

## IBU-tec

### Speciality chemicals

11 September 2020

## Preparing for future after the coronavirus

IBU-tec is continuing its programme to reduce dependence on individual customers and market segments and to improve the profitability of BNT Chemicals, which was acquired in June 2018. It is expanding the group's presence in markets with long-term growth potential. These include a range of materials used in electric vehicle batteries and organotin compounds used in the synthesis of drugs to treat hypertension and the manufacture of coatings for glass packaging.

## H120 revenues affected by fire as well as pandemic

Group sales fell by €13.2m year-on-year during H120 to €14.4m. This was the combined effect of a fire at the BNT subsidiary in December, which reduced production capacity throughout the period, and the coronavirus pandemic, which adversely affected the group's ability to start new customer projects. EBITDA, which included insurance payments, increased from €3.8m to €3.9m. The total amount of insurance payable has been agreed and will be c €11m, of which an estimated €8.9m will be received during FY20.

## Management reiterates guidance

Management has reiterated the guidance issued in March of a reduction in sales during FY20 in the lower double-digit percentage range with an EBITDA margin in the double-digit percentage range, spelling out that the sales reduction could be as large as 30%. This implies that H220 sales are expected to be substantially higher than those for H120. In support of this view, management notes that the volume of sales enquiries has picked up, collaborative work on projects with customers has intensified and the order situation has improved significantly.

## Valuation: Improving BNT profitability is key

At the current level, IBU-tec's shares are trading on prospective EV/EBITDA multiples that are above the peer group average (year 1: 11.6x vs 10.1x). We believe that IBU-tec can justify this premium if the growth in battery materials, which are typically high margin, and the measures intended to significantly improve profitability at BNT by 2022 are able to drive EBITDA margin beyond the FY20 and FY21 consensus level and back towards the 20%+ reached in FY17 and FY18 prior to the BNT acquisition.

### Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/18*	46.6	2.4	0.59	0.15**	19.0	1.3
12/19	48.5	1.5	0.22	0.00	50.9	N/A
12/20e	36.2	0.0	(0.02)	0.00	N/A	N/A
12/21e	48.1	0.7	0.17	0.00	67.9	N/A

Source: Refinitiv. \*Pro forma as though BNT was part of group for full year. \*\*Excluding €0.05 special dividend.

**Price** €11.20  
**Market cap** €45m

### Share price graph



### Share details

Code	IBU
Listing	Deutsche Börse Scale
Shares in issue	4.0m
Net debt at end June 2020	€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

- Serving high-growth segments such as battery materials, glass coatings and hypertension treatments.
- BNT integration complements existing thermal treatments with wet chemical processes.
- New Bitterfeld site supports expansion into new thermal process applications

### Bear

- Reliance on key customers, although this is reducing.
- Lockdown delayed reconstruction at BNT.
- Low free float.

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## H120 performance

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### Revenues affected by fire as well as coronavirus pandemic

Group sales fell by €13.2m year-on-year during H120 to €14.4m. At the start of 2020, management had expected there to be some reduction in revenues following a fire at the BNT site in December 2019. The fire was confined to one production area dedicated to the manufacture of chemical catalysts used for dip painting in the automotive industry. At the time, management expected that production of these catalysts would probably be resumed in H220 and the delivery of all other products would not be affected, resulting in an estimated reduction in FY20 revenues of €5–6m, but with no impact on profit because of business continuity insurance. However, the fire damage was more extensive than originally thought, with parts of the plant used in the production of glass coating and pharmaceutical products being indirectly affected by the fire. More significantly, travel restrictions imposed during the coronavirus outbreak have delayed reconstruction work, so production is not likely to resume until mid-2021. The shortfall in revenue this year attributable to the fire is estimated to be around €10m. BNT has partly compensated for this unexpected reduction in chemical catalysts output by sourcing them from third parties, carrying out some value-add steps and selling the product to existing customers. This initiative has had the additional benefit of maintaining contact with customers while in-house production is suspended.

All three sites remained operational during the coronavirus pandemic. The adverse effect of the pandemic did not begin to be felt until May and predominantly affected the original IBU-tec site in Weimar because of its service-based business model. Much of the production activity at the Weimar site is preceded by collaborative development work, which was not possible because of travel restrictions, leading to some projects being postponed. While sales of catalytic powders for the automotive industry were significantly below H119 levels, they were at the level expected prior to the pandemic. Demand for battery materials for the automotive industry and chemical catalysts was also well below H119 levels.

### EBITDA supported by insurance payout

EBITDA increased slightly year-on-year, from €3.8m to €3.9m. This included insurance payments, of which €2.5m related to compensation for business interruption following the fire at BNT and €1.8m for replacing property, plant and equipment damaged in the fire. Profit before tax was stable at €1.3m, with the increase at EBITDA level offset by slightly higher levels of depreciation and interest expenses. Reported EPS doubled to €0.43/share as the result of an increase in deferred tax losses acquired with BNT.

### Continued investment in capital equipment

Net debt increased from €14.6m at end December 2019 to €15.9m at end June 2020. Cash generated from operations during H120 was €6.3m following a €2.4m increase in liabilities relating to the deferred income arising from the insurance claim. €2.3m was spent on capital equipment. This included planned investments at the new IBU-tec location in Bitterfeld and the start of the replacement programme following the fire at BNT.

## Prospects

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### FY20 guidance reiterated

Management has reiterated the guidance issued in March of a reduction in sales during FY20 in the lower double-digit percentage range with an EBITDA margin in the double-digit percentage range,

spelling out that the sales reduction could be as large as 30%. This implies that H220 sales will be substantially higher than those for H120. In support of this view, management notes that the volume of sales enquiries has picked up, collaborative work on projects with customers has intensified and the order situation has improved significantly. One positive effect of the pandemic is that IBU-tec is in demand as a flexible outsourcing partner, enabling customers to implement projects and productions without having to bear the operating costs or capital costs of their own capacity. The EBITDA guidance is supported by insurance payouts. The total amount payable has been agreed and will be c €11m, of which an estimated €8.9m will be received during FY20.

## **Investing in production facilities**

### **Programme to enhance profitability at BNT**

BNT, which was acquired in June 2018, uses wet chemical processes to manufacture tin-based products. BNT's processes complement those of the original company and have enabled the extended group to win several larger contracts where BNT uses a wet process to create a material that is then subjected to thermal treatment at the original IBU-tec site. In July 2019, IBU-tec launched a comprehensive programme intended to result in significantly increased profitability for BNT by 2022. This includes using the production capability to carry out toll manufacturing for customers, as well as manufacturing its own products, establishing a professional organisational structure and implementing cross-group reporting lines in sales, marketing, R&D and finance. Rather than simply replacing equipment on a like-for-like basis following the fire, management is adapting the production facilities to make the processes more efficient and environmentally friendly, to accommodate rising demand in the areas of glass coating and pharmaceuticals (see below) and to add catalysts used in metal handling to the product portfolio. This will be covered by insurance.

### **Bitterfeld site extends capacity and supports new chemistries**

The Bitterfeld site commenced operation in September 2019 and is being 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. Production was expanded in H120 as previously planned and is already fully utilised.

## **Developing new markets**

High levels of customer concentration caused problems in H217, when revenues were badly affected by a sudden drop in demand for diesel vehicles following the 'Dieselgate' scandal. Management has consequently worked hard to reduce the group's dependence on individual customers and market segments, expanding the group's presence in markets with long-term growth potential such as e-mobility, air pollution control and resource conservation. It has also started to complement the toll processing business model deployed at its Weimar site with its own products, including micro-scale additives for use in consumer care, paints, varnishes and medical technology. This initiative is being led by the new chief sales officer, Dr Arndt Schlosser, who joined IBU-tec in May, bringing more than 20 years of experience in management at German multinational chemical company Wacker Chemie.

### **Battery materials**

Looking at the global electric vehicle (EV) market, the International Energy Agency's Global EV Outlook 2020, which was published in [June 2020](#), notes that the COVID-19 pandemic will affect global EV markets in the short term, although to a lesser extent than it will the overall passenger car market. The report predicts that although the passenger car market will contract by 15% year-on-year during 2020, global sales of electric passenger and commercial light-duty vehicles will remain broadly at 2019 levels. The report predicts that under its Sustainable Development Scenario, global EV stock (excluding two/three-wheelers) will grow by 36% annually to reach 245m vehicles in 2030, compared with 7.2m cars in 2019. This is expected to drive demand for battery capacity and thus battery materials, making this a highly attractive market for IBU-tec to be involved in. During FY19, IBU-tec started supplying materials directly to a major EV battery manufacturer in the Far East. As

of September 2019, revenues from EV applications were equivalent to c €5.5m annually, in addition to significant volumes for stationary energy storage applications. IBU-tec is currently working with several major battery manufacturers on the development of materials for use in EV battery cathodes and anodes. Should any of these programmes move to full-scale production, IBU-tec already has capacity to increase EV battery material volumes more than twentyfold. We note that IBU-tec's thermal treatment processes, which use either rotary kilns or its proprietary pulsation reactors, provide higher-quality, more homogenous materials than most Asian suppliers.

### Pharmaceutical industry

In June 2020, IBU-tec announced that a pharmaceutical group based in Switzerland had extended its supply arrangement from the end of Q320 until at least the end of 2021. Management expects the additional revenue associated with this to be in the mid-single-digit million-euro bracket by the end of 2021, with most of this falling in FY21 and at least €1m in FY20. The chemical catalyst, an organotin compound, is produced by BNT. It is used in various synthesis steps in the pharmaceutical industry, in this specific case for a drug to lower blood pressure. Later the same month BNT received another order for the same catalyst for the same application, this time from a new customer which is an internationally active pharmaceutical group headquartered in Asia. This is another potential growth area for IBU-tec because the number of people globally suffering from high blood pressure continues to rise.

### Glass production

Glass packaging is becoming more and more important in Europe as an environmentally friendly alternative to plastic. In addition, the growing middle class in the emerging countries of South America and Asia is driving demand for glass products in these regions. A report published in July 2020 by Fortune Business Insights predicted that the global glass packaging market would grow from US\$60.32bn in 2019 to US\$81.00bn by 2027, a CAGR of 3.95% during the forecast period. IBU-tec already has a substantial share of the organotin compound used in glass coatings, estimated at 70% for Germany and 30–40% for Europe as a whole. This share is likely to increase following the closure of Lanxess's organotin specialities facility earlier this year.

## Valuation: Battery growth and BNT profitability key

**Exhibit 1: Multiples for listed peers**

Name	Ytd performance (%)	Market cap (€m)	EV/Sales 1FY (x)	EV/Sales 2FY (x)	EV/EBITDA 1FY (x)	EV/EBITDA 2FY (x)	P/E 1FY (x)	P/E 2FY (x)	EBITDA margin 1FY	EBITDA margin 2FY
BASF	(18.7)	50,329	1.3	1.2	10.7	8.9	28.3	16.7	11.8%	13.5%
Johnson Matthey	(13.0)	5,572	1.6	1.6	10.3	8.8	17.9	13.7	15.9%	17.6%
Nabaltec	(44.2)	162	1.3	1.2	8.7	6.3	26.2	13.0	14.8%	18.5%
Nippon Shokubai	(14.7)	1,891	0.9	0.8	6.4	5.2	32.2	17.0	14.5%	16.2%
Umicore	(8.8)	9,754	3.5	3.0	15.1	12.8	33.3	26.2	23.3%	23.6%
W R Grace & Co	(38.9)	2,402	2.6	2.4	10.1	8.3	14.9	10.6	26.1%	29.3%
Mean			<b>1.9</b>	<b>1.7</b>	<b>10.1</b>	<b>8.3</b>	<b>25.5</b>	<b>16.2</b>	<b>17.7%</b>	<b>19.8%</b>
IBU-tec	(29.1)	45	1.6	1.2	11.6	8.4	N/A	67.9	14.1%	14.7%

Source: Refinitiv. Note: Prices at 10 September 2020

We use a sample of companies in Europe, North America and Asia involved in the manufacture of mobile and process catalysts and battery materials. In common with these peers, IBU-tec's share price has partly recovered since the panic selling in March triggered by the coronavirus pandemic. At the current level, IBU-tec's shares are trading on prospective EV/EBITDA multiples that are above the peer group average. We believe that IBU-tec can justify this premium if growth in battery materials, which are typically very high margin, as well as measures intended to significantly improve profitability at BNT by 2022 are able to drive EBITDA margin beyond the FY20 and FY21 consensus level and back towards the 20%+ reached in FY17 and FY18 prior to the BNT acquisition.

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