

4Q FY Sept 2006 results

Notion VTec

- A strong set of results, in line with forecasts
- Strongest quarter ever in 4QFY06
- Margins improved despite higher metal costs, new plant
- Raising FY07 forecast by 10%, maintain BUY

BUY

Price
RM0.415

Market capitalization
RM243 million

Board
Mesdaq

Sector
Technology

Stock code
0083

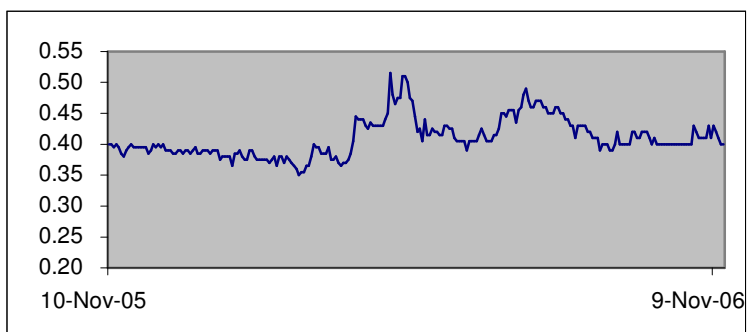
Analyst
Kevin Khoo

Key stock statistics	FYSept06	FYSept07E
EPS (sen)	4.2	5.0
P/E (x)	9.9	8.3
DPS (sen)	2.0	2.5
NTA/share (RM)	0.17	0.20
Issued capital (mil)	586.3 (10 sen par)	
52-week price range	36.0 – 51.5 sen	

Major shareholders (%)

Choo Wing Hong	22.2%
Thoo Chow Fah	16.6%
Choo Wing Onn	16.6%

Share Price Chart



FY Sept 2006 final results highlights:

Year end Sept (RM mil)	FY06	FY05	% chg
Turnover	90.2	79.3	13.8
Pre-tax profit	28.2	22.3	26.2
Tax	(3.2)	(3.5)	(6.5)
Minority interests	(0.4)	(0.2)	81.3
Net profit	24.5	18.6	31.6
EPS (sen)*	4.2	3.2*	
Operating margin (%)	37.4	32.0	
Pre-tax margin (%)	31.2	28.1	
Net margin (%)	27.2	23.5	

* adjusted for 1-for-1 bonus issue, based on 586.3 million shares

Earnings review

Notion VTec posted a strong set of full year FY Sept 2006 and 4Q FY Sept 2006 results, with its best quarterly profits ever.

The quarterly pre-tax profit of RM8.2 million for 4QFY06 surpassed the previous high of RM7.4 million in 2QFY06, and was up a significant 37% from the previous quarter, and 46% from a year ago.

Notion's full year results were almost spot on with our forecast at the pre-tax profit level (coming in at RM28.2 million vs our forecast of RM28.7 million), while net profit came in 7.9% higher due to a lower than expected tax rate.

For 4QFY Sept 2006, Notion posted revenue of RM28.1 million, up 36.5% from RM20.6 million a year ago, and 25% higher than the previous quarter's RM22.4 million. For the full year, Notion's revenue grew 13.8% to RM90.2 million, of which 31% was accounted for in the final quarter.

The sharp increase in revenue in the last quarter underscored the impact of its new factory and expansion exercise. Notion shifted into its new factory in Meru, Klang, in May 2006. This doubled total floor space from 90,000 sq ft to 200,000 sq ft and alleviated previous capacity constraints.

For 4QFY06, pre-tax profit rose 46% y-y to RM8.2 million, while full year pre-tax profit increased 26.2% y-y to RM28.2 million. A tax write-back of RM0.5 million helped boosted 4QFY06 net profit to RM8.6 million, up 59.2% y-y.

For the full year, net profit rose 31.6% to RM24.5 million, or 4.2 sen per share, helped in part by a lower effective tax rate of 11.5% vs 15.5% in FY05.

We estimate overall operating profit margins improved from 32% in FY05 to 37.4% in FY06, helped by a shift towards higher value non-hard disk drive (non-HDD) products, plus higher margins from its core HDD segment after the cessation of low-margin sales to Maxtor earlier in the year.

Approximately 60% of sales were for HDD products and 40% for non-HDD products.

The rise in profitability was commendable given that FY06 was a fairly challenging year, with additional cost pressures from its plant relocation exercise and a sharp surge in aluminium prices during the global commodities rally that lasted until mid-May 2006.

Moreover, the ringgit also strengthened periodically – particularly in the second quarter of the year, when it reached a peak of RM3.58 per USD in early May, and again recently.

At end Sept 2006, the company had net cash of RM1.7 million, down from RM11.5 million in June 2006 and RM19 million in Sept 2005 due to spending on its new plant and purchase of machinery. With all of its major capital expenditure already spent, we expect net cash to build up again next year.

Earnings outlook

We are raising our FY Sept 07 forecast by 10%. We expect net earnings to rise 19% per year in FY07-08, with EPS of 5 sen in FY07 and 6 sen in FY08.

Notion's prospects remain positive, as it continues to ride the consumer electronics boom, and benefit from continuous growth in new products and technologies for HDD-embedded products, as well as the miniaturization of HDDs. Its new plant places it in a good position to increase its order-book.

In the non-HDD components market, Notion continues to grow its digital camera parts business, with multi-nationals like Canon, Sony, Nikon, Panasonic and JVC under its wings. It is pursuing another major SLR camera maker and is making inroads into the automotive parts business.

Metal prices corrected sharply after the global slump in commodity markets in mid-May 2006, but have started rising again. Aluminium prices fell from over US\$3,200 to around US\$2,500 per tonne, but have climbed back to around US\$2,800 per tonne on expectations of strong demand from China.

Its Bumiputra special issue has been scaled back from 103.5 million shares to 30 million shares, which should be less dilutive for existing shareholders.

We continue to like Notion's favourable growth prospects and undemanding P/E valuations of 8.3 times FY07 and 7 times FY08 earnings. Net dividend yield is also attractive at 4.8% for FY06 and 6% for FY07-8. We maintain our **BUY** recommendation.

Profit & Loss Analysis

Year end Sept (RM mil)	2005	2006	2007E	2008E
Turnover	79.3	90.2	108.3	125.6
Operating profit	25.4	33.7	41.9	48.0
Depreciation	(4.4)	(7.8)	(8.0)	(8.0)
Interest income/(exp)	1.3	2.3	0.7	2.2
Pre-tax profit	22.3	28.2	34.6	42.2
Tax	(3.5)	(3.2)	(4.8)	(6.8)
Minority interests	(0.2)	(0.4)	(0.5)	(0.5)
Net profit	18.6	24.5	29.3	35.0
Operating margin (%)	32.0	37.4	38.7	38.2
Pre-tax margin (%)	28.1	31.2	32.0	33.6
Net margin (%)	23.5	27.2	27.0	27.8
Effective tax rate (%)	15.5	11.5	14.0	16.0

Per Share Data

Year end Sept	2005	2006E	2007E	2008E
EPS (sen)	3.2	4.2	5.0	6.0
P/E (x)	13.1	9.9	8.3	7.0
Dividend (sen)	2.0	2.0	2.5	2.5
Net yield (%)	4.8	4.8	6.0	6.0
Payout ratio (%)	63	48	50	42
NTA (RM)	0.15	0.17	0.20	0.23
Price/ NTA (x)	2.7	2.4	2.1	1.8
Cashflow/share (sen)	4.0	5.6	6.4	7.4
Price/Cashflow (x)	10.5	7.4	6.4	5.6
Gearing (%)	Net cash	Net cash	Net cash	Net cash
ROE (%)	20.7	24.2	25.3	25.7



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