EDISON

Riber

Interims

Weak evaporator market affects H119

Tech hardware & equipment

A strong uptick in MBE system deliveries only partly offset a reduction in evaporator revenue during H119, resulting in a 17% y-o-y drop in Riber's sales overall and a shift from €2.8m operating profit in H118 to €0.5m operating loss. Noting the relatively low gross margin in H119 and continued weak demand for evaporators, we have reduced our FY19 and FY20 PBT estimates by 59% and 33% respectively. We see scope for share price appreciation as investors gain confidence that Riber can convert the strong MBE system order book into a sustainable profit recovery.

Year end	Revenue (€m)	PBT* (€m)	EPS* (€)	DPS (€)	P/E (x)	Yield (%)
12/17	30.5	4.0	0.13	0.05	10.3	3.7
12/18	31.3	2.0	0.07	0.05	19.1	3.7
12/19e	35.3	1.5	0.05	0.05	26.9	3.7
12/20e	37.7	3.0	0.10	0.05	12.9	3.7

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

Adverse impact of dip in evaporator sales in H119

As flagged in the July trading update, revenues from MBE systems grew strongly, more than doubling year-on-year to €8.6m during H119, as the group delivered four production machines, two of which were initially scheduled for delivery during H218, compared with only one production machine and three smaller R&D machines in H118. As expected, sales of evaporators were much lower than the previous year (€1.0m vs €10.4m), reflecting uncertainty in the OLED market. Total revenues reduced by 17% to €13.9m. As a result of the decline in evaporator sales, which are a high-margin product line, and abnormally low gross margin on a prototype MBE system, the company swung from €2.8m operating profit in H118 to a €0.5m operating loss. Net cash decreased by €0.2m to €2.3m during the period.

Strong MBE order book

The MBE order backlog at end H119 totalled €21.5m, comprising 13 systems, six of which are the larger production machines. Riber expects to deliver eight or nine systems during H219, underpinning our FY19 revenue estimates. We have cut our FY19 PBT estimate by 59% to reflect the low H119 gross margin. Given the lack of investment in OLED capacity, we have reduced our FY20 estimate for evaporator sales, balancing this with an uplift in MBE system sales, which are at a lower gross margin, thus reducing our FY20 PBT estimate by 33%.

Valuation: Trading at a discount to peers

The share price has halved over the last year, leaving Riber trading at a discount to both Aixtron and Veeco with respect to all prospective multiples. While some discount for a small capitalisation and relatively low free float is justified, the size of the discount (year two EV/Sales multiple of 0.7x for Riber vs 2.0x for our sample mean) is, in our opinion, unwarranted. This gives scope for share price appreciation once Riber demonstrates it can convert the strong order book into a sustainable profit recovery.

3 October 2019

Price	**€1.34**
Market cap	**€28m**

Net cash (€m) at end June 2019	2.3
Shares in issue	20.8m
Free float	57.2%
Code	RIB
Primary exchange	Euronext Paris
Secondary exchange	N/A

Share price performance

%	1m	3m	12m
Abs	12.5	(13.0)	(56.6)
Rel (local)	14.1	(10.6)	(55.6)
52-week high/low		€2.99	€1.09

Business description

Riber designs and produces molecular beam epitaxy (MBE) 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.

Next events

Q319 revenues	30 October 2019
FY19 results	22 April 2020

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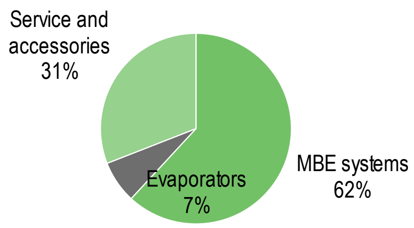
H119 performance

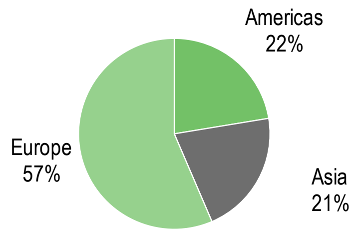
MBE system sales up, but evaporator dip affects profits

Exhibit 1: H119 revenues by segment



Source: Company data

Exhibit 2: H119 revenues by geography



Source: Company data

As flagged in the July trading update, revenues from MBE systems grew strongly, more than doubling year-on-year to €8.6m during H119, as the group delivered four production machines, two of which were initially scheduled for delivery during H218, compared with only one production machine and three smaller R&D machines in H118. Revenues from services and spares rose by 65% to €4.3m, following an initiative to make the customer base more aware of the complete offering. As expected, sales of evaporators were much lower than the previous year (€1.0m vs €10.4m), reflecting uncertainty in the OLED market. Total revenues reduced by 17% to €13.9m.

Gross margin fell by 19.8pp to 29.1% of sales because of the lower proportion of evaporators, which are a high-margin product line, as well as an unusually low gross margin (14% compared with more than 42% for the other three systems) for one of the MBE machines, which was a prototype. Sales and marketing expenses reduced by 5%, administrative costs by 2%, reflecting good cost control during the period. R&D expenses almost halved as a higher proportion of time was spent on billable activities during the installation phases of projects. As a result of the decline in evaporator sales and abnormal gross margin on the prototype MBE system, the company moved from €2.8m operating profit in H118 to a €0.5m operating loss.

Strong balance sheet

Net cash decreased by €0.2m to €2.3m during the period. There is minimal (€0.1m at end H119 vs €0.4m at end FY18) debt, which relates to a credit line taken out in H218 to pay a supplier, the remainder of which will be repaid in H219. Working capital decreased by €1.4m, reflecting advances from customers for systems, €0.2m was invested in the acquisition of SemiPro, a company providing MBE-related services in the US, €0.5m in capitalised R&D and €0.8m on tangible assets. Capital expenditure was primarily an R&D system that has been 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

Management is confident that the strong performance in MBE systems will continue. This view is based on an order backlog at end June 2019 of 13 systems, six of which are the larger production machines, totalling €21.5m, with an order for its third production machine from an Asian customer received in September for delivery in FY20. Riber expects to deliver eight or nine of the systems forming the order backlog during H219. While the order book at end June 2019 for services was lower than a year previously (€6.9m vs €8.3m), the sales cycle here is relatively short, giving time to secure additional orders sufficiently ahead of the year end for delivery during H219. We note that SemiPro generated $1.3m revenues in 2018, potentially contributing to this growth. At the end of June 2019 there were no orders for evaporators, so we continue to model no evaporator sales in H218. Evaporator revenues were only €1.2m in H218, so the scheduled MBE pipeline should be sufficient to drive the 13% growth in FY19 group revenue (which is unchanged), provided there are no shipment delays.

Exhibit 3: Changes to estimates

€m	FY18	FY19e			FY20e		
	Actual	Old	New	Change	Old	New	Change
System revenues	9.6	23.5	23.5	0.0%	19.75	24.0	21.4%
Evaporator revenues	11.6	1.0	1.0	0.0%	4.0	1.6	-60.0%
Service revenues	10.0	10.8	10.8	0.0%	12.1	12.1	0.0%
Total revenues	31.3	35.3	35.3	0.0%	35.9	37.7	5.1%
PBT	2.0	3.6	1.5	-59.2%	4.5	3.0	-32.5%
EPS (€)	0.07	0.12	0.05	-58.9%	0.15	0.10	-32.5%
DPS (€)	0.05	0.05	0.05	0.0%	0.05	0.05	0.0%
Net cash at year end	2.5	7.0	4.8	-30.9%	10.1	6.2	-38.4%

Source: Company data, Edison Investment Research

We make the following changes to our estimates:

- Noting the reduction in gross margin during H119, we have modelled a lower gross margin for MBE systems in both FY19 and FY20. This reduces our gross margin estimate for FY19 by 6.1pp.
- Given industry uncertainty regarding the potential displacement of OLEDs (organic light emitting diodes) by emerging technologies such as micro-LEDs (for which Riber is providing R&D equipment), there is little appetite for investment in additional OLED capacity; we have therefore cut our FY20 evaporator estimate.
- Noting the additional MBE order received in September, we have raised our FY20 MBE revenue estimate.

Valuation

We base our valuation on a peer multiples approach. We have restricted 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. The share price has halved since June 2018, pulled down by the delays in shipping two MBE machines, which adversely affected FY18 performance, and the downgrade following the July trading update.

Exhibit 4: Compound semiconductor peers

Name	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)
Aixtron SE	1,051	2.9	2.7	17.3	14.1	34.6	28.6
Veeco	530	1.5	1.3	147.9	17.0	N/A	18.9
Mean		**2.2**	**2.0**	**17.3**	**15.5**	**34.6**	**23.8**
Riber SA	28	0.7	0.7	10.7	6.5	26.9	12.9

Source: Refinitiv, Edison Investment Research. Note: Prices at 30 September 2019. Grey shading indicates exclusion from mean.

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 2.0x for our year 2 sample mean) is, in our opinion, unwarranted. This gives ample scope for share price appreciation as investors gain confidence that Riber can convert the strong order book into a sustainable recovery in profits.

We note a historical dividend yield of 3.7% at the current share price. Although management has not explicitly stated a dividend policy, given that it maintained the dividend at FY17 levels during FY18 despite substantially reduced profitability and there is ample cash on the balance sheet, it seems reasonable to assume that the dividend will be maintained at FY17/18 levels (as per our estimates).

We are not supplementing the peer multiple approach with a DCF analysis at present since there is no clarity as yet as to what success in commercialising any one of the research programmes (VCSEL, LiDAR, UV-LED or micro-LED) might represent in terms of additional production of MBE systems. This will change as the information becomes available.

Exhibit 5: Financial summary

€m	2016	2017	2018	2019e	2020e
31-December	IFRS	IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT					
Revenue	16.5	30.5	31.3	35.3	37.7
Cost of Sales	(10.4)	(17.0)	(19.6)	(24.2)	(24.1)
Gross Profit	6.0	13.6	11.7	11.1	13.6
EBITDA	0.2	5.9	3.3	2.4	3.9
Normalised operating profit	(1.3)	4.6	2.2	1.5	3.0
Amortisation of acquired intangibles	0.0	0.0	0.0	0.0	0.0
Exceptionals	0.2	(0.9)	(2.2)	0.0	0.0
Share-based payments	0.0	0.0	0.0	0.0	0.0
Reported operating profit	(1.1)	3.8	0.0	1.5	3.0
Net Interest	0.0	(0.6)	(0.2)	(0.0)	0.0
Joint ventures & associates (post tax)	0.0	0.0	0.0	0.0	0.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Profit Before Tax (norm)	(1.3)	4.0	2.0	1.5	3.0
Profit Before Tax (reported)	(1.1)	3.1	(0.2)	1.5	3.0
Reported tax	0.0	1.0	0.5	0.0	0.0
Profit After Tax (norm)	(1.3)	2.7	1.4	1.0	2.2
Profit After Tax (reported)	(1.1)	4.1	0.3	1.5	3.0
Minority interests	0.0	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Net income (normalised)	(1.3)	2.7	1.4	1.0	2.2
Net income (reported)	(1.1)	4.1	0.3	1.5	3.0
Average Number of Shares Outstanding (m)	21	21	21	21	21
EPS - normalised (€)	(0.06)	0.13	0.07	0.05	0.10
EPS - normalised fully diluted (€)	(0.06)	0.13	0.07	0.05	0.10
EPS - basic reported (€)	(0.05)	0.19	0.02	0.07	0.14
Dividend (€)	0.00	0.05	0.05	0.05	0.05
Revenue growth (%)	28.9	85.6	2.5	12.9	0.0
Gross Margin (%)	36.7	44.5	37.5	31.4	36.1
EBITDA Margin (%)	1.4	19.4	10.4	6.7	10.4
Normalised Operating Margin	-8.2	15.2	7.1	4.2	8.0
BALANCE SHEET					
Fixed Assets	8.0	9.0	9.5	9.6	9.8
Intangible Assets	2.9	2.0	1.9	1.9	1.9
Tangible Assets	4.6	4.9	4.8	4.9	5.1
Investments & other	0.5	2.1	2.8	2.8	2.8
Current Assets	18.4	28.4	28.2	25.4	28.1
Stocks	7.3	9.9	15.3	11.6	12.4
Debtors	7.1	9.1	8.8	7.7	8.3
Cash & cash equivalents	2.5	7.4	3.0	4.9	6.3
Other	1.4	2.1	1.2	1.2	1.2
Current Liabilities	(10.3)	(17.0)	(17.3)	(14.0)	(15.0)
Creditors	(10.3)	(16.7)	(16.8)	(14.0)	(15.0)
Tax and social security	0.0	(0.2)	0.0	0.0	0.0
Short term borrowings	0.0	0.0	(0.4)	0.0	0.0
Other	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
Long Term Liabilities	(0.6)	(0.7)	(1.3)	(1.3)	(1.3)
Long term borrowings	0.0	0.0	0.0	0.0	0.0
Other long term liabilities	(0.6)	(0.7)	(1.3)	(1.3)	(1.3)
Net Assets	15.5	19.8	19.2	19.6	21.5
Minority interests	0.0	0.0	0.0	0.0	0.0
Shareholders' equity	15.5	19.8	19.2	19.6	21.5
CASH FLOW					
Op Cash Flow before WC and tax	(0.1)	6.7	4.2	2.4	3.9
Working capital	0.1	1.3	(5.3)	1.9	(0.4)
Exceptional & other	0.0	(0.5)	(1.7)	0.0	0.0
Tax	0.0	(1.0)	0.0	0.0	0.0
Net operating cash flow	(0.0)	6.6	(2.8)	4.3	3.5
Capex	(0.8)	(1.1)	(0.8)	(0.9)	(1.1)
Acquisitions/disposals	0.0	0.0	0.0	0.0	0.0
Net interest	(0.0)	(0.0)	(0.0)	0.0	0.0
Equity financing	1.5	(0.1)	(0.5)	0.0	0.0
Dividends	0.0	0.0	(1.0)	(1.0)	(1.0)
Other	2.4	(0.5)	0.0	0.0	0.0
Net Cash Flow	3.0	4.9	(5.2)	2.3	1.4
Opening net debt/(cash)	0.6	(2.5)	(7.4)	(2.5)	(4.8)
FX	0.0	0.0	0.0	0.0	0.0
Other non-cash movements	0.0	0.0	0.2	0.0	0.0
Closing net debt/(cash)	(2.5)	(7.4)	(2.5)	(4.8)	(6.2)

Source: Company data, Edison Investment Research

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