

News 29 October 2004

Autron Corporation

STOCK RECOMMENDATION

OUTPERFORM

SECTOR

Electronic & electrical equipment

12 MONTH RANGE

S\$0.44 – 0.22

NEXT RESULTS DUE

1 November 2004 (Q1)

LAST RESULTS

30 August 2004 (FY)

ANALYST

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Comments – Autron has announced their first equipment management contract and there are expectations for more such contracts in the pipeline. These contracts add greater visibility to the company's earnings stream and will be positive for investor confidence. We are raising our FY2005 and FY2006 EPS by 22% and 17% respectively. We expect this contract and a potential pipeline of similar deals to provide a catalyst for the shares. Recommendation raised from IN-LINE to OUTPERFORM with a 12-month price target of S\$0.335 (10x FY2006 PER).

Announcement – Autron's subsidiary AGS has secured a US\$20 million equipment management facility agreement with Hangzhou Eastcom Cellular Phone Co. Ltd (HECP). Hangzhou Eastcom is a JV between Motorola and Eastern Communications. Under the terms of the agreement, AGS will be the main provider of SMT equipment to the Hangzhou plant for the next 3 years. AGS will also be providing preventive maintenance service and assist in managing HECP's spare parts hub. As part of this equipment management program, AGS will also help to dispose of HECP's old equipment and upgrade certain machinery.

These contracts were secured by Autron Global Solutions (AGS) business unit which is the group's key growth driver for the next few years. AGS is expected to account for 32% of profits and 20% of current year revenue. Up to half the value of these equipment management contracts will be in new equipment, and the remainder will be booked into AGS (for re-conditioned equipment, spares, maintenance services and upgrading machines).

Working capital and debt – Management are keenly aware of the need to improve the working capital cycle, which deteriorated significantly in the last year. The cash cycle rose to 150 days at the end of FY2004 from 100

PRICE

S\$0.26

REUTERS CODE

AAT.SI

BLOOMBERG CODE

AAT SP

MARKET CAPITALISATION

S\$163m

ENTERPRISE VALUE

S\$180m

CHANGE IN STOCK / SECTOR RECOMMENDATION

Yes (from IN-LINE)

CHANGE IN EPS ESTIMATES

2005E +17% 2006E +12%

Share price (%)	-1 mth	-3 mth	-12 mth	
Ordinary shares	+0	-2	-36	
Relative to sector	-	-	-	
Relative to STI	-0	-6	-44	
Average daily volume shares (12 months)			4.8m	
STI			1,979.23	
Year end: June	2003A	2004A	2005E	2006E
Sales (A\$m)	169.3	198.8	261.9	304.3
EBITDA (A\$m)	14.0	23.4	36.9	41.3
Earnings (A\$m)	11.5	15.1	20.2	23.8
Growth (%)	n.m.	+31.2	+33.8	+17.8
EPS (A\$) – adjusted	1.7	2.2	2.6	2.8
Growth (%)	n.m.	+28.6	+22.4	+7.8
DPS (A\$)	0.50	0.50	0.60	0.65
PER (x) – adjusted	14.1	10.0	8.3	7.7
Yield (%)	2.1	2.3	2.7	2.9
EV/EBITDA (x)	11.6	7.0	4.4	4.0
NAV (A\$m)	81.0	96.4	120.8	146.0
ROE (%)	14.2	15.7	16.7	16.3
Shares (m) – adjusted	685.9	699.8	764.3	835.3
Net debt: equity (%)	33.9	57.4	32.6	16.7
No of shares in issue (m)				695
Major shareholder				Cheng-Leong, Tan (9.1%)

days in FY2003. We expect a decline to 120 days by end FY2005 and 105 days by FY2006. Measures taken by the company include tighter inventory management and partnership with large equipment financing companies. We expect then net gearing to decline from 57% at the start of the year to 33% by end FY2005. Free cash flow generation is expected to turn positive this year and next, following three years in the red.

Manufacturing – We expect spin off business from the Fuji distribution partnership to kick in H2 of FY2005. We believe that Autron will manufacture modules for Fuji's pick and place equipment. The manufacturing business is expected to account for 18% of profits this year.

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Autron Corporation

Profit and loss accounts

Year end: June	2002	2003	2004	2005E	2006E
	A\$000	A\$000	A\$000	A\$000	A\$000
Sales	152,578	169,341	198,803	261,893	304,334
Dep/amort	-4,217	-5,643	-5,932	-8,272	-9,625
Exch effects	-2,886	-4,327	-957	0	0
COGS	128,352	135,999	155,107	196,432	227,916
Gross profit	24,226	33,342	43,696	65,461	76,418
Other Income	7,837	9,914	10,243	5,266	5,182
Operating exp	31,684	34,858	0	42,950	49,911
Exceptional	-15,200	-6,205	-3,540	850	0
Operating inc	-14,821	14,603	20,964	27,776	31,689
Financing	-1,420	-1,783	-2,726	-3,149	-2,687
Pre-tax	-16,241	12,820	18,238	24,627	29,002
Tax	-732	-1,368	-3,473	-4,433	-5,220
Minority	-269	56	329	0	0
Net earnings	-17,242	11,508	15,094	20,194	23,782
EPS (cents)-adjusted	(3.2)	1.7	2.2	2.6	2.8
EPS (cents)-FD	(3.2)	1.7	1.7	2.3	2.7
Y/Y change (%)					
Sales	(10.4)	11.0	17.4	31.7	16.2
Gross profit	(17.9)	37.6	31.1	49.8	16.7
Operating	(178.3)	n.m.	43.6	32.5	14.1
EPS-adjusted	(219.0)	n.m.	28.6	22.4	7.8
EPS-FD	(219.0)	n.m.	0.7	35.1	17.7
Margin (%)					
Gross profit	15.9	19.7	22.0	25.0	25.1
Operating	(9.7)	8.6	10.5	10.6	10.4
Tax	(4.5)	10.7	19.0	18.0	18.0
Net earnings	(11.3)	6.8	7.6	7.7	7.8

Cash flow statements

Year end: June	2002	2003	2004	2005E	2006E
Profit	-16,973	11,508	15,094	20,194	23,782
adjustments:-					
Depr/amorti	4,205	5,643	5,932	8,272	9,625
Income tax/others	-1,542	-2,148	-1,368	-3,473	-4,433
Provision-debt/stock	12,024	-5,725	51	0	0
Exchange effects	1,690	4,327	0	0	0
	-596	13,605	19,709	24,993	28,974
Working cap chg	-7,834	-42,716	-38,972	-1,377	-3,326
Cash flow-operating	-8,430	-29,111	-19,263	23,616	25,647
FA purchase(net)	-2,949	-1,163	-2,670	-16,100	-14,100
Acquisitions	-8,786	-2,080	-4,402	0	0
Others	-834	0	0	0	0
Cash flow-investing	-12,569	-3,243	-7,072	-16,100	-14,100
Issue of shares(net)	-605	14,022	-276	0	0
Chg in debt	12,034	-12,092	28,863	-13,246	-15,000
Dividend paid	-4,130	0	-3,474	-3,472	-4,645
Others	-1,134	343	3,886	0	0
Cash flow-financing	6,165	2,273	28,999	-16,718	-19,645
Exchange effects	-1,122	-2,000	-2,085	0	0
Net chg in cash/equiv	-15,956	-32,081	579	-9,201	-8,097

Comments and assumptions

A\$000	2003	2004	2005E	2006E
New equipment distribution	153,373	155,021	170,523	184,165
AGS	9,000	35,270	51,370	68,170
Manufacturing	6968	12,783	40,000	52,000
Total	169,341	203,073	261,893	304,334
% of total				
New equipment distribution	91	76	65	61
AGS	5	17	20	22
Manufacturing	4	6	15	17
Total	100	100	100	100

*our adjusted EPS and PER based on assumption of straight line conversion of the 231.6m warrants (from FY2005 to FY2007).

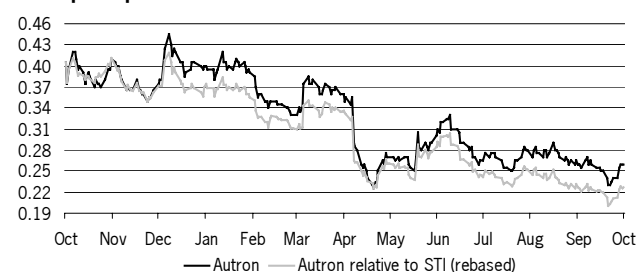
Balance sheets

Year end: June	2002	2003	2004	2005E	2006E
	A\$000	A\$000	A\$000	A\$000	A\$000
Cash assets	5,939	7,416	14,276	17,000	21,000
Receivables	38,216	63,318	110,391	101,887	110,061
Inventories	33,218	35,364	46,869	56,508	59,321
Others	952	0	0	0	0
Current assets	78,325	106,098	171,536	175,395	190,381
Fixed assets	7,041	14,919	26,235	36,288	43,485
Intangibles	46,463	44,174	41,706	43,053	40,332
Others	1,273	439	157	157	157
Non-current assets	54,777	59,532	68,098	79,498	83,973
Trade creditors	63,375	47,907	67,513	67,271	74,931
ST Debt	17100	28476	46246	33000	18000
Tax/provisions	2,067	1,440	5,243	4,856	5,643
Dividend	0	421	0	4,645	5,470
Current liabilities	82,542	78,244	119,002	109,772	104,045
LT debt	1192	6397	23358	23358	23358
Deferred tax	148	35	917	917	917
Net assets	49,220	80,954	96,357	120,846	146,035
Contributed equity	48,753	74,508	76,714	83,209	90,313
Reserve/profit	-295	5,850	19,654	37,648	55,734
Minority	762	596	-11	-11	-11
Total equity	49,220	80,954	96,357	120,846	146,035

Key ratios

Year end: June	2002	2003	2004	2005E	2006E
Solvency Ratios					
Net Debt/E equity(%)	25.1	33.9	57.4	32.6	16.7
Net Cash/(debt) (\$m)	(12.4)	(27.5)	(55.3)	(39.4)	(24.4)
Current ratio (x)	0.9	1.4	1.4	1.6	1.8
Interest cover (x)	n.m.	4.7	6.4	9.1	11.8
Efficiency ratios					
Debtor days	88	134	202	140	130
Inventory days	94	95	110	105	95
Creditor days	180	129	159	125	120
ROCE (%)	0.6	18.0	14.8	15.2	16.9
ROE (%)	-35.0	14.2	15.7	16.7	16.3
Value ratios					
EV/sales (x)		1.0	0.8	0.6	0.5
EV/EBITDA (x)		11.6	7.0	4.4	4.0
PER(x) - Adjusted	Loss	14.1	10.0	8.3	7.7
PER(x) - FD	Loss	14.1	12.8	9.7	8.2
P/CFPS (x)	Loss	10.4	8.6	6.3	5.4

Share price performance



Source: Bloomberg

APPENDIX

IMPORTANT DISCLOSURES

DEFINITION

Where "disclosure date" appears below, this means the end of the month preceding the date of this report, unless that month end is within 10 calendar days of the report date in which case the disclosure date is the end of the preceding month.

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Leong Wai Mun.

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IN-LINE – the total return on the security is not expected to outperform or underperform the relevant market index by 5% or more over the next six months.

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