

COMPANY UPDATE

Nanofilm Technologies International (NANO SP)

NDR Takeaways: Positioned For Growth And New Opportunities In The EV Space

We held an NDR with Nanofilm's management. Key takeaways include: a) operations have improved in 3Q22 with the Shanghai plant reverting back to its normal state and is currently in the peak season production, b) Nanofilm is gaining traction with Customer Z as it wins more wallet share across all product categories, and c) Nanofilm expects positive development in the EV battery space, where further details will be revealed in the near term. Maintain BUY and target price of S\$2.72.

WHAT'S NEW

- Production has resumed back to normal in 3Q22 and is currently enjoying peak season demand.** Nanofilm Technologies International's (Nanofilm) management confirmed that the production of its Shanghai Plant has not faced any disruption from the sporadic lockdown, as seen in 1H22, where it has caused a notable loss of revenue. In addition, the plants are currently producing at high utilisation rate amid the 2H peak season for consumer electronic products. On the other hand, Nanofilm is diversifying its geographical footprint by setting up a coating services facility in Japan and expanding its nanofabrication plant in Vietnam.
- Gaining traction with the largest customer from winning more wallet share across all product categories.** Nanofilm is able to gain more wallet share and improve its earnings quality from its largest customer, Customer Z as Nanofilm has balanced out the revenue contribution for three product categories: a) wearable & accessories, b) computer (laptop, tablet) and c) smartphone. To recap, Nanofilm relied more heavily on the coating of wearable and computer products from Customer Z back in 2019. As of 1H22, Customer Z contributes more than 50% of Nanofilm's revenue and Nanofilm is able to grow its wallet share by winning coating services for more new features and premiumisation of high-end products. Also, Nanofilm has made good traction in the smartphone space where it has been chosen in the coating of new exotic and brilliant colours.
- Expect further positive developments in the EV battery space.** In the near term, Nanofilm expects to form a JV in the advanced batteries components for electric vehicles (EV) in China. Nanofilm highlighted that the potential JV partner is a renowned supplier of EV batteries and Nanofilm's coating technology has gone through many testing phases by the potential JV partner, with satisfactory results. Upon confirmation of the JV, Nanofilm targets to produce a working prototype within a few months, before starting mass production in around six months' time. It also foresees a good potential in this space given the sheer size of the total addressable market in the EV space.

KEY FINANCIALS

Year to 31 Dec (\$m)	2020	2021	2022F	2023F	2024F
Net turnover	218	247	302	371	446
EBITDA	92	94	134	159	176
Operating profit	73	68	87	109	130
Net profit (rep./act.)	58	62	72	90	108
Net profit (adj.)	58	62	72	90	108
EPS (\$ cent)	10.6	9.4	11.0	13.6	16.4
PE (x)	20.0	22.6	19.4	15.6	13.0
P/B (x)	3.3	3.3	2.9	2.5	2.2
EV/EBITDA (x)	13.9	13.6	9.6	8.0	7.3
Dividend yield (%)	0.8	0.9	1.0	1.3	1.5
Net margin (%)	26.4	25.2	23.9	24.2	24.2
Net debt/(cash) to equity (%)	(43.5)	(34.5)	(35.5)	(46.2)	(54.5)
Interest cover (x)	87.9	n.a.	n.a.	n.a.	n.a.
ROE (%)	20.9	14.5	15.8	17.2	17.9
Consensus net profit	-	-	71	84	96
UOBKH/Consensus (x)	-	-	1.02	1.08	1.12

Source: Nanofilm, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$2.13
Target Price	S\$2.72
Upside	+27.7%

COMPANY DESCRIPTION

Nanofilm Technologies International Pte Ltd manufactures industrial machinery. The company specialises in batch and load-lock systems, as well as materials with special surface properties and nano-engineering capabilities.

STOCK DATA

GICS sector	Materials
Bloomberg ticker:	NANO SP
Shares issued (m):	659.7
Market cap (\$m):	1,405.2
Market cap (US\$m):	978.6
3-mth avg daily t'over (US\$m):	2.1

Price Performance (%)

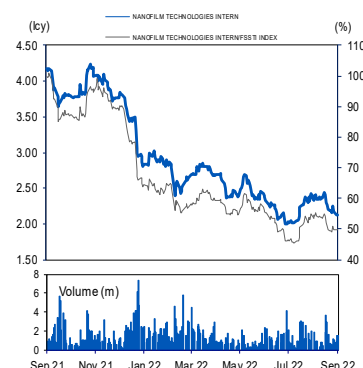
52-week high/low S\$4.33/\$1.94

1mth	3mth	6mth	1yr	YTD
(12.0)	(12.3)	(19.6)	(50.3)	(44.2)

Major Shareholders

	%
Dr Shi Xu	51.1
Temasek Holdings	7.2
-	-
FY22 NAV/Share (\$)	0.74
FY22 Net Cash/Share (\$)	0.26

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- **Remains focused on executing its growth strategy** in the following key strategic areas and will provide the market with periodic progress updates: a) geographical diversification and coverage, b) new segments with capability and product expansion, c) JVs and M&As, and d) R&D and engineering product development. R&D efforts in new exciting areas are intensifying with pathways to commercialisation.
- **Geographical diversification and coverage.** In 2H22, Nanofilm will be expanding its coating services footprint with a coating facility in Osaka, Japan. It is currently in the midst of qualifying its advanced materials solutions with a customer for application on ceramic products.
- **New segments with capability and product expansion.** Nanofilm's green technological solution, which has vast potential applications, has the capability to replace the environmentally damaging electroplating process. Sydrogen believes it has the best coating performance for bipolar plates used in fuel cells, as validated by its customers. It has also achieved significant progress with the qualification of two industrial scale coating lines, with strong interest from multiple global and domestic customers.

EARNINGS REVISION/RISK

- We maintained our financial forecasts.

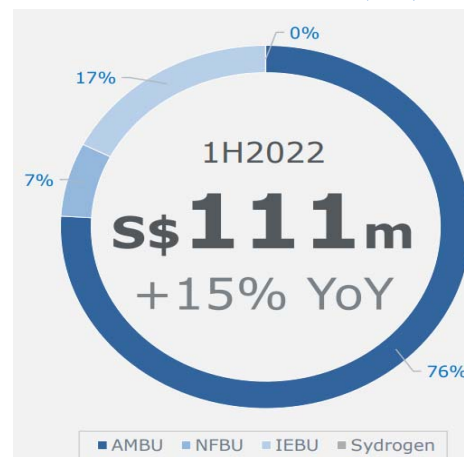
VALUATION/RECOMMENDATION

- **Maintain BUY with a target price of S\$2.72.** We value Nanofilm based on PEG of 1.0x (growth based on three-year EPS CAGR of 20% from 2021-24). Our target PE multiple of 20x 2023F PE is at a slight discount vs Nanofilm's peers' 19x 2023F PE. We believe Nanofilm's current valuation of 15.6x 2023F PE provides an attractive entry level.

SHARE PRICE CATALYST

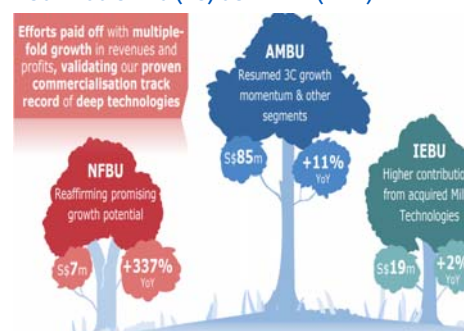
- Better-than-expected customer demand for Nanofilm's coating services and solutions.
- New application in the advanced material segment such as EV, green energy and fast-moving consumer goods.

REVENUE PERFORMANCE SUMMARY (1H22)



Source: Nanofilm, UOB Kay Hian

BUSINESS UNITS (BU) SUMMARY (1H22)



Source: Nanofilm, UOB Kay Hian

PEER COMPARISON

Company	Ticker	Price @ 27 Sep 22 (lcy)	Market Cap (US\$m)	PE			3-yr EPS CAGR (%)	P/B 2022 (x)	Yield 2022 (%)	ROE 2022 (%)	Net Gearing (%)	Net Margin 2022 (%)
				2021 (x)	2022 (x)	2023 (x)						
3M Co	MMM US	113	62,558	11.0	10.9	10.4	4.9	4.4	5.3	37.4	102.3	15.5
PPG Industries	PPG US	111.17	26,125	18.3	16.7	13.7	21.9	4.0	2.2	24.0	110.0	8.7
EMS-Chemie	EMSN SW	608	14,398	25.8	25.6	22.2	13.8	7.6	3.5	29.9	(5.3)	22.6
OC Oerlikon	OERL SW	6.50	2,236	13.0	10.7	10.0	80.6	1.4	5.6	12.2	37.9	7.4
Rogers Corp	ROG US	241.62	4,545	41.9	45.2	40.3	30.8	n.a.	n.a.	n.a.	3.9	n.a.
Red Avenue	603650 CH	29.70	2,471	54.0	40.7	25.7	18.2	5.6	0.4	13.4	62.5	12.9
Bodycote	BOY LN	492.60	1,019	15.8	12.5	11.3	502.3	1.3	4.3	10.9	16.5	10.6
Average				25.7	23.2	19.1		4.1	3.5	21.3	46.8	12.9
Singapore Peers												
Venture Corp	VMS SP	16.38	3,331	15.2	13.6	12.8	7.7	1.7	4.9	12.6	(25.1)	10.0
AEM	AEM SP	4.13	889	13.0	10.5	9.5	7.2	2.7	2.4	27.9	(17.6)	15.2
Frencken	FRKN SP	1.05	312	7.6	7.9	6.7	16.4	1.1	3.8	14.3	(18.0)	6.6
UMS	UMSH SP	1.30	606	16.3	10.9	10.3	32.2	2.7	3.8	26.3	(8.9)	25.3
Aztech Global	AZTECH SP	0.85	457	8.5	7.3	5.8	17.5	1.9	6.2	28.2	18.3	11.3
Average				12.1	10.0	9.0		2.0	4.2	21.9	(10.2)	13.7
Nanofilm Tech	NANO SP	2.13	979	22.6	19.4	15.6	8.6	2.9	1.0	15.8	(23.3)	23.9

Source: Bloomberg, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Net turnover	246.7	302.3	370.7	446.4
EBITDA	94.1	133.6	158.9	175.6
Deprec. & amort.	25.8	46.4	50.2	45.4
EBIT	68.3	87.2	108.7	130.2
Total other non-operating income	0.0	0.0	0.0	0.0
Associate contributions	1.3	0.0	0.0	0.0
Net interest income/(expense)	0.3	0.4	0.2	0.2
Pre-tax profit	69.9	87.5	108.9	130.4
Tax	(7.3)	(14.9)	(18.7)	(22.2)
Minorities	(0.3)	(0.3)	(0.3)	(0.3)
Net profit	62.2	72.3	89.9	107.9
Net profit (adj.)	62.2	72.3	89.9	107.9

BALANCE SHEET

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Fixed assets	290.2	313.8	283.6	258.2
Other LT assets	26.0	26.0	26.0	26.0
Cash/ST investment	176.6	201.2	286.8	380.4
Other current assets	152.1	173.4	206.3	242.7
Total assets	644.9	714.3	802.7	907.4
ST debt	2.1	2.1	2.1	2.1
Other current liabilities	72.0	83.2	99.5	117.4
LT debt	26.2	26.2	26.2	26.2
Other LT liabilities	69.7	69.7	69.7	69.7
Shareholders' equity	429.6	487.5	559.4	645.7
Minority interest	45.4	45.7	46.0	46.3
Total liabilities & equity	644.9	714.3	802.7	907.4

CASH FLOW

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Operating	73.2	108.7	123.4	135.0
Pre-tax profit	69.9	87.5	108.9	130.4
Tax	(7.3)	(14.9)	(18.7)	(22.2)
Deprec. & amort.	25.8	46.4	50.2	45.4
Associates	1.3	0.0	0.0	0.0
Working capital changes	(16.0)	(10.1)	(16.7)	(18.5)
Non-cash items	0.0	0.0	0.0	0.0
Other operating cashflows	(0.5)	(0.4)	(0.2)	(0.2)
Investing	(119.8)	(69.5)	(19.5)	(19.5)
Capex (growth)	(104.9)	(70.0)	(20.0)	(20.0)
Investments	(4.5)	0.0	0.0	0.0
Proceeds from sale of assets	0.1	0.0	0.0	0.0
Others	(10.6)	0.5	0.5	0.5
Financing	(4.9)	(15.2)	(18.7)	(22.4)
Dividend payments	(6.6)	(14.5)	(18.0)	(21.6)
Issue of shares	0.0	0.0	0.0	0.0
Proceeds from borrowings	49.0	0.0	0.0	0.0
Loan repayment	(64.2)	0.0	0.0	0.0
Others/interest paid	16.9	(0.7)	(0.8)	(0.8)
Net cash inflow (outflow)	(51.5)	23.9	85.2	93.1
Beginning cash & cash equivalent	226.9	177.1	201.6	287.2
Changes due to forex impact	1.2	0.0	0.0	0.0
Ending cash & cash equivalent	176.6	201.1	286.7	380.3

KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
Profitability				
EBITDA margin	38.1	44.2	42.9	39.3
Pre-tax margin	28.3	29.0	29.4	29.2
Net margin	25.2	23.9	24.2	24.2
ROA	10.4	10.6	11.8	12.6
ROE	14.5	15.8	17.2	17.9
Growth				
Turnover	13.0	22.5	22.6	20.4
EBITDA	2.1	42.0	18.9	10.5
Pre-tax profit	(0.6)	25.3	24.4	19.8
Net profit	8.0	16.3	24.2	20.1
Net profit (adj.)	8.0	16.3	24.2	20.1
EPS	(11.4)	16.4	24.2	20.1
Leverage				
Debt to total capital	5.6	5.0	4.5	3.9
Debt to equity	6.6	5.8	5.1	4.4
Net debt/(cash) to equity	(34.5)	(35.5)	(46.2)	(54.5)
Interest cover (x)	n.a.	n.a.	n.a.	n.a.

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