

# Nico Steel Holdings Limited

The electronics metallurgist



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## SINGAPORE | INDUSTRIAL | COMPANY UPDATE

1 October 2018

- Announced positive profit guidance. A significant increase in earnings expected for 1H19 results.
- Removed overhang in convertible bonds priced at S\$0.001, as conversions have ended.
- Transitioned away from low margin commodity metal distribution to customized alloys with patented electroplating and mechanical technology.

### Company Background

Nico Steel (Nico) was founded in 1991. It was listed on Catalist/Sesdaq in 2005 and transferred to the Mainboard in 2009. Nico provides customized metal material to the electronics industry. In 2000, it expanded outside Singapore to set up operations in China. In 2007, Nico began operations in Thailand. In the early years, Nico provided commodity materials such as aluminium, copper and stainless steel with little value add. Competition was on price, service and lead time. A major industry segment for Nico was hard disk drive materials.

After several years of investments, Nico has transitioned from commodity metals to customized metal alloys for the electronics industry. Key technology is plating the metal and this is conducted in Nico factories. Nico's significant customers are in the smartphone industry (trillion dollar market cap company), tablet PC (world largest software company by revenue) and drones (world largest drone manufacturer). Nico has factories located in Singapore, China and Thailand.

### Key Solutions/Products

Over the past 3-4 years, Nico's strategy has evolved into more customized and tailor-made materials with functionality. The three broad solutions Nico is focused on are:

- Heat plate:** As processing power and battery intensity rise in smartphones, the heat levels in phones build up. Smartphones cannot use fans like in personal computers. Heat is damaging to the integrated circuits, raise the risk of battery implosion and surface heat can also be harmful to the skin. The solution is a heat plate that spreads the heat from the heat source (PCB/CPU) to the chassis of the phone. Some of the solutions in the past were stainless steel, copper and graphite. However, the multiple layers degraded the efficiency. Nico has an AL50 metal solution that is a combination of metals such as aluminium and magnesium that is coated with copper.
- Frequency shield:** In a typical smartphone, there are multiple chipsets that emit and receive signals such as chipsets for WiFi, 4G, GPS, NFC and wireless charging. Such signals can cause electromagnetic interference (EMI) and degrade the sound or data transmission quality of the mobile phone. A metal enclosure is to avoid electromagnetic absorption and emittance.
- Weight reduction:** Not only do the products need to possess heat dissipation and EMI shielding properties, it needs to be light. The weight of the electronic product is not only to save cost but also a selling feature. This will demand more sophistication in the plating process, for instance, copper plating will raise the thickness of the metal sheet. Challenge is to plate it thin enough that overall thickness of the metal is less than 0.25mm.

### Outlook

The outlook for Nico appears promising. The trend for improved weight, heat dissipation and radio frequency containment in mobile phones and other electronic products is accelerating. Smartphones, in particular, will enjoy a spike in demand as 5G phones are roll-out. The heat disseminated and antenna required in smartphones will only leapfrog.

### Not Rated

LAST TRADED PRICE	SGD 0.005
FORECAST DIV	N.A.
TARGET PRICE	N.A.
TOTAL RETURN	N.A.

### COMPANY DATA

BLOOMBERG	NICO SP
O/S UNITS (MN) :	4,962
MARKET CAP (USD mn / SGD mn) :	18 / 25
52 - WK HI/LO (SGD) :	0.012 / 0.001
3M Average Daily T/O (mn) :	22.76

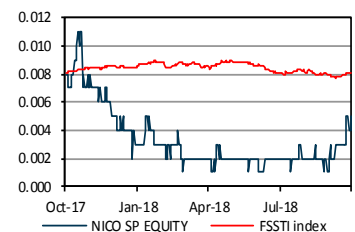
### MAJOR SHAREHOLDERS

VALUE CAPITAL ASSET	24.7%
TAN CHEE KHIONG	24.3%
XU LEI	9.2%

### PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	300.0	100.0	(50.0)
STI RETURN	1.5	1.3	4.9

### PRICE VS. STI



Source: Bloomberg, PSR

### KEY FINANCIALS (NICO SP)

Y/E Feb (USD mn)	FY16	FY17	FY18
Revenue	19.2	13.3	13.2
EBITDA	(2.6)	(1.7)	0.1
NPAT	(2.9)	(1.9)	0.1
EPS (USD)	n.m.	n.m.	n.m.
PER, x	n.m.	n.m.	n.m.
P/BV, x	3.2	3.0	2.4
DPU (USD)	-	-	-
DVD YIELD	0.0%	0.0%	0.0%
ROE	n.m.	n.m.	n.m.

Source: Bloomberg, PSR

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## Outlook

The demand for Nico products and solutions look promising. Nico is enjoying some major tailwinds, in our opinion. The two notable trends are:

**Fast and wireless charging:** As phones faster and wireless charging features, the demand for heat dispersion and EMI shield accelerates. As more power is pushed through the phone, this will heat up the battery quicker. Wireless charging adds another layer of complexity as it emits an electromagnetic field that can interfere with other components in the smartphones. Even excluding these two trends, battery capacity continues to rise due to the improved processing power. Battery capacity in smartphone is now at the 2500-3000 mAh and this will eventually rise to 9000 mAh (especially with 5G).

*[Wireless (or inductive) charging generally follows the Wireless Power Consortium which uses the Qi standard. Low power delivers up to 5 watts at 110-250kHz. In the charging pad, alternating current passes through a charging coil with creates a magnetic field and induces voltage at the receiving coil in the phone. The voltage is converted into direct current and charges the battery.]*

**5G mobile phones:** As phones enter the 5G era, the CPUs will be at least 2.5x faster. This will also imply 2x more heat being disseminated. The use of antennas in the smartphone could rise for 3 to 5 currently to even 20 or 30. The challenge is to avoid interference between each antenna.

*[5<sup>th</sup> generation of mobile standards: 5G NR will dramatically increase the connectivity bandwidth of the phone from 4G's 100Mbps to 10Gbps. Recall that 3G was only 384Kbps. 5G will tap on previous unused high-frequency band of > 24GHz (or called millimetre wave) or mid-band wave of between 1 to 6 GHz. Millimetre waves is more prone to interference because harder to penetrate objects.]*

Worth noting that between the heat or EMI shield product, the larger opportunity is in the heat shield due to the larger surface area and higher metal content. The internal area within a phone will dedicate 10-15% to radio frequency (RF) function. Bulk of the available space inside a smartphone is for the battery. Therefore there is a much large heat shield inside the phone, that help dissipate battery heat and also EMI from wireless charging,

## Convertible Bond Overhang Removed

As Nico embarked on new strategy of customized alloy solution, there was a need to raise funds for product development work. Nico entered into a 2% redeemable convertible bond facility of up to S\$50mn. The minimum conversion price was S\$0.001. Nico announced that the Convertible Bond Programme has terminated on 11 September 2018. The last tranche was 550mn shares converted at S\$0.001 on 5 September 2018.

Nico Product:

Figure 1: Mobile Phones

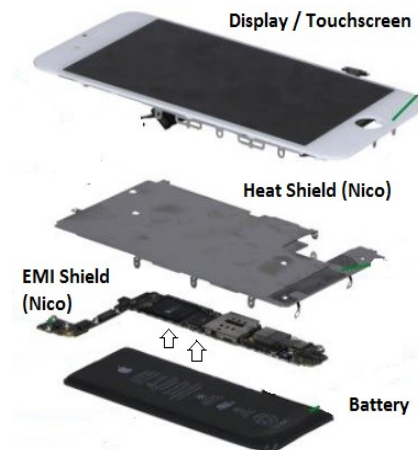
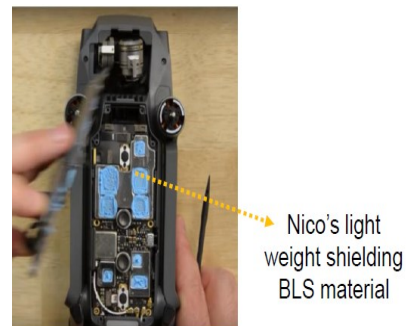


Figure 2: Tablet PC



Figure 3: Drones



Source: Nico, PSR

## Financials

### Income Statement

Y/E Feb, USD mn	FY16	FY17	FY18
<b>Revenue</b>	<b>19.15</b>	<b>13.29</b>	<b>13.21</b>
<b>EBITDA</b>	<b>(2.61)</b>	<b>(1.73)</b>	<b>0.10</b>
Depreciation & Amortisation	(0.31)	(0.25)	(0.23)
<b>EBIT</b>	<b>(2.92)</b>	<b>(1.98)</b>	<b>(0.13)</b>
Net Finance Inc/(Exp)	0.00	0.00	0.00
<b>Profit before tax</b>	<b>(2.86)</b>	<b>(1.88)</b>	<b>0.21</b>
Taxation	(0.04)	(0.01)	(0.14)
<b>Net profit before NCI</b>	<b>(2.90)</b>	<b>(1.89)</b>	<b>0.07</b>
Non-controlling interest	0.00	0.00	0.00
<b>Net profit, reported</b>	<b>(2.90)</b>	<b>(1.89)</b>	<b>0.07</b>

### Per share data (USD)

Y/E Feb	FY16	FY17	FY18
EPS, reported	n.m.	n.m.	n.m.
DPU	0.0	0.0	0.0
BVPS	0.002	0.002	0.003

### Cash Flow

Y/E Feb, USD mn	FY16	FY17	FY18
<b>CFO</b>			
<b>Profit before tax</b>	<b>(2.86)</b>	<b>(1.88)</b>	<b>0.21</b>
Depreciation & Amortisation	0.31	0.25	0.23
WC changes	0.90	0.02	(0.21)
Net finance inc/(exp)	(0.10)	0.03	0.02
Tax paid	(0.16)	(0.02)	(0.13)
Others	1.67	0.70	(0.09)
<b>Cashflow from ops</b>	<b>(0.14)</b>	<b>(0.93)</b>	<b>0.01</b>
<b>CFI</b>			
CAPEX, net	(0.05)	(0.02)	(0.05)
Others	0.06	0.00	0.04
<b>Cashflow from investments</b>	<b>0.01</b>	<b>(0.02)</b>	<b>(0.01)</b>
<b>CFF</b>			
Share issuance, net	0.00	2.81	2.20
Loans, net of repayments	0.70	(1.62)	(1.15)
Dividends	0.00	0.00	0.00
Others	(0.09)	(0.97)	(0.02)
<b>Cashflow from financing</b>	<b>0.61</b>	<b>0.22</b>	<b>1.03</b>
<b>Net change in cash</b>	<b>0.48</b>	<b>(0.73)</b>	<b>1.03</b>
<b>CCE, end</b>	<b>1.78</b>	<b>1.21</b>	<b>2.25</b>

Source: Company, Phillip Securities Research (Singapore) Estimates

### Balance Sheet

Y/E Feb, USD mn	FY16	FY17	FY18
<b>ASSETS</b>			
PPE	3.69	3.35	3.31
Others	0.06	0.12	0.20
<b>Total non-current assets</b>	<b>3.75</b>	<b>3.47</b>	<b>3.51</b>
Accounts receivables	6.01	4.26	5.59
Cash	1.94	1.22	2.20
Inventories	8.31	7.26	7.93
Others	0.00	0.00	0.00
<b>Total current assets</b>	<b>16.26</b>	<b>12.74</b>	<b>15.72</b>
<b>Total Assets</b>	<b>20.01</b>	<b>16.21</b>	<b>19.23</b>
<b>LIABILITIES</b>			
Accounts payables	6.16	2.67	2.34
Short term loans	3.18	2.03	2.48
Others	0.03	0.00	0.00
<b>Total current liabilities</b>	<b>9.37</b>	<b>4.70</b>	<b>4.82</b>
Long term loans	0.00	0.00	0.00
Others	0.00	0.00	0.00
<b>Total non-current liabilities</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>
<b>Total Liabilities</b>	<b>9.37</b>	<b>4.70</b>	<b>4.82</b>
<b>EQUITY</b>			
Non-controlling interests	(0.64)	(0.64)	(0.66)
<b>Shareholder Equity</b>	<b>10.65</b>	<b>11.51</b>	<b>14.39</b>

### Valuation Ratios

Y/E Feb	FY16	FY17	FY18
P/E (X)	n.m.	n.m.	n.m.
P/B (X)	3.2	3.0	2.4
EV/EBITDA (X)	n.m.	n.m.	n.m.
Dividend Yield	0.0%	0.0%	0.0%

### Growth & Margins

<b>Growth</b>			
Revenue	-31.3%	-30.6%	-0.6%
EBITDA	n.m.	-33.7%	n.m.
EBIT	175.5%	-32.2%	-93.4%
Net profit, adj.	417.9%	-34.8%	n.m.
<b>Margins</b>			
EBITDA margin	-13.6%	-13.0%	0.8%
EBIT margin	-15.2%	-14.9%	-1.0%
Net profit margin	-15.1%	-14.2%	0.5%

### Key Ratios

ROE	-23.3%	-17.1%	0.5%
ROA	-11.9%	-10.4%	0.4%
Net Debt / (Cash)	1.24	0.81	0.28
Net Gearing (X)	12.4%	7.5%	2.0%

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