.8	4.1%
Kemira	1,932	0.9	7.7	14.6	6.2%
Koninklijke	13,851	1.8	11.8	22.4	8.6%
Nabaltec	213	1.4	9.9	33.4	7.3%
Nanogate	273	2.4	21.6	60.2	4.1%
ORAPI	61	0.4	10.0	813.6	1.3%
Robertet	1,064	2.0	12.3	21.9	12.7%
SA d'Explosifs et Produits Chimiques	223	0.8	9.5	14.9	4.7%
Symrise	9,520	3.3	15.7	29.1	13.9%
Umicore	8,356	0.7	18.1	25.7	2.4%
Victrex	2,243	6.6	14.3	21.2	39.8%
Wacker Chemie	6,673	1.2	5.7	33.9	7.1%
Mean		1.5	11.8	22.3	
IBU-tec Advanced Materials	87	3.3	9.5	25.2	23.2%

Source: Bloomberg. Note: Prices at 31 August 2017. Grey shading indicates exclusion from mean.

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