

HLIB Research

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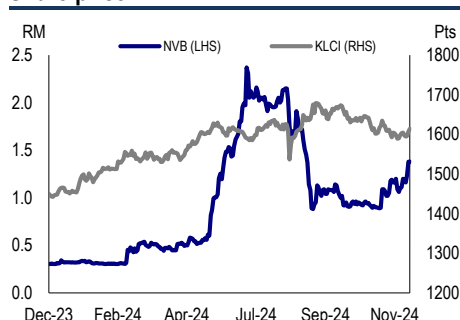
BUY (Maintain)

Target Price: RM2.98
Previously: RM2.98
Current Price: RM1.36

Capital upside	119.1%
Dividend yield	0.0%
Expected total return	119.1%

Sector coverage: Technology

Company description: Notion manufactures precision machined components for data storage, EMS and automotive industries.

Share price


Historical return (%)	1M	3M	12M
Absolute	52.0	33.3	345.9
Relative	52.4	37.4	300.0

Stock information

Bloomberg ticker	NVB MK
Bursa code	0083
Issued shares (m)	525
Market capitalisation (RM m)	714
3-mth average volume ('000)	9,787
SC Shariah compliant	Yes
F4GBM Index member	No
ESG rating	★★★

Major shareholders

Choo Wing Hong	7.2%
Choo Wing Onn	6.4%

Earnings summary

FYE Sept	FY24	FY25f	FY26f
Adj PATAMI (RM m)	56.3	60.9	67.6
Adj EPS (sen)	10.9	11.7	13.0
Adj PER (x)	15.6	11.6	10.4

Notion VTec

Growth drivers intact

We came away from Notion's briefing with an upbeat outlook. As anticipated, FY25 will primarily be driven by the EMS and Automotive segments, with the former serving as the key growth driver. The group is currently ramping up mass production for two additional motor components and targeting the supply of larger motor components for Customer D's vacuum cleaners. Meanwhile, the automotive segment is set to benefit from the commencement of two new projects, alongside stronger sales from existing customers. The HDD segment is projected to deliver steady growth, supported by a 15% capacity expansion in the aluminium spacer line. Maintain our BUY call with an unchanged TP of RM2.98.

Notion hosted its 4QFY24 results briefing with the following key takeaways:

EMS is expected to be the major growth driver for FY25, primarily due to the continued ramp-up in the motor component business. Following the successful mass production of the motor casing for Customer D's haircare products, the group is now in the process of mass-producing two additional motor components. For the uninitiated, motor components are divided into three main parts – shaft, housing, and impellers. Shaft has the lowest ASP, followed by impeller, while housing commands the highest. As a direct supplier of motor components to Customer D, Notion is gaining market share from competitors, driven by its competitive pricing and the superior performance of its full aluminium solutions, which outperforms the plastic components traditionally used in the motor's inner parts. Plastic components, being softer, are prone to damage under high-speed RPM fluctuations, while full aluminium parts offer enhanced durability. In addition to supplying motor components for haircare products, the group is targeting larger motor components used in Customer D's vacuum cleaners, aiming to secure all three parts. If successful, along with the mass production of two additional motor components, this could boost EMS revenue by an additional 25-30%. The group has allocated a capex of RM20-30m in FY25 to support the growth of its motor component business, with production primarily based at its Klang and Johor hubs.

Automotive. After recording modest growth in FY24 (+6.8% YoY), the automotive segment is poised for stronger performance in FY25, driven by two key factors: (i) the commencement of two new projects; and (ii) increased orders from its largest customer. The group will begin supplying solenoid valves to a South Korean client and car sensor mounts to a Vietnamese client associated with a prominent EV manufacturer in early 2025. These new projects are expected to contribute approximately RM2m and RM1.5m in monthly sales, respectively. Meanwhile, management is conservatively projecting single-digit growth in sales from its largest automotive customer, citing the ongoing downsizing trends among European automakers due to heightened competition from Chinese manufacturers. The group also notes that the anticipated shift in sales away from China to avoid tariff taxes has yet to fully materialize. With the recent US presidential election win by Trump and given his hard-line stance on China, this trend could accelerate and potentially exceed management's conservative projection.

HDD. The surging demand for data storage, fuelled by advancements in AI and machine learning, has driven HDD manufacturers to accelerate the development of higher-capacity drives. In response, Notion is intensifying its R&D efforts on stainless steel disk clamps and glass spacers, as aluminium components are limited to supporting HDDs with capacities of up to 40TB – only marginally higher than the current market's 32TB maximum. The shift to HAMR technology from existing SMR technology, which uses lasers to heat the recording media, necessitates the adoption of materials like stainless steel, glass, or titanium, as aluminium's malleability under high heat compromises HDD performance. As a result, the group has scaled back its aluminium spacer production plans, revising its FY25 capacity expansion target from 40m to approximately 19.5m spacers per month, compared to the current output of 17m. Positively, Notion has

already delivered glass component samples to customers and anticipates the commercial launch of glass spacers and HAMR-enabled HDDs by 2026.

Forecast. Unchanged.

Reiterate **BUY** with an unchanged **TP of RM2.98**, pegged to 25x on mid-CY26F fully diluted earnings. We believe the company is well positioned to capitalise on: (i) increasing adoption of AI; (ii) advancements in disk storage capacity; (iii) global manufacturing diversification; and (iv) revival of E&E sector.

Financial Forecast

All items in (RM m) unless otherwise stated

Income statement

FYE 30 Sep (RMm)	2023A	2024A	2025F	2026F	2027F
Revenue	345.3	488.0	554.3	589.5	611.5
COGS	(353.7)	(402.6)	(448.9)	(476.3)	(492.9)
EBITDA	(8.5)	85.4	105.3	113.2	118.6
D&A	(31.0)	(24.3)	(15.7)	(15.7)	(15.6)
EBIT	(39.5)	61.0	89.6	97.5	103.0
Net finance income	(2.7)	(1.5)	(2.6)	(2.6)	(2.3)
Associates	0.0	0.0	0.0	0.0	0.0
PBT	(42.1)	59.5	87.0	94.9	100.7
Tax	(2.9)	(14.4)	(26.1)	(27.3)	(29.0)
Net profit	(45.0)	45.1	60.9	67.6	71.7
MI	0.0	0.2	0.0	0.0	0.0
PATAMI	(45.0)	45.3	60.9	67.6	71.7
Exceptionals	27.0	11.0	0.0	0.0	0.0
Adj PATAMI	(18.0)	56.3	60.9	67.6	71.7
Basic shares (m)	518.2	518.2	518.2	518.2	518.2
Rep EPS (sen)	(8.7)	8.7	11.7	13.0	13.8
Adj EPS (sen)	(3.5)	10.9	11.7	13.0	13.8
Adj FD EPS (sen)	(3.5)	10.9	11.0	12.2	12.9

Balance sheet

FYE 30 Sep (RMm)	2023A	2024A	2025F	2026F	2027F
Cash	49.7	61.4	50.4	93.5	144.3
Receivables	110.6	151.5	182.2	193.8	201.1
Inventories	53.3	67.1	73.8	78.3	81.0
Investment	0.0	0.0	0.0	0.0	0.0
PPE	279.3	282.5	298.4	297.7	297.1
Intangibles	0.0	0.0	0.0	0.0	0.0
Other assets	18.9	17.5	18.9	18.9	18.9
Total assets	511.8	580.1	623.7	682.2	742.3
Payables	49.0	56.2	73.8	78.3	81.0
ST borrowings	19.5	17.3	19.5	19.5	19.5
LT borrowings	13.8	11.1	13.8	13.8	13.8
Other liabilities	48.5	72.1	48.5	48.5	48.5
Total liabilities	130.8	156.7	155.6	160.1	162.8
S/H funds	381.0	423.1	468.1	522.2	579.5
MI	0.0	0.3	0.0	0.0	0.0
Total S/H equity	381.0	423.4	468.1	522.2	579.5
Liabilities & S/H funds	511.8	580.1	623.7	682.2	742.3

Cash Flow Analysis

FYE 30 Sep (RMm)	2023A	2024A	2025F	2026F	2027F
PBT	(42.1)	59.5	87.0	94.9	100.7
Tax paid	0.0	0.0	(26.1)	(27.3)	(29.0)
WC changes	37.0	(45.6)	(31.2)	(11.6)	(7.3)
Other	68.4	29.3	15.7	15.7	15.6
CFO	63.2	43.2	45.3	71.7	80.1
CAPEX	(13.3)	(26.9)	(25.0)	(15.0)	(15.0)
Acquisitions	0.0	0.0	0.0	0.0	0.0
Other	4.6	3.6	0.0	0.0	0.0
CFI	(8.7)	(23.3)	(25.0)	(15.0)	(15.0)
Dividend	0.0	(5.2)	(12.2)	(13.5)	(14.3)
Debt changes	(5.8)	(6.1)	0.0	0.0	0.0
Other	(16.5)	5.1	0.0	0.0	0.0
CFF	(22.3)	(6.2)	(12.2)	(13.5)	(14.3)
Net cashflow	32.2	13.8	8.2	43.2	50.7
FCF	49.9	16.3	20.3	56.7	65.1

Quarterly financial summary

FYE 30 Sep (RMm)	4Q23	1Q24	2Q24	3Q24	4Q24
Revenue	94.0	93.8	111.6	135.5	147.1
COGS	(123.4)	(74.6)	(87.0)	(105.1)	(136.0)
EBITDA	(29.4)	19.2	24.6	30.4	11.1
D&A	(7.7)	(6.5)	(5.6)	(6.0)	(6.2)
EBIT	(37.1)	12.7	19.0	24.4	4.9
Net finance income	(0.6)	0.4	(1.2)	(0.4)	(0.3)
Associates	0.0	0.0	0.0	0.0	0.0
PBT	(37.7)	13.1	17.8	24.0	4.6
Tax	2.3	(5.1)	(3.7)	(4.1)	(1.5)
Net profit	(35.4)	8.0	14.0	20.0	3.0
MI	0.0	0.0	0.0	0.2	0.0
PATAMI	(35.4)	8.0	14.0	20.2	3.1
Exceptionals	29.5	(0.2)	(2.4)	(0.7)	14.4
Adj PATAMI	(6.0)	7.8	11.6	19.4	17.5
Basic shares (m)	518.2	518.2	518.2	518.2	518.2
Rep EPS (sen)	(6.8)	1.5	2.7	3.9	0.6
Adj EPS (sen)	(1.1)	1.5	2.2	3.7	3.4
Adj FD EPS (sen)	(1.1)	1.5	2.2	3.7	3.4

Valuation Ratios

FYE 30 Sep (RMm)	2023A	2024A	2025F	2026F	2027F
PER (x)	(15.7)	15.6	11.6	10.4	9.8
Adj PER (x)	(39.1)	12.5	11.6	10.4	9.8
FD PER (x)	(39.1)	12.5	12.3	11.1	10.5
DPS (sen)	0.0	2.0	2.3	2.6	2.8
Net DY (%)	0.0	1.5	1.7	1.9	2.0
Book/share (sen)	73.5	81.6	90.3	100.8	111.8
P/book (x)	1.8	1.7	1.5	1.3	1.2
FCF/share (sen)	9.6	3.1	3.9	10.9	12.6
FCF yield (%)	7.1	2.3	2.9	8.0	9.2
Mkt cap	704.8	704.8	704.8	704.8	704.8
Net cash(debt)	16.4	33.0	17.1	60.2	111.0
EV	688.4	671.8	687.7	644.6	593.8
EV/EBITDA (x)	(81.1)	7.9	6.5	5.7	5.0
ROE (%)	(11.8)	10.7	13.0	12.9	12.4
Current ratio (x)	3.1	3.8	3.3	3.7	4.2
Quick ratio (x)	2.3	2.9	2.5	2.9	3.4
Interest cover (x)	(13.6)	30.8	31.0	33.7	35.6

Other Ratios

FYE 30 Sep (RMm)	2023A	2024A	2025F	2026F	2027F
Sales growth (%)		41.3	13.6	6.4	3.7
EBITDA growth (%)		(1,105.5)	23.4	7.5	4.8
EBIT growth (%)		(254.7)	46.8	8.8	5.6
PBT growth (%)		(241.2)	46.2	9.1	6.1
Net profit growth (%)		(200.1)	35.1	11.0	6.1
Adj PATMI growth (%)		(412.5)	8.1	11.0	6.1
EBITDA margin (%)	(2.5)	17.5	19.0	19.2	19.4
EBIT margin (%)	(11.4)	12.5	16.2	16.5	16.8
PBT margin (%)	(12.2)	12.2	15.7	16.1	16.5
Net profit margin (%)	(13.0)	9.2	11.0	11.5	11.7
Adj PATAMI margin (%)	(5.2)	11.5	11.0	11.5	11.7
Net debt/equity (%)	Cash	Cash	Cash	Cash	Cash
CAPEX/sales (%)	3.9	5.5	4.5	2.5	2.5

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BUY	Expected absolute return of +10% or more over the next 12-months.
HOLD	Expected absolute return of -10% to +10% over the next 12-months.
SELL	Expected absolute return of -10% or less over the next 12-months.
UNDER REVIEW	Rating on the stock is temporarily under review which may or may not result to a change from the previous rating.
NOT RATED	Stock is not or no longer within regular coverage.

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OVERWEIGHT	Sector expected to outperform the market over the next -12 months.
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