

## Nanogate

### Acquisition of HTI's plastics division

Nanogate has announced that it is to acquire the plastics division of Austrian company HTI High Tech industries (HTI) for 275,000 new shares, (c €13m at today's price). The transaction broadens the portfolio of services offered to customers, expands the customer base, reduces exposure to the automotive sector, and extends the international footprint. Depending on the timing of completion (in Q118), management expects the acquisition to raise group FY18 revenues by around 16% to above €220m and to enhance EBITDA, though it will be earnings dilutive short term.

### Extending service offer, markets and footprint

As discussed in our May note, management has an exemplary track record of identifying and integrating acquisitions. This new acquisition brings an operating facility in Slovakia, which extends the group's reach in Eastern Europe and provides a cost-effective production environment suitable for addressing relatively cost-sensitive markets such as consumer electronics. It also expands the customer offer to include solutions that require a combination of plastic and metal components and assembly. By adding capabilities directed at the electronics market, it reduces Nanogate's exposure to the automotive industry.

### Transaction gives revenue boost

Management notes that, depending on completion of the transaction, which it expects will take place in Q118, HTI will contribute over €30m revenues in FY18, bringing the group FY18 total to over €220m. While HTI will have a beneficial impact on group EBITDA, depreciation and financing costs mean that the transaction will have a negative short-term impact on net income. The consideration is being paid entirely in new shares (275,000), equivalent to c €13m. On issue, HTI will transfer these shares to one of its existing financing partners, an affiliate of QInvest LLC. QInvest intends to hold the shares for the long term and to provide the group with additional finance to support growth in future. We note that consensus forecasts at this point do not include this transaction.

### Valuation: Strong growth justifies premium rating

Nanogate's shares continue to trade on prospective EV/EBITDA multiples that are at a premium to its peers, which is reasonable given its stronger than average revenue growth. The share price has settled back to a similar level (€48.15 on 17 November) to that before the news. This suggests that the market is confident that management will execute successfully on this more recent acquisition as well.

#### Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS* (€)	DPS (€)	P/E (x)	Yield (%)
12/15	90.9	0.6	0.16	0.11	295.0	0.2
12/16	112.5	3.4	0.70	0.11	67.4	0.2
12/17e	169.6	4.1	0.58	0.12	81.4	0.3
12/18e	183.0	6.5	0.87	0.12	54.3	0.3

Source: Nanogate data, Bloomberg. Note, on completion of the HTI Plastics division transaction in Q118, 12/18e sales are indicated by Nanogate to be >€220m.

#### Advanced materials technology

27 November 2017

**Price** €47.20  
**Market cap** €213m

#### Share price graph



#### Share details

Code N7G  
Listing Deutsche Börse Scale  
Shares in issue (prior to the issue of 0.3m shares as consideration for HTI's Plastics division) 4.5m  
Last reported net debt as at end June 2017 €44.2m

#### Business description

Nanogate is a leading global specialist for design-oriented high-tech surfaces and components of very high optical quality. Nanogate develops and produces design-oriented surfaces and components and enhances them with additional properties, eg non-stick, scratch proof, anti-corrosive.

#### Bull

- Transition to integrated systems provider creates strong growth opportunity.
- Diversity of applications gives access to emerging growth markets.
- Acquisition of HTI's Plastics division strengthens presence in Eastern Europe

#### Bear

- Capital cost of succession of acquisitions.
- Cost of investment in technology and capacity.
- Customer concentration.

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## Details of the businesses acquired

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HTI's Plastics division has three operating subsidiaries. Two of these, HTP Slovakia and HTP Electronics, which collectively employ around 350 people, will be fully integrated within the Nanogate group. This process is expected to take up to two years. The third business, HTP Austria, will be acquired jointly with QInvest, with both parties holding a 50% stake. Nanogate will have an option to purchase the outstanding stake in future. We understand that HTP Austria is not being acquired outright at the moment because it would be a drag on group margins.

### HTP Slovakia

HTP Slovakia is based in Vrábľe, Slovakia. It provides automotive manufacturers in Eastern and Western Europe with injection moulded plastic parts. Value is added through assembly and surface finishing. Parts supplied include exterior mirrors, front grilles and licence plate holders, where the appearance of the finish is very important. Electronic parts such as ignition coils, bobbins and transformer housings are manufactured by first creating the plastic element using injection moulding, then assembling this together with electronic components. The site also undertakes small and medium production runs for customers in the medical and packaging sectors. The subsidiary will provide a cost-efficient location for the group, as well as a base closer to customers in Eastern Europe.

### HTP Electronics

HTP Electronics is based in Neudörfel, Austria. It specialises in the manufacture of micro and high precision plastic components using insertion technology and micro injection moulding techniques. Insertion technology saves money when making composite parts because the constituent components are moulded in a single pass. The technique is used to combine metal and plastic parts in a wide range of electronic connectors, including components of mobile phone speakers, plug connections for engine management systems and adapters for ignition distribution systems. Micro-moulding enables the manufacture of extremely small parts with high precision. It supports the trend for increasing miniaturisation of components, for example the gear mechanisms of CD and DVD drives and the high-precision micro-parts used in lighting. Both techniques are highly automated. Following the acquisition, the subsidiary will collaborate with other parts of the group on developing novel solutions for customers that combine electronics, metal and plastics expertise.

### HTP Austria

HTP Austria is based in Fohnsdorf, Austria. It develops and manufactures lightweight plastic components with high-quality surface finishes that are used in premium and medium volume automotives. These are sold directly to OEMs such as Audi, BMW, Daimler, Jaguar, Porsche and VW and through Tier 1 suppliers to the automotive industry. Following completion of the transaction, Nanogate will outsource some work to HTP Austria, using it to provide additional capacity when required and to carry out some specialist manufacturing of complex parts and surface treatments that would need significant investment before Nanogate could undertake these processes in-house.

## Valuation

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We continue to use a sample of European companies involved in the manufacture of speciality chemicals for comparison, since Nanogate has no competitors offering the same range of capabilities. As Nanogate captures a higher proportion of the value chain than a typical speciality chemical company, has a more diverse skill set and is engaged in multiple markets, this is not

entirely satisfactory, so we have extended our sample to include companies that use specialist chemical processes to provide a service, such as Bodycote.

**Exhibit 1: Prospective multiples of listed peers**

Name	Market cap (€m)	EV/Sales 1FY (x)	EV/Sales 2FY (x)	EV/EBITD A 1FY (x)	EV/EBITD A 2FY (x)	PE 1FY (x)	PE 2FY (x)	CAGR (%)
AKZO NOBEL	19,877	1.5	1.5	10.3	9.9	19.1	18.2	1.8%
BODYCOTE PLC	1,936	2.5	2.4	9.4	8.9	19.5	18.3	6.7%
CRODA INTERNATIONAL PLC	6,392	4.4	4.2	15.5	14.6	24.7	23.1	5.8%
ELEMENTIS PLC	1,409	2.4	2.2	12.3	11.0	18.2	16.4	12.7%
ENCRES DUBUIT	16	0.5	0.4	4.0	3.9	13.3	12.1	-!
JOHNSON MATTHEY PLC	6,756	0.5	0.5	9.9	9.1	14.6	13.5	7.2%
KEMIRA OYJ	1,899	1.0	0.9	8.0	7.0	17.3	14.4	3.5%
KONINKLIJKE DSM NV	14,366	1.8	1.7	10.7	10.1	18.7	18.8	4.9%
LANXESS AG	5,855	1.0	1.3	7.2	7.9	16.4	14.8	-1.9%
NABALTEC AG	234	1.6	1.5	9.4	8.5	24.6	20.3	6.6%
SYMRISE AG	9,391	3.6	3.4	16.9	15.8	31.7	29.0	4.8%
UMICORE	8,891	0.8	0.7	16.1	14.3	31.3	27.8	12.9%
VICTREX PLC	2,448	7.4	6.8	16.3	14.8	22.3	20.0	7.9%
WACKER CHEMIE AG	7,360	1.6	1.5	7.8	7.3	26.6	23.5	-1.1%
<b>Mean</b>		<b>1.8</b>	<b>1.7</b>	<b>11.0</b>	<b>10.2</b>	<b>19.6</b>	<b>17.8</b>	
NANOGATE AG	216	1.8	1.6	15.0	12.7	82.8	55.2	21.2%

Source: Bloomberg. Note: Grey shading indicates exclusion from mean. Prices at 24 November 2017.

Consensus estimates have not been updated to reflect the acquisition of HTI's Plastics division, as analysts will not formally update their estimates until the transaction has completed. If we look at prospective EV/sales multiples, Nanogate is trading in line with the mean. If we look at prospective EV/EBITDA multiples, Nanogate is trading at a premium to the mean. However, this is not unreasonable given that Nanogate is expected to show much stronger revenue growth than its peers, even without including the impact of the HTI Plastics acquisition. The share price has spiked up a couple of times since the acquisition of HTI's Plastics division was announced and settled back to a similar level (€48.15 on 17 November) to before the news. This suggests that the market is confident that this new acquisition will not deflect Nanogate from its programme of strong revenue growth and margin improvement. We note that Nanogate's prospective P/E multiples are significantly higher than the rest of the sample. This reflects the dilutive impact of shares issued to raise capital for technology investment and issued in part payment for Jay Plastics, both of which support sales growth that is substantially stronger than any of the other stocks.

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