

Nanoco Group

Cadmium to be prohibited from October 2019

Proposed amendments (subject to ratification) to the Restriction of Hazardous Substances Directive (RoHS) by the European Commission recommend a two-year more restrictive extension to the exemption of cadmium in quantum dot displays, subsequent to which the use of any cadmium in electronic devices sold within the EU will be banned. The use of cadmium in lighting products will be prohibited with immediate effect. The judgement has little impact on our investment thesis, as we believe that commercial factors for cadmium-free adoption are already strong.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	EV/Sales (x)	P/E (x)
07/16	0.5	(12.3)	(5.2)	0.0	144.2	N/A
07/17e	1.6	(10.2)	(4.3)	0.0	45.1	N/A
07/18e	16.3	0.8	0.3	0.0	4.4	112.5
07/19e	32.2	12.4	4.9	0.0	2.2	6.9

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles and share-based payments.

While the best-case scenario for Nanoco would clearly have been for the exemption to have not been renewed at all, the exemption has been extended for the minimum possible period and, when this expires, the use of cadmium is explicitly banned, whereas previously the exception remained until a further judgement was made. Hence, the judgement effectively puts a hard stop on cadmium usage in electronics from October 2019. The exemptions are also more restrictive than previously, with a lower threshold being permitted (0.2µg of Cd per mm² of screen area), although this is unlikely to restrict most cadmium-based devices during the exemption period.

This update has little impact on our investment thesis: that the quantum dot display uptake cycle is about to hit its stride, that cadmium-free quantum dots will take the lion's share of volumes and that Nanoco is well placed to take market share. The hard stop on the use in cadmium within a relatively short time clearly compromises the economic case for designing a cadmium-based display and thus should support Nanoco's business development initiatives. In effect, however, we believe that OEMs are opting for cadmium-free anyway, driven by commercial and reputational as well as regulatory factors. The fact that Nanoco is now working with 13 OEMs on 16 programmes supports this view. We see the announcement of more, higher volume orders as being the key catalyst for the share price.

Regulatory ruling

Tech hardware and equipment

9 August 2017

Price **33.75p**
Market cap **£80m**

Net cash (£m) at 31 January 2017 8.3
 Shares in issue 238.2m
 Free float 85%
 Code NANO
 Primary exchange LSE
 Secondary exchange N/A

Share price performance



Business description

Nanoco Group is the leading commercial supplier of cadmium-free quantum dots (CFQD) and IP. The near-term focus is on the display market, where CFQDs are used to enhance picture quality. The company is also developing solutions for medical imaging, lighting and solar cells.

Analysts

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