EDISON

Nanoco Group

Trading update

Visibility pushed back

Tech hardware and equipment

Nanoco Group's trading update flagged that, while its development work on second-generation materials continues to progress as expected, it does not expect to receive a follow-on order for commercial materials in FY24. These orders were expected to be low volume, hence the delay is not particularly material from a financial perspective, although it does remove an expected milestone to gauge Nanoco's pathway to volume production. We have adjusted our estimates to reflect a more cautious scenario for the near-term ramp-up of volume material sales. Success will be defined by the extent to which Nanoco-based sensors are designed into handsets and other devices in the 2026/27 timeframe, when the infrared sensing market is expected to see an inflection. Nanoco and its lead partner hope to have more visibility on end-customers' commercialisation pipelines by the time of the FY24 results in October.

Year end	Revenue* (£m)	EBITDA* (£m)	EPS* (p)	Net cash (£m)	EV/sales (x)	P/E (x)
07/22	2.5	(2.1)	(1.3)	2.8	3.6	N/A
07/23	5.6	(0.5)	(0.7)	3.6	1.6	N/A
07/24e	7.9	0.5	(0.3)	20.0	1.1	N/A
07/25e	9.4	1.5	0.4	15.2	0.9	35.1

Note: *Revenue, EBITDA and EPS include £6m annual Samsung licence revenue, drawn from deferred income. EBITDA and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

No follow-on order in FY24, development on track

The main news in the trading update was that management no longer expects to receive a follow-on (albeit low-volume) commercial order in FY24, although the reason for this development is currently unclear. Nanoco continues to develop second-generation infrared sensing materials with STMicroelectronics and an Asian chemicals company. The company's device fabrication facility, a key investment and made to accelerate development cycles, is now fully operational and Nanoco has shipped the first sample devices to its partners and clients. On the display side, Nanoco continues to work on small-scale developments with customers, but a new anchor partner has not been secured yet.

Cautionary trim to estimates but FY26/27 is key

We lower our FY24 revenues from £8.3m to £7.9m leaving EBITDA and year end net cash unchanged, but lower our FY25 revenue and EBITDA on a precautionary basis, due to the absence of this expected milestone. Ultimately, success will be defined by the extent to which Nanoco-based sensors are designed into handsets and other devices in the 2026/27 timeframe, with lead indicators on this front likely to be the key catalyst for the share price in the short-to-medium term.

Valuation: Range unchanged, visibility impaired

Given the expected £20m net cash position at year end, the 28% fall in the share price following the trading update equates to a c 60% decrease in enterprise value to £6.9m. While visibility has not improved, as expected, the upside potential is unchanged. We believe Nanoco's intellectual property, expertise, manufacturing and test capability, and customer relationships, backed by the strong balance sheet and low-cost model, provide strategic value for downside protection.

4 July 2024

Price	**14.04p**
Market cap	**£27m**
Estimated net cash (£m) at FY24	20.0
Shares in issue (excluding 13.8m shares held in treasury)	192m
Free float	84.2%
Code	NANO, NNOCF
Primary exchange	LSE
Secondary exchange	OTC

Share price performance

%	1m	3m	12m
Abs	(19.1)	(35.6)	(22.0)
Rel (local)	(18.1)	(37.6)	(28.4)
52-week high/low		23.40p	14.04p

Business description

Nanoco Group is a global leader in the development and manufacture of cadmium-free quantum dots and other nanomaterials for high-volume use cases. Focus applications are sensors and display.

Next events

FY24 results	October 2024

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Edison profile page

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Changes in estimates

Our estimate changes are detailed below. Management expects FY24 revenues to be slightly below consensus, with EBITDA at the lower end and net cash remaining at £20m (matching our estimate of £20m). As Edison was at the low end of consensus, we pare back our FY24 revenues from £8.3m to £7.9m, but leave EBITDA and net cash unchanged. We lower our FY25 estimates on a cautionary basis, to reflect the absence of the milestone.

Given that Nanoco's financial returns will be determined by events beyond our forecast period, we believe these changes are material to the investment case. The implications of the lack of follow-on order for commercial material in FY24 are impossible to gauge at this stage, although the absence of an expected milestone clearly reduces visibility. Nanoco and its lead partner hope to have more clarity on end-customers' commercialisation pipelines by the time of the FY24 results in October.

Exhibit 1: Estimate changes

£m	FY23	FY24e			FY25e		
	Actual	Old	New	Change	Old	New	Change
Revenues	5.6	8.3	7.9	-4%	10.3	9.4	-9%
EBITDA	(0.5)	0.5	0.5	-5%	2.2	1.5	-32%
Reported operating profit	15.0	1.1	1.1	-2%	0.4	(0.3)	-182%
Reported operating margin	267%	14%	14%		4%	-3%	
Normalised net income	(2.1)	(0.7)	(0.7)	4%	1.7	1.0	-41%
Normalised diluted EPS (p)	(0.66)	(0.25)	(0.26)	4%	0.60	0.35	-41%
Net debt/(cash)	(3.6)	(20.0)	(20.0)	0%	(17.0)	(15.2)	-11%
Cash	8.2	20.0	20.0	0%	17.0	15.2	-11%
Debt	(4.6)	0.0	0.0		0.0	0.0	

Source: Nanoco accounts, Edison Investment Research

Exhibit 2: Financial summary

£m	2022	2023	2024e	2025e
Year end 31 July	IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT				
Revenue	2.5	5.6	7.9	9.4
Cost of Sales	(0.9)	(0.8)	(0.4)	(0.6)
Gross Profit	1.5	4.8	7.5	8.8
EBITDA	(2.1)	(0.5)	0.5	1.5
Operating profit (before amort. and excepts.)	(4.2)	(2.9)	(0.4)	0.6
Amortisation of acquired intangibles	0.0	0.0	0.0	0.0
Exceptionals	0.0	18.9	2.5	0.0
Share-based payments	(0.6)	(1.0)	(1.0)	(1.0)
Reported operating profit	(4.8)	15.0	1.1	(0.3)
Net Interest	(0.5)	(0.7)	0.2	0.7
Exceptionals	0.0	(4.7)	0.0	0.0
Profit Before Tax (norm)	(4.6)	(3.6)	(0.2)	1.3
Profit Before Tax (reported)	(5.2)	9.6	1.3	0.4
Reported tax	0.5	1.5	(0.5)	(0.3)
Profit After Tax (norm)	(4.1)	(2.1)	(0.7)	1.0
Profit After Tax (reported)	(4.7)	11.1	0.8	0.1
Minority interests	0.0	0.0	0.0	0.0
Net income (normalised)	(4.1)	(2.1)	(0.7)	1.0
Net income (reported)	(4.7)	11.1	0.8	0.1
Average Number of Shares Outstanding (m)	308	322	278	290
EPS - normalised (p)	(1.32)	(0.66)	(0.26)	0.35
EPS - normalised fully diluted (p)	(1.32)	(0.66)	(0.26)	0.35
EPS - basic reported (p)	(1.52)	3.44	0.29	0.03
Dividend per share (p)	0.00	0.00	0.00	0.00
BALANCE SHEET				
Fixed Assets	1.8	7.7	8.6	8.0
Intangible Assets	1.6	1.0	0.8	0.6
Tangible Assets	0.2	2.4	3.5	3.1
Deferred income	0.0	4.3	4.3	4.3
Other	0.0	1.8	1.8	1.8
Current Assets	9.0	43.1	23.3	19.0
Stocks	0.2	0.3	0.7	0.9
Debtors	1.5	34.0	2.1	2.3
Cash & cash equivalents	6.8	8.2	20.0	15.2
Other (including proceeds from settlement receivable in FY24)	0.5	0.6	0.6	0.6
Current Liabilities	(2.4)	(14.0)	(9.0)	(9.0)
Creditors	(1.5)	(2.6)	(1.6)	(1.6)
Tax and social security	0.0	(0.8)	(0.8)	(0.8)
Short term financial leases	(0.2)	(0.5)	(0.5)	(0.5)
Short term bank debt	0.0	(4.0)	0.0	0.0
Other (including deferred licence income)	(0.7)	(6.1)	(6.1)	(6.1)
Long-term Liabilities	(4.0)	(20.2)	(38.6)	(32.6)
Long-term financial leases	(0.0)	(1.4)	(0.7)	(0.7)
Loan notes	(3.9)	(0.6)	0.0	0.0
Other (including deferred licence income)	(0.1)	(18.2)	(38.0)	(32.0)
Net Assets	4.3	16.6	(15.7)	(14.7)
Minority interests	0.0	0.0	0.0	0.0
Shareholders' equity	4.3	16.6	(15.7)	(14.7)
CASH FLOW				
Operating Cash Flow	(2.3)	(0.4)	0.5	1.5
Working capital	0.1	24.5	50.2	(6.5)
Exceptional & other	(0.2)	(47.5)	2.5	0.0
Tax	0.7	(4.2)	0.0	(0.3)
Net Operating Cash Flow	(1.8)	(27.6)	53.2	(5.2)
Capex	(0.1)	(0.4)	(2.1)	(0.5)
Net proceeds from Samsung settlement	0.0	34.5	0.0	0.0
Net interest	(0.0)	(4.7)	0.4	0.9
Equity financing	5.4	0.0	(34.5)	0.0
Dividends	0.0	0.0	0.0	0.0
Other	(0.6)	(0.5)	0.0	0.0
Net Cash Flow	2.9	1.3	17.1	(4.8)
Opening net debt/(cash)	(0.3)	(2.8)	(3.6)	(20.0)
FX	0.0	0.2	0.1	0.0
Other non-cash movements	(0.4)	(0.6)	(0.8)	0.0
Closing net debt/(cash)	(2.8)	(3.6)	(20.0)	(15.2)

Source: Company data, Edison Investment Research

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