

Notion VTec (HOLD ↔, EPS ↔)

INDUSTRY: NEUTRAL

COMPANY INSIGHT / BRIEFING

22 February 2012

Price Target: RM2.03 (↔)

Ex-Bonus Price Target: RM1.16

Share Price: RM2.10

What Doesn't Kill You, Make You Stronger

Highlights

- We are slightly positive on Notion VTec's swift recovery from Thai flood and effective business continuity plan. These have painted a more solid outlook for the remaining of FY12 whereby revenue is expected to surpass pre-flood level contributing to the bottom line and offsetting the loss recorded in 1Q12.
- Insurance companies are reluctant to include flood as part of the insurance coverage and this has triggered Notion VTec to be even more cautious in Thailand's investment. Going forward, the company will observe how the industry and their major customers react while utilizing Klang plants to meet the demand.
- Higher inventory of RM56.6m (RM44m in 4Q11) was registered due to stock-up of HDD parts in anticipation of high volume orders when WD returns to full capacity production.
- HDD:** Secured 3 Japanese customers:
 - NHK Spring – 2m pcs/mth of nickel plating HDD covers.
 - Nidec – 500k pcs/mth of HDD base plate casting and machining.
 - Minebea – 1m pcs/mth of HDD base plate casting and machining, and 1m pcs/mth HDD motor hub machining.
- Camera:** As Nikon recovers, Notion VTec saw sales picked up to reach RM11m in Feb 2012 (compared to only RM7m in Jan 12) surpassing pre-flood sales per month level of RM8-9m due to Nikon's backlog orders.
- Auto / Industrial:** This segment is relatively stable and not influenced by Thai flood as customers are mainly located locally and in Europe.
- Management guided that sales contribution ratio will be 50:35:15 (HDD:Camera:Auto/Ind) compared to 35:41:24 achieved in 1Q12.

Comments

- Notion VTec's view of the introduction of ultrabook will boost demand of HDD in the form of hybrid disk drive (HDD) somehow conflicts with our acknowledgement of SSD eroding HDD's market share.
- The company shared the intention to further diversify into the mobile phone segment and we perceived this positively given the high growth potential of the smartphone market on the back of low worldwide penetration rate.

Risks

- FOREX, raw material, labour costs and execution risks.

Forecasts

- Unchanged

Rating

Hold ↔, TP: RM2.03 ↔

- Positives** – Notion is in a better position compared to its peers as it has diversified away from HDDs. The company is well positioned to benefit from growth opportunities in the higher-margin camera segment.
- Negatives** - Thailand need more time to normalize. Increasing raw material prices and MYR appreciation against USD. SSD as substitute.

Valuation

- Reiterate our HOLD call on the equity with unchanged target price of RM2.03 based on DCF with WACC of 12.9% and terminal growth of 10%.

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KLCI	1563.8
Expected share price return	-3.3%
Expected dividend return	0.0%
Expected total return	-3.3%

Share price



Information

Bloomberg Ticker	NVB MK
Bursa Code	0083
Issued Shares (m)	154.6
Market cap (RM m)	324.6
3-mth avg. volume ('000)	191.0

Price Performance

	1M	3M	12M
Absolute	13.5	37.3	5.3
Relative	10.5	26.2	1.9

Major shareholders

William Choo Wing Hong	13.0%
Thoo Chow Fah	10.5%
John Choo Wing Onn	9.8%
Nikon Corp	9.1%
Other Related Parties	13.3%
Est. Free Float	44.3%

Summary Earnings Table

FYE 30 Sept (RM'k)	2010A	2011A	2012E	2013E
Revenue	226,839	236,767	231,178	272,338
EBITDA	79,101	92,313	76,400	93,874
Pre-tax Profit	44,288	55,298	44,624	67,117
Reported Profit	37,465	46,889	35,699	53,693
Adj. PATAMI	37,482	40,058	40,521	53,425
Rep. EPS sen	25.15	30.27	22.98	34.57
Adj. EPS sen	25.15	25.92	26.22	34.57
Adj Net DPS sen	4.50	5.18	5.24	6.91
Adj Net DY (%)	2.14	2.47	2.50	3.29
Adj P/E (x)	8.3	8.1	8.0	6.1
P/BV (x)	0.0	0.0	0.0	0.0
EV/EBITDA (x)	5.0	4.3	4.5	3.1
Net D/E %	28.5	25.4	5.3	NetCash
ROA %	9.7	9.7	8.9	10.5
ROE %	16.0	14.9	13.1	14.7

HLIB

Notion VTec Berhad (HOLD, PT: RM2.03, CP: RM2.10)

Income statement

FYE 30 Sept (RM'k)	2009A	2010A	2011A	2012E	2013E
Revenue	172,567	226,839	236,767	231,178	272,338
COGS	(94,072)	(147,738)	(144,454)	(154,778)	(178,464)
EBITDA	78,495	79,101	92,313	76,400	93,874
D&A	(18,245)	(23,585)	(31,565)	(31,428)	(31,269)
EBIT	60,250	56,105	60,748	44,972	62,605
Net Interest Income	(18,206)	(12,208)	(12,172)	4,652	4,512
Associates	989	980	0	0	0
Exceptionals	0	0	6,722	(5,000)	0
PBT	43,033	44,288	55,298	44,624	67,117
Tax	(7,029)	(6,823)	(8,409)	(8,925)	(13,423)
Net Profit	36,004	37,465	46,889	35,699	53,693
Minority Interests	38	(17)	29	178	268
PATAMI	35,966	37,482	46,780	35,521	53,425
Normalised PATAMI	35,966	37,482	40,058	40,521	53,425
Basic Shares (m)	703.58	154.56	154.56	154.56	154.56
Rep. EPS sen	25.56	25.15	30.27	22.98	34.57
Adj. EPS sen	25.56	25.15	25.92	26.22	34.57
Adj. FD EPS sen	25.56	24.29	21.63	21.88	28.85

Quarterly financial summary

FYE 30 Sept (RM'k)	1Q11	2Q11	3Q11	4Q11	1Q12
Revenue	59,981	53,929	60,891	61,966	39,630
COGS	-35,512	-32,871	-35,877	-40,194	-26,122
EBITDA	24,469	21,058	25,014	21,772	13,508
D&A	-7,571	-7,783	-8,057	-8,154	-8,070
EBIT	16,898	13,275	16,957	13,618	5,438
Net Interest Income	-3,128	-3,947	-5,689	592	-9,991
Associates	0	0	0	0	0
Exceptionals	2,021	2,763	1,869	69	-53
PBT	15,791	12,091	13,137	14,279	-4,606
Tax	-2,342	-1,266	-2,952	-1,849	-180
Net Profit	13,449	10,825	10,185	12,430	-4,786
Minority Interests	40	0	58	-69	45
PATAMI	13,395	10,759	10,127	12,499	-4,831
Normalised PATAMI	11,374	7,996	8,258	12,430	-4,778
Basic Shares (m)	154.56	154.56	154.56	154.56	154.56
Rep. EPS sen	8.666	6.961	6.552	8.087	-3.126
Adj. EPS sen	7.359	5.173	5.343	8.042	-3.091
Adj. FD EPS sen	6.141	4.317	4.459	6.711	-2.580

Balance sheet

FYE 30 Sept (RM'k)	2009A	2010A	2011A	2012E	2013E
Cash	20,470	37,002	24,330	76,156	126,834
Receivables	45,828	55,131	61,132	57,608	60,676
Inventories	20,058	34,788	43,903	40,302	42,286
Investments	0	0	0	0	0
Fixed Assets	161,761	251,536	263,977	262,549	261,280
Intangibles	0	0	0	0	0
Other Assets	7,366	7,125	18,928	18,928	18,928
Ttl Assets	255,483	385,582	412,270	455,543	510,004
Payables	12,565	13,069	11,727	14,402	15,169
Short Term Debt	18,041	33,959	34,576	34,475	34,475
Long Term Debt	40,233	69,647	58,152	58,152	58,152
Other Liabilities	19,925	34,931	38,227	38,227	38,227
Ttl Liab	90,764	151,606	142,682	145,256	146,023
Shareholders' Funds	164,719	233,976	269,588	310,287	363,981
Minority Interests	1,095	1,167	1,192	1,370	1,639
Total S/H Equity	163,624	232,809	268,396	308,917	362,342
Ttl Liab&S/H Funds	255,483	385,582	412,270	455,543	510,004

Valuation Ratios

FYE 30 Sept (RM'k)	2009A	2010A	2011A	2012E	2013E
PER (x)	8.22	8.35	6.94	9.14	6.08
Adj. PER (x)	8.22	8.35	8.10	8.01	6.08
FD PER (x)	8.22	8.65	9.71	9.60	7.28
Net DPS sen	7.50	4.50	5.18	5.24	6.91
Net DY (%)	3.57	2.14	2.47	2.50	3.29
Book/share sen	117.06	151.38	174.42	200.75	235.49
P/Book (x)	0.02	0.01	0.01	0.01	0.01
FCF/share sen	2.73	(36.29)	6.41	33.60	32.79
FCF yield (%)	1.30	(17.28)	3.05	16.00	15.61
Mkt Cap	324,578	324,578	324,578	324,578	324,578
Net Cash(Debt)	(37,804)	(66,604)	(68,398)	(16,471)	34,207
EV	362,382	391,182	392,976	341,049	290,371
EV/EBITDA (x)	4.6	4.9	4.3	4.5	3.1
ROE (%)	21.83	16.02	14.86	13.06	14.68
Current Ratio (x)	2.14	1.91	2.16	2.71	3.45
Quick Ratio (x)	1.67	1.42	1.52	2.14	2.86
Interest Cover (x)	15.15	10.89	10.04	7.59	10.56

Cashflow Analysis

FYE 30 Sept (RM'k)	2009A	2010A	2011A	2012E	2013E
EBITDA	78,495	79,690	92,313	76,400	93,874
Net Interest	(18,206)	(12,208)	(12,172)	4,652	4,512
Tax Paid	(6,894)	(12,518)	(4,756)	(8,925)	(13,423)
Working Capital Chgs	(20,965)	(1,507)	(28,995)	9,800	(4,284)
Other	(27)	1,510	8,334	0	0
Operating CF	32,403	54,967	54,724	81,927	80,678
FCF	4,221	(56,086)	9,912	51,927	50,678
CAPEX	(28,182)	(111,053)	(44,812)	(30,000)	(30,000)
Asset Sales	43	510	819	0	0
Acquisitions	0	0	0	0	0
Other	193	(1,240)	304	0	0
Investing CF	(27,946)	(111,783)	(43,689)	(30,000)	(30,000)
Dividends	(7,036)	(7,283)	(10,724)	0	0
Debt Chgs	7,206	44,936	(9,237)	0	0
Other	(2,235)	35,026	(1,736)	0	0
Financing CF	(2,065)	72,679	(21,697)	0	0
Net Cashflow	2,392	15,863	(10,662)	51,927	50,678

Other Ratios

FYE 30 Sept (RM'k)	2009A	2010A	2011A	2012E	2013E
Sales Growth (%)	18.1	31.4	4.4	(2.4)	17.8
EBITDA Growth (%)	34.4	0.8	16.7	(17.2)	22.9
EBIT Growth (%)	33.6	(6.9)	8.3	(26.0)	39.2
PBT Growth (%)	5.3	2.9	24.9	(19.3)	50.4
Net Profit Growth (%)	9.3	4.2	24.8	(24.1)	50.4
EBITDA Margin (%)	45.5	34.9	39.0	33.0	34.5
EBIT Margin (%)	34.9	24.7	25.7	19.5	23.0
PBT Margin (%)	24.9	19.5	23.4	19.3	24.6
Net Profit Margin (%)	20.8	16.5	19.8	15.4	19.6
Net Debt/Equity (%)	23.0	28.5	25.4	5.3	NetCash
CAPEX/Sales (%)	16.3	49.0	18.9	13.0	11.0

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BUY	Positive recommendation of stock under coverage. Expected absolute return of more than +10% over 12-months, with low risk of sustained downside.
TRADING BUY	Positive recommendation of stock not under coverage. Expected absolute return of more than +10% over 6-months. Situational or arbitrage trading opportunity.
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