

Nanoco Group

Asian customer moves to the next phase

Partnership agreement

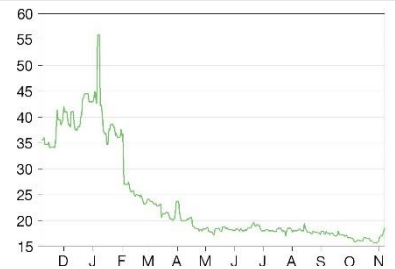
Tech hardware and equipment

8 November 2023

Price 18p
Market cap £58m

Net cash (£m) at 31 July 2023 3.6
Shares in issue 324m
Free float 84.2%
Codes NANO/INNOCF
Primary exchange LSE
Secondary exchange OTC

Share price performance



Business description

Nanoco Group is a global leader in developing and manufacturing cadmium-free quantum dots and other nanomaterials, with c 375 patents. Focus applications are advanced electronics, displays, bio-imaging and horticulture.

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Nanoco Group has signed a new two-year joint development agreement (JDA) with its existing major Asian chemical partner to optimise and scale up production of Nanoco's second-generation quantum dot materials for infrared sensing applications. This marks the company's latest milestone on its path to becoming a commercial provider of nanomaterials to the sensing market and provides support for our FY24 forecasts.

Year end	Revenue (£m)	EBITDA* (£m)	PBT* (p)	EPS (p)	EV/sales (x)	P/E (x)
07/21	2.1	(2.8)	(4.7)	(1.3)	27.7	N/A
07/22	2.5	(2.1)	(4.6)	(1.3)	22.2	N/A
07/23	5.6	(0.4)	(3.6)	(0.7)	9.8	N/A
07/24e	8.6	1.3	(0.4)	(0.1)	4.6	N/A

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

This new JDA follows the successful completion of six consecutive proof-of-concept work packages with the same Asian chemical customer. The new tranche of work is aimed at optimising the company's second-generation nanomaterials for use across a variety of sensing applications. If this JDA is completed successfully, the next stage will be to scale the manufacturing process up to industrial production levels during 2026 and 2027. This partner has more than 50,000 customers of its own, significantly increasing Nanoco's route to market. It is also a key supplier to a large electronics player active in quantum dots, which could generate demand for high volumes of Nanoco's materials.

With its core IP validated and capacity in place to manufacture at scale, Nanoco is very well placed to lead the commercialisation of nanomaterials in the multi-billion sensor market. The new JDA marks the first of three key deliverables set out by management at the full-year results, the others being receipt of the company's first commercial production order with its European partner, expected this calendar year, and a new deeper and longer-duration JDA for next-generation materials, also with the European customer. The group also aims to add a third development partner, potentially in display, over the course of FY24. In the longer term, the pursuit of other potential IP infringers could open up other commercial opportunities or licensing opportunities.

Nanoco's current market cap of £58m is marginally less than the planned £33–40m shareholder return (mechanism to be determined) plus the £20m expected to be retained. The market is therefore factoring in almost no value for the company's commercial opportunities, manufacturing capability and IP in an important domain. This seems a highly pessimistic scenario given the progress Nanoco has demonstrated over the past two years and further important commercial milestones management expects to deliver in FY24.

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