

IBU-tec

Speciality chemicals

25 March 2020

Battery materials to support recovery

IBU-tec is expanding its share in the greentech, electromobility, energy storage and life science sectors, all of which are likely to show strong growth in future. In the short term however, management expects weaker demand from some customers, the effects of coronavirus and a fire affecting some of the reactors at BNT will result in FY20 sales being in the lower double-digit percentage range below FY19's level.

FY19 benefits from battery materials

On a pro forma basis, FY19 revenues increased by 4% to €48.5m. This was the result of a substantial increase in sales of battery materials for the automotive industry and stationary energy storage, as well as chemical catalysts. This growth was achieved despite a significant reduction in sales of catalytic powder materials for the automotive industry. EBITDA grew by 3% year-on-year to €7.1m, slightly below management's guidance of €7.2–7.5m. The EBITDA margin reduced by 0.1pp to 14.7% as the business no longer operates exclusively on a toll-processing model. EPS decreased from €0.59 to €0.22 because of higher depreciation and financing costs associated with expansion.

External factors and fire at BNT to affect FY20

The company is well-positioned for medium-term growth having commenced production at its new Bitterfeld site in Q419. However, noting cautious volume forecasts from customers in some industries, the effects of the coronavirus and production losses of €5–6m resulting from a fire at BNT at the end of December 2019, management expects FY20 sales to be in the lower double-digit percentage range below FY19's level. Management expects the EBITDA margin to be in the double-digit percentage range. The fire is not expected to impact EBITDA.

Valuation: Trading at a discount to peers

Like other companies across Europe, North America and Asia involved in the manufacture of mobile and process catalysts and battery materials, IBU-tec's share price has fallen sharply (by 51%) since the beginning of calendar 2020. At the current level, the shares are trading on historic EV/sales (1.0x vs 1.5x) and EV/EBITDA multiples (6.8x vs 7.6x) that are below the sample mean and on P/E multiples that are higher (38.6x vs 12.9x), but given the current stock market volatility, it is difficult to draw any precise conclusions from this comparison.

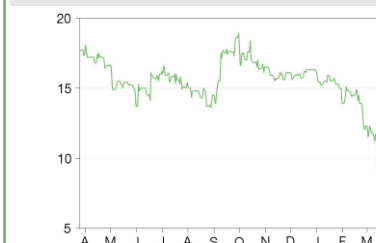
Financial summary

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/16	17.7	4.3	0.77**	0.00	11.0	N/A
12/17	16.8	1.9	0.45**	0.13	18.9	1.5
12/18*	46.6	2.4	0.59	0.15***	14.4	1.8
12/19	48.5	1.5	0.22	0.00	38.6	N/A

Source: IBU-tec accounts. *Pro forma as though BNT was part of group for full year. **On number of shares at IPO. ***Excluding €0.05 special dividend.

Price €8.5
Market cap €34m

Share price graph



Share details

Code	IBU
Listing	Deutsche Börse Scale
Shares in issue	4.0m
Last reported net debt at end December 2019	€14.6m

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 e-mobility and energy storage.
- BNT acquisition adds wet chemical processes to existing thermal treatments.
- New Bitterfeld site supports expansion into new thermal process applications.

Bear

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

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FY19 growth helped by demand for battery materials

On a pro forma basis, ie assuming that BNT had been part of the group throughout H118 rather than being acquired in June 2018, FY19 revenues increased by 4% to €48.5m. Production revenues, which accounted for 87% of the total, rose by 2%, reflecting an increase of around 75% in sales of battery materials for the automotive industry and stationary energy storage, as well as growth in the supply of chemical catalysts. The revenue growth was achieved despite a continued reduction in sales of catalytic powder materials for the automotive industry, which until Dieselgate was a key application area. BNT was awarded several long-term contracts with customers in the glass industry and extended its supply contract with a Swiss pharmaceutical group. Revenues attributable to process and material development, which accounted for 12% of the total, grew by 32%, which is a good sign because some of these projects are likely to pass into volume production. We note that revenues were 24% lower in H219 than H119, reflecting the impact of a slowdown in the chemicals industry in Germany, where most of the customers are based, and which intensified in Q4. According to the German Association of the Chemical Industry chemical production fell by 7.5% during calendar 2019. This led to customers requiring IBU-tec to manufacture lower volumes of material under existing contracts. This was partly mitigated through sales activity winning smaller, but lower-margin research and development projects.

Exhibit 1: Pro-forma financial summary

	FY19	FY18
Revenues (€m)	48.5	46.6
EBITDA (€m)	7.1	6.9
Profit before tax (€m)	1.5	2.4
Net income (€m)	0.9	2.3

Source: Company data

On a pro forma basis, EBITDA grew by 3% year-on-year to €7.1m. The EBITDA margin reduced by 0.1pp to 14.7% because of higher material costs as a percentage of sales since the company is no longer exclusively engaged in toll-manufacturing and a small (€0.3m) reduction in inventory related to lower tin prices compared with a €2.5m increase in inventory in FY18. However, EPS decreased from €0.59 to €0.22 because of increased depreciation related to production commencing in Bitterfeld and financing charges relating to the loans associated with acquiring BNT and the new Bitterfeld site. Management managed costs very tightly during H219 and reduced the number of employees at the end of FY19 to a similar level to that at the end of FY18.

On a non-pro forma basis, revenues increased by 49%, EBITDA rose by 9% and EPS decreased from €0.47 to €0.22. The proportionately lower increase in EBITDA shows how BNT has added scale to the group but at an inherently lower operating margin. This is 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. While the drop in revenues during H219 led to a reduction in EBITDA (€3.4m in H219 vs €3.8m in H119), in a more stable economy the increase in EBITDA would have been sufficient to offset the higher depreciation (€5.2m FY19 vs €3.6m FY18) and financing costs (€0.4m FY19 vs €0.1m FY19) associated with expansion.

Cash generated from operations during FY19 was €4.2m following a €4.3m reduction in receivables related to lower Q419 sales and a €5.0m reduction in liabilities following a successful negotiation with a large customer. After investing €6.0m in capex, which included equipment to improve production efficiency at BNT and to complete the production line at the new Bitterfeld site, and paying €1.0m deferred consideration for BNT, net debt increased from €10.7m at end December 2018 to €14.6m at end December 2019.

Benefiting from the shift to greener transport

Beneficial impact of demand for green materials

As discussed in Edison's note [Battery charge: The rise of lithium-ion – options and implications](#), current forecasts from the IEA and BNEF anticipate electric vehicles (EVs) (including hybrids) growing from 2% of new cars sales in 2018 globally to 25–46% by 2030. This implies sales of 23–43m vehicles by 2030 and an EV fleet between 125m and 250m. 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. 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.

During FY19, IBU-tec started supplying materials directly to a major EV battery manufacturer in the Far East, which could drive an order of magnitude increase in its battery materials sales. Securing this industry player as a customer changes the scale of IBU-tec's battery materials activity. It also augments the business of toll manufacturing for chemical companies with manufacturing chemicals for sale to third parties. In October 2019 IBU-tec started to develop a new material for an international supplier of stationary energy storage solution that will potentially reduce the amount of lithium required significantly. 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.

We note that IBU-tec's fortunes are not tied to any one battery technology or battery manufacturer. Since 2015, it has approximately doubled the number of battery material customers served and it now covers a broad spectrum of cathode and anode materials in addition to lithium-ion battery materials. 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.

Programme to enhance profitability at BNT

BNT, which was acquired in June 2018, uses wet chemical processes to manufacture tin-based products. It sells these 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. 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 program intended to result in significantly increased profitability for BNT by 2022.

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 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. In September 2019 IBU-tec announced it was commissioning the first of two rotary kilns at the Bitterfeld site where there was already significant capacity for lithium iron phosphate production. The first production orders were executed in Q419 ahead of production expansion in FY20. Management expects that

the total cost of the facility and technical equipment, including a second highly specialised kiln, will be a little over €6m, most of which has already been paid.

Outlook: External factors and fire at BNT affect FY20 guidance

IBU-tec appears well-positioned in sectors such as greentech, electromobility, energy storage and life science, all of which are likely to show strong growth in future. Management intends to continue to expand its market share in these sectors. It also sees good potential in the European glass coating market. However, noting cautious volume forecasts from customers in some industries, the effects of the coronavirus and production losses resulting from a fire at BNT at the end of December 2019 (see below), management expects FY20 sales to be in the lower double-digit percentage range below FY19's level. Management expects EBITDA margin to be in the double-digit percentage range.

The fire at BNT was limited to one production area housing three production lines used exclusively for some chemical catalysts, which are used for dip painting in the automotive industry. Management notes that production of these catalysts will probably be resumed in H220 and the delivery of all other products will not be affected. Management expects the production downtime to reduce FY20 sales revenues by €5–6m, but the incident will not have an impact on profit because of business continuity insurance. The damage to property, which management estimates to be in the lower single-million euro range, is also covered by insurance.

Valuation

As there are no listed peers involved in toll manufacturing of inorganic chemicals, which was the business model at the original IBU-tec site, 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 collapsed since the beginning of calendar 2020 and is now c 52% lower than the IPO price of €16.5/share. At the current level, IBU-tec's shares are trading on historic EV/Sales and EV/EBITDA multiples that are below the peer group average and on P/E multiples that are higher.

Exhibit 2: Multiples for listed peers					
Name	Ytd performance (%)	Market cap (€m)	EV/sales last (x)	EV/EBITDA last (x)	P/E last (x)
BASF SE	(39.4)	40,055	0.9	N/A	10.2
Johnson Matthey PLC	(37.6)	4,213	1.2	7.1	8.2
Nabaltec AG	(42.3)	179	1.1	6.6	16.3
Nippon Shokubai Co Ltd	(33.4)	1,664	0.6	3.6	7.6
Umicore SA	(15.4)	9,662	3.1	14.0	28.2
W. R. Grace & Co	(54.5)	2,122	2.0	6.7	7.3
Mean			1.5	7.6	12.9
IBU tec advanced materials AG	(51.3)	37	1.0	6.8	38.6

Source: Refinitiv, IBU-tec company reports. Note: Prices at 23 March 2020.

Given the volatility in the stock market at present and the possibility of some of the peers announcing guidance downgrades in the near future, it is difficult to draw any precise conclusions from this comparison. We note that an economic slowdown typically results in IBU-tec's customers postponing projects, requiring lower volumes of materials and taking some manufacturing in-house where they can. Conversely the business is usually among the first to pick up again, because IBU-tec has very flexible production capacities, so it can support customers as they ramp up production. Moreover, customers typically develop new products to accelerate any return to growth and will work with IBU-tec to scale-up the manufacture of these new materials.

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