

Update 29 March 2004

# Autron Corporation

RECOMMENDATION

**BUY**

SECTOR

**Electronic & electrical equipment**

12 MONTH RANGE

**S\$0.47 – 0.17**

NEXT RESULTS DUE

**August 2004 (FY)**

LAST RESULTS

**26 February 2003 (I)**

ANALYST

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Summary – We expect a stronger second half which is in line with the continued ramp in activities at the two new business divisions. The Re-conditioned Equipment business should continue its growth momentum while the Manufacturing arm is expected to see an acceleration in activity. Over the longer term, Autron is expected to strengthen its position as the pipeline between equipment principals and its customers. The company will help equipment principals to lower manufacturing costs through outsourcing opportunities to IC Equipment. Autron's customers will be able to tap the former's enlarged suite of services to offload all their equipment management needs. Our 12 month price target is S\$0.48 (15x PER FY June 2005).

Recent results – Interim results within expectations with revenue and earnings up 21% and 79% respectively. Better-than-expected margin at the "Value Added" segment (includes Re-conditioned Equipment) made up for lower margin at the Manufacturing arm (IC Equipment). IC Equipment's H1 revenue of A\$6.3m was lower than expected which affected the level of profitability. We expect a substantially stronger H2 for manufacturing and operating leverage should begin to kick in. Autron's blended gross margin is projected to continue improving (was 19.9% during the interim versus 19.1% a year earlier). There was also good control of operating expenses, which came in lower than forecast.

Full year forecast – We expect earnings of A\$14.8m for FY June 2004 excluding gains from sale of assets. Including the profit from asset sales, the earnings would be closer to A\$19m.

Prospects – We expect a stronger second half which will be underpinned by the continued ramp in activities at the two new business divisions. We expect H2 profit of A\$7.7m, up 26% from the H1 profit of A\$6.1m (both

PRICE

**S\$0.33**

REUTERS CODE

**AAT.SI**

BLOOMBERG CODE

**AAT SP**

MARKET CAPITALISATION

**S\$226m**

ENTERPRISE VALUE

**S\$230m**

CHANGE IN RECOMMENDATION

**No**

CHANGE IN EPS ESTIMATES

**No**

Share price (%)	-1 mth	-3 mth	-12 mth	
Ordinary shares	-15	-12	+78	
Relative to sector	-	-	-	
Relative to STI	-13	-17	+23	
Average daily volume shares (12 months)				7.6m
STI				1,835.54
Year end: June	2002A	2003A	2004E	2005E
Sales (A\$m)	152.6	169.3	217.2	245.3
EBITDA (A\$m)	7.5	18.4	26.2	30.9
Earnings (A\$m)	-17.2	11.5	14.8	18.0
EPS (A cts)	-3.2	1.7	2.1	2.6
Growth (%)	-211.4	-151.9	27.8	21.0
DPS (A cts)	0.00	0.50	0.51	0.57
<b>PER (x)</b>	<b>Loss</b>	<b>17.9</b>	<b>12.8</b>	<b>10.6</b>
<b>Yield (%)</b>	<b>0.0</b>	<b>1.7</b>	<b>1.9</b>	<b>2.1</b>
EV/EBITDA (x)	25.3	10.3	7.2	6.1
NAV (A\$m)	49.2	81.0	93.3	106.2
ROE (%)	-35.0	14.2	15.9	16.9
Net debt: equity (%)	25.1	33.9	28.5	19.9
No of shares in issue (m)				689m
Major shareholder			Cheng-Leong, Tan	9.2%

figures exclude contribution from sale of assets). The Re-conditioned Equipment business should continue its growth momentum while the Manufacturing business is expected to see an acceleration in activity (driven by rising demand for semiconductor equipment and the launch of the proprietary high-speed LED taping machine). The first order for the Star-Flash LED taping machine was announced on 18 March by Yo Hua Enterprise, a manufacturer of white light LED.

SALES

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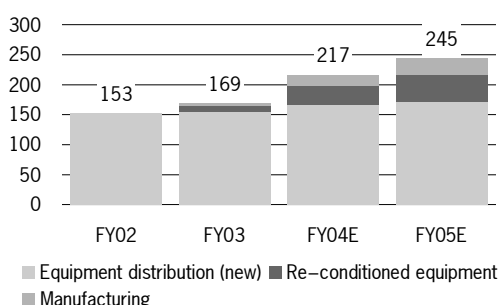
Growing focus on Services – There appears to be an increasing emphasis on value-added services i.e. taking charge of all activities revolving around the customers' equipment requirements including project management, consultancy, training, logistical support, software integration, servicing and maintenance. We believe this may have a positive impact on margin going forward. These activities are grouped with the Re-conditioned equipment business in a Segment called "Value Added". Autron has also recently tied up with its regional financial partners to provide leasing and financing options to customers.

Working capital – The cash cycle lengthened from 100 days in 2003 to 142 days in H1 2004 mainly due to the ramp in activities for both the new businesses – Re-conditioned Equipment and Manufacturing (IC Equipment). Inventory days have declined by 42 (to 61) but receivable days have increased by 35 days to 139 and management have to work on getting paid earlier. The creditor days have declined by 10 days to 119.

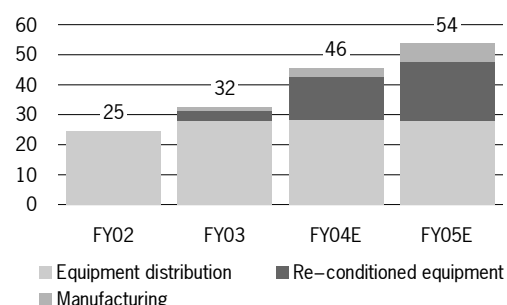
Gearing – Net gearing was about 60% as at December 2003, compared with 34% six months earlier. The recently announced warrants issue and re-financing of existing loans should help provide additional working capital while lowering the cost of financing. While Autron's earnings are growing, the company needs to improve on working capital management which will help bring down the gearing.

Other developments – Signed a sale and purchase agreement to acquire the entire existing share capital of Fine Pulse Sdn Bhd, a Malaysian-based company provide value added manufacturing services for a consideration of RM20m in cash. Subject to Fine Pulse achieving certain profit milestones for financial periods of 30 June 2004 to 30 June 2006, IC Equipment will pay an additional RM28m in either cash or shares, subject to management of IC Equipment. Acquisition rationale is to beef up IC Equipment manufacturing capabilities.

**Fig 1** Projected revenue



**Fig 2** Projected gross profit



Source: Company, Cazenove estimates

## Profit and loss accounts

Year end: June	2001	2002	2003	2004E	2005E
	A\$000	A\$000	A\$000	A\$000	A\$000
Sales	170,226	152,578	169,341	217,190	245,320
Dep/amort	-1,952	-4,217	-5,643	-6,713	-7,672
Exch effects	2,237	-2,886	-4,327	0	0
COGS	140,716	128,352	135,999	171,657	191,143
<b>Gross profit</b>	<b>29,510</b>	<b>24,226</b>	<b>33,342</b>	<b>45,533</b>	<b>54,177</b>
Other Income	15,497	7,837	9,914	8,710	7,698
Operating exp	26,082	31,684	34,858	34,750	38,760
Exceptional	0	-15,200	6,205	0	0
<b>Operating inc</b>	<b>18,925</b>	<b>-14,821</b>	<b>14,603</b>	<b>19,493</b>	<b>23,114</b>
Financing	-1,638	-1,420	-1,783	-1,845	-1,695
Pre-tax	17,287	-16,241	12,820	17,648	21,419
Tax	-3,265	-732	-1,368	-2,824	-3,534
Minority	-7	-269	56	0	0
<b>Net earnings</b>	<b>14,015</b>	<b>-17,242</b>	<b>11,508</b>	<b>14,824</b>	<b>17,885</b>
EPS (cents)	2.9	(3.2)	1.7	2.1	2.6
Shares out-FD	516,397	533,795	685,902	691,227	693,225
<i>Y/Y change (%)</i>					
Sales	379.4	(10.4)	11.0	28.3	13.0
Gross profit	296.2	(17.9)	37.6	36.6	19.0
Operating	112.9	(178.3)	(198.5)	33.5	18.6
EPS		(211.4)	(151.9)	27.8	20.3
Shares out-FD		3.4	28.5	0.8	0.3
<i>Margin (%)</i>					
Gross profit	17.3	15.9	19.7	21.0	22.1
Operating	11.1	(9.7)	8.6	9.0	9.4
Tax	18.9	(4.5)	10.7	16.0	16.5
Net earnings	8.2	(11.3)	6.8	6.8	7.3

## Cash flow statements

Year end: June	2001	2002	2003	2004E	2005E
Profit	14,022	-16,973	11,508	14,824	17,885
adjustments:-					
Depr/amorti	1,755	4,205	5,643	6,713	7,672
Income tax/others	-418	-1,542	-2,148	-1,368	-2,824
Provision-debt/stock	3,081	12,024	0	1,520	1,717
Exchange effects	0	1,690	4,327	0	0
	18,440	-596	19,330	21,689	24,451
Working cap chg	-10,676	-7,834	-41,495	-15,117	-8,760
<b>Cash flow-operating</b>	<b>7,764</b>	<b>-8,430</b>	<b>-22,165</b>	<b>6,572</b>	<b>15,691</b>
FA purchase(net)	-3,440	-2,949	-1,159	-4,800	-5,100
Acquisitions	-8,003	-8,786	-2,080	0	0
Others	-895	-834	0	0	0
<b>Cash flow-investing</b>	<b>-12,338</b>	<b>-12,569</b>	<b>-3,239</b>	<b>-4,800</b>	<b>-5,100</b>
Issue of shares(net)	2,573	-605	14,022	0	0
Chg in debt	-700	12,034	-7,250	0	-5,000
Dividend paid	-1,872	-4,130	0	-3,439	-3,558
Others	-793	-1,134	343	0	0
<b>Cash flow-financing</b>	<b>-792</b>	<b>6,165</b>	<b>7,115</b>	<b>-3,439</b>	<b>-8,558</b>
Exchange effects	742	-1,122	0	0	0
<b>Net chg in cash/equiv</b>	<b>-4,624</b>	<b>-15,956</b>	<b>-18,289</b>	<b>-1,667</b>	<b>2,034</b>

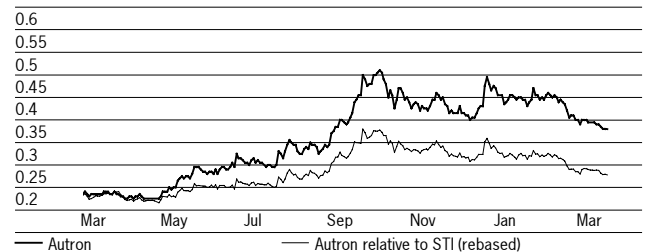
## Balance sheets

Year end: June	2001	2002	2003	2004E	2005E
	A\$000	A\$000	A\$000	A\$000	A\$000
Cash assets	17,218	5,939	7,416	5,749	7,782
Receivables	52,298	38,216	63,318	80,000	90,362
Inventories	20,634	33,218	35,364	32,921	36,658
Others	2,226	952	0	0	0
Current assets	92,376	78,325	106,098	118,670	134,802
Fixed assets	4,166	7,041	14,919	18,255	18,386
Intangibles	22,003	46,463	44,174	45,026	43,053
Others	1,329	1,273	439	-165	-165
Non-current assets	27,498	54,777	59,532	63,117	61,274
Trade creditors	44,758	63,375	47,907	47,029	52,368
ST Debt	784	17100	28476	28476	23476
Tax/provisions	3,418	2,067	1,440	3,035	3,745
Dividend	2,472	0	421	3,558	3,935
Current liabilities	51,432	82,542	78,244	82,098	83,524
LT debt	797	1192	6397	6397	6397
Deferred tax	171	148	35	35	35
<b>Net assets</b>	<b>67,474</b>	<b>49,220</b>	<b>80,954</b>	<b>93,257</b>	<b>106,120</b>
Contributed equity	44,138	48,753	74,508	76,924	77,654
Reserve/profit	22,794	-295	5,850	15,736	27,870
Minority	542	762	596	596	596
<b>Total equity</b>	<b>67,474</b>	<b>49,220</b>	<b>80,954</b>	<b>93,257</b>	<b>106,120</b>

## Key ratios

Year end: June	2001	2002	2003	2004E	2005E
Solvency Ratios					
Net Debt/E equity(%)	-23.2	25.1	33.9	31.3	20.7
Net Cash/(debt) (\$m)	15.6	(12.4)	(27.5)	(29.2)	(22.0)
Current ratio (x)	1.8	0.9	1.4	1.4	1.6
Interest cover (x)	11.6	n.m.	11.7	10.6	13.6
Efficiency ratios					
Debtor days	109	88	134	132	132
Inventory days	54	94	95	70	70
Creditor days	116	180	129	100	100
Ave. Fixed asset turns	41	27	15	13	13
ROCE (%)	27.4	0.6	7.3	15.2	17.0
ROE (%)	20.8	-35.0	14.2	15.9	16.9
Value ratios					
EV/sales (x)	1.1	1.2	1.1	0.9	0.8
EV/EBITDA (x)	10.2	25.3	10.3	7.2	6.1
PER (x) - Fiscal	11.4	Loss	17.9	12.8	10.7
P/CFPS (x)	10.7	Loss	13.2	10.6	9.0

## Share price performance



Source: Bloomberg

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