

COMPANY UPDATE

**Nanofilm Technologies International (NANO SP)**

1H23: Results Within Expectation But Slower-Than-Expected Recovery For 2H23

Nanofilm reported 1H23 net loss of S\$8m (vs S\$19m earnings in 1H22), in line with our expectation. 1H23 revenue fell 34% yoy due to softer end-consumer demand, particularly in its 3C segment and the slower-than-expected recovery in China. 2H23 revenue is expected to be higher than 1H23, but will be lower than 2H22, due to the uncertain macro environment. We trimmed our 2023/24 EPS by 38%/8%. Our target price fell 10% to S\$1.00. Upgrade to HOLD.

1H23 RESULTS

Year to 31 Dec (S\$m)	1H23	1H22	yoy % chg
Revenue	73.2	111.3	-34.4
Gross profit	23.4	50.0	-53.1
Gross margin	32.0%	44.9%	-12.9ppt
PATMI	-7.7	18.8	n/a
Net margin	n/a	16.4	n/a

Source: Nanofilm, UOB Kay Hian

RESULTS

- **Reported 1H23 net loss is in line with expectation and profit warning released.** Nanofilm Technologies International (Nanofilm) reported 1H23 net loss of S\$8m (vs S\$19m positive earnings in 1H22), this is in line with our expectation and Nanofilm's profit warning released earlier on 10 Jul 23. 1H23 revenue fell 34% yoy and Nanofilm reported a net loss due to a number of factors including softer end-consumer demand, particularly in its 3C segment, and the slower-than-expected recovery of China.
- **Largest revenue segment suffered due to weak demand in consumer electronics market.** Nanofilm's Advanced Materials Business Unit (AMBU), which contributes 81% of total revenue in 1H23, suffered a 30% yoy decline in revenue mainly due to lower sales in the computer, communication and consumer (3C) sub-segment. The 3C sub-segment saw a 42% yoy sales decline mainly due to a softer consumer electronics market which resulted in inventory reduction in the supply chain. This was further compounded by a comparatively strong 1H22 that was lifted by the prior year's spillover production and a weaker foreign exchange translation of RMB to SGD.
- **2H23 to be better hoh is no surprise, but 2H23 to be weaker yoy is a negative surprise.** Looking ahead to 2H23, revenue is expected to be higher than 1H23, driven by seasonality peak production for the consumer segment. However, 2H23 will not be comparable to 2H22, where Nanofilm reported S\$25m earnings, due to the uncertain macro environment. The full-year profitability is subject to the level of demand from end-consumers in the upcoming new 3C product launches and customers' capex. Nanofilm's new guidance that 2H23 will be weaker yoy came in as a new negative surprise.

KEY FINANCIALS

Year to 31 Dec (S\$m)	2021	2022	2023F	2024F	2025F
Net turnover	247	237	160	209	285
EBITDA	94	77	47	76	101
Operating profit	68	46	18	45	68
Net profit (rep./act.)	62	44	15	38	57
Net profit (adj.)	62	44	15	38	57
EPS (S\$ cent)	9.4	6.6	2.3	5.7	8.7
PE (x)	10.7	15.2	44.1	17.7	11.6
P/B (x)	1.6	1.6	1.5	1.4	1.3
EV/EBITDA (x)	5.8	7.1	11.6	7.2	5.4
Dividend yield (%)	2.0	1.3	0.5	1.1	1.7
Net margin (%)	25.2	18.5	9.4	18.0	20.1
Net debt/(cash) to equity (%)	(34.5)	(29.0)	(35.9)	(32.3)	(31.1)
Interest cover (x)	n.a.	n.a.	n.a.	n.a.	n.a.
ROE (%)	14.5	10.3	3.6	8.4	11.8
Consensus net profit	-	-	34	51	58
UOBKH/Consensus (x)	-	-	0.45	0.74	0.99

Source: Nanofilm, Bloomberg, UOB Kay Hian

HOLD

(Upgraded)

Share Price	S\$1.01
Target Price	S\$1.00
Upside	-1.3%
(Previous TP)	S\$1.11)

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):	647.0
Market cap (S\$m):	653.5
Market cap (US\$m):	484.1
3-mth avg daily t'over (US\$m):	2.1

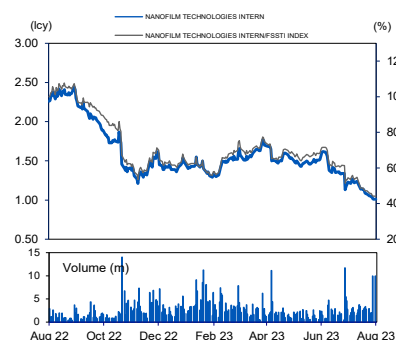
Price Performance (%)

52-week high/low	S\$2.44/S\$1.01			
<b>1mth</b>	<b>3mth</b>	<b>6mth</b>	<b>1yr</b>	<b>YTD</b>
(10.6)	(34.0)	(22.9)	(52.1)	(27.3)

Major Shareholders

	%
Dr Shi Xu	52.0
Temasek Holdings	7.2
FY23 NAV/Share (S\$)	0.66
FY23 Net Cash/Share (S\$)	0.23

PRICE CHART



Source: Bloomberg

ANALYST(S)

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### STOCK IMPACT

- **The operating environment has remained challenging**, with softer demand for consumer electronics exacerbated by the macroeconomic environment, inflationary pressures and geopolitical tensions. This has also weighed on the Nanofilm's customers, particularly Industrial Equipment Business Unit (IEBU) customers who remain tight on capital expenditure. However, the 3C consumer business' (AMBU) inventory rebalancing is improving. Demand and production volume for the peak season in 2H23 will be predicated on end-consumer interest in upcoming new product launches.
- **Despite the ongoing challenges, the mid- to long-term prospects for Nanofilm remains strong**, especially as the choice solution provider with deeper penetration and geographical strategic sites coverage of 3C supply chain and its world leading customers' new product range; new segments such as green plating applications including EV battery connectors in new energy end-market and functional coating applications in industrial end-market are expected to provide new revenue streams from 2024 onwards.

### EARNINGS REVISION/RISK

- We have reduced our earnings forecasts for 2023/24/25 by 38%/8%/6% after reducing our revenue forecasts by 6%/6%/6% to factor in the potential slowdown in end-consumer demand amid a challenging macro environment with geopolitical tensions, inflationary pressures and rising interest rates. We are also factoring in the new profit guidance of Nanofilm which expects weaker yoy results for 2H23. In addition, we have also reduced our 2023/24/25 gross margin estimates by 6.5%/0.5%/0% to 36.0%/44.5%/47.0% to incorporate the lower operating leverage from reduced revenue.

### VALUATION/RECOMMENDATION

- **Upgrade to HOLD with a 10% lower target price of S\$1.00.** We value Nanofilm based on 17.5x 2024F EPS, pegged to -1SD to its long-term forward mean to reflect the challenging environment it is facing.

### SHARE PRICE CATALYST

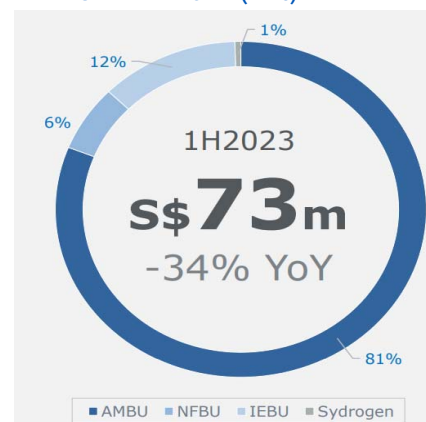
- Better-than-expected ramp-up of the nanofabrication business.
- New application in the advanced material segment such as EVs, bi-polar plate electrodes in fuel cells and solar energy.

### PEER COMPARISON

Company	Ticker	Price @ 11 Aug 23 (Icy)	Market Cap (US\$m)	PE			3-yr EPS CAGR (%)	P/B 2023 (x)	Yield 2023 (%)	ROE 2023 (%)	Net Gearing (%)	Net Margin 2023 (%)
				2022 (x)	2023 (x)	2024 (x)						
3M Co	MMM US	106.08	58,500	10.4	12.3	11.2	(2.6)	3.8	5.8	30.0	87.3	14.8
PPG Industries	PPG US	140.55	33,080	32.4	20.5	17.8	9.2	4.9	1.8	22.4	96.6	8.7
EMS-Chemie	EMSN SW	779	20,324	34.2	33.0	30.2	3.1	9.5	2.8	29.5	(18.3)	22.6
OC Oerlikon	OERL SW	5,055	1,916	18.7	10.0	10.1	0.0	1.2	6.9	11.8	35.8	6.7
Rogers Corp	ROG US	160.09	2,979	25.8	40.3	28.6	(1.0)	n.a.	n.a.	n.a.	(0.5)	6.5
Red Avenue	603650 CH	40.3	3,490	80.6	56.2	43.8	18.7	7.1	0.5	12.5	73.4	12.9
Bodycote	BOY LN	662.5	1,576	17.2	14.8	13.1	17.3	1.7	3.4	11.5	12.7	11.1
<b>Average</b>				<b>31.3</b>	<b>26.7</b>	<b>22.1</b>		<b>4.7</b>	<b>3.5</b>	<b>19.6</b>	<b>41.0</b>	<b>11.9</b>
<b>Singapore Peers</b>												
Venture Corp	VMS SP	14.55	3,796	13.7	13.3	12.7	8.3	1.7	4.6	13.0	(27.7)	9.5
AEM	AEM SP	3.70	759	8.0	11.8	10.5	(0.4)	1.8	2.1	16.6	(25.9)	14.2
Frencken	FRKN SP	0.88	333	8.6	9.6	9.3	(6.6)	1.0	3.1	11.3	(4.2)	6.3
UMS	UMSH SP	1.05	528	7.1	9.2	8.0	18.0	1.8	4.8	20.9	(5.9)	23.8
Aztech Global	AZTECH SP	0.705	477	9.5	6.6	6.3	9.5	1.7	6.7	29.4	(82.5)	11.9
<b>Average</b>				<b>9.4</b>	<b>10.1</b>	<b>9.4</b>		<b>1.6</b>	<b>4.3</b>	<b>18.2</b>	<b>(29.2)</b>	<b>13.2</b>
Nanofilm Tech	NANO SP	1.01	484	15.2	44.1	17.7	9.4	1.5	0.5	3.6	(35.9)	9.4

Source: Bloomberg, UOB Kay Hian

### REVENUE BREAKDOWN (1H23)



Source: NanoFilm

### HISTORICAL PE BAND



Source: Bloomberg, UOB Kay Hian

### PROFIT & LOSS

Year to 31 Dec (\$m)	2022	2023F	2024F	2025F
<b>Net turnover</b>	<b>237.4</b>	<b>160.4</b>	<b>209.1</b>	<b>284.9</b>
EBITDA	76.7	47.0	75.9	101.3
Deprec. & amort.	30.9	28.9	31.0	32.9
EBIT	45.8	18.0	44.9	68.4
Total other non-operating income	(0.1)	0.0	0.0	0.0
Associate contributions	(0.0)	0.0	0.0	0.0
Net interest income/(expense)	0.4	0.3	0.2	0.2
<b>Pre-tax profit</b>	<b>46.1</b>	<b>18.3</b>	<b>45.1</b>	<b>68.6</b>
Tax	(2.8)	(2.9)	(7.2)	(11.0)
Minorities	0.5	(0.3)	(0.3)	(0.3)
<b>Net profit</b>	<b>43.8</b>	<b>15.1</b>	<b>37.6</b>	<b>57.3</b>
Net profit (adj.)	43.8	15.1	37.6	57.3

### CASH FLOW

Year to 31 Dec (\$m)	2022	2023F	2024F	2025F
<b>Operating</b>	<b>72.4</b>	<b>86.1</b>	<b>51.3</b>	<b>70.1</b>
Pre-tax profit	46.1	18.3	45.1	68.6
Tax	(2.8)	(2.9)	(7.2)	(11.0)
Deprec. & amort.	30.9	28.9	31.0	32.9
Associates	(0.0)	0.0	0.0	0.0
Working capital changes	(0.0)	42.1	(17.4)	(20.3)
Non-cash items	0.0	0.0	0.0	0.0
Other operating cashflows	(1.7)	(0.3)	(0.2)	(0.2)
<b>Investing</b>	<b>(68.9)</b>	<b>(49.5)</b>	<b>(49.5)</b>	<b>(49.5)</b>
Capex (growth)	(50.8)	(50.0)	(50.0)	(50.0)
Investments	(4.1)	0.0	0.0	0.0
Proceeds from sale of assets	0.2	0.0	0.0	0.0
Others	(14.2)	0.5	0.5	0.5
<b>Financing</b>	<b>(27.9)</b>	<b>(4.3)</b>	<b>(8.9)</b>	<b>(12.9)</b>
Dividend payments	(13.8)	(3.0)	(7.5)	(11.5)
Issue of shares	0.0	0.0	0.0	0.0
Proceeds from borrowings	0.0	0.0	0.0	0.0
Loan repayment	(5.2)	0.0	0.0	0.0
Others/interest paid	(8.9)	(1.3)	(1.3)	(1.4)
<b>Net cash inflow (outflow)</b>	<b>(24.4)</b>	<b>32.3</b>	<b>(7.1)</b>	<b>7.7</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>176.2</b>	<b>148.9</b>	<b>182.3</b>	<b>176.3</b>
Changes due to forex impact	(4.0)	0.0	0.0	0.0
<b>Ending cash &amp; cash equivalent</b>	<b>147.8</b>	<b>181.2</b>	<b>175.2</b>	<b>184.0</b>

### BALANCE SHEET

Year to 31 Dec (\$m)	2022	2023F	2024F	2025F
<b>Fixed assets</b>	<b>289.2</b>	<b>310.2</b>	<b>329.2</b>	<b>346.3</b>
Other LT assets	40.5	40.5	40.5	40.5
Cash/ST investment	147.8	181.2	175.2	184.0
Other current assets	140.4	99.7	123.5	160.6
<b>Total assets</b>	<b>617.9</b>	<b>631.7</b>	<b>668.5</b>	<b>731.4</b>
ST debt	1.9	1.9	1.9	1.9
Other current liabilities	55.7	57.2	63.6	80.4
LT debt	24.4	24.4	24.4	24.4
Other LT liabilities	71.3	71.3	71.3	71.3
Shareholders' equity	418.8	430.9	460.9	506.8
Minority interest	45.7	46.0	46.3	46.6
<b>Total liabilities &amp; equity</b>	<b>617.9</b>	<b>631.7</b>	<b>668.5</b>	<b>731.4</b>

### KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
<b>Profitability</b>				
EBITDA margin	32.3	29.3	36.3	35.6
Pre-tax margin	19.4	11.4	21.6	24.1
Net margin	18.5	9.4	18.0	20.1
ROA	6.9	2.4	5.8	8.2
ROE	10.3	3.6	8.4	11.8
<b>Growth</b>				
Turnover	(3.8)	(32.5)	30.4	36.3
EBITDA	(18.5)	(38.8)	61.6	33.5
Pre-tax profit	(34.0)	(60.3)	146.0	52.0
Net profit	(29.6)	(65.5)	148.9	52.4
Net profit (adj.)	(29.6)	(65.5)	148.9	52.4
EPS	(29.5)	(65.5)	148.9	52.4
<b>Leverage</b>				
Debt to total capital	5.4	5.2	4.9	4.5
Debt to equity	6.3	6.1	5.7	5.2
Net debt/(cash) to equity	(29.0)	(35.9)	(32.3)	(31.1)
Interest cover (x)	n.a.	n.a.	n.a.	n.a.

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