

Autron Corporation (AAT SP)
---Initiate coverage with OUTPERFORM
Turnaround story for Asia’s largest capital equipment distributor

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- We are initiating coverage on Autron Corporation with an OUTPERFORM rating and a 12-month target price of S\$0.30, representing 57% potential upside from current levels. We believe that FY03 will see a big turnaround in Autron's profitability.
- To increase profit margins and increase value-add, Autron, in addition to distribution, will be producing capital equipment components for its key principals, Assembleon (not listed) and Speedline (not listed).
- Autron has restructured its loss-making SEA operations to address the fast-growing and highly profitable reconditioned machinery market.
- Utilising its extensive distribution network, Autron is well-positioned to supply to key Chinese and Taiwanese manufacturers setting up production bases in China, we believe.
- Currently trading at a P/E of 7.1x FY03E and 5.9x FY04E earnings, we believe that Autron offers investors an indirect way to play the outsourcing story in China and the rest of Asia. We are initiating coverage on Autron with an OUTPERFORM rating and a 12-month target price of S\$0.30 – base on BMA analysis.

Price	Dividend	Yield	Market	Market	52-week
14 Feb 02	STI	12/03E	12/03E	cap	cap
(\$)	(A\$)	(%)	(\$ mn)	(US\$ mn)	price range
0.19	1,273	0.005	2.8	99.4	56.7
					0.17-0.29

Year-end	Net profit	EPS	EPS	P/E	RECC	EV/IC
31 Jun	(A\$ mn)	(A\$)	growth (%)	(x)	(%)	(x)
2005E	22.9	0.042	28.3	4.4	12.4	1.2
2004E	17.8	0.032	21.9	5.6	13.1	1.6
2003E	14.6	0.027	n.m.	6.9	12.6	1.9
2002	(17.2)	(0.033)	n.m.	n.m.	(36.0)	1.7
2001	14.0	0.029	166.0	6.3	12.2	1.4
Shares outstanding (mn)		549.0	Book value/share – 6/03E (A\$)			0.11
Daily trading vol. – 6M avg. (mn shares)		2.67	Net debt/equity – 6/03EF (%)			16
Estimated Free Float		50	Est. 3-year EPS growth (%)			n.m.
Major shareholders (%)		6.01				
Citibank Nominees		0.0; -2.6; -				
Abs. performance (%)		29.6	Rel. performance (%)			9.1; 5.9; -1.4
(1; 3; 12 months)			(1; 3; 12 months)			

We are initiating coverage on Autron Corporation with an OUTPERFORM rating and a target price of S\$0.30, representing 57% potential upside from current levels. Autron is one of Asia's largest distributor of capital equipment for the electronics and EMS industry. After incurring A\$17.2 mn in losses in FY02, we believe that Autron will turnaround with a profit of A\$14.6 mn in FY03. We believe that the company can achieve this turnaround by: 1) increasing its profit margins and value-added services by producing capital equipment components in addition to equipment distribution, 2) restructuring its loss-incurring South-East Asian operation to address the reconditioned machine market and 3) utilising its extensive distribution network in China to supply capital equipment to both Taiwanese and Chinese companies setting up manufacturing bases throughout China.

Increasing its profit margins and value-added services by producing capital equipment components in addition to equipment distribution. Autron is one of Asia's largest capital equipment distributors and through its exclusive distributorship of the Assembleon (formerly known as Philips EMT) and Speedline range of products, has about 20% of Asia's capital equipment market for the electronics and EMS industry. To enhance its profit margins and value-add to its customers, Autron began producing machine components for capital equipment for its key principals, Assembleon and Speedline. Production is undertaken by subsidiary, IC Equipment, a designer and producer of industrial equipment for the semiconductor and precision electromechanical industry. Through a partnership agreement with Assembleon, Autron has taken over all of Assembleon's sales and service operations in Asia, as well as setting up a production and joint R&D centre in Singapore. Autron has also started production for machine parts, such as the trolley, feeder and robotics arm used in the Assembleon Equipment line. These parts comprises as much as 30% of the total machine costs. It is Autron's longer-term plan to produce all of Assembleon's and Speedline component requirements in Asia.

Restructuring its loss-incurring South-East Asian operation to address the reconditioned machine market. Autron has identified reconditioning of machinery as a high growth segment of the capital equipment market. Due to the global slowdown of the electronics industry globally and the rapid expansion of production capacity by the US EMS companies in 1999 and 2000, there is a sizeable inventory of capital equipment across the European continent and the Americas. Autron intends to use this large supply of inexpensive second-hand machinery as the base materials for Autron's customers to recondition and upgrade their existing machinery. Given the slowing of sales in Autron's South-East Asian operations, its has been restructured to cater to this fast growing area, offering reconditioned machines, spare part, equipment rental, production and product development. Beside deriving an additional revenue stream, Autron now has effectively diversified its customer base, catering to both tier-one and lower-tier manufacturers.

Utilising its extensive distribution network in China to supply capital equipment to both Taiwanese and Chinese companies. Given the large amount of Taiwanese investments that have gone into China and the rapid expansion of the Chinese domestic economy, there have been a large number of manufacturing hubs being set up in China for production of Handsets, PCs, NBs and other consumer electronic products. This has sparked increased demand for both new and old capital equipment by both Taiwanese and Chinese manufacturers. With an extensive distribution network in Asia, Autron is strategically well positioned to benefit from this surge in demand, in our view. Key Taiwanese manufacturers, such as Asustek, Hon Hai, Tatung, Quanta, Delta and Arima, and Chinese producers, such as Kaifa Technology, TCL, Huawei, Haier and ChangHong count among Autron's major customers.

Figure 1: Breakdown of Autron's revenues and earnings(A\$ mn)

	FY01	FY02	FY03E	FY04E
Revenues				
Capital equipm't distribution	168.1	156.8	108.3	127.8
Recondition business			35.9	44.8
Services/software/consult	17.6	21.3	24.9	28.7
Capital equipm't production			30.7	43.0
Sales elimination		(17.7)		
Total revenues	185.7	160.4	199.8	244.3
Operating profits				
Capital equipm't distribution	13.5	(4.2)	7.6	8.8
Recondition business	(1.1)		4.5	5.4
Services/software/consult	4.9	(3.7)	3.0	3.4
Capital equipm't production		(8.3)	3.1	4.7
Total operating profit	17.3	(16.2)	18.1	22.4

Source: CSFB

Attractive valuations. Trading at a P/E of 7.1x FY03E and 5.9x FY04E earnings, Autron should trade at least equal to if not above Huan Hsin's (HUAN.SI, S\$0.95, OUTPERFORM, TP: S\$1.2) (P/E of 10.2x FY03E and 7.5x FY04E, as Autron value-adds to its products with design, engineering as well as production capabilities. Autron also offers investors an indirect way to play the outsourcing story both in China and the rest of Asia, in our view. We are, therefore, initiating coverage on the company with an OUTPERFORM rating and a target price of S\$0.30 (based on BMA analysis).

Please look out for our detailed report which should be reaching your desks in a few days.

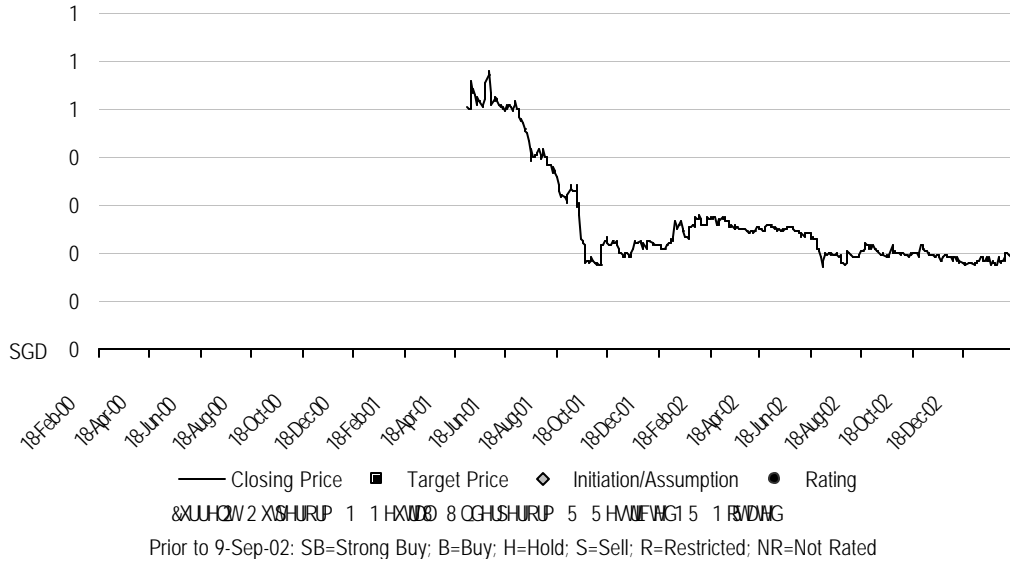
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Companies Mentioned (*Price as of 14 Feb 03*)

Autron Corporation Ltd (AAT.SI, S\$0.19, OUTPERFORM, TP S\$0.3)

DISCLOSURE SECTION

3-Year History Chart for AAT.SI



AAT.SI	Closing	Target	Initiation/
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Price Target: (12 months) for (AAT.SI)

Method: BMA analysis

Risks: Slowdown in the Capital Equipment market

Disclosures continue on next page.

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