

Autron – Turning Around With A Helping Hand - A\$0.185

Autron is the leading distributor of SMT equipment in Asia. A fund injection by Temasek coupled with an exciting China-oriented strategy is expected to lead to a remarkable profit turnaround this year. If executed well, the stock is only trading at 6x forward PE and boasts an interesting China consumption & outsourcing angle. Our fair value for Autron is A\$0.25.

Autron will raise ~S\$10m by placing 59m shares to Temasek at ~S\$0.175 each.

- This will give Temasek a 10% stake in the company.
- S\$3m will be used to expand its distribution & contract mfg business in China.
- S\$7m will be used to expand its equipment reconditioning business.
- As these venture are not immediately profitable, this placement will be initially dilutive but will be a great help to Autron's cashflow & ability to realise its business potential.
- With this injection, Autron gearing is expected to drop from 32% to low-single digit.
- We view the placement as a positive development for the company.

A turnaround in the making

- The industry slowdown coupled with a change in principal impacted Autron's sales last year.
- Profits were further dampened by high overhead from its new acquisitions in Taiwan & China, restructuring/retrenchment charges and exceptionally high debt provisions.
- This caused FY01 net profits of A\$18m to turn into net loss of A\$20m in FY02.
- However, its clients have qualified the new principal & demand is returning, esp from Taiwanese manufacturers who are expanding in China & expansions by Chinese enterprises.
- With lower costs post restructuring and without the one-off charges (and a potential debt write-back), Autron is expected to turn in S\$17m net profits this year.

Underlying distribution business has grown stronger structurally.

- Note that after changing principals, Autron is no longer a mere distributor.
- Philips, the new principal, is ceding maintenance to Autron, which will raise recurring revenue.
- In addition, Autron now controls the integration software, which will improve its margins.
- As such, Autrons' value-add and bargaining power in the value-chain has increased.
- Demand is strong, thanks to orders from Chinese enterprises such as Haier & Huawei with further support from its Taiwanese (HonHai, Asustek) & MNC (Flextronics, Motorola) expansions in China.
- Sales are expected to jump 37% this year (low base effect) & grow 20-25% thereafter.

Sales of reconditioned lines will provide new revenue streams.

- Autron is also undertaking the reconditioning & selling used SMT lines.
- Due to closures in US/Europe, old SMT lines can be purchased cheaply from auction houses.
- Autron's own engineers will recondition these lines, which will then be sold to small contract manufacturers in China & MNCs that do not wish to invest in new lines.
- Started 1-2 yrs ago, this business is taking off & will contribute to 10% of sales.

Autron also benefiting from equipment outsourcing

- SMT equipment makers are looking to outsource their production to Asia.
- However, this has not been done before and there are no such supporting structure.
- Autron bought IC Equipment (which produces back-end semiconductor equipment) & will utilise its skills to manufacture SMT machines for its principals in S'pore/China (ala Norelco).
- Autron also plans to make its own low-end SMT equipment (to complement its principal's products).
- Admittedly execution risks are high & track record is nil, but the strategy looks interesting.

There are execution risks but these have not been priced in

- For Autron to return to profitability & sustain decent growth, good execution is paramount.
- Within its core distribution business, Autron has good industry track record. However, margin pressure is one area where there could be downside surprises.
- As for the new ventures, there are no track record thus far. However, the recond business is already marginally profitable while expected losses at IC Equipment are not huge.
- More importantly, none of these potentials have been priced into the stock.
- Since its derating last year, share price has not recovered (unlike other S'pore small cap techs).
- Using about 10-11x forward PE, our fair value for Autron is A\$0.25.

Figure 1

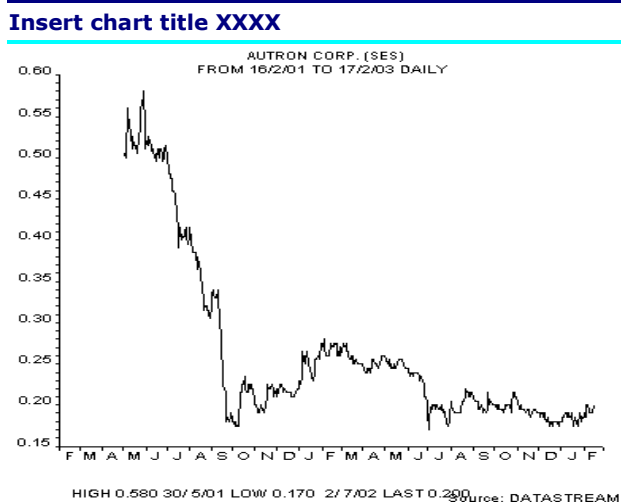
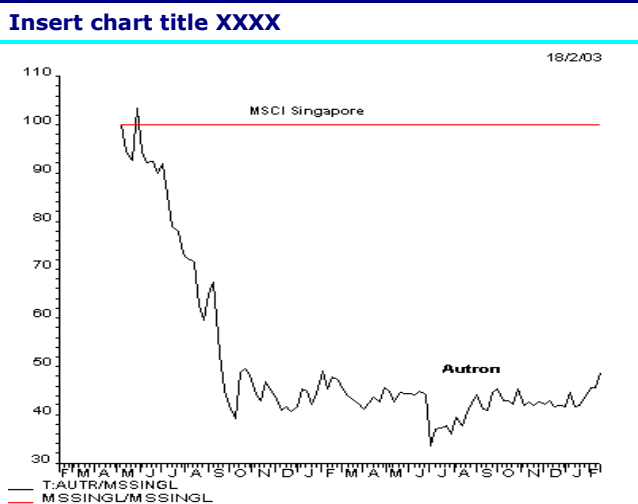


Figure 2



Source: CLSA Emerging Markets

Triggers for re-rating

- Next result (1H03 to be released in March) will show already a turnaround in profits due to the cost savings & the absence of one-off charges.
- Subsequent result should reflect stronger contribution from the recond business.
- Next year's result will see contribution from equipment manufacturing.
- This placement to Temasek is also a positive development to the company.

Note :

SMT lines are used by manufacturers of electronic products such as handset, PC motherboards, printers, household appliances to pick-&-place components onto PCB boards. Major customers who buy SMT lines from Autron would be contract manufacturers such as Flextronics, Solectron, Honhai, Asustek as well as OEMs with in-house manufacturing facilities such as Motorola, Haier and Huawei.

Note: In the interests of timeliness, this document was not edited.

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Projections for Autron @ S\$0.185

YE 30 June (\$m)	2001	2002	2003F	2004F	2005F	Comment
Total Sales	170.2	152.6	209.6	255.8	298.9	Pls see below for breakdown
COGS	(138.8)	(124.1)	(170.9)	(208.5)	(242.0)	
Depreciation	(0.8)	(1.3)	(1.8)	(2.1)	(2.3)	Capex to rise due to mfg activities.
Amortisation	(1.2)	(2.9)	(2.9)	(2.9)	(2.9)	Goodwill from earlier acquisitions.
Gross Profit	29.5	24.2	34.0	42.4	51.7	Pls see below for breakdown
Other Income	15.5	7.8	5.5	4.9	4.4	Leasing commissions. To taper off.
Selling & Distribution	(2.9)	(3.9)	(4.2)	(5.1)	(6.0)	
General &	(13.2)	(25.5)	(12.6)	(14.8)	(16.7)	FY02 included S\$10-11m provisions.
Salaries	(7.6)	(13.1)	(8.4)	(9.5)	(10.5)	Reduced headcount in SE Asia.
Forex	3.9	(3.2)	0.0	0.0	0.0	
Other Expenses	(2.4)	(4.3)	(3.1)	(3.3)	(3.6)	
Operating Profit	22.9	(18.0)	11.2	14.6	19.4	
Finance Costs	(1.6)	(1.4)	(0.9)	(0.5)	(0.3)	Falling with improving cashflow
Others	(0.0)	0.0	9.0	0.0	0.0	Write back of debt provisions.
Pretax Profit	21.2	(19.4)	19.3	14.1	19.1	
Taxation	(3.3)	(0.7)	(2.1)	(2.8)	(3.8)	
Minorities	(0.0)	(0.3)	0.0	0.0	0.0	
Net Profit	18.0	(20.4)	17.3	11.2	15.3	
Share Capital (m shrs)	516.4	533.8	596.4	655.8	655.8	Share cap rose with the Temasek placement.
EPS (cts)	3.5	(3.8)	2.9	1.7	2.3	
EPS Growth (%)	(44.2)	(209.9)	(175.7)	(40.7)	35.7	If well executed, there is 10-20% upside to our FY04
PER (x) @ S\$0.185	5.3	(4.8)	6.4	10.8	7.9	Forecasts.
Gross Margin (%)	17.3	15.9	16.2	16.6	17.3	
Operating Margin (%)	13.4	(11.8)	5.3	5.7	6.5	
Net Margin (%)	10.6	(13.4)	8.2	4.4	5.1	
Turnover Growth (%)	310.8	(10.4)	37.4	22.0	16.9	
Pretax Growth (%)	167.8	(191.4)	(199.6)	(27.2)	35.7	
Net Profit Growth (%)	195.2	(213.6)	(184.6)	(34.8)	35.7	

YE 30 June (\$m)	2001	2002	2003F	2004F	2005F	Comment
SMT Equipment	110.7	91.6	125.0	143.8	161.0	Only imputed 12-15% growth. Upside depends on
Components & Services	51.1	50.4	55.4	63.7	71.3	demand from Taiwanese & Chinese customers.
Consumables	8.5	10.7	11.2	12.3	13.6	Selling of spare parts.
Software (AutronCam)	0.0	0.0	3.0	5.0	8.0	Hoping to sell software & provide consultation.
Reconditioned Lines	0.0	0.0	15.0	21.0	30.0	Has 8 customers in 2003, expect S\$20m sales.
Equipment Manufacture	0.0	0.0	0.0	10.0	15.0	IC Eqpt has underlying sales of S\$9m already.
Total Revenue	170.3	152.6	209.6	255.8	298.9	Should do S\$80m in 1H03 on SMT related alone.
SMT Equipment	15.5	10.5	15.6	17.3	18.5	
Components & Services	12.3	11.6	12.7	14.7	16.4	
Consumables	1.7	2.1	2.0	2.2	2.4	
Software (AutronCam)	0.0	0.0	0.6	1.5	2.6	
Reconditioned Lines	0.0	0.0	3.0	5.3	9.0	
Equipment Manufacture	0.0	0.0	0.0	1.5	2.7	Margin upside could come from software and
Gross Profit (\$m)	29.5	24.2	34.0	42.4	51.7	recond lines.
SMT Equipment	14.0	11.5	12.5	12.0	11.5	Margins impacted in 2002 due to transition. To recover in
Components & Services	24.0	23.0	23.0	23.0	23.0	Margins have been quite stable.
Consumables	20.0	20.0	18.0	18.0	18.0	
Software (AutronCam)	-	-	20.0	30.0	33.0	Mgmt guiding for gross margins of 40-50%.
Reconditioned Lines	-	-	20.0	25.0	30.0	Mgmt guiding for 30% gross margins.
Equipment Manufacture	-	-	-	15.0	18.0	Norelco is getting 40% gross margins.
Gross Margin (%)	17.3	15.9	16.2	16.6	17.3	