

# Progress on Notion VTech's new Klang plant on track

▶ NOTION VTEC BHD				
	2009	2010F	2011F	2012F
<b>REVENUE</b> (RM mil)	172.7	258.8	390.2	508.4
<b>NET PROFIT</b> (RM mil)	35.9	52.2	77.2	102.8
<b>ADJ EPS</b> (sen)	25.5	33.6	49.7	66.1
<b>P/E</b> (x)	10.7	8.1	5.5	4.1

▶ **Recommendation: Buy**  
**Target Price: RM3.74**

By ECMLibra Investment Research (July 26)

WE hosted a corporate luncheon recently for Notion VTEC Bhd, which was attended by a good crowd of buy-side analysts and fund managers.

The management gave some good insights and outlook for the HDD (hard disk drive) business, which will be its main growth driver in the coming years.

We also gathered that Notion will not likely to go ahead with its private placement of new shares.

We understood from the management that due to pricing issues, debt financing

will be used instead.

Nonetheless, the 1-for-5 free warrants exercise will proceed as planned.

The management believes the 2.5-inch HDD segment is where growth is due to the explosive growth of data, the high growth of external HDDs and the high growth of mobile PCs versus desktop PCs.

Orders for Norton's HDD business have been very positive so far although there was a slowdown in June. It is difficult to tell whether the slowdown is simply temporary.

Also, Notion is working to bring down the rejection rates at its new Klang plant

from between 10% and 12% to 5%.

In the interim, margins may be affected.

We raise our FY10-12 EPS forecasts by 3%-5% to account for the aborted private placement, the higher interest costs and the dilution from the in-the-money warrants.

Hence, we revise our TP from RM3.63 to RM3.74 based on an unchanged PE multiple of 9x on mid-FY10/11 earnings.

We are positive that progress on the new Klang plant is on track and we believe once quality issues are ironed out, margins should improve and earnings growth should accelerate.