Notion VTec

Shining Again!

By Desmond Chong l cwchong@kenanga.com.my

OUTPERFORM ↔

Price: RM0.63

Target Price: RM0.85 ↑

Our POSITIVE conviction is reaffirmed as a meeting with management shed more lights on its strategies anchoring superior earnings prospect from low base. More importantly, the group will also start FY17 with a clean slate. We upgrade our FY17E earnings to RM20.7m to account for higher orders and better margins from better product mixes and operational leveraging. It is still trading at undemanding PER and PBV valuations, which offer a very good entry level along with decent dividend yields of 4.8-6.3%. Maintain OP with a higher TP of RM0.85.

4Q16 already showed signs of improvement. Recall that NOTION closed the year with a core NP of RM2.6m, reversing from 9M16 core losses, which beat our expectation. With the improving prospect in sight, we have previously altered our conservative view by advocating an OUTPERFORM call with a very conservative TP of RM0.44, based on 0.4x FY17E PBV. ***Now to our positive surprise,*** an interim tax-exempt dividend of 1.0 sen was also declared few days ago, on top of the net DPS of 1.0 sen declared during the results release back then, bringing its FY16 dividend yield to 3.2%. We lauded the move as this showcased management's commitment in rewarding its investors with better prospect in sight.

Better products portfolio to anchor growth. With more details being shared during the meeting, we were UPBEAT to gather that the group is getting more stack-up orders for the Automotive EBS components from its new customer. In terms of volume, it will be >30% more which will counterbalance the demand fluctuations for Interchangeable Lens Type products in its Camera segment. Note that the group has been slowly freeing up its capacity in the Camera segment to cater for these better margins and higher resiliency products. The 4Q16 product mix for HDD/Camera/Auto was 49%:21%:30% and the group is aiming to reach the ideal mix of 35%:15%:35% by 2018. On top of that, the group has also ventured into the new Industrial segment - manufacturing parts for household/sport items. Although meaningful contribution will only be seen in FY18, we lauded the move as the added portfolio will smoothen the cyclical nature of its earnings and products cycle.

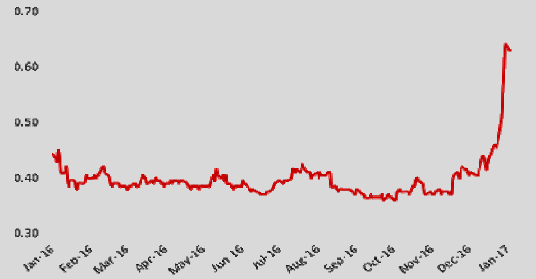
Enhanced operational efficiency with new CNC machines up and running. On its new Johor operations, management noted that 50 new CNC machines will be fully installed by April 2017, which will see better operational efficiency in terms of processes, machine cycle time as well as costs. In the blue-sky scenario, management believe that savings of RM2.4m per annum could be achieved, with less 100 workers, alongside with 3x faster lead time for processes. All in, the capex in FY17 is expected to be c.RM30m.

Improving balance sheet with strong net cash position in FY17. As of end of Nov 2016, the group is already at a strong net cash position of RM21.7m. Note that the group has declared a total of 2.0 sen dividend, which is equivalent to RM5.3m for FY16. Following its earnings recovery as well as improving balance sheet, management has noted its intention to reward its shareholders with higher dividend pay-out in FY17. With our FY17 earnings estimates and with healthy free cash flow projection of RM15.8m, we believe that the group could offer at least 3.0 sen (based on a DPR of c.39% or total RM8.0m), translating into a dividend yield of 4.8%, which appeal to investors who are seeking refuge in defensiveness.

Maintain OUTPERFORM with a higher TP of RM0.85 (from RM0.43). Post meeting**,** we increased our FY17E NP to RM20.7m, to account for the absence of adverse currency hedging as well as higher orders and better margins from improving product mixes and better operational leveraging. Note that we have also introduced our FY18E NP of RM26.3m, implying growth of +27%. With earnings recovery in sight, we switch our conservative PBV valuation to 11.0x FY17E PER, leading to a higher TP of RM0.85 (from RM0.43).

(Please refer to the overleaf page for other details)

Share Price Performance



KLCI	1,672.05
YTD KLCI chg	1.8%
YTD stock price chg	38.5%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	NVB MK Equity
Market Cap (RM m)	169.0
Issued shares	268.3
52-week range (H)	0.67
52-week range (L)	0.36
3-mth avg daily vol:	868,122
Free Float	69%
Beta	0.8

Major Shareholders

Wing Hong Choo	11.8%
Wing Onn Choo	9.9%
Mitsubishi UFJ Morgan	9.4%

Summary Earnings Table

FYE Sept (RM m)	2016A	2017E	2018E
Turnover	230.4	252.0	295.6
EBIT	13.0	26.9	33.5
PBT	16.3	25.9	32.9
Net Profit (NP)	**5.4**	**20.7**	**26.3**
Adjusted NP	**2.6**	**20.7**	**26.3**
Consensus NP	-	-	-
Earnings Revision	-	+75%	-
EPS (sen)	1.0	7.7	9.8
EPS growth (%)	126%	711%	27%
DPS (sen)	2.0	3.0	4.0
BVPS (RM)	1.06	1.10	1.16
PER	31.3	8.2	6.4
PBV(x)	0.60	0.57	0.54
Net Gearing (%)	(7.7)	(10.0)	(13.6)
Dividend Yield (%)	3.2	4.8	6.3

All start with a clean slate in FY17. We were comforted by the fact that the adverse currency hedging- the biggest culprit wiping off the group's operation profits previously, has already expired and there is no likelihood for them to enter into such hedging again according to the management. Meanwhile, the loss-making investments have also been rationalised to improve the book. We lauded the management's moves as all these rationalisation exercises have eliminated the financial and currency risks that were of utmost concerns of investors.

Risk to our call include: (i) adverse trade policies by Donald Trump, (ii) slower-than-expected sales thus lower operational efficiency, (iii) losses from the settlement of hedging contracts, and (iv) adverse currency fluctuations.

FINANCIAL SUMMARY

Income Statement

FY Sept (RM m)	2014A	2015A	2016A	2017E	2018E
Revenue	194.5	239.7	230.4	252.0	295.6
EBITDA	11.2	75.2	47.7	64.9	78.1
Depreciation	40.6	38.1	34.7	38.0	44.6
Operating Profit	(29.4)	37.1	13.0	26.9	33.5
Derivative loss.	(0.3)	(44.3)	5.3	0.0	0.0
Interest Exp	4.6	3.6	2.0	1.0	0.7
PBT	(34.3)	(10.8)	16.3	25.9	32.9
Taxation	(6.6)	2.2	10.9	5.2	6.6
Minority Interest	0.0	0.0	0.0	0.0	0.0
Net Profit	(27.7)	(13.0)	5.4	20.7	26.3
Core Net Profit	(38.7)	1.1	2.6	20.7	26.3

Balance Sheet

FY Sept (RM m)	2014A	2015A	2016A	2017E	2018E
Fixed Assets	267.5	232.4	202.0	194.0	184.6
Intangible Assets	0.0	0.0	0.0	1.0	2.0
Other FA	0.0	0.0	0.0	0.0	0.0
Inventories	49.4	45.2	33.0	35.0	40.7
Receivables	51.0	56.6	62.0	67.8	79.6
Other CA	3.7	1.8	3.2	1.5	1.9
Cash	23.1	43.1	41.9	39.1	52.0
Total Assets	394.8	379.0	342.2	337.4	358.9
Payables	26.0	27.0	22.6	24.0	27.9
ST Borrowings	25.4	16.5	10.7	0.0	0.0
Other ST Liability	5.6	21.8	0.0	0.0	0.0
LT Borrowings	36.6	20.9	9.6	9.6	9.6
Other LT Liability	11.4	10.0	15.7	7.6	9.6
Minorities Int.	0.0	0.0	0.0	0.0	0.0
Net Assets	**289.8**	**282.8**	**283.6**	**296.3**	**311.8**
Share Capital	135.2	135.2	135.2	135.2	135.2
Reserves	154.6	147.6	148.4	161.1	176.6
Equity	**289.8**	**282.8**	**283.6**	**296.3**	**311.8**

Cashflow Statement

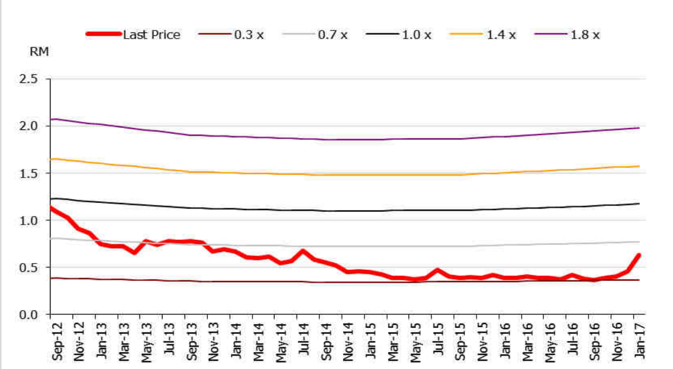
FY Sept (RM m)	2014A	2015A	2016A	2017E	2018E
Operating CF	26.1	31.8	28.9	45.8	58.9
Investing CF	(22.9)	11.5	(11.7)	(30.0)	(35.2)
Financing CF	(28.7)	(24.9)	(27.2)	(18.7)	(10.7)
Change In Cash	(25.5)	18.3	(10.0)	(2.9)	12.9
Free CF	1.1	19.5	17.2	15.8	23.7

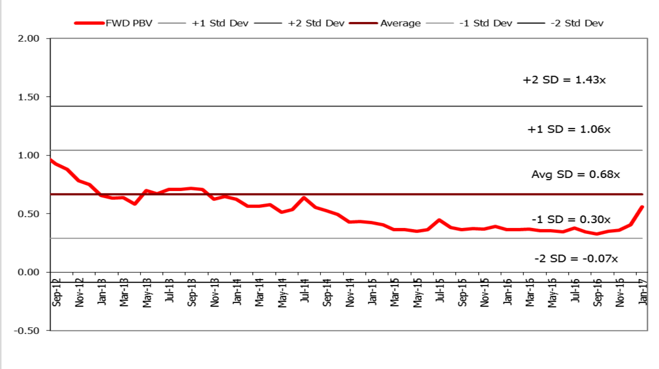
Financial Data & Ratios

FY Sept (RM m)	2014A	2015A	2016A	2017E	2018E
Growth					
Turnover (%)	-12.5%	23.3%	-3.9%	9.4%	17.3%
EBITDA (%)	-86.0%	573.9%	-36.5%	35.9%	20.4%
Operating Profit (%)	-15.1%	15.5%	5.7%	10.7%	11.3%
PBT (%)	-215.7%	-68.4%	-250.2%	58.7%	27.1%
Core Net Profit (%)	-375.7%	-102.9%	126.2%	710.7%	27.1%
Profitability (%)					
EBITDA Margin	5.7%	31.4%	20.7%	25.7%	26.4%
Operating Margin	-15.1%	15.5%	5.7%	10.7%	11.3%
PBT Margin	-17.7%	-4.5%	7.1%	10.3%	11.1%
Core Net Margin	-14.3%	-5.4%	2.3%	8.2%	8.9%
Effective Tax Rate	19.2%	-20.1%	66.8%	20.0%	20.0%
ROA	-9.8%	0.3%	0.7%	6.1%	7.3%
ROE	-13.4%	0.4%	0.9%	7.0%	8.4%
DuPont Analysis					
Net Margin (%)	-19.9%	0.5%	1.1%	8.2%	8.9%
Assets Turnover (x)	0.5	0.6	0.7	0.7	0.8
Leverage Factor (x)	1.4	1.3	1.2	1.1	1.2
ROE (%)	-13.4%	0.4%	0.9%	7.0%	8.4%
Leverage					
Debt/Asset (x)	0.2	0.1	0.1	0.0	0.0
Debt/Equity (x)	0.2	0.1	0.1	0.0	0.0
Net Cash/(Debt)	-38.8	5.7	21.7	29.5	42.4
Net Debt/Equity (x)	0.1	-0.02	-0.1	-0.1	-0.1
Valuations					
EPS (sen)	-10.3	-4.9	2.0	7.7	9.8
GDPS (sen)	0.0	0.0	2.0	3.0	4.0
NTA/Share (RM)	1.1	1.05	1.06	1.10	1.16
PER (x)	-6.1	-13.0	31.3	8.2	6.4
Gross Div. Yield (%)	0.0	0.0	3.2	4.8	6.3
P/NTA (x)	0.6	0.6	0.6	0.6	0.5
EV/EBITDA (x)	18.6	2.2	3.1	2.2	1.6

Source: Kenanga Research

Fwd PBV Band	Fwd PBV Band





Source: Bloomberg, Kenanga Research

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Stock Ratings are defined as follows:

Stock Recommendations

OUTPERFORM : A particular stock's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of 3% to 10%.
UNDERPERFORM : A particular stock's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

Sector Recommendations***

OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of 3% to 10%.
UNDERWEIGHT : A particular sector's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

******Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.***

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KENANGA INVESTMENT BANK BERHAD (15678-H)
Level 12, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
Telephone: (603) 2172 2626 Website: www.kenanga.com.my Email: research@kenanga.com.my

Chan Ken Yew
Head of Research