

IBU-tec

Materials
13 September 2019

Battery materials driving growth

IBU-tec is benefiting from rising demand for battery materials to meet the volumes required as transportation moves to electric vehicles (EVs) and battery energy storage systems are deployed to address the variable power output from renewable energy sources. Engagement with a major battery manufacturer in the Far East represents an opportunity to increase its output of battery materials by an order of magnitude. We note that IBU-tec's fortunes are not tied to any one battery technology or supplier.

H119 growth benefits from battery materials

On a pro forma basis, as though BNT had been part of the group throughout H118 rather than being acquired in June 2018, H119 revenues increased by 19% y-o-y to €27.6m. This was the result of a 150% increase in sales of battery materials and strong demand in the chemical and raw materials industries. This growth was achieved despite a significant reduction in sales of catalytic powder materials for the automotive industry, demonstrating the company's success in attracting new customers to compensate for the drop in demand for this application. EBITDA grew by 41% to €3.8m, generating 13.7% EBITDA margin compared to 11.5% in FY17. However, EPS decreased from €0.30 to €0.21 because H118 benefited from a tax credit. On a non-pro forma basis, revenues trebled, and EBITDA rose by 65%.

Management reiterates FY19 guidance

Management has reiterated its FY19 guidance of €50–53m revenues and €7.2–7.5m EBITDA, noting likely performance at the top end of the range. This is based on a substantial 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.

Valuation: Premium for battery materials

The share price has picked up from the low of €13.70 at the end of August. At the current level, the shares are trading on P/E multiples that are higher than the mean for our sample of listed peers (45.1x vs 20.7x year 1 and 27.5x vs 18.0x year 2). 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	39.1	0.7
12/18*	19.0	2.1	0.35	0.15***	50.3	0.9
12/19e	52.8	2.5	0.39	0.20	45.1	1.1
12/20e	58.4	4.0	0.64	0.25	27.5	1.4

Source: Refinitiv. Note: *Not consolidated for BNT Chemicals. **Adjusted for IPO costs. ***Excluding €0.05 special dividend.

Price €17.60

Market cap €70m

Share price graph



Share details

Code	IBU
Listing	Deutsche Börse Scale
Shares in issue	4.0m
Last reported net debt at end June 2019	€15.9m

Business description

IBU-tec is an international full-service provider in the field of thermal process engineering, predominantly treating inorganic materials. The acquisition of BNT has added complementary wet chemical processes for manufacturing tin-based products.

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

- Reliance on key customers, although this is reducing.
- Additional bank loans to support BNT purchase.
- Low free float.

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H119 growth helped by demand for battery materials

On a pro forma basis, which is management's preferred form of presentation, H119 revenues increased by 19% y-o-y to €27.6m. Production revenues, which accounted for c 90% of the total, rose by 14%, reflecting a 150% increase in sales of battery materials, particularly those required to improve the performance of anodes and cathodes, and strong demand in the chemical and raw materials industries. This growth was achieved despite a significant reduction in sales of catalytic powder materials for the automotive industry, which until Dieselgate was a key application area, demonstrating the company's success in attracting new customers to compensate for the fall in demand for this application. Revenues attributable to process and material development, which accounted for c 10% of the total, grew by 66%, giving management confidence in future growth as some of these projects pass into volume production.

Material costs as a percentage of sales increased by 4.4pp to 55.0%, reflecting the impact of higher tin prices on BNT's margins and a shift to carrying out contract manufacturing for some customers at the original IBU-tec site rather than working exclusively on a toll-processing basis. Personnel expenses rose by 5% y-o-y as the average number of staff rose from 232 to 249.5 year-on-year because of the recruitment of staff for the new Bitterfeld site. EBITDA grew by 41% to €3.8m generating 13.7% EBITDA margin compared to 11.5% in FY17. However, EPS decreased from €0.30 to €0.21 because H118 benefited from a tax credit associated with the acquisition of BNT. (On a non-pro forma basis, revenues trebled, EBITDA rose by 65% and EPS increased from €0.18 to €0.21. This shows how BNT has added scale to the group but at an inherently lower operating margin because it has a different business model from the original IBU-tec activity. BNT sells chemicals, while IBU-tec historically worked on a toll-manufacturing basis.)

Cash generated from operations was €0.3m following a €1.9m reduction in liabilities. After investing €3.6m in capex, which included equipment to improve production efficiency at BNT and to complete the production line at the new Bitterfeld site, net debt increased from €10.7m at end December 2018 to €15.9m at end June 2019. Right at the period end, the group used some of its credit line with the bank to pre-finance raw materials for a significant new customer. This resulted in the balance sheet showing €1.5m negative cash at end June. This credit line has since been paid off.

Benefiting from shift to greener transport

Demand for green materials is driving growth

According to the International Energy Authority's 'Global EV (electric vehicle) Outlook 2019', the global stock of electric passenger cars exceeded 5.1m in 2018, an increase of 63% compared with the previous year. The report predicts that by 2030, according to its New Policies Scenario, which includes the impact of announced policy ambitions, global electric car sales will reach 23m units, with the number of electric vehicles on the road, excluding two- or three-wheelers, exceeding 130m. This is expected to drive demand for battery capacity and thus battery materials. Navigant Research predicts that advanced battery energy capacity for automotive applications will increase from 125GWh in 2017 to 568GWh in 2026, making this a highly attractive market for IBU-tec to be involved in. IBU-tec is well positioned because it is able to produce the highly homogenous materials required for batteries to work successfully. Battery performance is a key factor in electric vehicle competitiveness, as the better the energy density of the battery, which is determined by the materials used in a battery anode and cathode, the further a car can go between charges. Moreover, the choice of electrode material affects the lifetime of a battery and how quickly a battery can charge or discharge, which determines how quickly a vehicle can accelerate.

IBU-tec's management expects revenues from battery materials to double during FY19. It sees potential to increase production of EV related materials (currently c €5.5m annually in addition to significant volumes for stationary energy storage applications) tenfold using existing capacity and to quadruple from that level by expanding capacity at the new Bitterfeld site. We note that IBU-tec has started to supply a major provider of EV batteries in the Far East with materials for battery production directly. Securing this industry player as a customer changes the scale of IBU-tec's battery materials activity. It also continues the company's transition from a service provider conducting toll manufacturing for chemical companies to a chemical manufacturer. This engagement further reduces the group's dependency on a few major customers. In addition to numerous customer projects, in February 2019 IBU-tec and five partners including VARTA Microbattery started work on a three-year, state-funded project to develop processes for a new, iron-based, metal/air battery for stationary, high-capacity energy storage. IBU-tec is using its proprietary pulsation reactor technology to create finely divided iron oxide particles as the starting material for iron-slurry electrodes.

Moving to a different application within the green technology space, in February this year IBU-tec announced that it had received a substantial initial order and follow-on orders from chemical company Kronos International to manufacture a new photocatalytic additive for concrete, mortar and paint that reacts with light to remove nitrogen oxide and other pollutants. The additive is manufactured using IBU-tec's pulsation reactor technology. The new material may be added to the concrete of inner-city parking areas for example, to cut nitrogen oxide levels, or in water treatment.

Further synergies from BNT Chemicals acquisition

Management continues to extract the synergistic benefits from BNT Chemicals, which was acquired in June 2018. 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, electroplating in the automotive industry, coating glass and as raw materials, eg tin tetrachloride. The transaction adds complementary processing techniques, enabling the extended group to win contracts where BNT uses a wet process to create a material which is then subjected to thermal treatment at the original IBU-tec site. These first projects will benefit H219 sales. Management sees further potential for the combined offer in the application areas of chemical catalysts and catalysts for painting processes in the automotive industry. An immediate benefit has been that the cost of establishing the new site at Bitterfeld has been reduced because it has been possible to share staff with BNT, which is located on the same industrial park. Management's programme to bring operating margins at BNT to the level of the original IBU-tec site has already started to deliver results, with potential for further improvement.

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 could be processed in volume. This was accomplished in April 2018 through the purchase of a site in Bitterfeld. The site will be used to process materials, including battery 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 deliver meaningful revenues when production commences at the site in September. Production has been delayed by several months because of extended delivery times. Initially, the site will host two rotary kilns for processing battery materials and chemical catalysts. Together with the facility and technical equipment, these have cost €6m, most of which was paid in FY18.

Management reiterates FY19 guidance

Management has reiterated its FY19 guidance of €50–53m revenues and €7.2–7.5m EBITDA, noting likely performance at the top end of the range. This is based on a substantial 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.

Valuation

As there are no listed peers involved in toll manufacturing of inorganic chemicals, which is the business model at the original IBU-tec site, 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 low of €13.70 at the end of August and is now c 7% higher than the IPO price of €16.5/share. At the current level, the shares are trading on prospective EV/EBITDA multiples that are in line with the sample mean and on P/E multiples that are higher, although the premium is substantially less in year 2.

Exhibit 1: Multiples for listed peers

Name	Market cap (€m)	EV/Sales (x) 1FY	EV/Sales (x) 2FY	EV/EBITDA (x) 1FY	EV/EBITDA (x) 2FY	P/E (x) 1FY	P/E (x) 2FY	Revenue growth*
Akzo Nobel	18,580	2.0	1.9	14.2	12.5	26.4	19.8	2.9%
Bodycote	1,543	2.0	1.9	7.2	6.9	13.4	12.7	3.6%
Croda International	6,876	4.8	4.6	16.5	15.4	25.2	23.3	4.0%
Elementis	1,024	1.8	1.8	8.6	8.2	12.2	11.6	1.8%
Evonik Industries	11,106	1.1	1.1	7.1	6.7	12.4	12.3	3.2%
Fuchs Petrolub	4,645	1.8	1.8	12.4	11.4	21.7	19.8	3.0%
Johnson Matthey	6,735	1.6	1.5	8.9	8.3	13.1	12.2	3.9%
Kemira	2,069	1.1	1.1	7.3	7.2	14.1	13.9	3.3%
Koninklijke DSM	20,863	2.3	2.2	12.6	11.8	22.9	20.2	5.2%
Nabaltec	309	1.7	1.6	8.6	7.9	19.0	16.8	8.1%
Nanogate	98	0.8	0.7	13.5	7.8	-	-	6.7%
Orapi	22	0.4	0.4	9.7	7.0	-	16.2	4.0%
Robertet	1,544	2.8	2.6	-	-	27.1	23.5	6.0%
Symrise	11,565	3.7	3.4	17.9	15.9	34.9	29.9	9.5%
Umicore	7,952	2.7	2.4	12.5	10.9	24.8	20.9	11.8%
Victrex	2,094	6.2	5.9	14.8	13.8	19.9	18.7	5.1%
Wacker Chemie	3,787	1.0	0.9	6.0	5.6	22.7	16.8	3.8%
Mean		1.8	1.7	11.1	9.8	20.7	18.0	5.1%
IBU-tec advanced materials	70	1.6	1.5	11.5	9.1	45.1	27.5	10.7%
Varta	3,290	8.8	4.3	39.8	21.3	77.3	42.4	104.0%

Source: Refinitiv. Note: Grey shading indicates exclusion from mean. *Year 2 vs year 1. Prices at 10 September 2019.

Noting the strong growth potential presented by battery materials, we believe that IBU-tec's engagement 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, which trebled revenues year-on-year in H119. Looking only at the growth rate between year 1 and year 2, in which both years have a full 12 months' contribution from BNT, consensus estimates show IBU-tec growing at almost double the average rate (10.7% vs 5.1%). 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 above the average for our sample. Consensus forecasts for Umicore also show growth substantially above the average. Similarly, while Varta is not fully comparable, being a battery manufacturer, it commands exceptionally high multiples because of the stellar sales growth associated with the shift to EVs. This also supports our view that IBU-tec deserves multiples that are substantially higher than our sample mean, since rising demand for battery materials presents potential for IBU-tec, like Varta, to double revenues relatively quickly.

We note that IBU-tec's fortunes are not tied to any one battery technology or supplier. This is advantageous in an industry which has seen Dyson take a £46m impairment charge on the Sakti solid-state battery business it acquired for \$90m in 2015 and Bosch buying solid-state battery developer SEEO in August 2015 for an undisclosed sum, only to put the business up for sale in April 2018 when it decided to halt its research into cell technologies that had already cost it c €500m. IBU-tec is also at an attractive point in the supply chain. Ferdinand Dudenhöffer, professor of automotive economics at the University of Duisberg-Essen and a veteran of car firms such as Opel and Porsche, believes that the main area of value creation is in battery materials rather than battery production. He estimates that 'the production value of the cell is about 15%. 60% is just in the materials of cathode, and another 20% is the materials of anodes'. A further point in IBU-tec's favour is the diversity of applications served, so that if it takes longer than expected for EVs to displace conventional vehicles, the group will still have a solid business supplying material for many other applications and industries including catalysts for exhausts.

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