

Singapore Company Update

Nanofilm Technologies

Bloomberg: NANO SP | Reuters: NANO.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

24 Feb 2022

BUY

Last Traded Price (23 Feb 2022): S\$2.87 (STI : 3,393.00)
Price Target 12-mth: S\$4.12 (43% upside)

Analyst

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What's New

- Strong rebound in 2H21; FY21 results in line
- Room for improvement in margins, as production is scaled up with new Plant 2
- Well positioned for growth; supply chain disruptions shifted growth momentum to 2022
- No change in forecasts; maintain BUY with S\$4.12 TP

Price Relative



Forecasts and Valuation

FY Dec (\$m)	2020A	2021A	2022F	2023F
Revenue	218	247	333	387
EBITDA	90.3	95.4	130	151
Pre-tax Profit	70.3	69.9	97.3	113
Net Profit	57.6	62.2	80.3	93.7
Net Pft (Pre Ex.)	57.6	62.2	80.3	93.7
Net Pft Gth (Pre-ex) (%)	61.1	8.0	29.1	16.7
EPS (S cts)	8.75	9.45	12.2	14.2
EPS Pre Ex. (S cts)	8.75	9.45	12.2	14.2
EPS Gth Pre Ex (%)	61	8	29	17
Diluted EPS (S cts)	8.75	9.45	12.2	14.2
Net DPS (S cts)	1.44	2.00	2.44	2.85
BV Per Share (S cts)	65.4	65.3	75.0	86.4
PE (X)	32.8	30.4	23.5	20.2
PE Pre Ex. (X)	32.8	30.4	23.5	20.2
P/Cash Flow (X)	32.0	25.8	16.8	15.7
EV/EBITDA (X)	19.0	18.8	13.7	11.6
Net Div Yield (%)	0.5	0.7	0.8	1.0
P/Book Value (X)	4.4	4.4	3.8	3.3
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	20.9	14.5	17.4	17.6
Earnings Rev (%)			0	0
Consensus EPS (S cts)			12.2	14.6
Other Broker Recs:		B: 5	S: 2	H: 2

Source of all data on this page: Company, DBS Bank, Bloomberg Finance L.P.

Well positioned for growth

Investment Thesis:

Supply chain disruptions shifted growth momentum to 2022. After an eventful year in 2021, plagued by supply chain disruptions, increased expenses relating to the new Shanghai Plant 2, and the resignation of key executives, which dented investor confidence, we are hopeful that the group can deliver stronger growth in 2022. With investments made in the new Shanghai Plant 2, which is about double the size of Plant 1, and additional equipment to significantly boost the group's long-term production capacity, Nanofilm is well positioned for growth.

Strong earnings ahead. With the worst in supply chain disruptions likely behind us, we expect a strong earnings growth of 29% in FY22F, followed by another 17% in FY23F. Upside could come from: 1) Stronger momentum for the 3C segment, 2) higher contribution from the NFBU segment, and 3) successful entry into new segments. Growth is supported by a strong balance sheet with net cash of S\$189m as at end-June 2021 and the new Shanghai Plant 2, which still has ample room for expansion.

Valuation:

TP of S\$4.12 on PEG valuation. Our TP of S\$4.12 is still based on the PEG valuation method, pegged to peers' average of 1.16x. At the current PE of 24.2x for FY22F, the group is trading at c.-2SD of its average PE since listing in October 2020. Maintain BUY.

Where we differ:

We value the stock on a PEG methodology, vs. the conventional PE method, to capture the strong growth potential going forward.

Key Risks to Our View:

The company's ability to establish, maintain, and protect its proprietary intellectual property rights, and the resurgence of the COVID pandemic further aggravating the supply chain.

At A Glance

Issued Capital (m shrs)	658
Mkt. Cap (\$m/US\$m)	1,889 / 1,404
Major Shareholders (%)	
Pearl Yard Holdings Inc	38.6
Venezio Investments Pte Ltd	7.3
Shi Xu	6.8
Free Float (%)	41.3
3m Avg. Daily Val (US\$m)	4.6
GIC Industry:	Materials / Chemicals



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Nanofilm Technologies

WHAT'S NEW

Strong rebound in 2H21; FY21 results in line

Results Highlights

Strong rebound in 2H21. Revenue for 2H21 surged 55% from 1H21, while net profit jumped 148%. Net margins improved to 29.5% from 19% in 1H21. On a y-o-y basis, 2H21 net profit grew 13% to S\$44.3m with net margin improving to 29.5% from 27.9% in 2H21. 2H21 net profit accounted for 77% of the full-year number, vs. 68% in 2H20.

FY21 results in line. For the full year, revenue increased 13% to S\$246.7m and net profit grew 8% to S\$62.2m from FY20, in line with our estimates. A 1Sct DPS was declared. Together with the 1Sct interim DPS already paid, the total DPS of 2 Scts works out to a dividend payout ratio of 21%.

2021 affected by higher expenses, some non-recurring relating to Shanghai Plant 2. 2021 was affected by the incurrence of expenses, part of which were non-recurring, for the group's new Shanghai Plant 2 and purchase of additional equipment. Excluding these, pretax profit would be stronger, at S\$73m (vs. S\$69.9m) after adjusting for these non-recurring expenses.

Segmental performance:

- 1) AMBU to benefit from easing of supply chain disruption.** Revenue for the Advanced Materials Business Unit (AMBU), which contributed 79% to total revenue, grew 6%, mainly led by the increased revenue contribution from the Consumer Electronics, Communication and Computers (3C), and automotive segments. The easing of supply chain disruptions should help this unit to register strong growth in FY22.
- 2) NFBU – new projects ramping up.** The Nanofabrication Business Unit (NFBU) saw a 31% decline in revenue, due to an end-of-life project in 1H21. However, the mass production of its first micro-lens array (MLA) project for the new-generation wearables will contribute positively to the group.
- 3) IEBU to further penetrate the renewable energy industry.** Though the contribution is still small, the Industrial Equipment Business Unit (IEBU) performed well, with a 45% surge in revenue driven by a sustained recovery in the capital expenditure cycle of its customers. The group is also developing new equipment designs and solutions in a bid to further penetrate the renewable energy industry.

Sydragen still making losses. The group's new strategic hydrogen fuel cell business through Sydragen, a joint venture with Temasek, contributed a net loss of S\$1m due to operating expenses incurred for business-building in its first year of operation. Sydragen is on track to recognise its initial revenue in an automotive project in 2H22, and is expected to turn profitable most likely in two to three years' time.

Room for improvement in margins. Net margin improved to 29.5% from 19% in 1H21. For FY21, net margin was lower at 25.2%, vs. 26.4% in FY20, partly due to the increase in expenses relating to the new plant. As the group scales up, there is room for margin improvement, through economies of scale from existing products.

R&D and related expenses account for 7% of FY21 revenue. R&D and Engineering spending increased 34% y-o-y to S\$17m, equivalent to 7% of FY21 revenue, up from 5% in FY20, as development efforts intensified in exciting new areas. Nanofilm's proprietary technology and nanotechnology solutions are the key differentiating factors setting it apart from its peers.

Increasing contribution from other customers. Revenue contribution from other customers, excluding the group's single largest customer, has increased to 39% in FY21, from 32% in FY20.

Outlook & Recommendation

Supply chain disruptions shifted growth momentum to 2022. After an eventful year in 2021, plagued by supply chain disruptions, increased expenses relating to the new Shanghai Plant 2, and the resignation of key executives denting investor confidence, we are hopeful that the group can deliver stronger growth in 2022.

Well positioned for growth. Investments made in the new Shanghai Plant 2, which is about double the size of Plant 1, and additions of 59 pieces of coating equipment, bringing the total to 235, significantly boosted the group's long-term production capacity. The bulk of its current production is still from the existing Plant 1. There is still a lot of room for expansion in Plant 2, which is currently running at a low utilisation rate. Coupled with the increased spending in R&D and Engineering, the group is well poised for future growth.

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Multiple growth drivers. Nanofilm's s deep-tech advanced materials and nanofabrication solutions open the group to a wide range of industries to capture growth opportunities.

No change in forecasts; maintain BUY with a S\$4.12 TP.

We expect a strong earnings growth of 29% in FY22F, followed by another 17% in FY23F. Upside could come from: 1) Stronger momentum for the 3C segment; 2) higher contribution from the NFBU segment, as various projects are in the mass production stage; and 3) successful entry into new segments, e.g., semiconductor tools, automotive, and industrial equipment. Our TP of S\$4.12 is still based on the PEG valuation method, pegged to the peers' average of 1.16x.

At a current PE of 24.2x for FY22F, the group is trading at c.-2SD of its average PE since listing in October 2020. Maintain BUY.

Company Background

Nanofilm is a leading provider of nanotechnology solutions in Asia, leveraging its proprietary technologies and core competencies in R&D, engineering, and production to provide technology-based solutions across a wide range of industries.

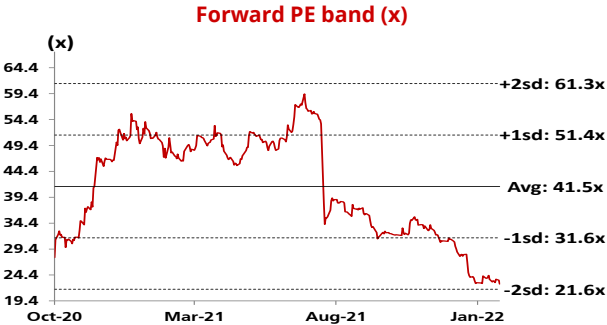
Interim Income Statement (S\$m)

FY Dec	2H2020	1H2021	2H2021	% chg y-o-y	% chg h-o-h
Revenue	141	97	150	6.8	55.3
Cost of Goods Sold	(62)	(52)	(72)	17.6	39.1
Gross Profit	79	45	78	(1.6)	74.2
Other Oper. (Exp)/Inc	(31)	(24)	(29)	(5.7)	23.6
Operating Profit	48	21	49	1.0	130.7
Other Non Opg (Exp)/Inc	0	0	0	-	-
Associates & JV Inc	0	0	0	-	-
Net Interest (Exp)/Inc	0	0	0	-	-
Exceptional Gain/(Loss)	0	0	0	-	-
Pre-tax Profit	48	21	49	1.9	128.9
Tax	(8)	(3)	(4)	(48.7)	34.4
Minority Interest	0	0	0	-	-
Net Profit	39	18	44	13.0	147.8
Net profit bef Except.	39	18	44	13.0	147.8
EBITDA	58	33	62	7.0	89.3
Margins (%)					
Gross Margins	56.1	46.1	51.7		
Opg Profit Margins	34.2	21.8	32.3		
Net Profit Margins	27.9	18.5	29.5		

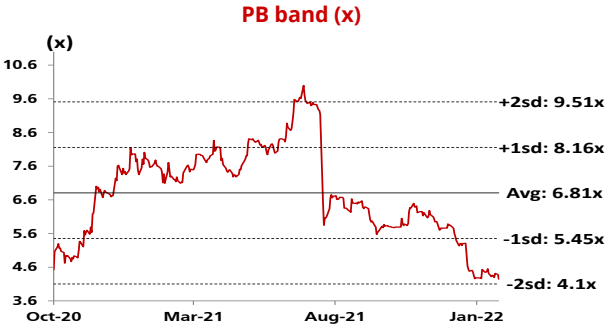
Source of all data: Company, DBS Bank

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Historical PE and PB band



Source: Bloomberg Finance L.P., DBS Bank estimates



Source: Bloomberg Finance L.P., DBS Bank estimates

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Key Assumptions

FY Dec	2019A	2020A	2021A	2022F	2023F
Revenue Growth (%)	16.3	52.8	13.0	35.1	16.2
EBITDA Margin (%)	40.0	44.4	38.8	45.6	45.7

Segmental Breakdown

FY Dec	2019A	2020A	2021A	2022F	2023F
Revenues (\$m)					
Advanced Materials	110	182	194	277	325
Nanofabrication	5.91	11.3	7.80	9.05	10.5
Industrial Equipment	27.4	24.6	44.6	46.9	51.5
Total	143	218	247	333	387

Income Statement (\$m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Revenue	143	218	247	333	387
Cost of Goods Sold	(65.2)	(98.6)	(125)	(160)	(186)
Gross Profit	77.7	120	122	173	201
Other Opng (Exp)/Inc	(38.8)	(52.7)	(59.8)	(75.0)	(87.1)
Operating Profit	38.9	67.1	62.4	98.3	114
Other Non Opg (Exp)/Inc	1.91	4.18	7.22	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(0.9)	(1.1)	0.28	(1.1)	(1.1)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	39.9	70.3	69.9	97.3	113
Tax	(5.4)	(12.2)	(7.3)	(17.0)	(19.5)
Minority Interest	1.21	(0.5)	(0.3)	0.0	0.0
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	35.8	57.6	62.2	80.3	93.7
Net Profit before Except.	35.8	57.6	62.2	80.3	93.7
EBITDA	55.6	90.3	95.4	130	151
Growth					
Revenue Gth (%)	16.3	52.8	13.0	35.1	16.2
EBITDA Gth (%)	11.2	62.5	5.7	36.0	16.0
Opg Profit Gth (%)	9.5	72.8	(7.1)	57.7	16.2
Net Profit Gth (Pre-ex) (%)	22.0	61.1	8.0	29.1	16.7
Margins & Ratio					
Gross Margins (%)	54.3	54.9	49.5	52.0	52.0
Opg Profit Margin (%)	27.2	30.8	25.3	29.5	29.5
Net Profit Margin (%)	25.0	26.4	25.2	24.1	24.2
ROAE (%)	32.7	20.9	14.5	17.4	17.6
ROA (%)	16.9	14.7	10.4	11.7	12.1
ROCE (%)	20.5	17.0	11.8	13.0	13.7
Div Payout Ratio (%)	26.7	16.5	21.2	20.0	20.0
Net Interest Cover (x)	44.7	64.1	NM	93.8	109.0

Source: Company, DBS Bank

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Interim Income Statement (\$\$m)

FY Dec	2H2019	1H2020	2H2020	1H2021	2H2021
Revenue	87.7	77.8	141	96.6	150
Cost of Goods Sold	(38.6)	(36.9)	(61.6)	(52.1)	(72.5)
Gross Profit	49.1	40.9	78.9	44.6	77.6
Other Oper. (Exp)/Inc	(21.6)	(17.6)	(30.8)	(23.5)	(29.1)
Operating Profit	27.5	23.3	48.0	21.0	48.5
Other Non Opp (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(0.4)	(0.7)	(0.3)	0.20	0.08
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	27.0	22.6	47.7	21.2	48.6
Tax	(3.4)	(4.0)	(8.2)	(3.1)	(4.2)
Minority Interest	0.70	(0.2)	(0.3)	(0.2)	(0.1)
Net Profit	24.4	18.4	39.2	17.9	44.3
Net profit bef Except.	24.4	18.4	39.2	17.9	44.3
EBITDA	35.2	31.9	58.4	33.0	62.4
Growth					
Revenue Gth (%)	58.7	(11.2)	80.5	(31.2)	55.3
EBITDA Gth (%)	72.8	(9.3)	82.8	(43.5)	89.3
Opp Profit Gth (%)	106.6	(15.2)	106.3	(56.2)	130.7
Net Profit Gth (%)	114.2	(24.6)	113.4	(54.4)	147.8
Margins					
Gross Margins (%)	56.0	52.6	56.1	46.1	51.7
Opp Profit Margins (%)	31.3	29.9	34.2	21.8	32.3
Net Profit Margins (%)	27.8	23.6	27.9	18.5	29.5

Balance Sheet (\$\$m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Net Fixed Assets	107	175	290	340	385
Invt in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other LT Assets	17.0	17.8	26.1	24.6	23.1
Cash & ST Invt	25.4	227	177	193	215
Inventory	14.7	15.8	17.4	24.8	28.8
Debtors	58.2	95.7	107	117	136
Other Current Assets	11.4	17.7	27.9	27.9	27.9
Total Assets	234	549	645	728	817
ST Debt	3.86	21.4	4.62	4.62	4.62
Creditor	37.0	47.2	60.5	68.3	79.4
Other Current Liab	14.4	19.1	8.95	20.1	22.6
LT Debt	49.9	18.3	26.2	26.2	26.2
Other LT Liabilities	1.33	2.46	69.7	69.7	69.7
Shareholder's Equity	121	431	430	494	569
Minority Interests	6.91	9.59	45.4	45.4	45.4
Total Cap. & Liab.	234	549	645	728	817
Non-Cash Wkg. Capital	32.9	62.9	82.6	81.6	91.1
Net Cash/(Debt)	(28.4)	188	146	162	184
Debtors Turn (avg days)	146.9	128.6	149.8	122.8	119.7
Creditors Turn (avg days)	228.2	193.0	199.0	182.9	180.2
Inventory Turn (avg days)	114.9	70.0	61.3	59.8	65.4
Asset Turnover (x)	0.7	0.6	0.4	0.5	0.5
Current Ratio (x)	2.0	4.1	4.4	3.9	3.8
Quick Ratio (x)	1.5	3.7	3.8	3.3	3.3
Net Debt/Equity (X)	0.2	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	0.2	CASH	CASH	CASH	CASH
Capex to Debt (%)	88.5	202.5	354.7	259.5	259.5

Source: Company, DBS Bank

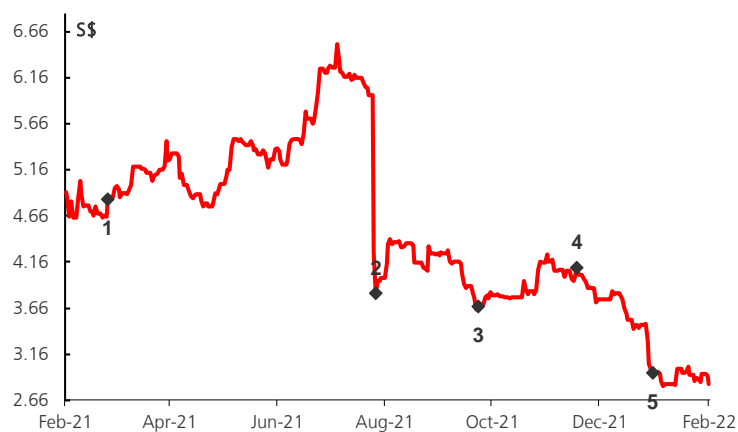
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Cash Flow Statement (\$m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Pre-Tax Profit	39.9	70.3	69.9	97.3	113
Dep. & Amort.	14.8	19.0	25.8	31.5	36.3
Tax Paid	(7.1)	(10.2)	(8.1)	(5.8)	(17.0)
Assoc. & JV Inc/(loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg. Cap.	2.67	(26.1)	(16.0)	(10.2)	(12.0)
Other Operating CF	2.18	6.11	1.62	0.0	0.0
Net Operating CF	52.5	59.0	73.2	113	121
Capital Exp. (net)	(47.6)	(80.5)	(109)	(80.0)	(80.0)
Other Invt. (net)	0.0	0.0	0.0	0.0	0.0
Invt. in Assoc. & JV	2.61	0.0	0.0	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.0
Other Investing CF	(0.3)	0.0	0.0	0.0	0.0
Net Investing CF	(45.3)	(80.5)	(109)	(80.0)	(80.0)
Div Paid	(9.5)	(9.6)	(6.6)	(16.1)	(18.7)
Chg in Gross Debt	3.95	35.3	(14.8)	0.0	0.0
Capital Issues	0.0	206	1.77	0.0	0.0
Other Financing CF	(1.6)	(9.9)	14.7	0.0	0.0
Net Financing CF	(7.2)	222	(4.9)	(16.1)	(18.7)
Currency Adjustments	(0.5)	1.10	1.17	0.0	0.0
Chg in Cash	(0.5)	202	(39.9)	16.7	21.8
Opg CFPS (S cts)	7.57	12.9	13.5	18.7	20.1
Free CFPS (S cts)	0.74	(3.3)	(5.5)	4.98	6.16

Source: Company, DBS Bank

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	18 Mar 21	4.84	6.22	BUY
2:	17 Aug 21	3.82	4.18	HOLD
3:	14 Oct 21	3.68	4.05	HOLD
4:	09 Dec 21	4.10	4.96	BUY
5:	21 Jan 22	2.95	4.12	BUY

Note: Share price and Target price are adjusted for corporate actions.

Source: DBS Bank

Analyst: Lee Keng LING

DBS Bank recommendations are based on an Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

*Share price appreciation + dividends

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Sources for all charts and tables are DBS Bank unless otherwise specified.

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