

Singapore

**REDUCE** (no change)

Consensus ratings\*: Buy 0 Hold 2 Sell 5

Current price:	S\$0.92
Target price:	S\$0.75
Previous target:	S\$0.75
Up/downside:	-18.5%
CGS-CIMB / Consensus:	-10.7%
Reuters:	NANO.SI
Bloomberg:	NANO SP
Market cap:	US\$448.9m
	S\$595.3m
Average daily turnover:	US\$2.50m
	S\$3.38m
Current shares o/s:	657.4m
Free float:	45.4%

\*Source: Bloomberg

**Key changes in this note**

➤ No changes.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	3.4	-2.7	-33.8
Relative (%)	-1.1	-3.4	-33.1

Major shareholders	% held
Pearl Yard Holdings	38.6
Venezio Investments	7.3

**Analyst(s)**

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# Nanofilm Technologies Int'l Ltd

## Foray into Europe

- On 21 Dec 2023, Nanofilm announced the acquisition of German-incorporated AxynTec for c.S\$9.9m.
- Nanofilm aims to build a bigger presence in Europe via this acquisition.
- We reiterate our Reduce call on Nanofilm as re-rating catalysts have yet to emerge.

### Acquires a foothold in Germany

On 21 Dec 2023, Nanofilm announced the acquisition of German-incorporated AxynTeC Dünnschichttechnik GmbH (AxynTeC). AxynTeC is a professional thin-film coating solutions provider based in Augsburg, Germany. AxynTeC also has expertise in pulsed laser deposition, and provides services such as contract manufacturing, engineering development and supply of coating equipment. AxynTeC's products/solutions are used by existing European customers in the fields of medtech and non-consumer electronics. Nanofilm sees AxynTeC's proprietary Diamond-Like Carbon (DLC) equipment and DLC advanced materials as being complementary to its Physical Vapour Deposition (PVD) equipment and coating portfolio. Coupled with available factory space for Nanofilm to deploy additional equipment, this would allow Nanofilm to enter the EU market more swiftly, according to management.

### Aiming for bigger Europe presence

According to Nanofilm's press release issued on 21 Dec 2023, Nanofilm has set up a European entity, Nanofilm Technologies Europe BV, in the Netherlands to accelerate the group's growth and to better serve its customers in Europe. According to the same press release, Nanofilm is pursuing various options to further expand its business in Europe.

### Smart watch patent dispute another hurdle to FY24F performance

According to technology news portal, theverge.com (22 Dec 2023), Nanofilms' major customer will not be selling its advanced smart watch models in the US after an import ban imposed by the US International Trade Commission for patent infringements. We estimate that smart watch-related components could account for 10-20% of Nanofilm's FY23F revenue. As at 27 Dec 2023, BBC reported that an emergency request by this major customer to the US Court of Appeals proved successful in getting the ban lifted temporarily.

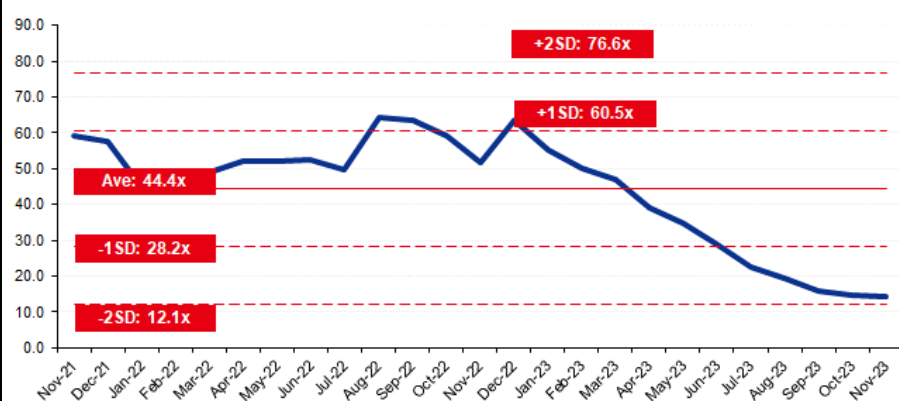
### Reiterate Reduce as re-rating catalysts have yet to emerge

We keep our Reduce call on Nanofilm as we expect a challenging FY24-25F business environment. Our TP remains at S\$0.75 based on FY25F P/E of 12.1x, -2 s.d. below its average P/E in FY21-23. Upside risks include new order wins from customers as well as faster operational progress at JVs ApexTech and Sydrogen Energy in FY24-25F leading to higher net profit contribution and strong demand upturn from customers. Potential de-rating catalysts are high customer concentration, and higher operating costs as it expands into other countries and other businesses.

### Financial Summary

	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Revenue (S\$m)	246.7	237.4	175.6	192.7	237.6
Net Profit (S\$m)	62.20	43.81	(0.67)	20.17	40.11
Core EPS (S\$)	0.094	0.067	(0.001)	0.031	0.062
Core EPS Growth	0%	(29%)	(102%)		99%
FD Core P/E (x)	9.76	13.83	NA	29.50	14.84
Price To Sales (x)	2.46	2.55	3.39	3.09	2.51
DPS (S\$)	0.020	0.022	0.003	0.008	0.015
Dividend Yield	2.17%	2.39%	0.36%	0.85%	1.68%
EV/EBITDA (x)	5.85	6.85	15.18	8.57	5.92
P/FCFE (x)	NA	42.98	NA	NA	25.86
Net Gearing	(20.0%)	(26.2%)	(23.2%)	(20.4%)	(21.8%)
P/BV (x)	1.41	1.44	1.42	1.37	1.28
ROE	14.5%	10.3%	(0.2%)	4.7%	8.9%
% Change In Core EPS Estimates			0%	0%	0%
EPS/Consensus EPS (x)			(0.09)	0.73	1.00

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

**Figure 1: 12-month forward rolling P/E (x)**


SOURCES: CGS-CIMB RESEARCH ESTIMATES, BLOOMBERG

**Figure 2: Peer comparison**

Company	Bloomberg Ticker	Recom.	Price (lcl curr)	Target Price (lcl curr)	Market Cap (US\$ m)	P/E (x) CY24F	P/E (x) CY25F	3-year EPS CAGR (%)	P/BV (x) CY24F	Recurring ROE (%) CY24F	Dividend Yield (%) CY24F
<b>Singapore</b>											
Nanofilm Technologies Int'l Ltd	NANO SP	REDUCE	0.92	0.75	449	29.5	14.8	na	1.37	4.7%	0.8%
AAC Technologies	2018 HK	Add	22.55	24.30	3,459	15.7	13.6	na	1.03	6.8%	1.0%
BOE Technology Group-A	000725 CH	Hold	3.87	3.57	20,249	12.5	na	na	0.90	7.4%	1.2%
Cowell e Holdings Inc	1415 HK	Add	22.80	20.00	2,486	21.9	15.7	na	4.52	22.8%	0.0%
Lens Technology Co Ltd-A	300433 CH	Add	13.06	16.50	9,112	15.8	12.8	na	1.39	9.0%	2.5%
LG Display	034220 KS	Hold	13,350	13,000	3,673	na	na	na	0.88	-29.3%	0.0%
LG Innotek	011070 KS	Add	240,500	400,000	4,376	7.2	6.5	na	1.04	15.4%	1.2%
Q Technology	1478 HK	Add	4.18	4.40	634	7.8	6.3	na	0.84	11.4%	1.3%
Samsung Electro-Mechanics	009150 KS	Add	158,100	200,000	9,080	14.9	13.5	na	1.41	9.8%	1.3%
Samsung Electronics	005930 KS	Add	79,600	115,000	365,374	16.9	15.3	na	1.44	8.8%	1.8%
Shenzhen Goodix Tech-A	603160 CH	Reduce	66.74	30.13	4,279	46.7	na	na	2.74	6.1%	0.2%
Sunny Optical Technology	2382 HK	Add	67.65	88.00	9,495	18.9	13.5	na	2.87	16.7%	1.1%
Tianma Microelectronics-A	000050 CH	Add	10.43	13.34	3,589	16.1	na	na	0.66	4.1%	0.6%
Tongda Group Holdings Ltd	698 HK	Hold	0.10	0.15	123	2.2	na	na	0.11	5.3%	0.0%
Universal Scientific Industrial	601231 CH	Add	14.99	18.32	4,637	10.2	na	na	0.93	10.2%	5.9%
Will Semiconductor Ltd-A	603501 CH	Add	103.0	131.2	17,528	15.4	na	na	2.94	21.0%	0.7%
<b>Simple average excluding Nanofilm</b>						<b>15.9</b>	<b>12.2</b>	<b>na</b>	<b>1.58</b>	<b>8.4%</b>	<b>1.3%</b>

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS, BLOOMBERG

NOTE: FORECASTS FOR NOT RATED COMPANIES ARE BLOOMBERG CONSENSUS ESTIMATES

DATA AS AT 3 JAN 2024



## ESG in a nutshell

Nanofilm Technologies Int'l Ltd (Nanofilm) is a deep technology company offering advanced materials and filtered cathodic vacuum arc (FCVA) coating technologies. The company has a strong commitment to ESG and sustainable production methods. Nanofilm was awarded Frost & Sullivan's 2021 Asia Pacific Technology Innovation Leadership Award and Deloitte's Best Managed Companies Singapore 2021, underscoring the company's ESG commitment and environmentally-friendly production process (as compared to conventional coating technologies in the market).

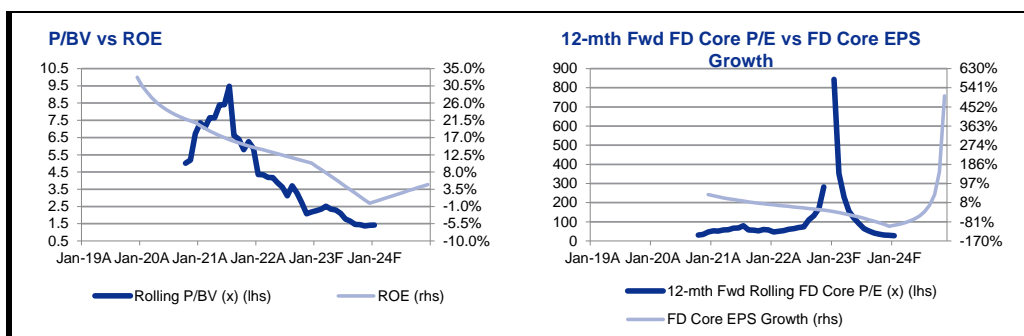
Keep your eye on	Implications
<p>Nanofilm has a JV with Temasek, Sydrogen Energy, in the hydrogen energy economy to apply its advanced materials surface solutions to critical components in fuel cell and electrolyser systems. Hydrogen fuel cells are more environment-friendly as they generate electricity without emitting carbon dioxide or other harmful pollutants (unlike other conventional energy sources).</p>	<p>This looks positive to us – if the JV can successfully garner market adoption and reach a commercial scale, it could create a new revenue stream for Nanofilm.</p>

ESG highlights	Implications
<p>Nanofilm was awarded Frost &amp; Sullivan's 2021 Asia Pacific Technology Innovation Leadership Award. According to Frost &amp; Sullivan, FCVA and FCVA hybrid coating technologies and production processes do not require high heat and can perform vacuum coating deposition at room temperature in an environmentally friendly manner as compared with conventional coating technologies in the market. Nanofilm was also named one of the inaugural winners of Deloitte's Best Managed Companies Singapore 2022 award, underscoring its commitment to ESG.</p>	<p>This highlights that Nanofilm's FCVA-based coating methods are differentiated from conventional coating methods in the market on both technology and environmental fronts. In our view, as customers increasingly take into account environmental considerations in their production processes, Nanofilm's more environmentally friendly technology and processes are an attractive solution. This could raise the demand for its coating services, driving higher revenue and earnings, in our view.</p>

ESG highlights	Implications
<p>According to Nanofilm, all of its factories are fully compliant with the environmental laws and regulations in the countries they operate. Nanofilm is committed to environmental protection, reducing carbon emissions, preventing pollution, and minimising waste. In addition, Nanofilm is subject to regular and annual ESG audits performed by its global customers. In FY22, Nanofilm was subjected to two ESG audits from its customers and met all their requirements, it said in its FY22 Sustainability Report.</p>	<p>According to its FY22 Sustainability Report, Nanofilm had in FY22 generated a total of 72,607 tonnes of carbon dioxide equivalent (tCO<sub>2</sub>e) from its Singapore, China, Vietnam, and Japan operations. Its Scope 1 emissions amounted to 272 tCO<sub>2</sub>e, or c.0.4% of its overall greenhouse gas (GHG) emissions, while Scope 2 emissions were 72,335 tCO<sub>2</sub>e, or c.99% of its overall GHG emissions. The sharp decrease in Scope 1 emissions in FY22 was due to the reduction in diesel used for temporary power generators usage at Shanghai Plant 2 once the plant was operational. The Scope 2 emissions were attributable largely to purchased electricity used in its manufacturing plants. Nanofilm will continue to monitor the emissions intensity of its various sites and improve the efficiency of its operational processes, with an aim of reducing its GHG intensity by 40% by 2030 (based year: 2020), as per its FY22 Sustainability Report.</p>

SOURCES: CGS-CIMB RESEARCH, REFINITIV

## BY THE NUMBERS



### Profit & Loss

(\$m)	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
<b>Total Net Revenues</b>	<b>255.2</b>	<b>237.4</b>	<b>175.6</b>	<b>192.7</b>	<b>237.6</b>
<b>Gross Profit</b>	<b>130.7</b>	<b>142.3</b>	<b>98.9</b>	<b>128.5</b>	<b>162.0</b>
<b>Operating EBITDA</b>	<b>95.1</b>	<b>76.7</b>	<b>34.9</b>	<b>63.0</b>	<b>89.1</b>
Depreciation And Amortisation	(25.5)	(30.9)	(35.7)	(39.9)	(43.2)
<b>Operating EBIT</b>	<b>69.6</b>	<b>45.8</b>	<b>(0.8)</b>	<b>23.1</b>	<b>45.9</b>
Financial Income/(Expense)	0.3	0.4	0.6	0.6	0.6
Pretax Income/(Loss) from Assoc.	0.0	(0.0)	0.0	0.0	0.0
Non-Operating Income/(Expense)	0.0	0.0	0.0	0.0	0.0
<b>Profit Before Tax (pre-EI)</b>	<b>69.9</b>	<b>46.1</b>	<b>(0.2)</b>	<b>23.6</b>	<b>46.4</b>
Exceptional Items					
<b>Pre-tax Profit</b>	<b>69.9</b>	<b>46.1</b>	<b>(0.2)</b>	<b>23.6</b>	<b>46.4</b>
Taxation	(7.3)	(2.8)	0.0	(3.0)	(5.8)
Exceptional Income - post-tax					
<b>Profit After Tax</b>	<b>62.5</b>	<b>43.3</b>	<b>(0.2)</b>	<b>20.7</b>	<b>40.6</b>
Minority Interests	(0.3)	0.5	(0.5)	(0.5)	(0.5)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
<b>Net Profit</b>	<b>62.2</b>	<b>43.8</b>	<b>(0.7)</b>	<b>20.2</b>	<b>40.1</b>
Recurring Net Profit	62.2	43.8	(0.7)	20.2	40.1
<b>Fully Diluted Recurring Net Profit</b>	<b>62.2</b>	<b>43.8</b>	<b>(0.7)</b>	<b>20.2</b>	<b>40.1</b>

### Cash Flow

(\$m)	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
<b>EBITDA</b>	<b>95.1</b>	<b>76.7</b>	<b>34.9</b>	<b>63.0</b>	<b>89.1</b>
Cash Flow from Inv. & Assoc.		0.0	0.0	0.0	0.0
Change In Working Capital	(16.0)	(0.0)	20.6	(2.0)	(10.8)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	1.6				
Other Operating Cashflow					
Net Interest (Paid)/Received	0.6	1.0	0.6	0.6	0.6
Tax Paid	(8.1)	(7.7)	0.0	(3.0)	(5.8)
<b>Cashflow From Operations</b>	<b>73.2</b>	<b>70.1</b>	<b>56.1</b>	<b>58.5</b>	<b>73.0</b>
Capex	(115.3)	(50.8)	(72.0)	(63.0)	(50.0)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	(4.5)	0.0	0.0	0.0	0.0
<b>Cash Flow From Investing</b>	<b>(119.8)</b>	<b>(50.8)</b>	<b>(72.0)</b>	<b>(63.0)</b>	<b>(50.0)</b>
Debt Raised/(repaid)	(12.5)	(5.2)	(0.0)	0.0	0.0
Proceeds From Issue Of Shares	0.0	0.0	0.0	0.0	0.0
Shares Repurchased		(12.7)	0.0	0.0	0.0
Dividends Paid	(6.6)	(13.8)	(2.1)	(5.0)	(10.0)
Preferred Dividends					
Other Financing Cashflow	(2.2)	0.0	0.0	0.0	0.0
<b>Cash Flow From Financing</b>	<b>(21.4)</b>	<b>(31.7)</b>	<b>(2.1)</b>	<b>(5.0)</b>	<b>(10.0)</b>
Total Cash Generated	(68.0)	(12.4)	(18.0)	(9.5)	13.0
<b>Free Cashflow To Equity</b>	<b>(59.1)</b>	<b>14.1</b>	<b>(15.9)</b>	<b>(4.5)</b>	<b>23.0</b>
<b>Free Cashflow To Firm</b>	<b>(46.3)</b>	<b>19.8</b>	<b>(14.1)</b>	<b>(2.7)</b>	<b>24.8</b>

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

## BY THE NUMBERS... cont'd

### Balance Sheet

(\$m)	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Total Cash And Equivalents	176.6	147.8	135.9	126.4	139.4
Total Debtors	106.8	100.6	77.0	84.5	104.1
Inventories	17.4	18.4	16.9	15.7	17.9
Total Other Current Assets	27.9	21.4	21.4	21.4	21.4
<b>Total Current Assets</b>	<b>328.7</b>	<b>288.2</b>	<b>251.2</b>	<b>247.9</b>	<b>282.8</b>
Fixed Assets	290.2	289.2	327.5	352.6	361.4
Total Investments	0.0	4.0	4.0	4.0	4.0
Intangible Assets	9.9	19.6	17.9	16.2	14.5
Total Other Non-Current Assets	14.8	16.9	16.6	16.3	16.0
<b>Total Non-current Assets</b>	<b>314.8</b>	<b>329.7</b>	<b>366.0</b>	<b>389.1</b>	<b>395.9</b>
Short-term Debt		1.9	2.1	2.1	2.1
Current Portion of Long-Term Debt	2.1				
Total Creditors	60.5	47.8	43.3	47.5	58.6
Other Current Liabilities	11.5	8.0	11.5	11.5	11.5
<b>Total Current Liabilities</b>	<b>74.1</b>	<b>57.7</b>	<b>56.9</b>	<b>61.1</b>	<b>72.1</b>
Total Long-term Debt	79.3	24.4	26.2	26.2	26.2
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	15.3	71.3	69.7	69.7	69.7
<b>Total Non-current Liabilities</b>	<b>94.6</b>	<b>95.7</b>	<b>95.9</b>	<b>95.9</b>	<b>95.9</b>
Total Provisions	1.3	0.0	0.0	0.0	0.0
<b>Total Liabilities</b>	<b>169.9</b>	<b>153.4</b>	<b>152.7</b>	<b>157.0</b>	<b>168.0</b>
Shareholders' Equity	429.6	418.8	418.3	433.4	463.5
Minority Interests	45.4	45.7	46.1	46.6	47.1
<b>Total Equity</b>	<b>475.0</b>	<b>464.5</b>	<b>464.4</b>	<b>480.1</b>	<b>510.6</b>

### Key Ratios

	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Revenue Growth	13.0%	(3.8%)	(26.1%)	9.8%	23.3%
Operating EBITDA Growth	5.0%	(19.4%)	(54.5%)	80.5%	41.5%
Operating EBITDA Margin	38.6%	32.3%	19.9%	32.7%	37.5%
Net Cash Per Share (\$)	0.14	0.18	0.17	0.15	0.17
BVPS (\$)	0.65	0.64	0.65	0.67	0.72
Gross Interest Cover	98.83	37.47	(0.44)	12.82	25.48
Effective Tax Rate	10.5%	6.1%	0.0%	12.5%	12.5%
Net Dividend Payout Ratio	21.2%	32.9%	NA	25.0%	25.0%
Accounts Receivables Days	149.8	159.4	184.5	153.3	144.9
Inventory Days	48.58	68.67	84.17	92.98	81.11
Accounts Payables Days	157.7	207.7	216.8	258.9	256.3
ROIC (%)	27.3%	11.6%	(0.2%)	5.5%	10.2%
ROCE (%)	13.6%	9.0%	0.3%	5.1%	9.2%
Return On Average Assets	10.4%	6.8%	(0.1%)	3.2%	6.1%

### Key Drivers

	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Advanced Materials (% yoy)	6.5%	27.0%	22.7%	17.5%	9.2%
Industrial Equipment (% yoy)	81.3%	5.0%	4.0%	3.0%	2.0%
Nanofabrication (% yoy)	-30.7%	12.0%	12.0%	12.0%	12.0%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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634 companies under coverage for quarter ended on 30 September 2023		
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Add	66.7%	0.9%
Hold	23.7%	0.0%
Reduce	9.6%	0.2%

**Spitzer Chart for stock being researched ( 2 year data )**

**Nanofilm Technologies Int'l Ltd (NANO SP)**



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