

Recommendation: **HOLD**Stock Code: **0083**Bloomberg: **NVB MK**Price: **MYR0.27**12-Month Target Price: **MYR0.40**Date: **May 13, 2009****Board:** Main**Sector:** Technology**GICS:** Information Technology/Electronic Components**Market Value - Total:** MYR190.0 mln

Summary: Notion VTec (NVB) is a precision engineering specialist, making precision metal components for the hard disk drive (HDD), consumer electronics and automotive industries. Following a 1-for-5 bonus issue, NVB's listing was transferred to the Main Board of Bursa Securities in August 2008.

Analyst: Desmond Ch'ng, ACA

Results Review & Earnings Outlook

- NVB's 2QFY09 (Sep) results were above expectations, with cumulative six months net profit of MYR11.9 mln (down 27.7% YoY) making up 70.8% of our previous full-year FY09 estimate. Performance at the operational level was generally in line and the surprise comes from lower-than-expected finance and tax charges.
- 1HFY09 revenue of MYR73.5 mln expanded 11.5% YoY, with growth being seen in both the HDD and camera components segment. Operating profit, however, was hit (down 30.4% YoY) by a combination of pricing pressure, hedging losses and a higher-than-expected number of goods being returned by customers.
- On a quarterly basis, 2QFY09 revenue is down 37.6% QoQ to MYR28.2 mln, dragged by a 63% QoQ drop in revenue from the camera component segment. On a YoY basis, 2QFY09 revenue is down 19.9% YoY while operating profit is down 46.6% YoY due to pricing pressure and lower economies of scale.
- Orders from NVB's customers are starting to trickle back in, particularly for the camera components and auto segments (which saw significant weakness in 1HFY09). We are thus upgrading our FY09 and FY10 net profit projections by 54.4% and 38.3% respectively to account for 2QFY09's better performance as well as the slight improvement in order flow. We now expect FY09 net profit to decline 21.4% YoY (vs. a 49.1% decline previously) to MYR25.9 mln.

Key Stock Statistics

FY Sep.	2008	2009E
Reported EPS (sen)	4.7	3.7
PER (x)	5.8	7.3
Dividend/Share (sen)	1.0	1.0
NTA/Share (MYR)	0.20	0.23
Book Value/Share (MYR)	0.20	0.23
No. of Outstanding Shares (mln)	703.6	
52-week Share Price Range (MYR)	0.16 - 0.35	
Major Shareholders:	%	
Choo Wing Hong	15.8	
Koperasi Permodalan Felda Berhad	15.0	
Choo Wing Onn	10.6	

* Stock deemed Shariah compliant by the Securities Commission

Recommendation & Investment Risks

- We maintain our Hold call on NVB and raise our 12-month target price to MYR0.40 (from MYR0.21 previously) due to the upgrade in earnings forecast as well as overall higher relative valuations.
- Our 12-month target price of MYR0.40 is based on an FY10 PER multiple of 8.0x (up from 5.6x previously, with the change due to overall higher benchmark valuations), which is derived from the average PER for HDD players and adding on the expected dividends over the next twelve months. While the upside warrants a more aggressive call on the stock, consumer demand remains weak globally, and this is likely to cap near-term interest in the stock, in our opinion.
- To help it combat falling revenues, NVB has put in place various cost-cutting measures such as shorter work weeks and reduced staff count and benefits – all of which should help keep the company profitable in FY09. With net debt standing at manageable levels (0.4x gearing or MYR38.9 mln as at end-2QFY09) and healthy cashflow levels (interest cover of 21.4x in FY08), we believe NVB is well-placed to ride out the current downturn.
- Risks to our recommendation and target price include a downturn in the HDD industry and a sharper-than-expected slowdown in the consumer electronics segment (such as cameras) that could affect demand for NVB's products. A weakening of the USD against the MYR could also have an impact, in our view, as 90% of NVB's revenue is USD-denominated.

Per Share Data

FY Sep.	2006	2007	2008	2009E
Book Value (MYR)	0.14	0.16	0.20	0.23
Cash Flow (sen)	4.1	5.2	7.3	6.2
Reported Earnings (sen)	2.9	3.8	4.7	3.7
Dividend (sen)	1.7	1.7	1.0	1.0
Payout Ratio (%)	56.8	46.3	21.4	27.2
PER (x)	9.2	7.1	5.8	7.3
P/Cash Flow (x)	6.6	5.2	3.7	4.4
P/Book Value (x)	1.9	1.7	1.4	1.2
Dividend Yield (%)	6.2	6.5	3.7	3.7
ROE (%)	21.6	24.7	25.9	17.3
Net Gearing (%)	1.9	0.0	23.6	4.9

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FY Sep. / MYR mln	2Q09	2Q08	% Change
Reported Revenue	28.2	35.3	-19.9
Reported Operating Profit	5.9	11.0	-46.6
Depreciation & Amortization	-4.6	-2.5	85.7
Net Interest Income / (Expense)	0.0	-0.6	NM
Reported Pre-tax Profit	5.2	10.7	-51.3
Reported Net Profit	4.6	7.6	-39.6
Reported Operating Margin (%)	20.8	31.2	-
Reported Pre-tax Margin (%)	18.4	30.2	-
Reported Net Margin (%)	16.3	21.6	-

Source: Company data

Profit & Loss

FY Sep. / MYR mln	2007	2008	2009E	2010E
Reported Revenue	104.5	146.1	148.4	167.1
Reported Operating Profit	32.0	42.2	34.1	45.1
Depreciation & Amortization	-9.7	-13.3	-17.8	-15.0
Net Interest Income / (Expense)	0.0	0.0	0.0	0.0
Reported Pre-tax Profit	30.9	40.8	30.9	41.2
Effective Tax Rate (%)	11.8	19.1	16.0	16.0
Reported Net Profit	26.6	32.9	25.9	34.5
Reported Operating Margin (%)	30.6	28.9	23.0	27.0
Reported Pre-tax Margin (%)	29.6	27.9	20.8	24.7
Reported Net Margin (%)	25.5	22.5	17.4	20.7

Source: Company data, S&P Equity Research

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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.

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Recommendation and Target Price History

Date	Recommendation	Target Price
New	Hold	0.40
20-Feb-09	Hold	0.21
13-Nov-08	Hold	0.22
18-Sep-08	Hold	0.29
2-Apr-08	Hold	0.42
31-Mar-08	Hold	0.41
22-Nov-07	Strong Buy	0.50
31-Aug-07	Strong Buy	0.46
3-Jul-07	Buy	0.48

