

Recommendation: **HOLD**

Stock Code: 0083

Bloomberg: NVB MK

Price: MYR0.44

12-Month Target Price: MYR0.50

Date: April 2, 2008

Board: Mesdaq

Sector: Technology

GICS: Information Technology/Electronic Equipment
Manufacturers

Market Value - Total: MYR255.0 mln

Summary: Notion VTec (NVB) is a precision engineering specialist, making precision metal components for the hard disk drive (HDD), consumer electronics and industrial/automotive industries. It was listed on the Mesdaq Market of Bursa Malaysia in June 2005, and is currently proposing a 1-for-5 bonus issue and a transfer to the Main Board.

Analyst: Vincent Ng



Highlights

- NVB is an established manufacturer of components that go into HDDs sold by some of the world's biggest players. It has also diversified into non-HDD products such as digital camera and industrial/automotive components. HDD components, camera components and industrial/automotive parts account for about 50%, 30% and 20% of group revenue, respectively.
- NVB has done well in the past five years, recovering from a net loss of MYR1.2 mln in FY02, and surging to a net profit of MYR26.6 mln in FY07 (+61% CAGR). Order flow looks good, and the group is continuing to expand its capacity to cater for growth. We are forecasting earnings growth of 32% in FY08, driven by increased orders from its key HDD and camera customers, with a moderation to 17% in FY09.

Investment Risks

- Risks to our recommendation and target price include a downturn in the HDD industry that could lead to pricing pressures and negatively affect NVB's bottomline. Further rises in the price of aluminum could squeeze margins, as the higher costs are unlikely to be passed on to existing contracts. A long-term weakening of the US\$ against the MYR could also have an impact, in our view, as 90% of NVB's revenues are currently based in US\$.

Recommendation

- We have a Hold recommendation on NVB, primarily on valuation grounds. NVB's outlook appears fairly good. Despite growing concerns of an impending recession in the U.S. and slower growth in other major economies, NVB has not experienced any reduction in orders from its major customers. In fact, it continues to get new orders from existing customers and secure new customers. Its current proposal of a 1-for-5 bonus issue and a transfer to the Main Board is another positive. However, recent corrections in global equity markets have lowered valuations across the board, and we have re-rated NVB accordingly.
- Our 12-month target price of MYR0.50 (up 1 sen, following revisions to our earnings estimates) for NVB is based on an FY08 PER multiple of 8x, which is at a discount to Unisteel Technology (USTL SP, S\$1.29, Not Ranked), a market-leading maker of fasteners for HDDs and consumer electronics, which currently trades at 8.5x current year consensus earnings. It also includes our net DPS estimate. Our target PER for NVB is also at a discount to S&P Equity Research's target PER (effectively 9.3x) for Western Digital Corporation (WDC US, US\$27.94, Buy), which is NVB's single largest customer, accounting for about 35% of NVB's revenues.
- NVB prominently recognizes its Corporate Social Responsibility commitments in its 2007 annual report based on ethical values and respect for the community, employees, the environment, shareholders and other stakeholders.

Key Stock Statistics

FY Sep.	2007	2008E
Reported EPS (sen)	4.5	6.0
PER (x)	9.6	7.3
Dividend/Share (sen)	2.1	2.1
NTA/Share (MYR)	0.19	0.23
Book Value/Share (MYR)	0.19	0.23
No. of Outstanding Shares (mln)	586.3	
52-week Share Price Range (MYR)	0.35 - 0.63	
Major Shareholders:	%	
Choo Wing Hong	16.3	
Koperasi Permodalan Felda Berhad	15.6	
Choo Wing Onn	11.0	

* Stock deemed Shariah compliant by the Securities Commission

Per Share Data

FY Sep.	2005	2006	2007	2008E
Book Value (MYR)	0.15	0.17	0.19	0.23
Cash Flow (sen)	5.2	4.9	6.1	8.2
Reported Earnings (sen)	3.9	3.5	4.5	6.0
Dividend (sen)	2.0	2.0	2.1	2.1
Payout Ratio (%)	88.1	56.8	46.3	35.2
PER (x)	11.1	12.3	9.6	7.3
P/Cash Flow (x)	8.4	8.9	7.1	5.3
P/Book Value (x)	2.8	2.5	2.2	1.9
Dividend Yield (%)	4.6	4.6	4.8	4.8
ROE (%)	21.5	21.6	24.7	27.9
Net Gearing (%)	0.0	1.9	0.0	0.0

All required disclosures and analyst certification appear on the last two pages of this report. Additional information is available upon request.

Redistribution or reproduction is prohibited without written permission. Copyright © 2008 The McGraw-Hill Companies, Inc.

Page 1 of 5

Business

Notion VTec Bhd (NVB) is a precision engineering specialist, making precision metal components for the hard disk drive (HDD), consumer electronics and industrial/automotive industries. NVB also designs and fabricates tools, molds, jigs and fixtures, mainly for in-house use.

The group started operations in 1995 with four CNC (Computer Numerical Control) machines, and reported turnover of about MYR1 mln in its first year. Today, NVB has over 700 CNC machines and recorded turnover of MYR104.8 mln in the financial year to September 2007.

NVB was listed on the Mesdaq Market of Bursa Malaysia in June 2005. It issued 75 mln new shares at MYR0.63 each, raising proceeds of about MYR45 mln (net of listing expenses), of which MYR32 mln was to be spent on expanding production capacity. It is currently proposing a 1-for-5 bonus issue and a transfer to the Main Board.

The group is led by co-founders Mr. Thoo Chow Fah (executive chairman) and Mr. Choo Wing Hong (managing director), who are brothers-in-law. Together with Mr. Choo's brothers, they control about 44% of NVB.

NVB prominently recognizes its Corporate Social Responsibility commitments in its 2007 annual report based on ethical values and respect for the community, employees, the environment, shareholders and other stakeholders.

NVB is an established manufacturer of components (e.g. disk clamps and spacer rings) that go into HDDs sold by Western Digital Corporation (WDC) and Hitachi Global Storage Technologies (HGST). In a bid to reduce its dependency on the traditional computing HDD industry, NVB has been expanding its product range. It has diversified into non-HDD products such as digital camera and automotive components. To this end, NVB produces cam-barrels for Nikon (7731 JP, JPY2735, Not Ranked), and automotive and industrial components for the PMG Group. In addition, NVB recently won an order from Continental AG (CON GR, €64.99, Not Ranked) to make steel parts for electronic brake systems.

The sale of HDD components now accounts for about 50% of group revenue, down from 76% in FY04. Sale of camera components and industrial parts account for about 35% and 15% of revenue, respectively.

To cater for growth, NVB built a new 180,000 sq. ft. facility in 2006 to consolidate its operations and increase production capacity by 30%. The group's operations were previously spread over seven factories in Selangor. NVB is not done. It recently announced the acquisition of a 3-acre factory site, which should expand the group's capacity by another 50%.

The long-term outlook for the HDD industry is good, in our view. We expect demand for HDDs to be driven by growth in mobile computing and consumer electronics, more robust user applications, email and the Internet. Many non-PC applications for HDDs are emerging, e.g. portable media players, digital still and video cameras, digital video recorders, advanced TV set-top boxes, video game consoles. Furthermore, faster connections to the Internet and increased broadband capacity have encouraged increased downloads of text, video and audio content, expanding the market for storage. IT research firm IDC expects worldwide unit shipments to increase at a CAGR of 9% until 2011, with shipments of 2.5-inch drives rising at a CAGR of 18%.

The threat from flash memory, which has gained prominence due to its increasing use in cell phones, portable music players and ultra light notebook computers, is still small, in our opinion. This is because flash memory is no match for the disk drive in terms of cost and performance in the higher storage capacity categories. Flash is good for many read times but it is not good in a compute environment with lots of read and writes. Furthermore, a new technology called Perpendicular Magnetic Recording is being implemented and could increase the capacity of current hard disks by up five times, and keep the cost per byte of disk drives well below that of flash memory.

Earnings Outlook

NVB has done well in the past five years, recovering from a net loss of MYR1.2 mln in FY02, and surging to a net profit of MYR26.6 mln in FY07 (+61% CAGR). The loss in FY02 had been due to the slump in the global economy following 911 and the resulting glut in HDD inventories. In addition, NVB had just invested heavily (MYR8.5 mln) to expand its production facilities, for orders that did not come. Since then, NVB has grown on the back of order growth from its core HDD customers, and its successful penetration of non-HDD customers, primarily in the camera and automotive sectors.

We forecast NVB to growth its net profit by 32% in FY08, on the back of: (i) large orders for camera parts from Nikon, as it launches a slew of new models ahead of the 2008 Beijing Olympics, (ii) orders from WDC for the production of an 'anti-disk' HDD component, and (iii) initial production of steel parts for Continental AG's electronic brake systems.

We expect FY09 earnings growth to moderate to 17%, reflecting an expected reduction in global economic growth and a post-Olympics slowdown in orders from Nikon. But we believe there could be some upside surprises, in view of (1) possible ramp-up in orders from Continental and (2) the continuing trend of outsourcing out of developed economies.

These updated earnings estimates have been raised by 2% for FY08 and 12% for FY09, after factoring in orders from a new customer (Continental AG).

NVB has sold forward a significant portion of its US\$ contracts in the range of MYR3.35 to MYR3.45 per US\$, right up to September 2008, after being hurt by the US\$ depreciation against the MYR during FY07. This will help to offset NVB's currency exposure. 90% of its revenues are US\$-denominated.

Valuation

Our 12-month target price of MYR0.50 (up 1 sen, following revisions to our earnings estimates) for NVB is based on an FY08 PER multiple of 8x, which is at a discount to Unisteel Technology (USTL SP, S\$1.29, Not Ranked), a market-leading maker of fasteners for HDDs and consumer electronics, which currently trades at 8.5x current year consensus earnings. It also includes our net DPS estimate. Our target PER for NVB is also at a discount to S&P Equity Research's target PER (effectively 9.3x) for Western Digital Corporation (WDC US, US\$27.94, Buy), which is NVB's single largest customer, accounting for about 35% of NVB's revenues.

Recommendation: **HOLD**

Stock Code: 0083

Bloomberg: NVB MK

Price: MYR0.44

12-Month Target Price: MYR0.50

Date: April 2, 2008

Profit & Loss

FY Sep. / MYR mln	2006	2007	2008E	2009E
Reported Revenue	89.9	104.5	148.4	173.9
Reported Operating Profit	26.4	32.0	42.9	50.1
Depreciation & Amortization	-7.9	-9.3	-13.4	-15.7
Net Interest Income / (Expense)	-0.7	-0.4	-0.7	-0.5
Reported Pre-tax Profit	25.1	30.9	41.7	48.9
Effective Tax Rate (%)	16.3	11.8	15.0	15.0
Reported Net Profit	20.7	26.6	34.9	40.9
Reported Operating Margin (%)	29.3	30.6	28.9	28.8
Reported Pre-tax Margin (%)	27.9	29.6	28.1	28.1
Reported Net Margin (%)	23.0	25.5	23.5	23.5

Source: Company data, S&P Equity Research

Standard & Poor's Equity Research Services

Standard & Poor's Equity Research Services U.S. includes Standard & Poor's Investment Advisory Services LLC; Standard & Poor's Equity Research Services Europe includes Standard & Poor's LLC- London and Standard & Poor's AB (Sweden); Standard & Poor's Equity Research Services Asia includes Standard & Poor's LLC's offices in Hong Kong, Singapore and Tokyo, Standard & Poor's Malaysia Sdn Bhd, and Standard & Poor's Information Services (Australia) Pty Ltd.

Glossary

Strong Buy: Total return is expected to outperform the total return of the KLCI or KL Emas Index respectively, by a wide margin over the coming 12 months, with shares rising in price on an absolute basis.

Buy: Total return is expected to outperform the total return of the KLCI or KL Emas Index respectively, over the coming 12 months, with shares rising in price on an absolute basis.

Hold: Total return is expected to closely approximate the total return of the KLCI or KL Emas Index respectively, over the coming 12 months with shares generally rising in price on an absolute basis.

Sell: Total return is expected to underperform the total return of the KLCI or KL Emas Index respectively, over the coming 12 months and share price is not anticipated to show a gain.

Strong Sell: Total return is expected to underperform the total return of the KLCI or KL Emas Index respectively, over the coming 12 months by a wide margin, with shares falling in price on an absolute basis.

S&P 12 Month Target Price – The S&P equity analyst's projection of the market price a given security will command 12 months hence, based on a combination of intrinsic, relative, and private market valuation metrics.

Required Disclosures

All of the views expressed in this research report accurately reflect the research analyst's personal views regarding any and all of the subject securities or issuers. No part of analyst compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.

Additional information is available upon request.

Other Disclosures

This report has been prepared and issued by Standard & Poor's and/or one of its affiliates. In the United States, research reports are prepared by Standard & Poor's Investment Advisory Services LLC ("SPIAS"). In the United States, research reports are issued by Standard & Poor's ("S&P"), in the United Kingdom by Standard & Poor's LLC ("S&P LLC"), which is authorized and regulated by the Financial Services Authority; in Hong Kong by Standard & Poor's LLC which is regulated by the Hong Kong Securities Futures Commission, in Singapore by Standard & Poor's LLC, which is regulated by the Monetary Authority of Singapore; in Japan by Standard & Poor's LLC, which is regulated by the Kanto Financial Bureau; in Sweden by Standard & Poor's AB ("S&P AB"), in Malaysia by Standard & Poor's Malaysia Sdn Bhd ("S&PM") which is regulated by the Securities Commission, in Australia by Standard & Poor's Information Services (Australia) Pty Ltd ("SPIS") which is regulated by the Australian Securities & Investments Commission and in Korea by SPIAS, which is also registered in Korea as a cross-border investment advisory company.

The research and analytical services performed by SPIAS, S&P LLC, S&P AB, S&PM, SPIS and SPIAS LLC (Korea) are each conducted separately from any other analytical activity of Standard & Poor's.

A reference to a particular investment or security by Standard & Poor's and/or one of its affiliates is not a recommendation to buy, sell, or hold such investment or security, nor is it considered to be investment advice.

Standard & Poor's and its affiliates provide a wide range of services to, or relating to, many organizations, including issuers of securities, investment advisers, broker-dealers, investment banks, other financial institutions and financial intermediaries, and accordingly may receive fees or other economic benefits from those organizations, including organizations whose securities or services they may recommend, rate, include in model portfolios, evaluate or otherwise address.

CMDF-Bursa Research Scheme ("CBRS")

This report has been prepared by S&PM for purposes of CBRS administered by Bursa Malaysia Berhad, independent from any influence from CBRS or the subject company. S&P will receive total compensation of RM15,000 each year for each company covered by it under CBRS. For more information about CBRS, please visit Bursa Malaysia's website at: <http://www.bursamalaysia.com/website/bm/>

Disclaimers

This material is based upon information that we consider to be reliable, but neither S&P nor its affiliates warrant its completeness, accuracy or adequacy and it should not be relied upon as such. With respect to reports issued by S&P LLC-Japan and in the case of inconsistencies between the English and Japanese version of a report, the English version prevails. Neither S&P LLC nor S&P guarantees the accuracy of the translation. Assumptions, opinions and estimates constitute our judgment as of the date of this material and are subject to change without notice. Neither S&P nor its affiliates are responsible for any errors or omissions or for results obtained from the use of this information. Past performance is not necessarily indicative of future results.

This material is not intended as an offer or solicitation for the purchase or sale of any security or other financial instrument. Securities, financial instruments or strategies mentioned herein may not be suitable for all investors. Any opinions expressed herein are given in good faith, are subject to change without notice, and are only correct as of the stated date of their issue. Prices, values, or income from any securities or investments mentioned in this report may fall against the interests of the investor and the investor may get back less than the amount invested. Where an investment is described as being likely to yield income, please note that the amount of income that the investor will receive from such an investment may fluctuate. Where an investment or security is denominated in a different currency to the investor's currency of reference, changes in rates of exchange may have an adverse effect on the value, price or income of or from that investment to the investor. The information contained in this report does not constitute advice on the tax consequences of making any particular investment decision. This material is not intended for any specific investor and does not take into account your particular investment objectives, financial situations or needs and is not intended as a recommendation of particular securities, financial instruments or strategies to you. Before acting on any recommendation in this material, you should consider whether it is suitable for your particular circumstances and, if necessary, seek professional advice.

For residents of the U.K. This report is only directed at and should only be relied on by persons outside of the United Kingdom or persons who are inside the United Kingdom and who have professional experience in matters relating to investments or who are high net worth persons, as defined in Article 19(5) or Article 49(2) (a) to (d) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, respectively.

For residents of Malaysia. All queries in relation to this report should be referred to Alexander Chia, Desmond Ch'ng or Ching Wah Tam.

Recommendation and Target Price History

Date	Recommendation	Target Price
New	Hold	0.50
31-Mar-08	Hold	0.49
22-Nov-07	Strong Buy	0.60
31-Aug-07	Strong Buy	0.55
3-Jul-07	Buy	0.57
21-Nov-06	Strong Buy	0.57
11-Sep-06	Buy	0.46
31-May-06	Buy	0.94
22-Feb-06	Hold	0.78
28-Nov-05	Hold	0.83
2-Nov-05	Hold	0.80

