

COMPANY RESULTS

Nanofilm Technologies International (NANO SP)

9M23: Revenue In Line But Expect Weakness To Continue In 4Q23; Downgrade To SELL

Nanofilm reported 3Q23 revenue of S\$55m (-19% yoy, vs S\$73m in 1H23). 9M23 revenue is in line with our expectation, forming 80% of our full-year estimate. The operating environment for 3Q23 remains challenging due to weaker consumer sentiment, with expected market volatility in 4Q23. 2024's outlook is also uncertain. We trim our 2023 and 2024 earnings by 98% and 34% respectively. Reduce target price by 34% to S\$0.66. Downgrade to SELL on a more challenging mid-term outlook.

9M23 RESULTS

Year to 31 Dec (\$m)	9M23	9M22	yoy % chg
Revenue	128m	180m	-28%
Advanced materials business unit (AMBU)	81% of revenue	78% of revenue	+3ppt
Industrial equipment business unit (IEBU)	9% of revenue	9% of revenue	-
Nanofabrication business unit (NFBU)	9% of revenue	13% of revenue	-4ppt

Source: Nanofilm, UOB Kay Hian

RESULTS

- 9M23 revenue in line, profitability achieved in 3Q23 due to better gross margin and cost management.** Nanofilm Technologies International (Nanofilm) reported 9M23 revenue of S\$128m (-28% yoy), in line with our expectation and accounting for 80% of our full-year estimate. 3Q23 revenue was S\$55m (-19% yoy, vs S\$73m in 1H23), which means that Nanofilm has achieved profitability vs an S\$8m loss in 1H23. Gross margin improved to above 40% in 3Q23 vs 32% in 1H23 due to ongoing efforts in cost management. This improvement occurred despite a 19% yoy decline in revenue. Also, operating expenses dropped by 10% yoy in 3Q23.
- The operating environment for 3Q23 continued to be challenging.** This was due to macro headwinds and dampening of overall consumer sentiment. Nanofilm saw an uptick in operational activity for 3Q23, which was driven by the seasonal peak period for the Computer, Communication and Consumer (3C) segment, but this was lower yoy.
- Target for profitability in 2023 will be dependent on end-consumer demand for new 3C product launches; 2024 outlook continues to be uncertain.** As a result, bottom line may be negatively impacted if end-consumer demand remains muted. Nanofilm's 3C consumer business under its advanced materials business unit (AMBU) and nanofabrication business unit (NFBU) is seeing improvement in inventory rebalancing but production volumes are still lower yoy. For industrial equipment business unit (IEBU), customers remain tight on their capex but there are active engagements with customers for their requirements in the coming year. For 2024, the macro environment continues to be uncertain. Nevertheless, Nanofilm will double down on efforts to balance cost management with the necessary spending to support future growth whilst remaining focused on delivering long-term growth.

KEY FINANCIALS

Year to 31 Dec (\$m)	2021	2022	2023F	2024F	2025F
Net turnover	247	237	160	198	223
EBITDA	94	77	29	61	71
Operating profit	68	46	0	30	38
Net profit (rep./act.)	62	44	0	25	32
Net profit (adj.)	62	44	0	25	32
EPS (S\$ cent)	9.4	6.6	0.0	3.8	4.9
PE (x)	9.9	14.0	n.a.	24.5	19.1
P/B (x)	1.4	1.5	1.5	1.4	1.3
EV/EBITDA (x)	5.3	6.5	17.1	8.3	7.0
Dividend yield (%)	2.2	1.4	0.0	0.8	1.0
Net margin (%)	25.2	18.5	0.2	12.6	14.4
Net debt/(cash) to equity (%)	(34.5)	(29.0)	(34.7)	(30.9)	(29.6)
Interest cover (x)	n.a.	n.a.	n.a.	n.a.	n.a.
ROE (%)	14.5	10.3	0.1	5.8	7.1
Consensus net profit	-	-	19	40	51
UOBKH/Consensus (x)	-	-	0.01	0.62	0.63

Source: Nanofilm, Bloomberg, UOB Kay Hian

SELL

(Downgraded)

Share Price	S\$0.93
Target Price	S\$0.66
Upside	-29.0%
(Previous TP)	S\$1.00)

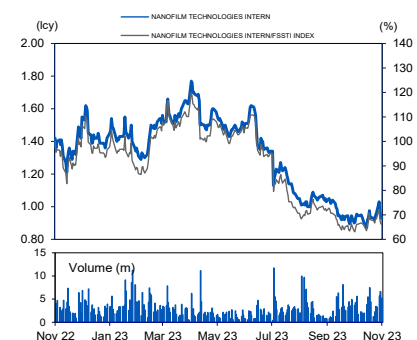
COMPANY DESCRIPTION

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):	647.1			
Market cap (S\$m):	601.8			
Market cap (US\$m):	443.7			
3-mth avg daily t'over (US\$m):	2.3			
Price Performance (%)				
52-week high/low	S\$1.77/S\$0.870			
1mth	3mth	6mth	1yr	YTD
(1.6)	(11.4)	(40.4)	(32.6)	(33.1)
Major Shareholders	%			
Dr Shi Xu	52.0			
Temasek Holdings	7.2			
FY23 NAV/Share (S\$)	0.64			
FY23 Net Cash/Share (S\$)	0.22			

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- **Nanofilm will be building up its functional coating capabilities and presence in Europe** and this will be supplemented by selective inorganic growth opportunities. In India, Nanofilm is finalising a factory-in-factory arrangement with a partner to expedite its deployment of equipment for the 3C supply chain, and this is expected to be completed by 1Q24. As for Vietnam, with Phase One renovations and fit-out for the group's second Vietnam site expected to be completed by 1Q24, the installation and commissioning of AMBU Consumer and NFBU equipment will commence first, with IEBU operations to follow thereafter.
- **Nanofilm's JV, ApexTech**, is currently undergoing customer qualification at the component level for electric vehicle busbar connectors. However, progress has been slow due to customers having excess production capacity caused by the current market weakness. ApexTech is also exploring with potential customers the application of its green plating solutions to other components.

EARNINGS REVISION/RISK

- We have reduced our earnings forecasts for 2023/24/25 by 98%/34%/44% after reducing our revenue forecasts by 0%/5%/22% 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 an uncertain outlook for 2024. In addition, we have also reduced our 2023/24/25 gross margin estimates by 3.0%/6.5%/7.0% to 33.0%/38.0%/40.0% to incorporate the lower operating leverage from reduced revenue and higher operating costs.

VALUATION/RECOMMENDATION

- **Downgrade to SELL with a 34% lower target price of S\$0.66.** 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 @ 8 Nov 23 (lcy)	Market Cap (US\$m)	PE			3-yr EPS CAGR (%)	P/B 2023 (x)	Yield 2023 (%)	ROE 2023 (%)	Net Gearing (%)
				2022 (x)	2023 (x)	2024 (x)					
3M Co	MMM US	93.15	51,448	9.1	11.9	9.5	(1.6)	9.9	6.5	(7.1)	244.9
PPG Industries	PPG US	127.81	30,138	29.4	16.7	15.2	11.5	3.9	2.0	24.4	72.2
EMS-Chemie	EMSN SW	603	15,638	26.5	31.9	29.2	(4.3)	7.9	3.2	25.9	(10.6)
OC Oerlikon	OERL SW	3,632	1,368	13.5	9.1	11.9	(15.1)	0.9	8.5	10.3	103.6
Rogers Corp	ROG US	120.11	2,236	19.3	35.1	24.0	(4.7)	n.a.	n.a.	n.a.	(2.7)
Red Avenue	603650 CH	37.86	3,120	75.7	51.3	42.8	17.2	6.5	0.4	12.5	60.2
Bodycote	BOY LN	582.5	1,367	15.1	12.2	11.0	19.2	1.4	3.8	11.5	11.7
Average				27.0	24.0	20.5		5.1	4.1	12.9	68.5
Singapore Peers											
Venture Corp	VMS SP	12.56	2,691	9.9	13.6	13.0	(3.5)	1.3	6.0	9.4	(31.1)
AEM	AEM SP	3.46	788	8.4	n.a.	12.1	(3.5)	2.2	0.0	0.2	10.4
Frencken	FRKN SP	1.14	359	9.4	19.0	11.7	(10.9)	1.2	1.6	6.5	4.1
UMS	UMSH SP	1.31	648	8.9	14.7	11.3	13.2	2.4	4.1	17.0	(11.3)
Aztech Global	AZTECH SP	0.955	544	11.0	7.8	7.1	10.6	2.0	5.8	29.1	(65.1)
Average				9.5	13.8	11.0		1.8	3.5	12.4	(18.6)
Nanofilm Tech	NANO SP	0.93	444	14.0	n.a.	24.5	(26.2)	1.5	0.0	0.1	(19.3)

Source: Bloomberg, UOB Kay Hian

REVENUE BREAKDOWN (9M23)



Source: NanoFilm

HISTORICAL PE BAND



Source: Bloomberg, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (\$m)	2022	2023F	2024F	2025F
Net turnover	237.4	160.4	198.4	223.3
EBITDA	76.7	29.3	60.8	71.3
Deprec. & amort.	30.9	28.9	31.0	32.9
EBIT	45.8	0.4	29.8	38.4
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	0.4	0.3
Pre-tax profit	46.1	0.7	30.1	38.7
Tax	(2.8)	(0.1)	(4.8)	(6.2)
Minorities	0.5	(0.3)	(0.3)	(0.3)
Net profit	43.8	0.3	25.0	32.2
Net profit (adj.)	43.8	0.3	25.0	32.2

CASH FLOW

Year to 31 Dec (\$m)	2022	2023F	2024F	2025F
Operating	72.4	73.6	44.9	58.2
Pre-tax profit	46.1	0.7	30.1	38.7
Tax	(2.8)	(0.1)	(4.8)	(6.2)
Deprec. & amort.	30.9	28.9	31.0	32.9
Associates	(0.0)	0.0	0.0	0.0
Working capital changes	(0.0)	44.4	(11.1)	(6.9)
Non-cash items	0.0	0.0	0.0	0.0
Other operating cashflows	(1.7)	(0.3)	(0.4)	(0.3)
Investing	(68.9)	(49.5)	(49.5)	(49.5)
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
Financing	(27.9)	(1.3)	(6.3)	(7.9)
Dividend payments	(13.8)	(0.1)	(5.0)	(6.4)
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)
Net cash inflow (outflow)	(24.4)	22.8	(11.0)	0.9
Beginning cash & cash equivalent	176.2	148.9	172.7	162.8
Changes due to forex impact	(4.0)	0.0	0.0	0.0
Ending cash & cash equivalent	147.8	171.7	161.7	163.7

BALANCE SHEET

Year to 31 Dec (\$m)	2022	2023F	2024F	2025F
Fixed assets	289.2	310.2	329.2	346.3
Other LT assets	40.5	40.5	40.5	40.5
Cash/ST investment	147.8	171.7	161.9	163.9
Other current assets	140.4	99.7	118.3	130.5
Total assets	617.9	622.1	649.9	681.2
ST debt	1.9	1.9	1.9	1.9
Other current liabilities	55.7	59.5	67.0	72.2
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	419.0	439.0	464.8
Minority interest	45.7	46.0	46.3	46.6
Total liabilities & equity	617.9	622.1	649.9	681.2

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	32.3	18.3	30.6	31.9
Pre-tax margin	19.4	0.4	15.2	17.3
Net margin	18.5	0.2	12.6	14.4
ROA	6.9	0.0	3.9	4.8
ROE	10.3	0.1	5.8	7.1
Growth				
Turnover	(3.8)	(32.5)	23.7	12.6
EBITDA	(18.5)	(61.8)	107.4	17.3
Pre-tax profit	(34.0)	(98.5)	n.a.	28.4
Net profit	(29.6)	(99.4)	n.a.	28.8
Net profit (adj.)	(29.6)	(99.4)	n.a.	28.8
EPS	(29.5)	(99.4)	n.a.	28.8
Leverage				
Debt to total capital	5.4	5.4	5.2	4.9
Debt to equity	6.3	6.3	6.0	5.7
Net debt/(cash) to equity	(29.0)	(34.7)	(30.9)	(29.6)
Interest cover (x)	n.a.	n.a.	n.a.	n.a.

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