

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

27 Feb 2024

FULLY VALUED

Last Traded Price (26 Feb 2024): S\$0.735 (STI: 3,171.12)
Price Target 12-mth: S\$0.63 (15% downside) (Prev S\$0.83)

Analyst

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What's New

- FY23 net profit below expectations despite 2H23 showing recovery
- Gross margin remains below optimal level despite improvement; new initiatives still in development stage
- Outlook for EV battery, industrial equipment weak; nanofabrication brighter, with projects at mass production
- FY24F/FY25F earnings slashed by 15%/16%; maintain FULLY VALUED with lower TP of S\$0.63

Price Relative



Forecasts and Valuation

FY Dec (S\$m)	2022A	2023A	2024F	2025F
Revenue	237	177	192	235
EBITDA	76.7	37.4	54.7	67.2
Pre-tax Profit	46.2	3.14	27.0	39.2
Net Profit	43.8	3.14	22.9	33.3
Net Pft (Pre Ex.)	43.8	3.14	22.9	33.3
Net Pft Gth (Pre-ex) (%)	(29.6)	(92.8)	631.0	45.3
EPS (S cts)	6.65	0.48	3.48	5.06
EPS Pre Ex. (S cts)	6.65	0.48	3.48	5.06
EPS Gth Pre Ex (%)	(30)	(93)	631	45
Diluted EPS (S cts)	6.65	0.48	3.48	5.06
Net DPS (S cts)	2.20	0.66	0.70	1.01
BV Per Share (S cts)	63.6	57.7	60.5	64.5
PE (X)	11.0	154.4	21.1	14.5
PE Pre Ex. (X)	11.0	154.4	21.1	14.5
P/Cash Flow (X)	6.7	12.4	5.8	9.2
EV/EBITDA (X)	5.4	12.3	7.8	6.3
Net Div Yield (%)	3.0	0.9	0.9	1.4
P/Book Value (X)	1.2	1.3	1.2	1.1
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	10.3	0.8	5.9	8.1
Earnings Rev (%):			(16)	(15)
Consensus EPS (S cts):			4.0	5.7
Other Broker Recs:		B: 0	S: 5	H: 1

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

Margin pressures remain

Investment Thesis:

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

Despite various initiatives in place to drive growth, significant contribution only 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 Europe via Germany. With various new initiatives still in the development stage, near-term cost pressure remains. Higher costs from various initiatives to drive long-term growth are expected to affect margins. The group would have to reach a certain scale before they can enjoy operating leverage.

Riding on China +1 with geographical expansion. The group has manufacturing facilities in Vietnam, with its second site expected to be operational in 1Q24. In India, a small operation is expected to commence in 1Q24. The group has also recently entered the European market via the acquisition of a coating solutions company in Germany. This puts it in a good position to ride on the trade diversification trend.

Maintain FULLY VALUED with lower TP of S\$0.63. We further slash FY24F-25F earnings by 15%/16% 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. Our TP is reduced to S\$0.63 (previous S\$0.83), based on a 18x 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)	480 / 358
Major Shareholders (%)	
PEARL YARD HOLDINGS INC	39.0
Venezio Investments Pte Ltd	7.3
Shi Xu	6.8
Free Float (%)	36.9
3m Avg. Daily Val (US\$m)	2.5
GIC Industry: Materials / Chemicals	

WHAT'S NEW**FY23 net profit below expectations despite 2H23 showing recovery**

2H23 hit recovery; FY23 net profit still below expectations. 2H23 saw a recovery in business performance compared to 1H23, with the group registering net profit S\$10.8m (-56.9% y-o-y) on the back of a 17.6% decline in revenue to S\$103.9m. The recovery was led by 3C (Computer, Communication, Consumer) recovery from improving inventory rebalancing and new end-customers' product launches. The industrial equipment segment was still weak, impacted by customers' slowdown in capex spending. Overall, for FY23, net profit of S\$3.1m (-92.8% y-o-y) was still below our expectations, even though the revenue of S\$177.0m (-25.4% y-o-y) was slightly above our estimates.

Gross margin improved but remains below the optimal level.

Gross margin in 2H23 improved to 40.6% – from 32.0% in 1H23 – but remains lower than the 48.7% in 2H22. Gross profit margin for FY23 was 37.0% – vs. 46.9% in FY22 – as operational cost savings from on-going cost optimization efforts were offset by the increase in material cost due to product mix, with higher material contents and other costs.

Slower-than-expected progress for the EV battery coating division. Apextech's green plating business is facing challenges from prolonged qualification processes, sluggish industry growth, and slow customer acceptance of new technology.

Industrial equipment segment could still be weak, as one of the product lines is reaching market saturation, which resulted in fewer growth opportunities while sales in China remained slow. Some projects are at various sales stages, however the gestation period could be long, and hence this segment could stay weak in the near term.

Outlook for Nanofabrication unit brighter, with projects at mass production. The outlook for Nanofabrication is positive, as the micro-lens array (MLA) lenses in consumer wearables and Fresnel lenses for smartphones are already in mass production.

We expect a brighter outlook ahead, as more consumer electronics use more sophisticated optical technologies.

Improving pipeline visibility for consumer segment. In the consumer segment, some existing products are slated for mass production, with new projects at the NPI stage, and the possibility to enter mass production. In the smartphone category, the group has also commenced mass production for a projection for new customers.

Riding on China +1 with geographical expansion. The group has manufacturing facilities in Vietnam, with its second site expected to be operational in 1Q24. In India, a small operation is expected to commence in 1Q24. The group has also recently entered the European market via the acquisition of a coating solutions company in Germany. This puts the group in a good position to ride on the trade diversification trend.

FY24F/FY25F earnings slashed by 15%/16%; maintain FULLY VALUED with lower TP of S\$0.63. Given the weaker-than-expected outlook for some segments such as EV battery and industrial equipment, coupled with still-high cost structure as new initiatives are still in the development stage, we cut FY24F/25F earnings by 16%/15%. Our TP is reduced accordingly to S\$0.63 (S\$0.83), pegged to 18x PE on FY24F earnings. Maintain FULLY VALUED.

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.

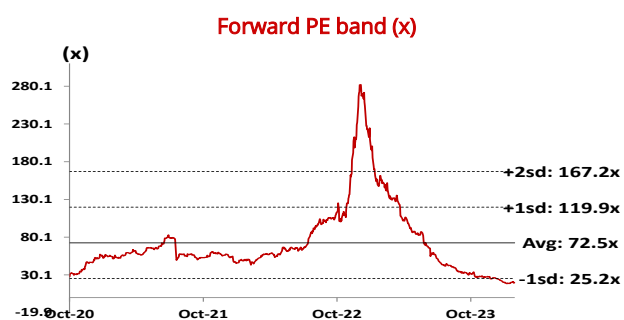
Nanofilm Technologies

Interim Income Statement (\$m)

FY Dec	1H2022	2H2022	1H2023	% chg y-o-y	% chg h-o-h
Revenue	111	126	73	(34.3)	(42.0)
Cost of Goods Sold	(61)	(65)	(50)	(18.9)	(23.2)
Gross Profit	50	61	23	(53.1)	(61.8)
Other Oper. (Exp)/Inc	(31)	(35)	(31)	2.2	(9.8)
Operating Profit	19	27	(8)	(141.4)	(130.1)
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	19	27	(8)	nm	nm
Tax	(1)	(2)	0	nm	nm
Minority Interest	1	0	0	nm	-
Net Profit	19	25	(8)	nm	nm
Net profit bef Except.	19	25	(8)	nm	nm
EBITDA	35	42	9	(74.4)	(78.6)
Margins (%)					
Gross Margins	44.9	48.7	32.0		
Opg Profit Margins	17.3	21.0	(10.9)		
Net Profit Margins	16.9	19.8	(10.5)		

Source of all data: Company, DBS Bank Ltd

Historical PE and PB band



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



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

Nanofilm Technologies

Key Assumptions

FY Dec	2021A	2022A	2023A	2024F	2025F
Revenue Growth (%)	13.0	(3.8)	(25.4)	8.32	22.5
EBITDA Margin (%)	38.8	33.9	22.3	41.1	40.9

Segmental Breakdown

FY Dec	2021A	2022A	2023A	2024F	2025F
Revenues (\$m)					
Advanced Materials	194	187	142	151	181
Nanofabrication	7.80	19.1	16.1	24.1	33.7
Industrial Equipment	44.6	30.9	18.4	16.5	19.8
Total	247	237	177	192	235

Income Statement (\$m)

FY Dec	2021A	2022A	2023A	2024F	2025F
Revenue	247	237	177	192	235
Cost of Goods Sold	(125)	(126)	(111)	(115)	(134)
Gross Profit	122	111	65.6	76.7	101
Other Opng (Exp)/Inc	(59.8)	(72.3)	(68.7)	(53.7)	(65.7)
Operating Profit	62.4	39.1	(3.1)	23.0	35.2
Other Non Opng (Exp)/Inc	7.22	6.70	6.19	5.00	5.00
Associates & JV Inc	0.0	0.0	(0.1)	0.0	0.0
Net Interest (Exp)/Inc	0.28	0.35	0.24	(1.1)	(1.1)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	69.9	46.2	3.14	27.0	39.2
Tax	(7.3)	(2.8)	(0.5)	(4.0)	(5.9)
Minority Interest	(0.3)	0.52	0.44	0.0	0.0
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	62.2	43.8	3.14	22.9	33.3
Net Profit before Except.	62.2	43.8	3.14	22.9	33.3
EBITDA	95.4	76.7	37.4	54.7	67.2
Growth					
Revenue Gth (%)	13.0	(3.8)	(25.4)	8.3	22.4
EBITDA Gth (%)	5.7	(19.6)	(51.3)	46.5	22.8
Opg Profit Gth (%)	(7.1)	(37.3)	(108.0)	(832.8)	53.1
Net Profit Gth (Pre-ex) (%)	8.0	(29.6)	(92.8)	631.0	45.3
Margins & Ratio					
Gross Margins (%)	49.5	46.9	37.0	40.0	43.0
Opg Profit Margin (%)	25.3	16.5	(1.8)	12.0	15.0
Net Profit Margin (%)	25.2	18.5	1.8	12.0	14.2
ROAE (%)	14.5	10.3	0.8	5.9	8.1
ROA (%)	10.4	6.9	0.5	3.6	4.9
ROCE (%)	11.8	7.7	0.6	3.7	5.2
Div Payout Ratio (%)	21.2	33.1	138.6	20.0	20.0
Net Interest Cover (x)	NM	NM	NM	22.0	33.6

Source: Company, DBS Bank Ltd

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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 Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	0.0	(0.1)
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)
Opg 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
Opg 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	2023A	2024F	2025F
Net Fixed Assets	290	289	300	328	345
Invt in Associates & JVs	0.0	0.0	3.89	3.89	3.89
Other LT Assets	26.1	40.5	49.2	44.6	39.9
Cash & ST Invt	177	148	155	185	190
Inventory	17.4	18.4	19.5	19.6	22.8
Debtors	107	101	81.3	68.3	83.6
Other Current Assets	27.9	21.4	12.8	12.8	12.8
Total Assets	645	618	622	661	699
ST Debt	4.62	5.32	8.52	8.52	8.52
Creditor	60.5	47.8	35.0	53.6	62.3
Other Current Liab	8.95	4.61	2.27	5.20	7.03
LT Debt	26.2	24.4	77.5	77.5	77.5
Other LT Liabilities	69.7	71.3	74.1	74.1	74.1
Shareholder's Equity	430	419	380	398	425
Minority Interests	45.4	45.7	44.1	44.1	44.1
Total Cap. & Liab.	645	618	622	661	699
Non-Cash Wkg. Capital	82.6	88.0	76.3	41.9	49.8
Net Cash/(Debt)	146	118	69.2	98.6	104
Debtors Turn (avg days)	149.8	159.4	187.5	142.4	118.1
Creditors Turn (avg days)	199.0	207.7	196.3	183.1	198.0
Inventory Turn (avg days)	61.3	68.7	89.9	80.7	72.3
Asset Turnover (x)	0.4	0.4	0.3	0.3	0.3
Current Ratio (x)	4.4	5.0	5.9	4.2	4.0
Quick Ratio (x)	3.8	4.3	5.2	3.8	3.5
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	53.8	58.1	46.5

Source: Company, DBS Bank Ltd

Nanofilm Technologies

Cash Flow Statement (\$m)

FY Dec	2021A	2022A	2023A	2024F	2025F
Pre-Tax Profit	69.9	46.1	3.14	27.0	39.2
Dep. & Amort.	25.8	30.9	34.5	26.7	27.0
Tax Paid	(8.1)	(7.7)	(2.0)	(1.1)	(4.0)
Assoc. & JV Inc/(loss)	0.0	0.03	0.14	0.0	0.0
Chg in Wkg.Cap.	(16.0)	0.0	0.96	31.5	(9.8)
Other Operating CF	1.62	3.06	2.31	0.0	0.0
Net Operating CF	73.2	72.4	39.1	84.0	52.3
Capital Exp.(net)	(109)	(80.0)	(46.3)	(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	(10.4)	11.1	(8.6)	0.0	0.0
Net Investing CF	(120)	(68.9)	(54.9)	(50.0)	(40.0)
Div Paid	(6.6)	(13.8)	(9.3)	(4.6)	(6.7)
Chg in Gross Debt	(14.8)	(4.8)	51.1	0.0	0.0
Capital Issues	1.77	0.0	0.0	0.0	0.0
Other Financing CF	14.7	(9.3)	(16.4)	0.0	0.0
Net Financing CF	(4.9)	(27.9)	25.5	(4.6)	(6.7)
Currency Adjustments	1.17	(4.0)	(2.2)	0.0	0.0
Chg in Cash	(50.3)	(28.3)	7.38	29.5	5.66
Opg CFPS (S cts)	13.5	11.0	5.79	7.98	9.43
Free CFPS (S cts)	(5.5)	(1.2)	(1.1)	5.17	1.87

Source: Company, DBS Bank Ltd

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:	23 Jun 23	1.38	1.00	FULLY VALUED
2:	14 Aug 23	1.02	0.88	FULLY VALUED
3:	09 Nov 23	0.88	0.83	FULLY VALUED

Source: DBS Bank Ltd

Analyst: Lee Keng LING

DBS Group Research 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: 27 Feb 2024 07:35:20 (SGT)

Dissemination Date: 27 Feb 2024 08:39:44 (SGT)

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