

IBU-tec

Transformative acquisition

IBU-tec has completed the acquisition of speciality chemicals company BNT Chemicals in a transformative deal that substantially expands the type of chemical treatments deployed, the markets served and the customer-base. Management estimates this will more than double annualised revenues and be immediately earnings enhancing with the potential to substantially improve BNT's profitability in the medium term. The terms of the transaction were not disclosed. The consideration was payable in cash using some of the funds from the IPO and bank loans.

Complementary chemical processes

BNT Chemicals uses wet chemical processes to manufacture tin-based compounds that it sells for use as catalysts in the chemical industry and in the manufacture of medicines, for electro-plating in the automotive industry, for coating glass and as raw materials. This augments the group's existing thermal processing services with wet chemical processing capability and its own products, takes it into new markets, such as the pharmaceutical sector, and expands the customer base.

Potential to enhance profitability

While BNT is consistently profitable, it does not generate the operating margins that IBU-tec has achieved historically. Management has already identified significant scope for improving the efficiency of BNT's manufacturing operations. In addition, since BNT is located close to IBU-tec's new thermal processing facility there is plenty of scope to achieve synergistic benefits as activity at the thermal processing site ramps up. In the medium term, management intends to establish toll-manufacturing capability at BNT so it can up-sell wet processing capacity to customers who are already outsourcing thermal processing to the group.

Valuation: Trading at a discount to peers

Prior to the acquisition, management guided FY18 revenues of €18.5-20.0m generating EBITDA of €4.7-5.2m. It now expects annualised pro-forma revenues of €45-50m and EBITDA (prior to one-off transaction costs) of €5.5-7.0m. This guidance gives a pro-forma EV/Sales multiple of 1.1-1.3x and EV/EBITDA multiple of 8.2-10.4x. Both of these ranges are below the means for our sample (1.6x EV/Sales and 11.0x EV/EBITDA). This indicates potential for share price improvement as investors appreciate how this acquisition reduces the exposure to the car exhaust catalyst market, which caused the decline in revenue and profit experienced in FY17.

Historical financials

Year end	Revenue (€m)	PBT* (€m)	EPS** (€)	DPS (€)	P/E (x)	Yield (%)
12/14	12.5	2.5	0.45	0.0	38.7	N/A
12/15	16.6	4.5	0.79	0.0	22.0	N/A
12/16	17.7	4.3	0.77	0.0	22.6	N/A
12/17	16.8	1.9	0.45	0.13	38.7	0.7

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

Speciality chemicals

4 July 2018

Price €17.4
Market cap €70m

Share price graph



Share details

Code IBU
Listing Deutsche Börse Scale
Shares in issue 4.0m
Last reported net cash at end December 2017 €12.7m

Business description

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

Bull

- BNT acquisition adds wet chemical processes to existing thermal treatments.
- BNT deal expands customer base, reducing exposure to demand for car exhaust catalysts.
- New Bitterfeld site supports expansion into new thermal process applications.

Bear

- BNT acquisition will depress EBITDA margin.
- Additional bank loans to support BNT purchase.
- Low free float (31.0%).

Analyst

Anne Margaret Crow +44 (0)20 3077 5700

industrials@edisongroup.com
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Complementary wet chemical processing

BNT Chemicals is a well-established speciality chemicals company, having been founded in 1998. It uses wet chemical processes to manufacture tin-based products, which it sells for use as catalysts in the chemical industry and manufacture of medicines, electro-plating in the automotive industry, coating glass and as raw materials, eg tin tetrachloride. Revenues during the period from 2015 to 2017 were stable at €23-28m per year.

The terms of the transaction have not been disclosed. We note that the consideration was payable in cash, financed through a combination of part of the €16.5m (gross) raised from the IPO in March 2017 (most of the remainder has been invested in the purchase and equipping of the thermal processing facility at Bitterfeld) and bank debt. The former parent company, TIB Chemicals AG, has signed a 10-year strategic partnership agreement with IBU-tec. Under this agreement TIB will continue to purchase catalysts for the chemical industry from BNT. In addition, both TIB and BNT will continue to work collaboratively on R&D projects.

From a strategic viewpoint, the transaction is an excellent fit as it adds complementary processing techniques, takes IBU-tec into new market niches, such as the production of catalysts used in manufacturing medicines, and enlarges the customer base. Importantly, the acquisition is of sufficient scale to substantially reduce IBU-tec's exposure to demand for car exhaust catalysts. We estimate that this will reduce from 40-50% of FY17 revenues to 20% of the annualised revenues of the enlarged group. It also increases the proportion of export revenues.

Enhancing profitability post-acquisition

While BNT is consistently profitable, it does not generate the operating margins that IBU-tec has achieved historically (26% EBITDA margin FY17, excluding IPO costs). Prior to acquiring IBU-tec in 2000, IBU-Tec's CEO Ulrich Weitz held management positions with major international engineering companies including OTIS and had responsibility for improving the efficiency of manufacturing operations. Mr Weitz intends to apply these techniques to BNT.

Because BNT is located 1.5km from IBU-tec's new thermal processing facility on the Bitterfeld chemical site, there is plenty of scope to achieve synergistic benefits as activity at the thermal processing site ramps up. (The site was acquired in April 2018 and is expected to commence production from its first rotary kiln in September 2018.) Obvious candidates are sharing logistics and IT costs, the R&D facility at BNT, and some managerial roles, as well as training production staff so that they can work on either site, thus giving greater operational flexibility.

IBU-tec's existing customers typically engage it to carry out drying processes and further thermal treatments on materials that have previously undergone wet chemical processing. In the medium term, management intends to establish toll-manufacturing capability at BNT so it can provide a range of wet processing treatments to customers that are already using IBU-tec for thermal processing of materials under a toll-processing arrangement. It also intends to introduce a more systematic approach to addressing market opportunities for existing products.

Valuation

IBU-tec's share price has been fairly volatile since the IPO placing at €16.5/share. The shares are currently trading close to the IPO price. Over the last month the shares have outperformed the DAX, rising by 5% whereas the index has declined by 4%.

As there are no listed peers involved in the 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. Prior to the BNT acquisition, management had forecast FY18 revenues of €18.5-20.0m generating EBITDA of €4.7-5.2m. It now expects annualised pro-forma revenues of €45-50m and EBITDA (prior to one-off costs associated with the transaction) of €5.5-7m. This guidance gives a pro-forma EV/Sales multiple of 1.1-1.3x and EV/EBITDA multiple of 8.2-10.4x. (There is no guidance on earnings, precluding use of P/E multiples, and information on the potential amount of debt/cash paid to acquire BNT.) Both of these ranges are below the means for our peer group sample (1.6x EV/Sales and 11.0x EV/EBITDA). This indicates potential for share price improvement as investors appreciate how this acquisition reduces the exposure to the car exhaust catalyst market which caused the decline in revenue and profit in FY17 and there is evidence that management is able to drive margin improvement in the BNT business post-acquisition.

Exhibit 1: Listed peer multiples

Name	Market Cap m (\$)	EV/Sales 1FY (x)	EV/EBITDA 1FY (x)
Akzo Nobel	22,023	2.2	16.8
Bodycote	2,447	2.5	9.3
Croda International	8,336	4.9	16.7
Elementis	1,743	2.3	12.0
Evonik Industries	15,910	1.1	6.8
Fuchs Petrolub	6,629	2.1	12.6
Holland Colours	92	0.8	6.7
Johnson Matthey	9,324	0.5	10.5
Kemira	1,953	0.8	6.7
Koninklijke	17,979	1.7	9.0
Nabaltec	228	1.2	7.2
Nanogate	221	1.3	11.0
Orapi	47	0.4	7.6
Robertet	1,341	2.2	13.0
Symrise	11,207	3.6	17.3
Umicore	14,060	1.0	17.5
Victrex	3,265	7.4	16.8
Wacker Chemie	6,667	1.2	5.6
Mean		1.6	11.0
IBU-tec advanced materials	79	1.1-1.3*	8.2-10.4*

Source: Bloomberg. Note: Prices at 28 June 2018. Grey shading indicates exclusion from mean. *Based on historical EV, ie prior to adjustment for cash/debt paid for BNT.

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