

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

9 Nov 2023

FULLY VALUED

Last Traded Price (8 Nov 2023): S\$0.930 (STI : 3,129.72)
Price Target 12-mth: S\$0.83 (11% downside) (Prev S\$0.88)

Analyst

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What's New

- 3Q23 profitable, revenue weaker than expected
- Expect market volatility to continue in 4Q, though efforts to drive margin recovery remain in place
- Expanding geographical footprints, riding on China +1 strategy
- Slashed FY23-25F earnings, maintain FULLY VALUED with lower TP of S\$0.83

Price Relative



Forecasts and Valuation

FY Dec (S\$m)	2022A	2023F	2024F	2025F
Revenue	237	164	217	265
EBITDA	76.7	33.1	60.2	74.5
Pre-tax Profit	46.2	5.42	32.2	46.3
Net Profit	43.8	4.88	27.4	39.4
Net Pft (Pre Ex.)	43.8	4.88	27.4	39.4
Net Pft Gth (Pre-ex) (%)	(29.6)	(88.9)	461.3	43.9
EPS (S cts)	6.65	0.74	4.16	5.98
EPS Pre Ex. (S cts)	6.65	0.74	4.16	5.98
EPS Gth Pre Ex (%)	(30)	(89)	461	44
Diluted EPS (S cts)	6.65	0.74	4.16	5.98
Net DPS (S cts)	1.33	0.15	0.83	1.20
BV Per Share (S cts)	63.6	64.2	67.5	72.3
PE (X)	14.0	125.6	22.4	15.5
PE Pre Ex. (X)	14.0	125.6	22.4	15.5
P/Cash Flow (X)	8.5	8.8	11.2	10.5
EV/EBITDA (X)	7.0	15.7	8.7	6.9
Net Div Yield (%)	1.4	0.2	0.9	1.3
P/Book Value (X)	1.5	1.4	1.4	1.3
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	10.3	1.2	6.3	8.6
Earnings Rev (%)		(55)	(22)	(17)
Consensus EPS (S cts)		26.0	58.0	78.0
Other Broker Recs:		B: 0	S: 4	H: 3

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

Outlook remains challenging

Investment Thesis:

Proprietary coating solutions superior to that of peers. Nanofilm's differentiated, proprietary, cost-effective coating solutions are environmentally friendly, applicable to a wide range of industries, and stand out among its peers' offerings. This opens a wide array of opportunities for future growth.

Various initiatives in place to drive growth, but significant contribution only in 2025 and beyond. Nanofilm has put in place various strategies, including its entry into the energy segment (hydrogen fuel cell, advanced EV battery, and solar cell). The group is also expanding its geographical footprint, with further expansion in Vietnam, a new site in India, and entering Europe via Germany.

Expecting FY23F to be profitable, but cost pressure remains. With the peak season for the 3C (computer, communication and consumer) segment and the ongoing cost-cutting measures in place, we expect FY23F to be profitable, but the order momentum could still be slower compared to the previous year. Higher costs from the various initiatives to drive long-term growth are also expected to affect margins. The group would have to reach a certain scale before they can enjoy operating leverage. We have slashed our earnings estimate further to factor in the near-term challenges and slow order momentum.

Maintain FULLY VALUED with lower TP of S\$0.83. We have further slashed FY23F-25F earnings by 17% to 55% on the back of the still challenging environment and margin pressure as the group continues to put in place new initiatives for long-term growth. In the near term, costs would continue to be high. Our target price is reduced to S\$0.83 (previous S\$0.88), based on 20x PE on FY24F earnings.

Key Risks

The company's ability to establish, maintain, and protect its proprietary intellectual property; weaker-than-expected recovery in demand; and the resurgence of the Covid pandemic affecting the supply chain.

At A Glance

Issued Capital (m shrs)	653
Mkt. Cap (S\$m/US\$m)	608 / 449
Major Shareholders (%)	
PEARL YARD HOLDINGS	39.2
Venezio Investments	7.4
Shi Xu	6.9
Free Float (%)	41.5
3m Avg. Daily Val (US\$m)	2.3
GIC Industry: Materials / Chemicals	

WHAT'S NEW**9M23 revenue slightly below expectations; 3Q23 profitable**

Revenue slightly below expectations. Nanofilm reported 3Q23 revenue of S\$55m, up 37% q-o-q, mainly driven by the seasonal peak period for the computer, communication, and consumer (3C) segment and improvements in inventory rebalancing, but this was still 19% lower on a y-o-y basis. Equipment sales remained weak as the group's customers continue to be cautious about their capital expenditure on the back of the macro uncertainties.

For the 9M23 period, revenue of S\$128m was 29% lower y-o-y. The advanced materials business unit (AMBU) contributed approximately 81% to 9M23 revenue, while the nanofabrication business unit (NFBU) and industrial equipment business unit (IEBU) each contributed approximately 9%. Overall, 3Q23/9M23 revenue accounts for 28%/64% of our forecasts, slightly below expectations.

GP margin improving; 3Q23 profitable. Gross profit margin improved to over 40%, up from 32% in 1H23 and 48.7% in 2H22, mainly due to the ongoing efforts in cost efficiency. Gross profit surged 76% q-o-q due to the improvement in operational performance in 3Q23. However, it was down 28% y-o-y due to the group's inability to enjoy more economies of scale benefits as a result of lower production volumes in the current challenging environment. 3Q23 operating expenses saw a 10% reduction compared to the previous year but were up 5% q-o-q. No other details on earnings were provided in this business update, except that 3Q23 was profitable at the net earnings level.

Expanding geographical footprints – Europe (Germany), India, and Vietnam; riding on China +1 strategy. Nanofilm plans to enter Europe via Germany, which is the leading market in Europe accounting for about 51% of the thin film coating market. In India, a small operation is expected to commence in 1Q24. The second Vietnam site is also expected to be completed by 1Q24. This puts the group in a good position to ride on the trade diversification trend. To alleviate the start-up costs, the group is redeploying

some of the equipment from the Shanghai plants given the lower equipment utilisation there.

Expect market volatility to continue in 4Q, though efforts to drive margin recovery remain in place. 4Q23 could still be volatile given that the inventory destocking trend is still in place, though demand should still be decent as 2H23 is a peak season for the 3C segment. Coupled with the ongoing efforts to improve margins, we expect FY23F to be profitable. The group has put in place various initiatives to drive long-term growth, but any significant contribution can only come in 2025 and beyond.

Progress for the EV battery coating division slower than expected.

The group's joint venture, ApexTech is currently undergoing customer qualification at the component level for electric vehicle busbar connectors, but progress has been slow due to customers having excess production capacity due to the current market weakness. ApexTech is also exploring with potential customers the application of its green plating solutions to other components.

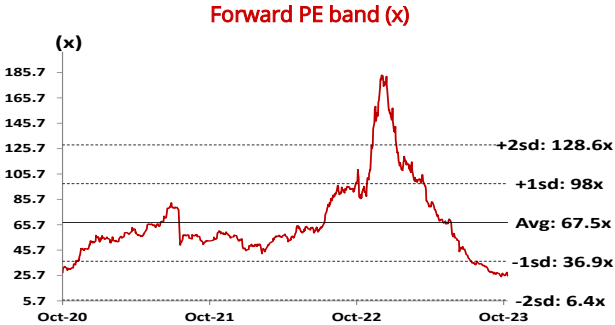
Slashed FY23-25F earnings, maintain FULLY VALUED with lower TP of S\$0.83. We have further slashed FY23F-25F earnings by 17% to 55% on the back of the still challenging environment and margin pressure, as the group continues to put in place new initiatives for long-term growth. In the near term, costs would continue to be high. Our revised forecast for FY23F assumes 2H23 to register net profit of S\$12.5m, vs net loss of S\$7.6m for 1H23. Our target price is reduced to S\$0.83 (previous S\$0.88), based on 20x PE on FY24F earnings.

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.

Nanofilm Technologies

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	2021A	2022A	2023F	2024F	2025F
Revenue Growth (%)	13.0	(3.8)	(30.8)	32.2	21.9
EBITDA Margin (%)	38.8	33.9	31.2	40.4	40.2

Segmental Breakdown

FY Dec	2021A	2022A	2023F	2024F	2025F
Revenues (\$m)					
Advanced Materials	194	187	126	164	196
Nanofabrication	7.80	19.1	13.4	21.4	29.9
Industrial Equipment	44.6	30.9	24.7	32.1	38.6
Total	247	237	164	217	265

Income Statement (\$m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Revenue	247	237	164	217	265
Cost of Goods Sold	(125)	(126)	(107)	(130)	(151)
Gross Profit	122	111	57.5	86.9	114
Other Opng (Exp)/Inc	(59.8)	(72.3)	(55.1)	(58.7)	(71.5)
Operating Profit	62.4	39.1	2.47	28.3	42.4
Other Non Opg (Exp)/Inc	7.22	6.70	4.00	5.00	5.00
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	0.28	0.35	(1.1)	(1.1)	(1.1)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	69.9	46.2	5.42	32.2	46.3
Tax	(7.3)	(2.8)	(0.5)	(4.8)	(7.0)
Minority Interest	(0.3)	0.52	0.0	0.0	0.0
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	62.2	43.8	4.88	27.4	39.4
Net Profit before Except.	62.2	43.8	4.88	27.4	39.4
EBITDA	95.4	76.7	33.1	60.2	74.5
Growth					
Revenue Gth (%)	13.0	(3.8)	(30.7)	32.2	21.9
EBITDA Gth (%)	5.7	(19.6)	(56.8)	81.8	23.7
Opg Profit Gth (%)	(7.1)	(37.3)	(93.7)	1,045.4	50.0
Net Profit Gth (Pre-ex) (%)	8.0	(29.6)	(88.9)	461.3	43.9
Margins & Ratio					
Gross Margins (%)	49.5	46.9	35.0	40.0	43.0
Opg Profit Margin (%)	25.3	16.5	1.5	13.0	16.0
Net Profit Margin (%)	25.2	18.5	3.0	12.6	14.9
ROAE (%)	14.5	10.3	1.2	6.3	8.6
ROA (%)	10.4	6.9	0.8	4.3	5.8
ROCE (%)	11.8	7.7	0.7	4.5	6.3
Div Payout Ratio (%)	21.2	20.0	20.0	20.0	20.0
Net Interest Cover (x)	NM	NM	2.4	27.0	40.4

Source: Company, DBS Bank

Interim Income Statement (\$m)

FY Dec	1H2021	2H2021	1H2022	2H2022	1H2023
Revenue	96.6	150	111	126	73.2
Cost of Goods Sold	(52.1)	(72.5)	(61.3)	(64.7)	(49.7)
Gross Profit	44.6	77.6	50.0	61.4	23.4
Other Oper. (Exp)/Inc	(23.5)	(29.1)	(30.7)	(34.9)	(31.4)
Operating Profit	21.0	48.5	19.3	26.5	(8.0)
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	(0.1)
Net Interest (Exp)/Inc	0.20	0.08	0.13	0.23	0.23
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	21.2	48.6	19.4	26.7	(7.8)
Tax	(3.1)	(4.2)	(1.2)	(1.6)	(0.1)
Minority Interest	(0.2)	(0.1)	0.61	(0.1)	0.21
Net Profit	17.9	44.3	18.8	25.0	(7.7)
Net profit bef Except.	17.9	44.3	18.8	25.0	(7.7)
EBITDA	33.0	62.4	34.9	41.8	8.94
Growth					
Revenue Gth (%)	(31.2)	55.3	(25.8)	13.3	(42.0)
EBITDA Gth (%)	(43.5)	89.3	(44.1)	19.8	(78.6)
Opp Profit Gth (%)	(56.2)	130.7	(60.3)	37.6	(130.1)
Net Profit Gth (%)	(54.4)	147.8	(57.6)	33.0	(130.6)
Margins					
Gross Margins (%)	46.1	51.7	44.9	48.7	32.0
Opp Profit Margins (%)	21.8	32.3	17.3	21.0	(10.9)
Net Profit Margins (%)	18.5	29.5	16.9	19.8	(10.5)

Balance Sheet (\$m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Net Fixed Assets	290	289	314	340	354
Invt in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other LT Assets	26.1	40.5	38.5	36.5	34.5
Cash & ST Invt	177	148	166	166	176
Inventory	17.4	18.4	15.2	18.5	21.4
Debtors	107	101	63.1	77.4	94.3
Other Current Assets	27.9	21.4	21.4	21.4	21.4
Total Assets	645	618	619	659	702
ST Debt	4.62	5.32	5.32	5.32	5.32
Creditor	60.5	47.8	46.8	60.7	70.3
Other Current Liab	8.95	4.61	2.57	6.86	8.98
LT Debt	26.2	24.4	24.4	24.4	24.4
Other LT Liabilities	69.7	71.3	71.3	71.3	71.3
Shareholder's Equity	430	419	423	445	476
Minority Interests	45.4	45.7	45.7	45.7	45.7
Total Cap. & Liab.	645	618	619	659	702
Non-Cash Wkg. Capital	82.6	88.0	50.2	49.7	57.8
Net Cash/(Debt)	146	118	136	136	146
Debtors Turn (avg days)	149.8	159.4	181.6	118.0	118.3
Creditors Turn (avg days)	199.0	207.7	215.3	189.9	193.2
Inventory Turn (avg days)	61.3	68.7	76.5	59.5	58.9
Asset Turnover (x)	0.4	0.4	0.3	0.3	0.4
Current Ratio (x)	4.4	5.0	4.9	3.9	3.7
Quick Ratio (x)	3.8	4.3	4.2	3.3	3.2
Net Debt/Equity (X)	CASH	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	CASH	CASH	CASH	CASH
Capex to Debt (%)	354.7	269.1	168.2	168.2	134.6

Source: Company, DBS Bank

Nanofilm Technologies

Cash Flow Statement (S\$m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Pre-Tax Profit	69.9	46.1	5.42	32.2	46.3
Dep. & Amort.	25.8	30.9	26.7	27.0	27.2
Tax Paid	(8.1)	(7.7)	(2.6)	(0.5)	(4.8)
Assoc. & JV Inc/(loss)	0.0	0.03	0.0	0.0	0.0
Chg in Wkg.Cap.	(16.0)	0.0	39.8	(3.8)	(10.3)
Other Operating CF	1.62	3.06	0.0	0.0	0.0
Net Operating CF	73.2	72.4	69.4	54.9	58.4
Capital Exp.(net)	(109)	(80.0)	(50.0)	(50.0)	(40.0)
Other Invs.(net)	0.0	0.0	0.0	0.0	0.0
Invs in Assoc. & JV	0.0	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	0.0	0.0	0.0	0.0	0.0
Net Investing CF	(109)	(80.0)	(50.0)	(50.0)	(40.0)
Div Paid	(6.6)	(13.8)	(1.0)	(5.5)	(7.9)
Chg in Gross Debt	(14.8)	(4.8)	0.0	0.0	0.0
Capital Issues	1.77	0.0	0.0	0.0	0.0
Other Financing CF	14.7	(9.3)	0.0	0.0	0.0
Net Financing CF	(4.9)	(27.9)	(1.0)	(5.5)	(7.9)
Currency Adjustments	1.17	(4.0)	0.0	0.0	0.0
Chg in Cash	(39.9)	(39.4)	18.4	(0.6)	10.5
Opg CFPS (S cts)	13.5	11.0	4.48	8.91	10.4
Free CFPS (S cts)	(5.5)	(1.2)	2.94	0.74	2.79

Source: Company, DBS Bank

Target Price & Ratings 12-mth 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:	18 Nov 22	1.31	1.39	HOLD
2:	03 Feb 23	1.40	1.33	HOLD
3:	23 Jun 23	1.38	1.00	FULLY VALUED
4:	14 Aug 23	1.02	0.88	FULLY VALUED

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)

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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: 9 Nov 2023 06:30:00 (SGT)

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