

Notion to up HDD production to 7m/mth

► Recommendation:

Buy

Target Price: RM3.63

By ECMLibra Investment Research (June 21)

New Klang Plant To Boost Earnings Growth

NOTION is building its third Klang plant with 150k sq ft of floor space which will mainly cater for 2.5" HDD components for Samsung and Alkana.

Production will ramp up from 1 million/month in FY10 to 7 million/month in FY12.

Hdd Segment To Be Key Growth Driver

Earnings from the rapid ramp up of orders from Samsung and Alkana will result in HDD segment overtaking the

► NOTION VTEC BHD				
	2009	2010F	2011F	2012F
REVENUE (RM mil)	172.7	258.8	390.2	508.4
NET PROFIT (RM mil)	35.9	54.8	82.5	107.4
EPS (sen)	25.5	32.3	48.5	63.2
P/E (x)	11.6	9.1	6.1	4.7

Camera segment as the biggest revenue contributor. For FY09, the HDD segment contributed 40% to overall revenue, but this is expected to hit 59% in FY12.

Riding The Uptrend In Tech Cycle

The strong rebound in worldwide PC shipments in 2010 after a relatively tepid 2009 points to greater demand for HDDs.

Worldwide PC shipments are forecast to grow 20% in 2010, mainly driven by mobile PCs.

SSD Unlikely To Pose A Threat

We believe concerns for Notion's prospects in the face of the SSD threat are still very much premature, as HDD is expected to remain the me-

dium of choice in the medium term as the significant pricing gap between SSD and HDD is expected to take considerable time to narrow.

Stability From HDD Business

Notion's increasing focus on the HDD business will besides providing growth, offer stability in times of economic downturn.

During the global economic downturn in 1QCY09, it was the HDD segment which remained stable when orders for the camera and automotive segment evaporated.

Endorsement From Nikon

The entry of Nikon as a strategic investor serves as an endorsement from Nikon, one of the largest camera makers, on Notion's camera barrel manufacturing operations.

We derive a fair value of RM3.63 for Notion by ascribing a PE multiple of 9x mid FY10/11 EPS of 40.4 sen. We believe a PE multiple of 9x is fair as Notion has historically traded at an average forward PE multiple of 8.6x.

Based on a price to earnings growth (PEG) ratio comparison, valuations are very undemanding at a PEG ratio of only 0.34. Management's guidance is for a minimum dividend payout of 20%, which implies dividend yields of 2.2% in FY10.

Background

Notion VTEC Bhd (Notion) is among the few large scale manufacturers of high precision components in Malaysia mainly for the hard disk drive (HDD), camera and automotive industries.

Notion's business model is premised upon high volume manufacturing of precision parts supplied to leading multinational companies based on an efficient low-cost structure.