

Company Focus

Notion VTec

Bloomberg: NVB MK | Reuters: NVTE.KL

Malaysia Equity Research PP 11272/04/2012(029344)

22 Feb 2012

BUY RM2.10 KLCI : 1,563.78

Price Target : 12-Month RM 2.80 (Prev RM 2.10)

Reason for Report : Analyst briefing update

Potential Catalyst: Acceleration of HDD demand

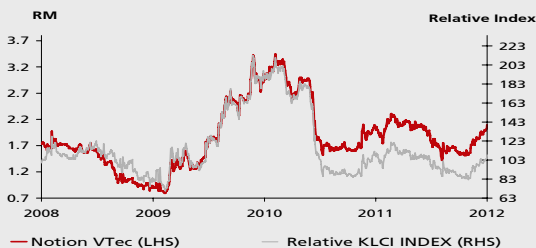
DBSV vs Consensus: Earnings above consensus

Analyst

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Price Relative



Forecasts and Valuation

FY Sep (RM m)	2011A	2012F	2013F	2014F
Revenue	234	290	398	438
EBITDA	83	109	152	170
Pre-tax Profit	54	65	102	116
Net Profit	45	53	80	91
Net Pft (Pre Ex.)	41	53	80	91
EPS (sen)	29.4	33.2	47.8	52.4
EPS Pre Ex. (sen)	26.9	33.2	47.8	52.4
EPS Gth (%)	20	13	44	10
EPS Gth Pre Ex (%)	9	24	44	10
Diluted EPS (sen)	29.4	33.2	47.8	52.4
Net DPS (sen)	5.9	6.6	9.6	10.5
BV Per Share (sen)	175.2	196.0	230.1	265.1
PE (X)	7.1	6.3	4.4	4.0
PE Pre Ex. (X)	7.8	6.3	4.4	4.0
P/Cash Flow (X)	4.0	4.3	3.4	2.8
EV/EBITDA (X)	4.5	3.4	2.3	1.7
Net Div Yield (%)	2.8	3.2	4.6	5.0
P/Book Value (X)	1.2	1.1	0.9	0.8
Net Debt/Equity (X)	0.2	0.1	CASH	CASH
ROAE (%)	18.1	18.2	22.8	21.5

Earnings Rev (%)	23.2	31.0	14.8
Consensus EPS (sen)	41.8	N/A	N/A
Other Broker Recs:	B: 3	S: 1	H: 3

ICB Industry : Industrials

ICB Sector: Industrial Engineering

Principal Business: Precision manufacturer for Hard Disk; SLR Camera; Automotive EBS components

Source of all data: Company, DBS Vickers, Bloomberg

A rosy outlook

- 2012-13 likely to see upside; FY12-14F earnings raised by 14-31%
- HDD may benefit from gloomy SSD news
- Maintain Buy; TP lifted to RM2.80 (8x CY12 EPS)

Returns to form. 1QCY12 sales picked up, hitting RM26-30m a month in Jan-Feb to surpass pre-flood c.RM20m levels. This uptrend should continue up to FY13F, led by: (i) pent-up HDD demand post-Thai floods, and inventory normalisation by mid-2013; (ii) recovery of key clients WD (September) and Nikon (March); (iii) 3 new customers - NHK Spring, Nidec and Minebea; and (iv) gradual pick up in HDD component ASPs. Notion expects double digit revenue growth for FY12 and c.RM400m in FY13, while EBITDA margins are expected to hover at 35-40%. The company has also locked-in a higher exchange rate of RM3.14-3.20 per US\$. The camera segment is expected to remain strong, though we expect smaller contribution in FY12. After adjustments, we raised FY12-14F earnings by 14-31%.

In with HDDs, out with SSDs. HDD demand is expected to rise with the growing popularity of Ultrabooks, which incorporates HDD and SSD components, as well as hybrid storage solutions. iSuppli predicts that HDDs in Ultrabooks will reach 100m units by 2015 from about 23m in 2012, while Computerworld wrote SSD performance may worsen as storage capacity increases. This seems positive for Notion, given its exposure in the HDD sector.

Maintain Buy. NVB is attracting private equity interest again with its resilient high-margin camera segment. NVB is also exploring further institutionalising its shareholding structure with the possible entry of key clients, so that it can also benefit from technology transfer.

At A Glance

Issued Capital (m shrs)	155
Mkt. Cap (RMm/US\$m)	325 / 107
Major Shareholders	
William Choo (%)	14.4
John Choo (%)	10.8
Thoo Chow Fah (%)	10.5
Free Float (%)	64.3
Avg. Daily Vol.('000)	187

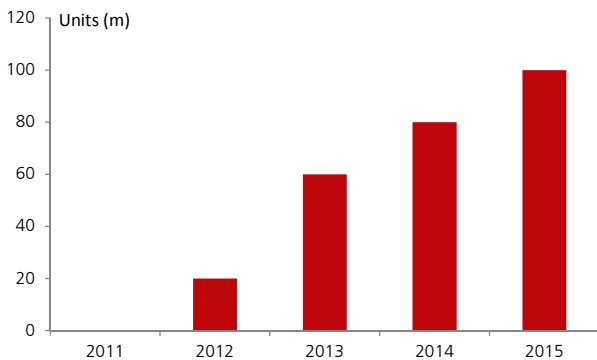
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Bringing in the business. To recap, Notion secured three new customers this month – NHK Spring (nickel-plating HDD covers), Nidec (HDD base plate casting and machining) and Minebea (HDD base plate casting and machining, as well as HDD motor hub machining). We understand that preliminary supply to Nidec is 1m base plates a month, with plans to ramp up production to 2m base plates. We think this is possible, as Nidec is only able to produce 50% of total global base plate capacity for 1H12.

Ultrabooks to the rescue. Ultrabooks were developed by Intel in a bid to breathe life into the PC market, featuring reduced size and weight, as well as higher performance and longer battery life – in a similar vein to Apple’s Macbook Air. Recently, Ultrabooks have begun to incorporate HDD components into its 2nd iteration of units (the first phase of Ultrabooks – shipped between 4Q11 and 1Q12 – predominantly used SSDs for its compact size, no moving parts and strong performance). A recent development in these thinner laptops involves using hybrid HDDs, where the cache component is inside the HDD. However, it is still early days for the technology, given its still-in-development status with Seagate.

SSDs not the way of the future? Research by the University of California, San Diego (UCSD) found that SSD performance declined as SSD density increased (implying greater capacities and costs per gigabyte). This casts a cloud over the outlook for SSD – one of its selling points is better performance compared to HDDs -, painting a rosier outlook for the latter. However, we note that the jury is still out on whether SSD performance will decline substantially as capacity increases.

Forecast of HDD shipments in Hybrid Storage-based Ultrabooks



Source: HIS iSuppli

Key Assumptions

FY Sep	2010A	2011A	2012F	2013F	2014F
Sales growth (%)					
HDD	26.2	(8.3)	79.0	48.6	11.6
Camera	23.1	17.2	(16.3)	28.9	4.7
Auto/Industrial	77.9	(3.0)	20.0	15.0	15.0

Sensitivity Analysis

	2011
HDD Sales +/- 10%	Net Profit +/- 5%
Camera Sales +/- 10%	Net Profit +/- 7%

Segmental Breakdown

FY Sep	2010A	2011A	2012F	2013F	2014F
Revenues (RM m)					
HDD	92	85	152	225	251
Camera	96	113	94	121	127
Auto/Industrial	38	37	45	51	59
Total	227	234	290	398	438
(RM m)					

Recovery in HDD sector and higher ASPs, coupled with higher MYR-US\$ exchange rate

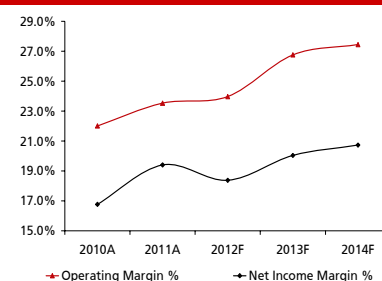
HDD to drive revenues

Income Statement (RM m)

FY Sep	2010A	2011A	2012F	2013F	2014F
Revenue	227	234	290	398	438
Cost of Goods Sold	(170)	(168)	(206)	(270)	(294)
Gross Profit	56	67	84	128	144
Other Opng (Exp)/Inc	(7)	(12)	(15)	(22)	(24)
Operating Profit	50	55	70	106	120
Other Non Opg (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	1	0	0	0	0
Net Interest (Exp)/Inc	(6)	(5)	(4)	(4)	(4)
Exceptional Gain/(Loss)	0	4	0	0	0
Pre-tax Profit	44	54	65	102	116
Tax	(6)	(9)	(12)	(23)	(26)
Minority Interest	0	0	0	0	0
Preference Dividend	0	0	0	0	0
Net Profit	38	45	53	80	91
Net Profit before Except.	38	41	53	80	91
EBITDA	74	83	109	152	170
Growth					
Revenue Gth (%)	31.3	3.4	23.9	37.1	9.9
EBITDA Gth (%)	14.4	12.1	31.2	38.8	12.3
Opg Profit Gth (%)	9.2	10.6	26.2	33.0	12.8
Net Profit Gth (%)	5.9	19.7	17.3	49.5	13.7
Margins & Ratio					
Gross Margins (%)	24.9	28.5	29.1	32.2	32.9
Opg Profit Margin (%)	22.0	23.5	24.0	26.8	27.4
Net Profit Margin (%)	16.8	19.4	18.4	20.0	20.7
ROAE (%)	19.2	18.1	18.2	22.8	21.5
ROA (%)	11.7	11.0	11.8	15.7	15.8
ROCE (%)	14.8	12.7	14.4	18.9	18.9
Div Payout Ratio (%)	20.0	20.0	20.0	20.0	20.0
Net Interest Cover (x)	7.8	11.1	15.5	25.5	32.3

Source: Company, DBS Vickers

Margins Trend



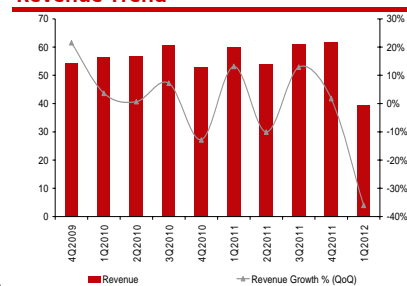
Strong margins expected

Quarterly / Interim Income Statement (RM m)

FY Sep	1Q2011	2Q2011	3Q2011	4Q2011	1Q2012
Revenue	60	54	61	62	40
Cost of Goods Sold	(43)	(41)	(44)	(48)	(34)
Gross Profit	17	13	17	14	5
Other Oper. (Exp)/Inc	(2)	(2)	(4)	2	(9)
Operating Profit	15	11	13	15	(3)
Other Non Opg (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	0	0	0	0	0
Net Interest (Exp)/Inc	(1)	(2)	(2)	(1)	(1)
Exceptional Gain/(Loss)	2	3	2	0	0
Pre-tax Profit	16	12	13	14	(5)
Tax	(2)	(1)	(3)	(2)	0
Minority Interest	0	0	0	0	0
Net Profit	13	11	10	12	(5)
Net profit bef Except.	11	8	8	12	(5)
EBITDA	23	11	13	15	(3)
Growth					
Revenue Gth (%)	13.2	(10.1)	12.9	1.8	(36.0)
EBITDA Gth (%)	73.9	(52.5)	21.2	17.7	(121.4)
Opg Profit Gth (%)	86.3	(28.8)	21.2	17.7	(121.4)
Net Profit Gth (%)	10.0	(19.8)	(5.9)	23.4	(138.7)
Margins					
Gross Margins (%)	28.2	24.6	27.8	22.0	13.7
Opg Profit Margins (%)	25.4	20.1	21.6	24.9	(8.3)
Net Profit Margins (%)	22.4	20.0	16.6	20.2	(12.2)

Source: Company, DBS Vickers

Revenue Trend

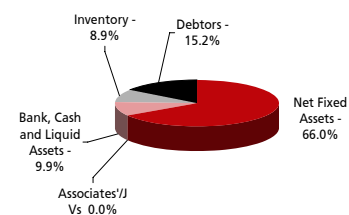


Plagued by temporary shutdown of Ayutthaya plant

Lower revenues and net loss provision for damage to inventory and PPE dragged down EBITDA margins

Balance Sheet (RM m)

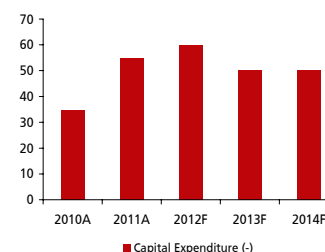
FY Sep	2010A	2011A	2012F	2013F	2014F
Net Fixed Assets	252	278	299	304	304
Invts in Associates & JVs	0	0	0	0	0
Other LT Assets	0	0	0	0	0
Cash & ST Invts	35	49	45	72	124
Inventory	35	34	40	54	59
Debtors	54	56	69	94	104
Other Current Assets	18	18	18	18	18
Total Assets	394	435	471	543	608
ST Debt	32	32	32	32	32
Other Current Liab	46	54	60	76	81
LT Debt	69	65	51	37	23
Other LT Liabilities	12	12	12	12	12
Shareholder's Equity	233	271	315	384	459
Minority Interests	1	1	1	1	1
Total Cap. & Liab.	394	435	471	543	608
Non-Cash Wkg. Capital	61	53	68	91	100
Net Cash/(Debt)	(67)	(48)	(38)	3	69
Debtors Turn (avg days)	80.1	85.1	78.1	74.8	82.6
Creditors Turn (avg days)	32.8	35.2	31.5	29.8	33.0
Inventory Turn (avg days)	69.1	90.6	81.2	76.8	84.9
Asset Turnover (x)	0.7	0.6	0.6	0.8	0.8
Current Ratio (x)	1.8	1.8	1.9	2.2	2.7
Quick Ratio (x)	1.1	1.2	1.2	1.5	2.0
Net Debt/Equity (X)	0.3	0.2	0.1	CASH	CASH
Net Debt/Equity ex MI (X)	0.3	0.2	0.0	0.0	(0.1)
Capex to Debt (%)	34.2	56.7	72.3	72.5	90.9
Z-Score (X)	3.3	2.8	3.0	3.2	0.0

Asset Breakdown (2012)

Assuming no major capex and consistent 20% dividend payout

Cash Flow Statement (RM m)

FY Sep	2010A	2011A	2012F	2013F	2014F
Pre-Tax Profit	44	54	65	102	116
Dep. & Amort.	24	28	40	45	50
Tax Paid	(13)	0	(9)	(12)	(23)
Assoc. & JV Inc/(loss)	(1)	0	0	0	0
Chg in Wkg.Cap.	(7)	(1)	(17)	(34)	(12)
Other Operating CF	(1)	0	0	0	0
Net Operating CF	47	82	79	102	132
Capital Exp.(net)	(35)	(55)	(60)	(50)	(50)
Other Invts.(net)	(2)	0	0	0	0
Invts in Assoc. & JV	0	0	0	0	0
Div from Assoc & JV	0	0	0	0	0
Other Investing CF	0	0	0	0	0
Net Investing CF	(36)	(55)	(60)	(50)	(50)
Div Paid	(7)	(8)	(9)	(11)	(16)
Chg in Gross Debt	(20)	(5)	(14)	(14)	(14)
Capital Issues	34	0	0	0	0
Other Financing CF	(2)	0	0	0	0
Net Financing CF	5	(12)	(23)	(25)	(30)
Currency Adjustments	0	0	0	0	0
Chg in Cash	16	14	(4)	27	52
Opg CFPS (sen)	34.9	53.3	59.8	81.3	83.2
Free CFPS (sen)	7.7	17.2	11.7	30.9	47.3

Capital Expenditure

Assuming 20% dividend payout

Source: Company, DBS Vickers

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