

COMPANY RESULTS

**Nanofilm Technologies International (NANO SP)**

1Q24: Revenue In Line But Still Loss-making; Maintain SELL On Rich Valuation

**Nanofilm's 1Q24 revenue of S\$39m (+19% yoy) is in line with expectations at 20% of our full-year estimate, but earnings are still in the red. AMBU saw a 41% yoy growth due to a 51% growth in the 3C sector and a 24% growth in the automobile sector. Gross margin rose 3ppt yoy due to increased contribution from the 3C and industrial segments. Maintain SELL with a 6% lower target price of S\$0.56 after cutting our 2024 EPS. Nanofilm is trading at 18x 2024F PE vs 14x for Singapore peers.**

1Q24 RESULTS

Year to 31 Dec (S\$m)	1Q24	1Q23	yoy % chg
Revenue	39.0	32.8	19.0
Gross profit	12.8	9.8	30.6
Gross margin (%)	33	30	+3ppt

Source: Nanofilm, UOB Kay Hian

RESULTS

- **Revenue in line but still in a loss-making position in 1Q24.** Nanofilm Technologies International's (Nanofilm) 1Q24 revenue of S\$39m (+19% yoy) is in line with our estimates, at 20% of our full-year estimates. However, Nanofilm is still in a loss-making position in 1Q24, although the loss is narrowing yoy. Advanced materials business unit (AMBU) saw a 41% yoy growth due to a 51% growth in the computer, communication and consumer (3C) sector and a 24% growth in the automotive sector. Gross margin improved 3ppt yoy to 33% due to increased contribution from the 3C and industrial segments.
- **AMBU delivered growth, offsetting decline in IEPU while NFBU was flattish.** Nanofilm's largest segment, AMBU, recorded a 41% yoy revenue growth and contributed 89% of revenue in 1Q24 due to strong growth in the 3C sector from a new customer and demand recovery from existing customers. Within the 3C sector, the smartphone subsegment emerged as the largest revenue contributor, accounting for 44% of the revenue. The onboarding of a new customer contributed significantly to the growth. The nanofabrication business unit's (NFBU) revenue was flattish, while the industrial equipment business unit's (IEPU) revenue declined 66% yoy due to softer orderbook.
- **Expect growth in 2024 due to the low base effect in 2023.** The main driver for 2024 revenue growth will be the consumer segment with its strong pipeline. Peak period production activity is anticipated to commence towards late-2Q24 and into 3Q24. Continuous optimisation of cost structures, coupled with lower capex yoy, is expected to improve profitability in 2024. Nanofilm expects revenue and profit to be higher yoy due to the low base effect last year, contingent upon the absence of major unexpected events.

KEY FINANCIALS

Year to 31 Dec (S\$m)	2022	2023	2024F	2025F	2026F
Net turnover	237	177	198	223	251
EBITDA	77	37	58	70	77
Operating profit	46	3	28	38	43
Net profit (rep./act.)	44	3	23	32	35
Net profit (adj.)	44	3	23	32	35
EPS (S\$ cent)	6.7	0.5	3.5	4.9	5.5
PE (x)	9.6	132.1	18.2	13.1	11.7
P/B (x)	1.0	1.1	1.0	1.0	0.9
EV/EBITDA (x)	4.8	9.8	6.4	5.2	4.8
Dividend yield (%)	2.1	0.2	1.1	1.5	1.7
Net margin (%)	18.5	1.8	11.5	14.2	14.1
Net debt/(cash) to equity (%)	(29.0)	(19.2)	(23.3)	(21.9)	(21.8)
Interest cover (x)	n.a.	n.a.	194.4	177.3	152.8
ROE (%)	10.3	0.8	5.9	7.7	8.1
Consensus net profit	-	-	23	33	42
UOBKH/Consensus (x)	-	-	1.01	0.94	0.85

Source: Nanofilm, Bloomberg, UOB Kay Hian

SELL

(Maintained)

Share Price	S\$0.64
Target Price	S\$0.56
Upside	-12.5%
(Previous TP:	S\$0.605)

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):	651.0
Market cap (S\$m):	416.6
Market cap (US\$m):	305.8
3-mth avg daily t'over (US\$m):	2.4

Price Performance (%)

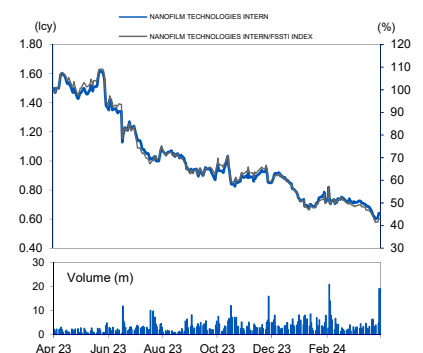
52-week high/low	S\$1.64/S\$0.595			
<b>1mth</b>	<b>3mth</b>	<b>6mth</b>	<b>1yr</b>	<b>YTD</b>
(11.7)	(16.9)	(26.4)	(57.3)	(30.1)

Major Shareholders

	%
Dr Shi Xu	51.6
Temasek Holdings	7.3

FY24 NAV/Share (S\$)	0.62
FY24 Net Cash/Share (S\$)	0.14

PRICE CHART



Source: Bloomberg

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### STOCK IMPACT

- **Nanofilm is advancing its production capabilities**, with preparations in India for a factory-in-factory facility to start small batch production in 2H24. In Vietnam, Site 2 phase one has completed renovations and is now commissioning equipment for initial production to commence in 2Q24.
- **Acquisition of AxynTeC closed in Feb 24.** Nanofilm's integration project is driving topline growth through synergies, including accelerated expansion of AxynTeC's products in the General Industrial, Consumer and Medical segments, alongside the introduction of Nanofilm's innovative FCVA carbon-based coatings (TAC-ON®) and decorative product coating portfolio to European markets, covering diverse sectors such as automotive interiors, luxury and sanitary products.

### EARNINGS REVISION/RISK

- We trimmed our 2024F earnings by 6% to S\$23m from S\$25m as we increased our admin cost estimates from continued expansion activities in India and Vietnam. We kept our 2025F and 2026F financial estimates unchanged.

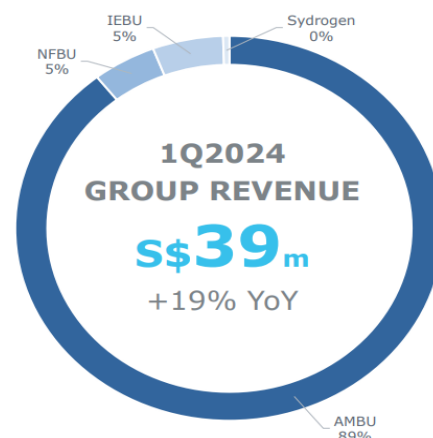
### VALUATION/RECOMMENDATION

- **Maintain SELL with a 6% lower target price of S\$0.56 (S\$0.60 previously).** We value Nanofilm based on an unchanged 16x 2024F EPS, pegged to -1SD to its long-term forward mean. While Nanofilm's new projects and initiatives point to a recovery, we think that earnings recovery will take some time due to multiple expansion projects and weakness in the higher margin business such as IEBU and coating of wearables.

### SHARE PRICE CATALYST

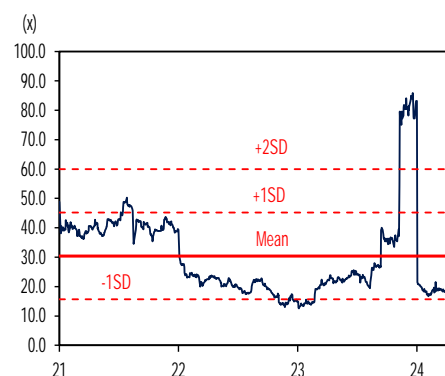
- Better-than-expected ramp-up of the nanofabrication business.
- New applications in the advanced material segment.

### REVENUE BREAKDOWN (1Q24)



Source: Nanofilm

### HISTORICAL PE BAND



Source: Bloomberg, UOB Kay Hian

### PEER COMPARISON

Company	Ticker	Price @ 23 Apr 24 (lcy)	Market Cap (US\$m)	PE			3-yr EPS CAGR (%)	P/B 2024 (x)	Yield 2024 (%)	ROE 2024 (%)	Net Gearing (%)
				2023 (x)	2024 (x)	2025 (x)					
3M Co	MMM US	92.62	51,252	n.a.	11.1	10.7	(5.3)	8.2	5.8	82.1	222.0
PPG Industries	PPG US	131.16	30,757	24.4	15.5	14.1	29.1	3.8	2.0	23.6	71.5
EMS-Chemie	EMSN SW	706.5	18,121	36.1	37.4	33.2	(2.2)	9.0	2.4	24.8	(24.5)
OC Oerlikon	OERL SW	3.91	1,457	39.1	13.0	9.5	15.2	1.2	5.4	9.0	110.7
Rogers Corp	ROG US	107.76	2,010	35.4	35.4	23.2	(9.3)	n.a.	n.a.	n.a.	(6.6)
Red Avenue	603650 CH	28.92	2,394	38.5	32.1	26.2	30.1	4.2	0.6	13.5	60.2
Bodycote	BOY LN	690	1,622	15.3	13.4	11.8	14.9	1.6	3.5	11.9	6.5
<b>Average</b>				<b>31.5</b>	<b>22.6</b>	<b>18.4</b>		<b>4.7</b>	<b>3.3</b>	<b>27.5</b>	<b>62.8</b>
<b>Singapore Peers</b>											
Venture Corp	VMS SP	14.32	3,048	15.4	14.9	14.4	(7.8)	1.4	5.2	9.8	(36.3)
AEM	AEM SP	2.35	533	n.a.	20.6	16.9	(30.2)	1.5	1.2	7.3	5.2
Frencken	FRKN SP	1.48	464	19.5	14.4	13.2	(2.6)	1.4	2.1	10.4	(0.1)
UMS	UMSH SP	1.3	678	14.5	12.4	11.5	(8.4)	2.1	4.5	18.5	(9.2)
Aztech Global	AZTECH SP	0.935	530	7.2	6.7	6.3	19.7	1.8	9.1	29.2	(60.6)
<b>Average</b>				<b>14.2</b>	<b>13.8</b>	<b>12.4</b>		<b>1.7</b>	<b>4.4</b>	<b>15.0</b>	<b>(20.2)</b>
Nanofilm Tech	NANO SP	0.64	306	132.1	18.2	13.1	(9.8)	1.0	1.1	5.9	(11.7)

Source: Bloomberg, UOB Kay Hian

### PROFIT & LOSS

Year to 31 Dec (\$m)	2023	2024F	2025F	2026F
<b>Net turnover</b>	<b>177.0</b>	<b>198.4</b>	<b>223.4</b>	<b>251.0</b>
EBITDA	37.4	57.7	70.4	76.7
Deprec. & amort.	34.5	30.0	32.0	33.8
EBIT	3.0	27.8	38.4	42.9
Total other non-operating income	0.1	0.0	0.0	0.0
Associate contributions	(0.1)	0.0	0.0	0.0
Net interest income/(expense)	0.2	(0.3)	(0.4)	(0.5)
<b>Pre-tax profit</b>	<b>3.1</b>	<b>27.5</b>	<b>38.0</b>	<b>42.4</b>
Tax	(0.4)	(4.4)	(6.1)	(6.8)
Minorities	0.4	(0.3)	(0.3)	(0.3)
<b>Net profit</b>	<b>3.1</b>	<b>22.8</b>	<b>31.6</b>	<b>35.3</b>
Net profit (adj.)	3.1	22.8	31.6	35.3

### CASH FLOW

Year to 31 Dec (\$m)	2023	2024F	2025F	2026F
<b>Operating</b>	<b>39.0</b>	<b>74.7</b>	<b>56.5</b>	<b>63.5</b>
Pre-tax profit	3.1	27.5	38.0	42.4
Tax	(0.4)	(4.4)	(6.1)	(6.8)
Deprec. & amort.	34.5	30.0	32.0	33.8
Associates	(0.1)	0.0	0.0	0.0
Working capital changes	1.0	21.3	(7.7)	(6.4)
Non-cash items	0.0	0.0	0.0	0.0
Other operating cashflows	1.1	0.3	0.4	0.5
<b>Investing</b>	<b>(54.9)</b>	<b>(49.5)</b>	<b>(49.5)</b>	<b>(49.5)</b>
Capex (growth)	(49.1)	(50.0)	(50.0)	(50.0)
Investments	0.0	0.0	0.0	0.0
Proceeds from sale of assets	0.7	0.0	0.0	0.0
Others	(6.6)	0.5	0.5	0.5
<b>Financing</b>	<b>25.5</b>	<b>(6.6)</b>	<b>(8.4)</b>	<b>(9.3)</b>
Dividend payments	(9.3)	(4.6)	(6.3)	(7.1)
Issue of shares	0.0	0.0	0.0	0.0
Proceeds from borrowings	57.8	0.0	0.0	0.0
Loan repayment	(6.6)	0.0	0.0	0.0
Others/interest paid	(16.4)	(2.0)	(2.1)	(2.2)
<b>Net cash inflow (outflow)</b>	<b>9.6</b>	<b>18.6</b>	<b>(1.4)</b>	<b>4.7</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>147.8</b>	<b>156.4</b>	<b>176.3</b>	<b>176.1</b>
Changes due to forex impact	(2.2)	0.0	0.0	0.0
<b>Ending cash &amp; cash equivalent</b>	<b>155.2</b>	<b>175.1</b>	<b>174.9</b>	<b>180.8</b>

### BALANCE SHEET

Year to 31 Dec (\$m)	2023	2024F	2025F	2026F
<b>Fixed assets</b>	<b>299.6</b>	<b>319.6</b>	<b>337.7</b>	<b>353.9</b>
Other LT assets	53.1	53.1	53.1	53.1
Cash/ST investment	155.2	175.1	174.9	180.8
Other current assets	113.6	116.1	129.2	143.5
<b>Total assets</b>	<b>621.5</b>	<b>664.0</b>	<b>694.9</b>	<b>731.4</b>
ST debt	4.7	4.7	4.7	4.7
Other current liabilities	41.2	65.1	70.4	78.3
LT debt	77.5	77.5	77.5	77.5
Other LT liabilities	74.1	74.1	74.1	74.1
Shareholders' equity	379.9	398.1	423.4	451.7
Minority interest	44.1	44.4	44.7	45.0
<b>Total liabilities &amp; equity</b>	<b>621.5</b>	<b>664.0</b>	<b>694.9</b>	<b>731.4</b>

### KEY METRICS

Year to 31 Dec (%)	2023	2024F	2025F	2026F
<b>Profitability</b>				
EBITDA margin	21.1	29.1	31.5	30.6
Pre-tax margin	1.8	13.9	17.0	16.9
Net margin	1.8	11.5	14.2	14.1
ROA	0.5	3.5	4.7	5.0
ROE	0.8	5.9	7.7	8.1
<b>Growth</b>				
Turnover	(25.4)	12.1	12.6	12.3
EBITDA	(51.2)	54.4	21.9	8.9
Pre-tax profit	(93.2)	774.7	38.3	11.5
Net profit	(92.8)	627.0	38.8	11.6
Net profit (adj.)	(92.8)	627.0	38.8	11.6
EPS	(92.7)	627.0	38.8	11.6
<b>Leverage</b>				
Debt to total capital	16.2	15.7	14.9	14.2
Debt to equity	21.6	20.6	19.4	18.2
Net debt/(cash) to equity	(19.2)	(23.3)	(21.9)	(21.8)
Interest cover (x)	n.a.	194.4	177.3	152.8

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