

## IBU-tec

Speciality chemicals

1 May 2018

### One door closes, another door opens

Fallout from the Dieselgate scandal included a reduction in demand for the chemicals used in automotive catalytic converters. This adversely affected IBU-tec's FY17 revenues (down 5%) and pre-tax profits (down 55%). Conversely, the environmental agenda is driving demand for electric vehicles, battery energy storage systems for use with renewables and catalytic devices for cleaning up factory exhaust gases. Management expects demand for specialist materials used in these applications to support a recovery in sales and EBITDA during FY18.

### Shift away from diesel adversely affects FY17

IBU-tec was not able to completely offset reduced sales of product for automotive catalysts, as it had been able to during H117. Although revenues related to battery storage materials and chemical catalysts both showed double-digit growth, sales overall fell by 5% to €16.8m. Excluding IPO costs, EBITDA margin dropped by 10pp to 26%, while pre-tax profit fell by 55% to €1.9m. The group reported a modest €0.2m profit after tax after deducting the €1.6m IPO costs. Following the IPO, which raised €16.5m (gross) at €16.5/share in March 2017, the group moved from €2.0m net debt at end FY16 to €12.7m net cash.

### Investment for future growth continues

Noting a positive economic environment and the level of firm and anticipated deliveries, which includes a 40%+ expected increase in sales of battery materials but does not assume a recovery in automotive catalysts, management has provided guidance of 10-20% annual growth (€18.5-20.2m) and a similar level of increase in EBITDA (€4.7-5.2m) with PBT remaining at FY17 levels (adjusted for IPO costs), reflecting higher depreciation. Growth will be boosted by the onset of production at the new Bitterfeld site in Q418, which enables the group to process a wider range of materials for customers. Part of the IPO proceeds is allocated for the purchase and commissioning of this site.

### Valuation: EBIT margins justify high multiples

IBU-tec's historic P/E multiple is higher than the mean for our sample of European speciality chemical companies, though EV/EBITDA is lower. Given IBU-tec's higher than average EBITDA margin, we believe it merits a premium. We see potential for share price appreciation as IBU-tec demonstrates it is able to deliver revenue growth in the current market environment while maintaining margin.

#### Historical financials

Year end	Revenue (€m)	PBT* (€m)	EPS** (€)	DPS (€)	P/E (x)	Yield (%)
12/14	12.5	2.5	0.45	0.0	37.4	N/A
12/15	16.6	4.5	0.79	0.0	21.3	N/A
12/16	17.7	4.3	0.77	0.0	21.9	N/A
12/17	16.8	1.9	0.45	0.13	37.4	0.8

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

Price €16.85  
Market cap €67m

#### Share price graph



#### Share details

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

#### 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 e-mobility and energy storage.
- Blue-chip customer base.

#### Bear

- High customer concentration gives significant exposure to demand for car exhaust catalysts.
- Expansion into new applications dependent on acquiring site with appropriate approvals.
- Low free float. (31.0%).

#### Analyst

Anne Margaret Crow +44 (0)20 3077 5700

[industrials@edisongroup.com](mailto:industrials@edisongroup.com)  
[Edison profile page](#)

Edison Investment Research provides qualitative research coverage on companies in the Deutsche Börse Scale segment in accordance with section 36 subsection 3 of the General Terms and Conditions of Deutsche Börse AG for the Regulated Unofficial Market (Freiverkehr) on Frankfurter Wertpapierbörse (as of 1 March 2017). Two to three research reports will be produced per year. Research reports do not contain Edison analyst financial forecasts.

## **FY17 results affected by Dieselgate**

---

The Dieselgate scandal, which found discrepancies between the levels of polluting emissions from diesel cars and those claimed by the car manufacturers, resulted in a 13.2% drop in the number of registrations of diesel vehicles in Germany during calendar year 2017. For IBU-tec, this meant a substantial reduction in sales of catalytically active powders for the automotive industry. Intensive sales activity was not able to make up the shortfall, although it is encouraging to note that sales excluding those from the top three customers (which includes a major customer for automotive catalysts) grew by 24% during the year. Although demand for both battery materials for e-mobility and stationary energy storage and for chemical catalysts used to clean up factory exhaust gases showed double-digit growth, total revenues declined by 5% year-on-year during FY17 to €16.8m. While revenues attributable to product manufacture declined by 10% to €13.2m (78% of total sales) because of the weakness in the automotive sector, revenues from process and material development grew by 13%. This is encouraging, as a high proportion of project work eventually converts to volume production. For example trials undertaken during H117 on battery storage materials resulted in a major production order in Q417, which will benefit FY18.

Personnel expenses rose by 9%, partly as a result of management's decision to invest in sales and engineering staff during FY16, partly as a result of the shift to more labour-intensive small-scale project business to replace some of the automotive catalyst production. Material costs as a percentage of sales increased by 2.3pp to 10.6%, reflecting the reduction in the proportion of high-margin automotive catalysts, plus a shift to carrying out contract manufacturing for the first time for some customers rather than working exclusively on a toll-processing basis. Stripping out the costs (€1.6m) of the IPO in March, EBITDA margin dropped by 10pp to 26%. This remains high compared with the EBITDA margin of industry peers (see Exhibit 1). Pre-tax profit (adjusted for IPO costs) reduced by 55% to €1.9m. IBU-tec is paying a maiden dividend to shareholders of €0.13/share, although the Weitz family, who are majority shareholders, have waived their dividend entitlement.

Following the IPO, which raised €16.5m (gross) at €16.5/share, the group moved from €2.0m net debt at end FY16 to €12.7m net cash. Part of the funds raised were allocated for the purchase of a new site where more complex and hazardous materials can be processed in volume. This was completed in April (see below) with the purchase of a site in Bitterfeld, which is c 140km from Weimar. Stripping out the IPO costs (€1.6m), cash generated from operations was €2.3m after deducting €1.1m to cover an increase in receivables related to extended payment terms as the group takes on a greater number of international customers. Capital expenditure, which was primarily on completing construction of a new rotary kiln (see below), fitting out the new logistics site (see below) and initial equipment of a new R&D facility at the main Weimar site, was substantially lower than in FY16 (€2.1m vs €4.6m). Management intends to invest c €4m in capital projects during FY18, primarily on purchasing and beginning to equip the new Bitterfeld facility (c €3m) and completing the new R&D facility at the main Weimar site. A further €3m is allocated for Bitterfeld equipment in FY19.

## **Progress continues on execution of strategy**

---

### **Expansion in battery materials market**

While IBU-tec has been involved in projects developing materials for use in batteries for several years, this activity exhibited double-digit growth during FY17. The company attracted new customers in the sector and moved from executing development projects for stationary storage and e-mobility applications to the production of high volumes for customers on a long-term basis as it

signed the first framework agreement with an international group in Q417. Management expects this framework agreement to generate sales of single-digit million euros during FY18, which will be a major contributor to the anticipated recovery. As this framework agreement is with an international customer, this development will also help IBU-tec achieve its goal of growing outside Germany. This is important, because during FY17 nearly 90% of IBU-tec's sales were still attributable to customers in Germany and reducing this dependency is a key management goal.

This intensified interest in materials used in battery energy storage systems is unsurprising given the projected growth in demand for batteries in both e-mobility and stationary energy storage systems. In its Global EV Outlook 2017 report, the International Energy Agency predicted that the electric car stock may range between 9m and 20m by 2020 and between 40m and 70m by 2025, compared with c 6m in 2016. A recent report from Marketsandmarkets predicted that the global battery energy storage system market will grow from US\$1.98bn in 2018 to US\$8.54bn by 2023, ie at a CAGR of 33.9%. Factors driving the growth are the need to provide a mechanism for storing surplus energy produced by wind and solar installations, both of which are intermittent sources of energy, for use when there is no wind and at night time, and the declining prices of lithium-ion batteries. As a key supplier of materials, IBU-tec is a central part of this price reduction. We note that since IBU-tec is a service provider for thermal treatment of battery materials, it is agnostic as to which of the battery technologies currently in production will become dominant.

## Capacity expansion

In early 2017, IBU-tec opened a new logistics facility. This is located on a 8,686m<sup>2</sup> site with a storage hall of 1,944m<sup>2</sup> that is able to accommodate up to 1,400 pallets. It is around 10km from the main Weimar site. Since IBU-tec primarily processes raw materials for customers on a tolling basis, 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 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 at Weimar for more processing capacity. A new rotary kiln that is larger than any of the other indirect rotary kilns at Weimar was commissioned during the summer. The greater size means that IBU-tec can produce larger batches of product more quickly. This kiln was commissioned in June 2017 and will be critical to meeting demand for battery materials.

## Diversification into new product categories

The recently acquired Bitterfeld site is located in an industrial area approved for chemical activity. This 15,500m<sup>2</sup> site will be used to process materials that cannot be produced at the Weimar site because of regulatory and permitting restrictions as well as providing additional capacity for manufacturing metal and metal oxide-based catalysts. The 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 already built up a provisional pipeline of suitable projects for the proposed facility with existing and new customers, which will potentially deliver meaningful revenues when production commences at the site in Q418. It will start by installing three rotary kilns for processing battery materials and chemical catalysts. Management is also in initial discussions with a shortlist of M&A candidates who may be able to provide complementary process technology that can be used to manufacture materials requested by customers that cannot be

made either at Weimar or potentially at Bitterfeld. The funds raised from the IPO will be used to finance any potential acquisition, as well as the purchase and commissioning of the Bitterfeld site.

## Valuation

IBU-tec's share price has been fairly volatile since the IPO placing at €16.5/share. Despite a solid Q117 performance the shares dipped to €15.28 in early August, had risen to €21.18 by mid-October following positive H117 results, before taking a tumble after a profits warning at the end of October. The shares are trading close to the 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. While the historical EV/EBITDA multiple is lower than the mean of the sample, the historic P/E multiple is higher. Given IBU-tec's higher than average EBITDA margin and potential for strong sales growth once the third site comes on line, we believe it deserves to be valued at a premium to the mean. We see potential for share price appreciation as IBU-tec demonstrates that it is able to deliver revenue growth in the current market environment while maintaining EBITDA margin.

<b>Exhibit 1: Historical multiples for listed peers</b>					
<b>Name</b>	<b>Market cap m (\$)</b>	<b>EV/Sales last (x)</b>	<b>EV/EBITDA last (x)</b>	<b>P/E last (x)</b>	<b>Historic EBIT margin (%)</b>
Akzo Nobel	24,456	2.3	15.5	40.4	14.9
Bodycote	2,461	2.5	9.3	19.3	0.6
Croda International	8,493	4.7	17.0	24.8	27.5
Elementis	1,950	2.9	17.1	25.4	16.7
Evonik Industries	17,187	1.2	8.0	18.0	14.8
Fuchs Petrolub	7,350	2.3	13.4	21.1	17.5
Holland Colours	94	0.9	8.0	14.2	11.8
Johnson Matthey	8,883	0.6	10.7	16.3	5.6
Kemira Oyj	2,073	0.9	7.6	16.2	11.4
Koninklijke	19,276	1.9	12.3	21.8	15.6
Nabaltec	275	1.5	10.9	38.0	14.0
Nanogate	251	2.6	23.3	53.6	11.0
Orapi	57	0.4	12.5	-	3.6
Robertet	1,390	2.3	15.7	23.5	14.8
Explosifs Prod. Chi	220	0.7	9.7	14.3	7.5
Symrise	10,743	3.4	16.1	33.3	21.0
Umicore	13,187	1.0	23.1	19.5	4.2
Victrex	3,296	7.7	17.3	23.2	44.3
Wacker Chemie	9,737	1.7	8.9	33.2	19.1
<b>Mean</b>		<b>1.5</b>	<b>12.6</b>	<b>23.7</b>	
ibu-tec Advanced Materials	79	3.2	8.3	36.5	25.6

Source: Bloomberg. Note: Prices at 23 April 2018. Grey shading indicates exclusion from mean.

Edison is an investment research and advisory company, with offices in North America, Europe, the Middle East and AsiaPac. The heart of Edison is our world-renowned equity research platform and deep multi-sector expertise. At Edison Investment Research, our research is widely read by international investors, advisers and stakeholders. Edison Advisors leverages our core research platform to provide differentiated services including investor relations and strategic consulting. Edison is authorised and regulated by the [Financial Conduct Authority](#). Edison Investment Research (NZ) Limited (Edison NZ) is the New Zealand subsidiary of Edison. Edison NZ is registered on the New Zealand Financial Service Providers Register (FSP number 247505) and is registered to provide wholesale and/or generic financial adviser services only. Edison Investment Research Inc (Edison US) is the US subsidiary of Edison and is regulated by the Securities and Exchange Commission. Edison Investment Research Pty Limited (Edison Aus) [46085869] is the Australian subsidiary of Edison. Edison Germany is a branch entity of Edison Investment Research Limited [4794244]. [www.edisongroup.com](http://www.edisongroup.com)

#### DISCLAIMER

Any Information, data, analysis and opinions contained in this report do not constitute investment advice by Deutsche Börse AG or the Frankfurter Wertpapierbörse. Any investment decision should be solely based on a securities offering document or another document containing all information required to make such an investment decision, including risk factors.

Copyright 2018 Edison Investment Research Limited. All rights reserved. This report has been commissioned by Deutsche Börse AG and prepared and issued by Edison for publication globally. All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report. Opinions contained in this report represent those of the research department of Edison at the time of publication. The securities described in the Investment Research may not be eligible for sale in all jurisdictions or to certain categories of investors. This research is issued in Australia by Edison Investment Research Pty Ltd (Corporate Authorised Representative (1252501) of Myonlineadvisers Pty Ltd (AFSL: 427484)) and any access to it, is intended only for "wholesale clients" within the meaning of the Corporations Act 2001 of Australia. The Investment Research is distributed in the United States by Edison US to major US institutional investors only. Edison US is registered as an investment adviser with the Securities and Exchange Commission. Edison US relies upon the "publishers' exclusion" from the definition of investment adviser under Section 202(a)(11) of the Investment Advisers Act of 1940 and corresponding state securities laws. As such, Edison does not offer or provide personalised advice. We publish information about companies in which we believe our readers may be interested and this information reflects our sincere opinions. The information that we provide or that is derived from our website is not intended to be, and should not be construed in any manner whatsoever as, personalised advice. Also, our website and the information provided by us should not be construed by any subscriber or prospective subscriber as Edison's solicitation to effect, or attempt to effect, any transaction in a security. The research in this document is intended for New Zealand resident professional financial advisers or brokers (for use in their roles as financial advisers or brokers) and habitual investors who are "wholesale clients" for the purpose of the Financial Advisers Act 2008 (FAA) (as described in sections 5(c) (1)(a), (b) and (c) of the FAA). This is not a solicitation or inducement to buy, sell, subscribe, or underwrite any securities mentioned or in the topic of this document. This document is provided for information purposes only and should not be construed as an offer or solicitation for investment in any securities mentioned or in the topic of this document. A marketing communication under FCA Rules, this document has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research. Edison has a restrictive policy relating to personal dealing. Edison Group does not conduct any investment business and, accordingly, does not itself hold any positions in the securities mentioned in this report. However, the respective directors, officers, employees and contractors of Edison may have a position in any or related securities mentioned in this report. Edison or its affiliates may perform services or solicit business from any of the companies mentioned in this report. The value of securities mentioned in this report can fall as well as rise and are subject to large and sudden swings. In addition it may be difficult or not possible to buy, sell or obtain accurate information about the value of securities mentioned in this report. Past performance is not necessarily a guide to future performance. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations. For the purpose of the FAA, the content of this report is of a general nature, is intended as a source of general information only and is not intended to constitute a recommendation or opinion in relation to acquiring or disposing (including refraining from acquiring or disposing) of securities. The distribution of this document is not a "personalised service" and, to the extent that it contains any financial advice, is intended only as a "class service" provided by Edison within the meaning of the FAA (ie without taking into account the particular financial situation or goals of any person). As such, it should not be relied upon in making an investment decision. To the maximum extent permitted by law, Edison, its affiliates and contractors, and their respective directors, officers and employees will not be liable for any loss or damage arising as a result of reliance being placed on any of the information contained in this report and do not guarantee the returns on investments in the products discussed in this publication. FTSE International Limited ("FTSE") © FTSE 2018. "FTSE®" is a trade mark of the London Stock Exchange Group companies and is used by FTSE International Limited under license. All rights in the FTSE indices and/or FTSE ratings vest in FTSE and/or its licensors. Neither FTSE nor its licensors accept any liability for any errors or omissions in the FTSE indices and/or FTSE ratings or underlying data. No further distribution of FTSE Data is permitted without FTSE's express written consent.