

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

29 Jun 2022

BUY

Last Traded Price (28 Jun 2022): S\$2.39 (STI : 3,140.21)
Price Target 12-mth: S\$3.70 (55% upside) (Prev S\$4.12)

Analyst

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What's New

- Recovery in supply but end demand dampened
- Global demand for 3C affected by inflation and rising risk of recession
- Hiccup in wearables market; weaker outlook for PC market
- Cut FY22F/23F earnings by 5% each; maintain BUY with lower TP of S\$3.70

Price Relative



Forecasts and Valuation

FY Dec (S\$m)	2020A	2021A	2022F	2023F
Revenue	218	247	316	368
EBITDA	90.3	95.4	123	143
Pre-tax Profit	70.3	69.9	92.2	107
Net Profit	57.6	62.2	76.1	88.9
Net Pft (Pre Ex.)	57.6	62.2	76.1	88.9
Net Pft Gth (Pre-ex) (%)	61.1	8.0	22.4	16.8
EPS (S cts)	8.75	9.45	11.6	13.5
EPS Pre Ex. (S cts)	8.75	9.45	11.6	13.5
EPS Gth Pre Ex (%)	61	8	22	17
Diluted EPS (S cts)	8.75	9.45	11.6	13.5
Net DPS (S cts)	1.44	2.00	2.31	2.70
BV Per Share (S cts)	65.4	65.3	74.5	85.3
PE (X)	27.3	25.3	20.7	17.7
PE Pre Ex. (X)	27.3	25.3	20.7	17.7
P/Cash Flow (X)	26.7	21.5	14.3	13.7
EV/EBITDA (X)	15.5	15.4	11.8	10.1
Net Div Yield (%)	0.6	0.8	1.0	1.1
P/Book Value (X)	3.7	3.7	3.2	2.8
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	20.9	14.5	16.5	16.9
Earnings Rev (%)			(5)	(5)
Consensus EPS (S cts):			11.9	13.8
Other Broker Recs:		B: 5	S: 0	H: 4

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

Hiccup in end demand growth

Investment Thesis

Recovery in supply but end demand dampened in near term.

Nanofilm was affected by the supply chain disruptions last year while demand was strong. With the worst in supply chain disruptions likely behind us, the group is expected to rebound strongly. However, given the recent weakness in end market demand for electronic devices such as smartphones, wearables, and PCs, we have toned down our earnings projections for FY22F and FY23F by 5% each. Nanofilm has c.63% revenue exposure to the 3C (Consumer Electronics, Communication, and Computers) segment as at 1Q22.

Earnings growth still decent. Despite the cut in earnings, the earnings growth of 22%/17% for FY22F/23F, vs. 29%/17% previously, is still decent. 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. Growth is supported by a strong balance sheet with net cash of S\$146m as at end-December 2021 and the new Shanghai Plant 2, which still has ample room for expansion.

Valuation:

TP of S\$3.70 on PE valuation. We have switched the valuation methodology from a PEG basis to a PE basis, to be in line with other technology stocks in our coverage. Our new TP of S\$3.70 is pegged to 32x PE on FY22F earnings. This level is -0.5SD from the average since listing and also coincides with the PE upon listing in October 2020.

Where we differ:

We are optimistic that the group is well positioned for growth with the multiple growth engines in place.

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 (S\$m/US\$m)	1,572 / 1,134
Major Shareholders (%)	
Pearl Yard Holdings Inc	38.6
Venezio Investments Pte Ltd	7.2
Shi Xu	6.8
Free Float (%)	47.4
3m Avg. Daily Val (US\$m)	2.1
GIC Industry : Materials / Chemicals	



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WHAT'S NEW

Cut earnings by 5% on near-term demand weakness

Recovery in supply but end demand dampened. Nanofilm was affected by the supply chain disruptions last year while demand was strong. With the worst in supply chain disruptions likely behind us, we could see a strong earnings rebound. However, given the recent weakness in end market demand for electronic devices, we have toned down our earnings projection for FY22F and FY23F.

Earnings and Recommendation

Cut FY22F/23F earnings by 5% each. With the 3C segment contributing at least 50% to group revenue, weaker demand could affect the bottom line. We have revised down earnings for FY22F and FY23F by 5% each. We now project earnings growth of 22%/17% for FY22F/23F, vs. 29%/17% previously.

Maintain BUY with lower TP of S\$3.70. We have switched the valuation methodology from PEG to a PE basis, to be in line with other technology stocks in our coverage. Our new TP of S\$3.70 is pegged to 32x PE on FY22F earnings. This level is -0.5SD from the average since listing and also coincides with the PE upon listing in October 2020. Maintain BUY.

Outlook

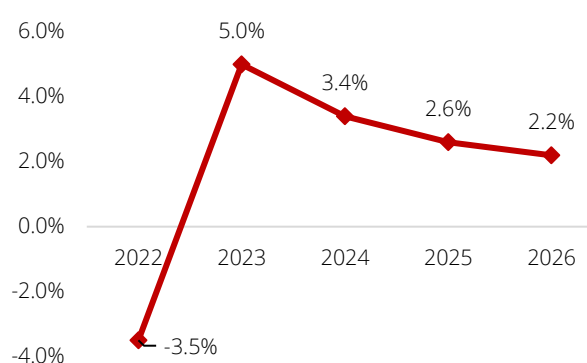
3C (Consumer Electronics, Communication, & Computers) Global demand for 3C affected by inflation and rising risk of recession. Demand for electronic devices has been relatively weak in recent months. This trend could extend in the near term. Overall, 2022 could see a drop in shipment for most segments. Near-term weaknesses would mainly be from:

- 1) The increasing rate of inflation around the world, exacerbated by an increase in oil prices due to the Russian invasion of Ukraine
- 2) The rising risk of recession could also lead to lower demand as consumers refrain from upgrading their devices or delay purchase
- 3) The lockdowns in China, affecting supply and hence pushing out demand

Slower growth for smartphones. IDC has lowered the global smartphone market volume to 1.31bn units in 2022, -3.5% from 2021, mainly due to weaknesses in China, which is affected by lockdowns, and the Russia-Ukraine war. Despite the downward revision, IDC believes

that smartphone demand is being deferred and not destroyed. Smartphones remain more resilient to macroeconomic shifts than other consumer electronics, as they have become necessity products, although refresh cycles have increased. Smartphone volumes are expected to rebound and increase by 5% in 2023 and 3.4% in 2024 as supply and demand issues both ease up.

Smartphone volume growth (y-o-y)



Source: IDC; DBS Bank

Similarly, Gartner also projects weaker y-o-y growth of 6.8% in 2022 for smartphone shipment, down from 8.7% in 2021. Growth in 2023 and 2024 is expected to be 3.6% and 3.3%, respectively.

Hiccup in wearables market. For the wearables market where Nanofilm has significant exposure, 1Q22 experienced its first-ever decline in volumes as consumers shifted spending to other categories post-pandemic, according to data compiled by IDC. The longer term outlook for wearables remains positive.

Weaker outlook for PC market. Demand for PC/tablets is expected to slow down in 2022/2023 after the strong growth in 2020/2021 driven by the COVID-19 pandemic. In the longer term, we believe the installed base will remain high and expect demand to be driven by the normalisation of telecommuting and incorporation of flexible working arrangements.

Nanofabrication business unit

Growing contribution. This unit has a strong pipeline of projects for sensory components and lenses from major leading global customers.

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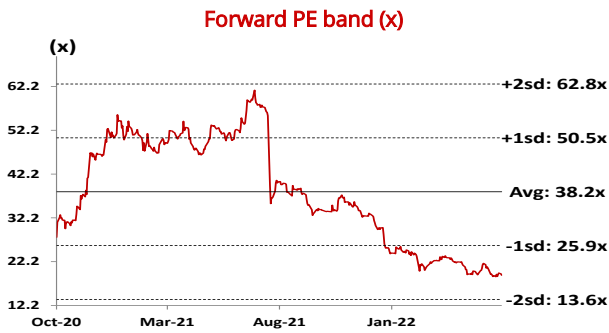
Syrogen

Production on track; maiden revenue contribution in 2H22. Syrogen's production lines have been qualified by an automotive OEM and initial production is on track, with maiden revenue contribution expected to be in 2H22. New production lines will be added progressively as demand increases.

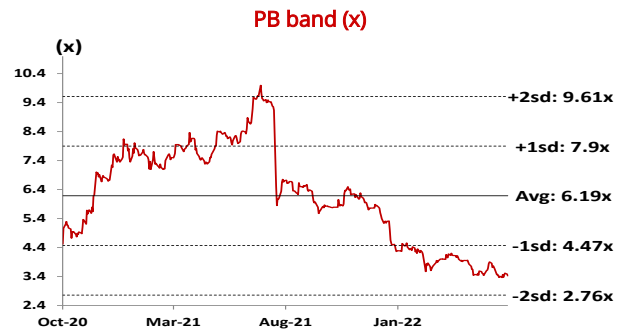
Company Background

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.

Historical PE and PB band



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



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

Nanofilm Technologies

Key Assumptions

FY Dec	2019A	2020A	2021A	2022F	2023F
Revenue Growth (%)	16.3	52.8	13.0	28.1	16.3
EBITDA Margin (%)	40.0	44.4	38.8	45.4	45.5

Segmental Breakdown

FY Dec	2019A	2020A	2021A	2022F	2023F
Revenues (\$m)					
Advanced Materials	110	182	194	260	306
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	316	368

Income Statement (\$m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Revenue	143	218	247	316	368
Cost of Goods Sold	(65.2)	(98.6)	(125)	(152)	(176)
Gross Profit	77.7	120	122	164	191
Other Opng (Exp)/Inc	(38.8)	(52.7)	(59.8)	(71.1)	(82.7)
Operating Profit	38.9	67.1	62.4	93.2	108
Other Non Opng (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	92.2	107
Tax	(5.4)	(12.2)	(7.3)	(16.1)	(18.5)
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	76.1	88.9
Net Profit before Except.	35.8	57.6	62.2	76.1	88.9
EBITDA	55.6	90.3	95.4	123	143
Growth					
Revenue Gth (%)	16.3	52.8	13.0	28.1	16.3
EBITDA Gth (%)	11.2	62.5	5.7	29.1	16.1
Opg Profit Gth (%)	9.5	72.8	(7.1)	49.5	16.3
Net Profit Gth (Pre-ex) (%)	22.0	61.1	8.0	22.4	16.8
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	16.5	16.9
ROA (%)	16.9	14.7	10.4	11.1	11.7
ROCE (%)	20.5	17.0	11.8	12.4	13.1
Div Payout Ratio (%)	26.7	16.5	21.2	20.0	20.0
Net Interest Cover (x)	44.7	64.1	NM	89.0	103.5

Source: Company, DBS Bank

Nanofilm Technologies

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 Opg (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
Opg 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
Opg 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	342	389
Invts 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 Invts	25.4	227	177	191	208
Inventory	14.7	15.8	17.4	23.5	27.3
Debtors	58.2	95.7	107	111	130
Other Current Assets	11.4	17.7	27.9	27.9	27.9
Total Assets	234	549	645	720	804
ST Debt	3.86	21.4	4.62	4.62	4.62
Creditor	37.0	47.2	60.5	64.8	75.4
Other Current Liab	14.4	19.1	8.95	19.3	21.6
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	490	562
Minority Interests	6.91	9.59	45.4	45.4	45.4
Total Cap. & Liab.	234	549	645	720	804
Non-Cash Wkg. Capital	32.9	62.9	82.6	78.7	87.8
Net Cash/(Debt)	(28.4)	188	146	161	177
Debtors Turn (avg days)	146.9	128.6	149.8	126.0	119.6
Creditors Turn (avg days)	228.2	193.0	199.0	187.7	180.2
Inventory Turn (avg days)	114.9	70.0	61.3	61.2	65.4
Asset Turnover (x)	0.7	0.6	0.4	0.5	0.5
Current Ratio (x)	2.0	4.1	4.4	4.0	3.9
Quick Ratio (x)	1.5	3.7	3.8	3.4	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

Nanofilm Technologies

Cash Flow Statement (\$m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Pre-Tax Profit	39.9	70.3	69.9	92.2	107
Dep. & Amort.	14.8	19.0	25.8	29.9	34.6
Tax Paid	(7.1)	(10.2)	(8.1)	(5.8)	(16.1)
Assoc. & JV Inc/(loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	2.67	(26.1)	(16.0)	(6.4)	(11.4)
Other Operating CF	2.18	6.11	1.62	0.0	0.0
Net Operating CF	52.5	59.0	73.2	110	114
Capital Exp.(net)	(47.6)	(80.5)	(109)	(80.0)	(80.0)
Other Invs.(net)	0.0	0.0	0.0	0.0	0.0
Invs 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)	(15.2)	(17.8)
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)	(15.2)	(17.8)
Currency Adjustments	(0.5)	1.10	1.17	0.0	0.0
Chg in Cash	(0.5)	202	(39.9)	14.7	16.7
Opg CFPS (S cts)	7.57	12.9	13.5	17.7	19.1
Free CFPS (S cts)	0.74	(3.3)	(5.5)	4.55	5.23

Source: Company, DBS Bank

Target Price & Ratings History



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

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	17 Aug 21	3.82	4.18	HOLD
2:	14 Oct 21	3.68	4.05	HOLD
3:	09 Dec 21	4.10	4.96	BUY
4:	21 Jan 22	2.95	4.12	BUY
5:	24 Feb 22	2.80	4.12	BUY

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

Completed Date: 29 Jun 2022 06:32:57 (SGT)

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