EDISON

Riber

Q120 revenues and FY19 accounts

Sales cycles longer but MBE demand still strong

Tech hardware & equipment

Riber's Q120 revenues reinforce the point we made in April that travel restrictions are causing delays in signing contracts. We adjust our FY20 estimates to reflect longer sales cycles and the lower than expected gross margin for molecular beam epitaxy (MBE) systems reported in the FY19 accounts, cutting revenue and EPS estimates by 7% and 26% respectively.

Year end	Revenue (€m)	PBT* (€m)	EPS* (€)	DPS (€)	P/E (x)	Yield (%)
12/18	31.3	2.0	0.07	0.05	19.7	3.6
12/19	33.5	1.8	0.06	0.03	23.0	2.2
12/20e	35.3	2.2	0.08	0.05	18.0	3.6
12/21e	36.4	2.8	0.10	0.05	14.3	3.6

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

Q120 sales affected by export delays

Total revenues decreased by 19% year-on-year during Q120 to €5.3m. Revenues from MBE systems were €2.3m, down 44% compared with Q119. Q120 revenues included invoicing on the delivery of only one production system, compared with two in Q219. These had slipped from Q418 because of manufacturing issues, which have since been resolved. Export difficulties related to the COVID-19 pandemic resulted in billing for an R&D system slipping from Q120 to Q220.

MBE system demand strong but sales cycles longer

Riber's manufacturing facility has remained operational throughout the COVID-19 pandemic. Because Riber's MBE systems are used in research on new materials and for the production of electronic and optoelectronic devices used in communications networks, demand remains buoyant. However, the order book at end Q120 (€26.5m) was 18% down compared with end Q119 because travel restrictions are causing delays in signing contracts, particularly with customers in China. We have cut our FY20 MBE revenue estimate to include only deliveries where the order is already signed or the system has already been delivered, so 12 machines including three production systems. Management does not expect the current issues with finalising contracts to have an impact on MBE system orders for FY20 overall. Our FY21 estimates, which we present here for the first time, therefore model deliveries of 13 MBE systems in FY21.

Valuation: Trading at a discount to peers

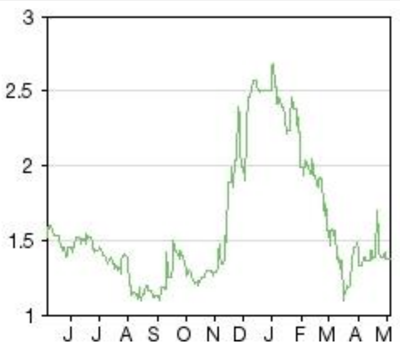
Riber is now trading at a discount to both peers on all prospective multiples. Given the volatility in EPS, reflecting the lumpiness typical of Riber's product revenues, we prefer to focus on EV/sales as year-to-year fluctuations in revenues are less pronounced. While some discount for relative capitalisation and low free float is justified, the size of the discount (0.7x for Riber vs 2.1x for our year 1 sample mean) is, in our opinion, unwarranted. This gives ample scope for share price appreciation as investors gain confidence that demand for MBE systems will not be affected in the medium term by the COVID-19 outbreak and that Riber can address the delivery issues that marred FY18 and FY19 reported profits.

6 May 2020

Price	**€1.38**
Market cap	**€29m**

Net cash (£m) at 31 December 2019	5.4
Shares in issue	20.8m
Free float	51.3%
Code	RIB
Primary exchange	Euronext Paris
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	4.1	(30.5)	(14.5)
Rel (local)	(4.2)	(7.3)	5.9
52-week high/low		€2.69	€1.09

Business description

Riber designs and produces molecular beam epitaxy systems and evaporator sources and cells for the semiconductor industry. This equipment is essential for the manufacturing of compound semiconductor materials that are used in numerous high-growth applications.

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AGM	23 June 2020

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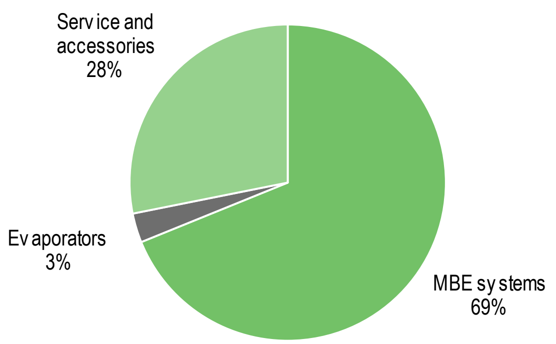
Commentary on FY19 accounts

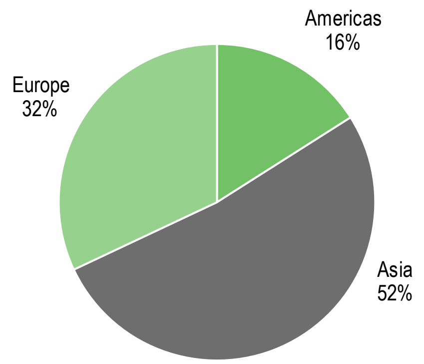
MBE system sales up, but evaporator dip affects profits

Exhibit 1: FY19 revenues by segment



Source: Riber

Exhibit 2: FY19 revenues by geography



Source: Riber

As discussed in more detail in our February flash note, total revenues increased by 7% year-on-year during FY19 to €33.4m. MBE system sales grew by 140% to €23.0m as the company delivered seven production machines and five R&D machines compared with only three production and three R&D systems in FY18. This growth is attributable to strong demand for electronic and optoelectronic devices used in 5G networks.

Following on from our April flash note, which provided an overview of the FY19 results, we now provide some commentary on the detailed accounts. Adjusted gross margin fell by 6.7pp to 30.8% of sales because of the lower proportion of evaporators, which are a high-margin product line, an unusually low gross margin for one of the MBE machines, which was a prototype, and inefficiencies relating to new employees. Administrative costs (adjusted for exceptional items, depreciation and amortisation) reduced by 8% year-on-year, relating to lower costs associated with temporary workers and costs in the US. As a result of the decline in evaporator sales and abnormal gross margin on the prototype MBE system, adjusted EBIT fell by €0.4m to €1.8m. Reported EBIT increased from €0.0m to €0.9m, primarily because the FY18 result was adversely affected by a €1.1m cost associated with the allocation of shares for a staff bonus scheme. Reported performance in both years was depressed by exceptional payments relating to manufacturing issues, which appear to have been addressed: €0.6m warranty payments in FY18 and €0.9m payments relating to deliveries that slipped from Q418 to Q119 in FY19. The dividend was cut from €0.05/share to €0.03/share to conserve cash given the uncertainty created by the COVID-19 pandemic.

Exhibit 3: Adjustments to FY19 operating profit

	Reported	Adjustment	Adjustment	Adjusted
Revenue (€m)	33.5			33.5
Gross profit (€m)	9.9	0.4	Contractual payments relating to late delivery	10.3
Operating costs (€m)	(9.0)	0.5	Financial compensation for late delivery	(8.5)
		(0.1)	Adjustment to provision for employee share allocation scheme	
		0.1	Provision for R&D tax credit	
Operating profit (€m)	0.9	0.9		1.8

Source: Riber

Strong balance sheet

Net cash increased by €2.8m during FY19 to €5.4m at the year-end. This included a €0.3m credit line taken out in H218 to pay suppliers. Working capital decreased by €4.2m, reflecting advances from customers for systems. €0.2m was invested in the acquisition of SemiPro, a company providing MBE-related services in the US, €0.7m in capitalised R&D and €0.9m on tangible assets. Capital expenditure was primarily an R&D system provided to Harvard University for a joint project to develop a variant of existing MBE technology for depositing oxide layers in micro-electromechanical systems devices with a higher level of precision than current techniques.

MBE order book strong but evaporator market weak

Q120 sales affected by delays in export process

Total revenues decreased by 19% year-on-year during Q120 to €5.3m. Revenues from MBE systems were €2.3m, down 44% compared with Q119. Q120 revenues included invoicing on the delivery of only one production system, compared with two in Q219. These had slipped from Q418 because of manufacturing issues, which have since been resolved. However the COVID-19 situation is making it difficult to export systems because obtaining official documents takes longer and there are very few flights available for transporting goods. This resulted in billing for an R&D system slipping from Q120 to Q220. There was no revenue from evaporator sales in Q120 compared with €0.8m in Q119, reflecting the absence of investments in the OLED (organic light emitting diode) screen industry. Sales of services and accessories rose 79% to €3.0m, part of which was attributable to catching up on deliveries of accessories that should have completed in Q419.

COVID-19 affecting commercial negotiations although manufacturing facility remains operational

The systems order book at end Q120 totalled €18.9m, down 25% because travel restrictions are causing delays in signing contracts, particularly with customers in China. Because Riber's MBE systems are used in research on new materials and for the production of electronic and optoelectronic devices used in communications networks, demand remains buoyant. Management does not therefore expect the current issues with finalising contracts to have an impact on MBE system orders for FY20 overall, but for new orders for delivery in 2021 to be weighted towards the second half, assuming travel restrictions ease or customers adapt to signing contracts without physically meeting. The order book includes 11 machines for delivery in 2020, including three production systems. The service and accessories order book increased by 11% to €7.6m. at end Q120. There were no evaporator orders compared with €0.1m at end Q120. Management remains confident that its principal customer will place further orders sufficiently before the year end to manufacture and deliver a meaningful volume of evaporators.

Riber's manufacturing facility has remained operational through the COVID-19 pandemic and has moved to split-shift working so capacity is not affected. However, issues with obtaining parts from specialist sub-contractors based in France may cause some deliveries to slip into H220.

Estimate revisions

Exhibit 4: Changes to estimates

€m	FY19			FY20			FY21
	Estimate	Actual	Change	Old	New	Change	New
System revenues	23.5	23.0	-2.3%	24.0	21.1	-11.9%	21.9
Evaporator revenues	1.0	1.0	0.0%	1.6	1.6	0.0%	1.6
Service revenues	10.8	9.4	-13.0%	12.1	12.6	4.1%	13.0
Total revenues	35.3	33.5	-5.2%	37.7	35.3	-6.5%	36.4
PBT	1.5	1.8	24.2%	3.0	2.2	-26.3%	2.8
EPS (€)	0.05	0.06	23.8%	0.10	0.08	-26.3%	0.10
DPS (€)	0.05	0.03	-39.1%	0.05	0.05	0.0%	0.05
Net cash at year end	4.8	5.4	11.7%	6.2	6.5	4.4%	7.7

Source: Riber, Edison Investment Research

We make the following changes to our FY20 estimates:

- We change our MBE system estimate to reflect the delivery of one production system in Q120 and an order book for three production and eight R&D systems for delivery later this year. We had previously modelled a higher proportion of production systems, which have a higher average selling price. This estimate does not depend on Riber closing any further contracts for delivery during FY20.
- We raise our service revenue estimate to reflect the strong year-on-year segmental growth in Q120, not all of which was attributable to catching up on Q419 deliveries. We note that Riber's customers eg IQE and those in China, remain operational so will continue to require replacement parts.
- We reduce the gross margin on MBE system sales from 28% to 25% to allow for the inefficiencies associated with the split shift working introduced in response to the COVID-19 situation. We assume the manufacturing issues in FY18 were fully resolved during FY19 and there will not be any exceptional payments relating to warranties or later deliveries going forward.
- We have not changed our DPS estimate. Although management reduced the dividend payable to conserve cash during the COVID-19 pandemic, there is ample cash on the balance sheet to resume paying the dividend at FY18 levels (€0.05/share) if, as assumed in our estimates, medium-term demand for MBE systems is not affected by the COVID-19 outbreak.

Introduction of FY21 estimates

We have introduced estimates for FY21. These assume demand for MBE systems and evaporators remains at current levels. We note that while demand for both categories of product may change in the longer term if investment is affected by a global recession, MBE machines are used to develop and manufacture key semiconductor materials used in wireless and optical communication systems. Demand therefore should be relatively resilient. An upturn in investment in OLED manufacturing capability could potentially result in upside to our FY21 evaporator estimate. Evaporator revenues were €11.6m in FY18.

Sensitivity analysis

Given the potential for delivery timings to slip because of delays in exporting machines, we model the impact of two R&D system deliveries being postponed from FY20 into FY21. This would result in a €2.7m reduction in FY20 group revenues to €32.6m and a €0.7m drop in adjusted EBIT to €1.5m. Considering upside to FY21 performance, shipping an additional two R&D machines during the year would raise revenues by €1.8m to €32.2m and adjusted EBIT by €0.5m to €3.3m.

Valuation

We base our valuation on a peer multiples approach. We restrict our sample to the two listed companies that are involved in developing equipment for manufacturing compound semiconductors because they benefit from similar growth trends to Riber, rather than the wider semiconductor industry.

Exhibit 5: Compound semiconductor peers

Name	Market cap ($m)	Ytd performance (%)	EV/sales 1FY (x)	EV/sales 2FY (x)	EV/EBITDA 1FY (x)	EV/EBITDA 2FY (x)	P/E 1FY (x)	P/E 2FY (x)
Aixtron	1,097	5.3	2.7	2.4	16.1	11.4	36.5	22.9
Veeco	579	(19.5)	1.4	1.3	19.5	-!	25.0	13.2
Mean			**2.1**	**1.8**	**17.8**	**11.4**	**36.5**	**18.0**
Riber	33	(47.0)	0.7	0.6	6.8	5.8	18.0	14.3

Source: Refinitiv, Edison Investment Research. Note: Priced at 30 April 2020.

Although Riber's share price has picked up from a low of €1.10 on 16 March, the recovery over the last month has not been as strong as that for its larger peers. Riber is now trading at a discount to both peers on all prospective multiples. Given the volatility in EPS, reflecting the lumpiness typical of Riber's product revenues, we prefer to focus on EV/sales, as year-to-year fluctuations in revenues are less pronounced. While some discount for relative capitalisation and low free float is justified, the size of the discount (0.7x for Riber vs 2.1x for our year 1 sample mean) is, in our opinion, unwarranted. This gives ample scope for share price appreciation as investors gain confidence that demand for MBE systems will not be affected in the medium term by the COVID-19 outbreak and that future profits will not be marred by the exceptional costs relating to late deliveries and warranty issues that affected FY18 and FY19 reported performance. We note a prospective dividend yield of 3.6% at the current share price.

Exhibit 6: Financial summary

€m	2018	2019	2020e	2021e
Year end 31 December	IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT				
Revenue	31.3	33.5	35.3	36.4
Cost of Sales	(19.6)	(23.2)	(23.4)	(24.0)
Gross Profit	11.7	10.3	11.9	12.4
EBITDA	3.3	2.5	3.4	4.0
Operating Profit (before amort. and except.)	2.2	1.8	2.2	2.8
Amortisation of acquired intangibles	0.0	0.0	0.0	0.0
Exceptionals	(2.2)	(0.9)	0.0	0.0
Share-based payments	0.0	0.0	0.0	0.0
Reported operating profit	0.0	0.9	2.2	2.8
Net Interest	(0.2)	0.0	(0.0)	(0.0)
Profit Before Tax (norm)	2.0	1.8	2.2	2.8
Profit Before Tax (reported)	(0.2)	1.0	2.2	2.8
Reported tax	0.5	0.1	(0.3)	(0.4)
Profit After Tax (norm)	1.4	1.3	1.6	2.0
Profit After Tax (reported)	0.3	1.1	1.9	2.4
Average Number of Shares Outstanding (m)	20.8	20.8	20.8	20.8
Earnings per share - basic normalised (€)	0.07	0.06	0.08	0.10
Earnings per share - diluted normalised (€)	0.07	0.06	0.08	0.10
Earnings per share - basic reported (€)	0.02	0.05	0.09	0.11
Dividend per share (€)	0.05	0.03	0.05	0.05
Revenue growth (%)	2.5	7.0	0.0	0.0
Gross Margin (%)	37.5	30.8	33.8	34.0
EBITDA Margin (%)	10.4	7.6	9.7	11.0
Normalised Operating Margin	7.1	5.4	6.3	7.7
BALANCE SHEET				
Fixed Assets	9.5	11.4	11.4	11.4
Intangible Assets	1.9	2.6	2.6	2.6
Tangible Assets	4.8	5.1	5.1	5.1
Investments & other	2.8	3.7	3.7	3.7
Current Assets	28.2	26.8	29.1	30.9
Stocks	15.3	11.5	12.1	12.4
Debtors	8.8	8.0	8.7	9.0
Cash & cash equivalents	3.0	5.9	7.1	8.3
Other	1.2	1.3	1.3	1.3
Current Liabilities	(17.3)	(17.3)	(18.3)	(18.7)
Creditors	(11.4)	(13.0)	(14.0)	(14.5)
Tax and social security	0.0	(0.0)	(0.0)	(0.0)
Short term borrowings	(0.4)	(0.2)	(0.2)	(0.2)
Other	(5.4)	(4.1)	(4.1)	(4.1)
Long Term Liabilities	(1.3)	(1.7)	(1.7)	(1.7)
Long term borrowings	0.0	(0.4)	(0.4)	(0.4)
Other long term liabilities	(1.3)	(1.3)	(1.3)	(1.3)
Net Assets	19.2	19.2	20.5	21.9
CASH FLOW				
Op Cash Flow before WC and tax	4.2	2.5	3.4	4.0
Working capital	(5.3)	4.2	(0.2)	(0.1)
Exceptional & other	(1.7)	(0.3)	0.0	0.0
Tax	0.0	0.0	(0.3)	(0.4)
Net operating cash flow	(2.8)	6.4	2.9	3.5
Capex	(0.8)	(1.6)	(1.2)	(1.2)
Acquisitions/disposals	0.0	(0.2)	0.0	0.0
Net interest	(0.0)	(0.0)	0.0	0.0
Equity financing	(0.5)	0.1	0.0	0.0
Dividends	(1.0)	(1.0)	(0.6)	(1.1)
Other	0.0	(0.4)	0.0	0.0
Net Cash Flow	(5.2)	3.3	1.1	1.2
Opening net debt/(cash)	(7.4)	(2.5)	(5.4)	(6.5)
FX	0.0	0.0	0.0	0.0
Other non-cash movements	0.2	(0.4)	0.0	0.0
Closing net debt/(cash)	(2.5)	(5.4)	(6.5)	(7.7)

Source: Company accounts, Edison Investment Research

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