

COMPANY UPDATE

Nanofilm Technologies International (NANO SP)

High Potential Earnings Contribution From Entry Into The EV Battery Industry

Nanofilm has formed a JV with Shenzhen Everwin to provide coating services for EVs' battery components. Shenzhen Everwin currently supplies electroplating services to the top players in the EV industry such as CATL and Tesla. The JV aims to commence production in 1H23 and mass production by 2024. We estimate that the JV could generate at least S\$200m additional revenue in 2024 (27% increase), based on the EV segment revenue of Shenzhen Everwin in 2021. Maintain BUY. Target price: S\$2.72.

WHAT'S NEW

- Nanofilm formed a JV with Shenzhen Everwin to provide coating services for EVs' battery components.** Nanofilm Technologies International (Nanofilm) announced that it has formed a JV with Shenzhen Everwin (SZE 300115) to address the coating needs for electric vehicles' (EV) battery components in China. We understand that Shenzhen Everwin currently supplies electroplated battery parts to the top players in the industry including CATL and Tesla. The JV aims to replace electroplating processes which are harmful to the environment and has been facing more government restrictions with Nanofilm's proprietary coating solutions. The main battery components that the JV will be coating include busbars, battery housing and connectors.
- Target to start production in 1H23 and reach mass production by 2024.** The JV aims to start production in 1H23 in Sichuan, China and reach industrial-scale mass production by 2024. The JV will be initially targeting China's market, with future plans to expand to the international market. Total capex for the JV is estimated to be S\$30m-50m. According to the International Energy Agency (IEA), the total addressable market of advanced batteries for EVs in China is estimated to be above 6.5m units, amounting to US\$79b in 2023 and is growing at a compounded annual growth rate of 10% to reach US\$156b in 2030.
- JV is expected to be profitable in 2023 and contribute significantly in 2024.** We understand that the JV will be profitable in the initial production phase given that there is already an existing market for the product. Shenzhen Everwin's currently outsourced electroplating process will be replaced by Nanofilm's coating processes. As of 2021, the revenue for Shenzhen Everwin's EV segment is around S\$200m. This could be a good reference point for the minimum potential revenue for the JV. On the other hand, assuming that the JV is able to capture 2m unit of batteries which requires 150 units of busbars each, this is equivalent to 300m units of busbars. Assuming S\$1-2 revenue for the coating of each busbar, this could generate S\$300m-600m worth of revenue, which is more than double of Nanofilm's revenue for 2022-24. However, we maintain our financial forecasts for now pending further development of the JV.

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 (S\$ cent)	10.6	9.4	11.0	13.6	16.4
PE (x)	19.2	21.7	18.6	15.0	12.5
P/B (x)	3.1	3.1	2.8	2.4	2.1
EV/EBITDA (x)	13.2	13.0	9.1	7.7	6.9
Dividend yield (%)	0.9	1.0	1.1	1.3	1.6
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\$2.04
Target Price	S\$2.72
Upside	+33.3%

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 (S\$m):	1,345.8
Market cap (US\$m):	933.6
3-mth avg daily t'over (US\$m):	2.1

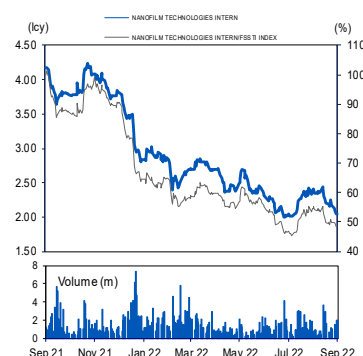
Price Performance (%)

52-week high/low		S\$4.31/S\$1.94		
1mth	3mth	6mth	1yr	YTD
(12.4)	(13.9)	(24.4)	(50.7)	(46.6)

Major Shareholders

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

PRICE CHART



Source: Bloomberg

ANALYST(S)

John Cheong
+65 6590 6623
johncheong@uobkayhian.com

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. Sydhogen 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 premium vs Nanofilm's peers' 19x 2023F PE. We believe Nanofilm's current valuation of 15.0x 2023F PE provides an attractive entry level.

SHARE PRICE CATALYST

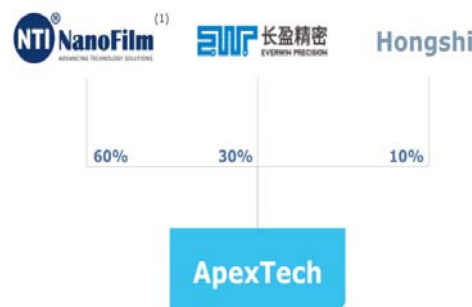
- Better-than-expected customer demand for Nanofilm's coating services and solutions.
- New application in the advanced material segment such as EV, green energy and fast-moving consumer goods.

PEER COMPARISON

Company	Ticker	Price @ 29 Sep 22 (1cy)	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	114.28	63,267	11.2	11.0	10.5	4.9	4.4	5.2	37.4	102.3	15.5
PPG Industries	PPG US	113.3	26,625	18.7	17.0	14.0	21.8	4.0	2.1	23.9	110.0	8.6
EMS-Chemie	EMSN SW	607	14,450	25.8	25.6	22.2	13.8	7.6	3.6	29.9	(5.3)	22.6
OC Oerlikon	OERL SW	6.37	2,203	12.7	10.5	9.8	80.6	1.4	5.7	12.2	37.9	7.4
Rogers Corp	ROG US	246.03	4,628	42.6	46.0	41.0	30.8	n.a.	n.a.	n.a.	3.9	n.a.
Red Avenue	603650 CH	28.43	2,355	51.7	38.9	24.6	18.2	5.4	0.4	13.4	62.5	12.9
Bodycote	BOY LN	469	971	15.0	11.9	10.7	502.3	1.3	4.5	10.9	16.5	10.6
Average				25.4	23.0	19.0		4.0	3.6	21.3	46.8	12.9
Singapore Peers												
Venture Corp	VMS SP	16.4	3,309	15.3	13.6	12.8	7.7	1.7	4.9	12.6	(25.1)	10.0
AEM	AEM SP	3.96	849	12.5	10.0	9.1	7.2	2.6	2.5	27.9	(17.6)	15.2
Frencken	FRKN SP	0.985	292	7.2	7.4	6.2	16.4	1.0	4.0	14.3	(18.0)	6.6
UMS	UMSH SP	1.25	580	15.7	10.5	9.9	22.7	2.6	4.0	26.3	(8.9)	25.3
Aztech Global	AZTECH SP	0.8	428	8.0	6.9	5.5	17.5	1.8	6.6	28.2	18.3	11.3
Average				11.7	9.7	8.7		1.9	4.4	21.9	(10.2)	13.7
Nanofilm Tech	NANO SP	2.04	933	21.7	18.6	15.0	8.6	2.8	1.1	15.8	(23.3)	23.8

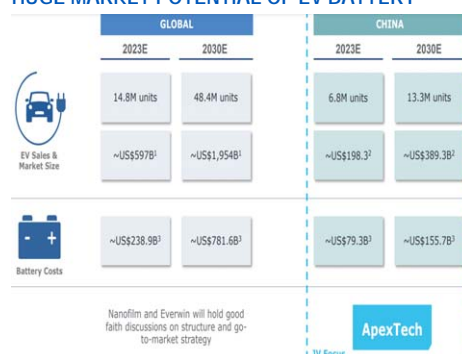
Source: Bloomberg, UOB Kay Hian

CORPORATE STRUCTURE OF THE JV



Source: Nanofilm, UOB Kay Hian

HUGE MARKET POTENTIAL OF EV BATTERY



Source: Nanofilm, 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

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

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

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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