EDISON

Riber

FY20 results

Potential intact despite pandemic

Tech hardware & equipment

Riber's FY20 results showed the adverse impact of customer uncertainty caused by the coronavirus pandemic and the French government's tightening up on exports to China. As order intake has improved in recent months, with orders for three systems received since end FY20, we leave our FY21 estimates unchanged.

Year end	Revenue (€m)	PBT* (€m)	EPS* (€)	DPS (€)	P/E (x)	Yield (%)
12/19	33.5	0.9	0.03	0.03	57.3	1.7
12/20	30.2	0.7	0.02	0.03	86.0	1.7
12/21e	29.1	0.9	0.03	0.03	57.3	1.7
12/22e	32.8	1.8	0.06	0.05	28.7	2.9

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

FY20 sales affected by export licence issues

As announced in January, FY20 revenues were €3.2m lower year-on-year at €30.2m, reflecting fewer MBE system deliveries, minimal evaporator sales and a 24% jump in service revenues. Total revenues would have been over €31m had the French government not refused export licences for R&D systems and certain types of spares to China. Adjusted operating profit reduced by only €0.2m to €0.7m. Riber moved from €5.7m net cash at the end of FY19 to €0.3m net debt at end FY20, primarily because of an increase in working capital related to the preparation of two systems for which firm orders were received in H121. Riber obtained two loans backed by the French government totalling €8.0m to ensure it could maintain investment in R&D despite cash flow being affected by the delay in orders.

Order book picking up

At €14.4m, the FY20 year-end order book was €14.3m lower than a year previously. Management attributed this to the government's refusal to grant export licences worth around €13m. In addition, while enquiry levels were high throughout FY20, customers were slow to sign contracts given the economic uncertainty. The FY20 year-end order book contained only two MBE systems. Since the year end, Riber has received orders for two production systems, each priced at several million euros and an R&D system, so we leave our FY21 estimates unchanged. However, we expect system deliveries to be H2 weighted.

Valuation: Trading at a discount to peers

Riber's share price has dropped back from the €2.17 high reached in April following the news that a customer in Asia had placed an order for its fifth production system. At current levels, the shares are trading at a discount to the mean of its peers (Aixtron and Veeco) with respect to prospective EV/Sales and EV/EBITDA multiples (eg year 1 EV/EBITDA 16.0x vs 18.2x). We believe that this level of discount is justified given Riber's smaller market capitalisation and lower margins. However, we see scope for share price appreciation if receipt of a major evaporator order or higher than anticipated numbers of MBE system orders, which could be catalysed by a relaxation of export controls, drive estimate upgrades.

11 May 2021

Price	**€1.72**
Market cap	**€36m**

Net debt (€m) at end December 2020 (excluding IFRS 16 lease liabilities)	0.3
Shares in issue, excluding treasury shares	21.0m
Free float	50.0%
Code	RIB
Primary exchange	Euronext Growth Paris
Secondary exchange	N/A

Share price performance

%	1m	3m	12m
Abs	1.9	11.1	20.0
Rel (local)	(1.3)	(0.4)	(13.8)
52-week high/low		€2.18	€1.26

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

AGM	25 June 2021

Analyst

Anne Margaret Crow +44 (0)20 3077 5700

tech@edisongroup.com

Edison profile page

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FY20 results

FY20 systems revenues adversely affected by export bans

FY20 revenues were €3.2m lower year-on-year at €30.2m. Ten MBE systems were shipped compared with 12 in FY19, although the FY19 total included two MBE systems where deliveries had slipped into Q119. As expected, evaporator sales were minimal (€0.3m), compared with €1.0m in FY19, as the pause in investment in the OLED screen industry continued. Sales of services and accessories jumped by €2.3m to €11.7m, reflecting management's stated strategy of growing this activity. Total revenues would have been over €31m had the French government not refused export licences for R&D systems and certain types of spares to China. China is an important geographical market for Riber, accounting for almost 50% of FY19 revenues.

Gross margin improved slightly, by 0.5pp to 30.1%, reflecting a higher proportion of service revenues compared to system revenues and the elimination of penalties for late delivery or commissioning of systems, which accounted for €0.5m of charges in FY19. Sales and marketing expenses fell by 18%, primarily because of lower travel costs and a delay in replacing a sales manager in the United States. While gross R&D costs were 16% higher, the company was able to capitalise a larger proportion, so R&D expenses declined by 5%. Administrative expenses increased by 8% compared with FY19, which benefited from a reduction in the level of provision associated with the allocation of shares in August 2018. Adjusted operating profit reduced by €0.2m to €0.7m. This was substantially ahead of our €0.0m estimate because the proportion of R&D costs that the group was able to capitalise was higher than management had initially expected. Financial charges increased from zero to €0.5m (non-cash charge which we treat as an exceptional) because of the effect of the devaluation of the US dollar against the euro on receivables denominated in US dollars. Adjusted profit before tax fell by €0.2m to €0.7m. Management is proposing a cash payout of €0.03/share for FY20, which will be paid in July 2021 (€0.03/share previous year).

Liquidity benefits from €8.0m government-backed loans

Riber moved from €5.7m net cash at the end of FY19 to €0.3m net debt (excluding IFRS 16 lease liabilities) at end FY20. The key factors behind this were a €5.3m increase in working capital, €0.8m capitalised R&D (€0.7m in FY19), €0.8m capital expenditure (€0.9m in FY19) and €0.6m dividend payments. The increase in working capital is primarily linked to the preparation of two systems for which firm orders were received in H121. In addition, there was a reduction in customer prepayments for systems reflecting the low order intake (only three systems) during FY20. Despite the cash outflow during the period, cash at the end of December 2020 was €8.0m, higher than the €5.9m at the end of December 2019. This is because Riber obtained two loans backed by the French government totalling €8.0m and repayable over a four-year period from FY22 onwards to ensure it could maintain investment in R&D despite cash flow being affected by the delay in orders.

Outlook

Riber's manufacturing facility has remained operational throughout the COVID-19 pandemic. Because its MBE systems are used in research on new materials and for the production of electronic and opto-electronic devices used in communications networks and 3D sensing applications such as facial recognition, enquiry levels remain high. However, at €14.4m, the FY20 year-end order book was €14.3m lower than a year previously. Management attributed this to the government's refusal to grant export licences worth around €13m. In addition, while enquiry levels were high throughout FY20, customers were slow to sign contracts given the economic uncertainty.

The FY20 year-end order book contained only two MBE systems, both for R&D activity. One was from a European customer for research into opto-electronics components, probably LiDAR, for the automotive industry, the other an Asian customer. In January, Riber received an order from an Asian customer for use in research including telecom lasers for fibre optical networks. In March the company received an order from an Asian customer for its second multi-wafer production system, taking the total to €17.3m. In April it received an order from another Asian customer for its fifth multi-wafer production system, which will be used to manufacture electronic and opto-electronic devices. Each of these production systems is priced at several million euros. All five of the systems on order are scheduled for delivery in FY21.

Q121 revenues were down €2.1m year-on-year at €3.2m and consisted entirely of service revenues, which were 4% higher than a year previously. The difference was that Q120 benefited from the delivery of a production machine.

Management has not provided formal guidance for FY21. It expects that the services and accessories business will continue to progress and aims to improve the group's profitability compared with FY20.

We leave our FY21 estimates unchanged and present FY22 estimates for the first time. Our estimates make the following assumptions:

- We model a year-on-year reduction in the number of MBE systems for delivery in FY21 to reflect the delays Riber experienced in closing orders during FY20 (four production and six R&D systems in FY20 versus three production and six R&D systems in FY21). We model a modest increase to four production and six R&D systems in FY22. Management expects to benefit from some of its customers shifting production from China to Singapore or Taiwan so they can continue to participate in US-centric supply chains. It also expects to benefit from the French government's investment in R&D centres. The delivery in April 2021 of a higher throughput MBE 8000 system to IntelliEPI in Texas for VCSEL production is encouraging, demonstrating that customers can benefit from the high precision deposition capability of MBE technology compared with metal organic chemical vapour deposition (MOCVD) without compromising productivity.
- Management has maintained contact with its customers for evaporators and is developing a next-generation linear injector, so is confident that the company will secure multi-million orders from this sector again, as it has in the past. For example, evaporator revenues totalled €14.4m in FY17 and €11.6m in FY18 as the OLED industry was in an investment phase. However, since there were no evaporator orders on the book at end Q121, we take a prudent view and model evaporator revenues at FY20 levels (ie €0.3m) in both FY21 and FY22.
- We model a 15% increase in service revenues during FY21, followed by a 10% increase in FY22, in line with management's stated strategy of growing this activity.
- The change in product mix to a higher proportion of service revenues automatically increases the gross margin applied in FY21.
- We maintain DPS at FY20 levels in FY21 (€0.03/share), then raise it to €0.05/share in FY22 because there is ample cash to do this.

Valuation – resumption of evaporator orders would benefit share price

We base our valuation on a peer multiples approach. We restrict 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.

Riber's share price has dropped back from the €2.17 high reached in April following the news that a customer in Asia had placed an order for its fifth production system. At current levels the shares are trading at a discount to the mean of its peers with respect to prospective EV/Sales and EV/EBITDA multiples. We believe that this level of discount is justified given Riber's smaller market capitalisation and lower margins. However, we see scope for share price appreciation if receipt of a major evaporator order or higher than anticipated numbers of MBE system orders, which could be catalysed by a relaxation of export controls, drive estimate upgrades.

Exhibit 1: Compound semiconductor manufacturing equipment peer multiples

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)	Gross margin 2FY (%)	EBITDA margin 2FY (%)
Aixtron	1,899	4.7	4.1	23.1	17.6	36.5	29.2	41.6	23.3
Veeco Instruments	920	2.0	1.9	13.3	9.8	19.0	14.8	43.1	18.9
Mean		3.3	3.0	18.2	13.7	27.8	22.0		
Riber	38	1.3	1.2	16.0	11.4	59.8	27.9	35.0	10.4

Source: Refinitiv, Edison Investment Research. Note: Priced at 6 May 2021

Exhibit 2: Financial summary

€m	2019	2020	2021e	2022e
31-December	IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT				
Revenue	33.5	30.2	29.1	32.8
Cost of Sales	(23.6)	(21.2)	(18.9)	(21.3)
Gross Profit	9.9	9.1	10.2	11.4
EBITDA	1.7	2.1	2.4	3.4
Operating Profit (before amort. and except.)	0.9	0.7	0.9	1.9
Amortisation of acquired intangibles	0.0	(0.0)	0.0	0.0
Exceptionals	0.0	0.0	0.0	0.0
Share-based payments	0.0	0.0	0.0	0.0
Reported operating profit	0.9	0.7	0.9	1.9
Net Interest	(0.0)	(0.0)	(0.1)	(0.1)
Profit Before Tax (norm)	0.9	0.7	0.9	1.8
Profit Before Tax (reported)	1.0	0.2	0.9	1.8
Reported tax	0.1	0.0	0.0	0.0
Profit After Tax (norm)	0.6	0.5	0.6	1.4
Profit After Tax (reported)	1.1	0.3	0.9	1.8
Average Number of Shares Outstanding (m)	20.8	20.8	21.0	21.0
EPS - normalised (€)	0.03	0.02	0.03	0.06
Dividend (€)	0.03	0.03	0.03	0.05
Revenue growth (%)	7.0	-9.7	-3.8	12.6
Gross Margin (%)	29.6	30.1	35.2	35.0
EBITDA Margin (%)	5.0	7.0	8.4	10.4
Normalised Operating Margin	2.7	2.4	3.2	5.9
BALANCE SHEET				
Fixed Assets	11.4	11.3	11.4	11.4
Intangible Assets	2.6	2.9	3.2	3.5
Tangible Assets	5.4	5.3	5.1	4.8
Investments & other	3.4	3.1	3.1	3.1
Current Assets	26.8	29.1	30.4	32.7
Stocks	11.5	14.3	13.5	13.5
Debtors	8.0	5.1	6.4	7.2
Cash & cash equivalents	5.9	8.0	8.9	10.4
Other	1.3	1.7	1.7	1.7
Current Liabilities	(17.3)	(11.4)	(12.3)	(13.4)
Creditors	(13.0)	(7.9)	(8.8)	(9.9)
Tax and social security	(0.0)	(0.0)	(0.0)	(0.0)
Short term borrowings*	(0.1)	(0.1)	(0.1)	(0.1)
Other	(4.2)	(3.5)	(3.5)	(3.5)
Long Term Liabilities	(1.7)	(10.0)	(10.0)	(10.0)
Long term borrowings*	(0.2)	(8.2)	(8.2)	(8.2)
Other long term liabilities	(1.5)	(1.8)	(1.8)	(1.8)
Net Assets	19.2	19.0	19.4	20.7
CASH FLOW				
Op Cash Flow before WC and tax	1.7	2.1	2.4	3.4
Working capital	4.2	(5.3)	0.5	0.3
Exceptional & other	0.6	(0.6)	0.0	0.0
Tax	0.0	(0.0)	0.0	0.0
Net operating cash flow	6.5	(3.8)	2.9	3.7
Capex	(1.6)	(1.5)	(1.6)	(1.6)
Acquisitions/disposals	(0.2)	(0.1)	0.0	0.0
Net interest	(0.0)	(0.0)	0.0	0.0
Equity financing	0.1	(0.1)	0.0	0.0
Dividends	(1.0)	(0.6)	(0.6)	(0.6)
Other	(0.4)	0.5	0.0	0.0
Net Cash Flow	3.3	(5.7)	0.7	1.5
Opening net debt/(cash)*	(2.5)	(5.7)	0.3	(0.6)
FX	0.0	(0.1)	0.0	0.0
Other non-cash movements	(0.2)	(0.2)	0.0	0.0
Closing net debt/(cash)*	(5.7)	0.3	(0.6)	(2.1)

Source: Company accounts, Edison Investment Research. Note: *Excluding IFRS 16 lease liabilities.

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