

CVD Equipment Corporation

(CVV)

4.11 +0.05 (+1.23%)

At close 6/07/2022 04:00PM EDT

CEO Leonard Rosenbaum	Description CVD Equipment Corporation, together with its subsidiaries, designs, develops, manufactures, and sells process equipment and solutions that are used to develop and manufacture materials and coatings for research and industrial applications in the United States. The company was incorporated in 1982 and is headquartered in Central Islip, New York.
Sector Industrials	
Industry Specialty Industrial Machinery	It operates through three segments: CVD, SDC, and CVD Materials; and offers chemical vapor deposition systems for use in the research, development, and manufacture of aerospace, medical components, semiconductors, LEDs, carbon nanotubes, nanowires, solar cells, and other industrial applications; and rapid thermal processing systems for use in implant activation, oxidation, silicide formation, and other processes.
Exchange NASDAQ	

At the end of trading Tuesday, CVV finished 3.52 percent below its market price one year ago (4.26, 8-Jun-21), with a negative 3.52 percent return. Despite the current market correction, CVV is experiencing a positive 2022, although minuscule. Indeed, year-to-date, CVV is up 0.24 percent (4.10, 3-Jan-22) and today, as of this valuation, it is again up 0.05 (+1.12%), a modest 2.46 percent in two days.

Revenue over the last four years has been declining; however, it appears to be on the cusp of turning around.

	(\$ in thousands)	Average	2021	2020	2019	2018	2017	2016
Revenue			16,447	16,920	19,647	24,334	41,129	20,955
g REVENUE		3.90%	-2.80%	-13.88%	-19.26%	-40.83%	96.27%	

2021 EBIT increased 161.4 percent, Net Income increased as well, 178.1 percent. However, 2022 isn't starting off very well at all for CVV. Q1 revenue is down 1.30 percent from Q4 2021 and EPS is getting hit too, -0.15. There is a bright-side though, EBIT and Net Income were both up during Q1 2022 and are trending in a positive direction.

Our DCF valuation indicates CVV is trading at a **discount** as compared to the current market, with an implied share price between 8.50 and 9.51.

Estimated Value Spread: ± 3%		
Lower Limit	Middle Range	Upper Limit
\$8.24	\$8.25 - \$9.79	\$9.80
CVV is currently trading at a discount		

Our valuation assumes a sustained 3.9 percent growth in revenue year-over-year; which we believe is reasonable through 2026. Although CVV is trading at a discount, we are neutral when it comes to whether to buy or sell. Their ROE (18.77%), ROA (16.42%), P/E (5.25), and P/B (0.98) all point in the direction to buy; a dismal operating margin of -21.61 percent is enough reason to sell. They have a compelling 13.15 percent Debt/Equity; but again, nothing to really persuade us to recommend any action.

CVD Equipment Corporation

CVV

\$4.11 + 0.05 (+1.23%)

Target price range: \$8.50 - \$9.51

Specialty Industrial Machinery

	2022	2023	2024	2025	2026
	1	2	3	4	5
EBIT	\$ 5,409.2	\$ 6,086.6	\$ 6,848.8	\$ 7,115.9	\$ 7,393.3
Tax Expense	1,190.0	1,339.1	1,506.7	1,565.5	1,626.5
NOPLAT	4,219.2	4,747.6	5,342.1	5,550.4	5,766.8
Depreciation	848.6	881.7	916.0	951.8	988.9
CapEx	2,428.9	2,523.6	2,622.0	2,724.2	2,830.4
Δ NWC	(6,077.5)	415.5	431.7	448.6	466.0
Unlevered FCF	(3,438.5)	3,521.2	4,067.9	4,226.5	4,391.3
Terminal Value					54,955
PV of UFCF	(3,121.7)	2,902.1	3,043.8	2,871.0	36,598
Enterprise Value	\$ 42,293.5				
Net Debt	(14,885.9)				
Implied Equity	\$ 57,179.3				
Outstanding Shares	6,730.0				
Implied Share Price	\$8.50				

* Using 1.355 Beta resulting in 10.151% WACC

USD\$ in thousands

	2022	2023	2024	2025	2026
	1	2	3	4	5
Free Cash Flow	(3,438.5)	3,521.2	4,067.9	4,226.5	4,391.3
<i>Discount Factor</i>	<i>0.93</i>	<i>0.87</i>	<i>0.81</i>	<i>0.75</i>	<i>0.70</i>
Present Value of Free	(3,205.2)	3,059.4	3,294.6	3,190.7	3,090.1
Enterprise Value	\$ 49,134.9			TV EBITDA	5,549.5
Net Debt	(14,885.9)			Exit Multiple	10.9
Implied Equity	\$ 64,020.8			Terminal Value (TV)	60,533.2
Outstanding Shares	6,730.0			<i>Discount Factor</i>	<i>0.66</i>
Implied Share Price	\$9.51			PV of TV	39,705.3
				PV of FCF	9,429.6

* Using relevered 0.8080 Beta (based on comparables) resulting in 7.281% WACC

USD\$ in thousands

Assumptions:

- Using tax rate of 22.00% for projected years
- Terminal Value long-term growth rate is 2.000%
- 2.85% Risk free rate
- CVD Equipment Corporation Beta = 1.355
- 5.58% Equity Risk Premium