Singapore
Research

CAZENOVE

Annual review 29 October 2003

Autron Corporation

RECOMMENDATION **BUY**		PRICE **S$0.415**	
SECTOR **Electronic & electrical equipment**		REUTERS CODE **AAT.SI AAT.AX**	BLOOMBERG CODE **AAT SP AAT AU**
12 MONTH RANGE **S$0.46 – 0.18**		MARKET CAPITALISATION **S$286.0m (US$165m)**	PRINCIPAL LISTING **SGX/ASX**
NEXT RESULTS DUE **November 2003 (Q1)**	LAST RESULTS **3 September 2003 (F)**	CHANGE IN RECOMMENDATION **No**	
		CHANGE IN EPS ESTIMATES **2004E +5% 2005E +3%**	

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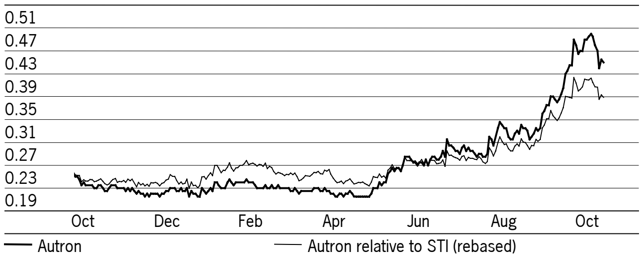
We are raising our FY04 and FY05 EPS forecasts by 5% and 3% respectively to reflect an improving environment for Autron's electronics capital equipment distribution business. Unexpectedly robust demand from the disk drive and automotive sectors is expected to help drive double digit growth for SMT lines. Autron's revised FY04 and FY05 EPS are A$2.24 cents (16.8x PER) and A$2.66 cents (14.2x PER) respectively. We are raising our price target to S$0.47 (from S$0.36) which reflects a 2004 PER of 16.5x. This compares with the average 2004 PER of 15.6x for a group of established distributors. We believe that a small valuation premium to the peer group is reasonable given Autron's ability to tap Asia's growth as the world's manufacturing hub and the company's success thus far in expanding the range of value added activities.

Rising demand from the disk drive and automotive sectors. For FY04, apart from continued capacity expansion from the established China enterprises such as TCL, Haier, ZTE and Huawei, demand from the hard disk drive sector e.g. Seagate and Western Digital and automotive industry e.g. Delphi, Robert Bosch are also picking up. We now expect 30% growth in sales of SMT equipment in the current year on the back of rising orders from multiple industries. This is the key reason for the upgrade in our EPS forecast and is in contrast to our previous conservative projection of a small decline in revenue for the SMT equipment distribution business. The SMT equipment distribution business is expected to account for 75% and 66% of FY04 revenue and gross profit respectively.

We believe that the recently started businesses in re–conditioned equipment distribution and manufacturing are on track to contribute in aggregate 24% of group revenue this year. Both these new businesses are complementary to Autron's existing SMT equipment distribution business.

Share price performance



Source: Bloomberg

Share price (%)		–1 mth	–3 mth	–12 mth
Ordinary shares		+20	+57	+93
Relative to sector		–	–	–
Relative to STI		+13	+43	+64
Average daily volume shares				6.4m
STI				1,736.1
Year end: June	**2002**	**2003**	**2004E**	**2005E**
Turnover (A$m)	152.6	169.3	270.4	310.8
Earnings (A$m)	–17.2	11.5	15.5	18.4
EBITDA (A$m)	7.5	18.4	27.7	32.1
Tax (%)	–4.5	10.7	17.8	18.0
EPS (adjusted) (A cents)	–3.2	1.7	2.2	2.7
Growth (adjusted) (%)	–211.4	–151.9	+33.5	+18.7
DPS (A cents)	–	0.50	0.54	0.59
Growth (%)	–	–	+7.5	+8.8
Dividend cover (x)	–	3.4	4.2	4.5
EV/EBITDA (x)	34.7	14.1	9.4	8.1
PER (x)	**–**	**22.5**	**16.8**	**14.2**
Yield (%)	**0.0**	**1.3**	**1.4**	**1.5**
EBIT margin (%)	–9.7	8.6	7.7	7.9
EV/sales (x)	1.7	1.5	1.0	0.8
Market cap:sales (x)	1.5	2.5	3.5	4.5
NAV per share (A cents)	9.2	11.8	13.5	15.4
ROE (%)	–3.5	8.2	17.9	18.5
ROCE (%)	0.6	7.3	16.3	17.9
Interest cover (x)	n.m.	11.7	9.9	12.3
Net debt/equity (%)	25.1	33.9	28.4	19.8
No of shares in issue (m)				687.9
Major shareholder				Cheng–Leong, Tan (MD) 9.3%

Other key points

Revision to forecasts. While we have raised our revenue expectations for the SMT equipment distribution business, we have trimmed our margin assumptions for both the re–conditioned equipment distribution and manufacturing divisions. The re–conditioned equipment distribution business has the best margin followed by manufacturing and the SMT equipment distribution.

Re–conditioned business. We expect this business (which began about eight months ago) to contribute A$35m in FY04, up from A$9m in FY03 (less than six months' contribution). Autron is currently refurbishing mainly Siemens or Assembleon SMT equipment but we believe that there are plans to broaden the addressable market through offering re–conditioned Japanese brand pick–and–place equipment by the second half of the current fiscal year ending June 2004.

Manufacturing business (IC Equipment). The strategic investment by JAFCO (Japanese VC) in September may have several potential benefits including (1) introduction of new customers to IC Equipment (ICEqmt), which is in the contract manufacturing of electronics manufacturing and inspection equipment, (2) introduction of Japanese brand mid–range SMT equipment vendors to Autron for distribution in Asia and (3) helping Autron to sell European and US equipment into Japanese OEMs. The JAFCO deal values ICEqmt at S$30m when Autron paid S$3m for the company in December 2002. There are plans to spin off ICEqmt in a public offer over the next three years. ICEqmt is currently making some back end semiconductor equipment as well as producing spares and consumables for the SMT line.

Valuations. The peer group (which consists of Digital China, Synnex, Ingram Micro, Tech Data and Arrow) are on average trading at 2003 and 2004 PERs of 22x and 15.6x respectively. Our 12–month price target of S$0.47 puts Autron on a calendar 2004 PER of 16.5x. We believe this small premium to the peer group is justified given Autron's positioning in both North Asia and South East Asia to capture manufacturing investments with its established distribution network of 30 sales offices and engineering support centres, the successful expansion into offering re–conditioned SMT equipment and the diversification into manufacturing. Moreover, Autron is projected to have a superior ROE compared with the peer group in the next fiscal year (ROE of 18% compared with a range of 8% to 14% for the peers). Autron is expected to grow EPS by 34% and 18% in FY04 and FY05 respectively.

Fig 1 Peer valuation and EPS growth

		Price	Mkt cap	2Y EPS	PER (x) –calendar yr			EPS ($) –calendar yr		
Oct 28	**Code**	**($)**	**US$m**	**CAGR%**	**2002**	**2003**	**2004**	**2002**	**2003**	**2004**
Autron	AAT SP	0.415	167	nm*	–19.9	16.8	14.7	–0.018	0.021	0.025
Digital China	861 HK	2.6	286	+11	12.7	21.7	10.4	0.204	0.12	0.25
Synnex	2347 TT	51.0	973	–3	13.4	17.0	14.2	3.82	3.0	3.6
Ingram	IM US	14.0	2114	+30	28.6	21.9	16.7	0.49	0.64	0.84
Tech Data	TECD US	32.0	1813	–8	13.6	19.2	16.0	2.35	1.67	2.00
Arrow Elec	ARW US	19.8	1996	+144	123.8	30.9	20.6	0.16	0.64	0.96
Peer avg					38.4	22.1	15.6			

*2Yr EPS CAGR not meaningful due to losses in FY02. But Autron is forecast to average in excess of 20% earnings growth in FY04 and FY05

Autron's share price in S$, EPS in A$. Other company share prices and EPS estimates in respective local currencies

Source: Bloomberg, Cazenove estimates

Most recent results. For the year ended June 2003 (FY03), Autron reported a net profit of A$11.5m. This represented a strong recovery from the loss of A$17.2m in FY02. The FY03 performance was buoyed by improvement in the core business, the write back of a doubtful debt (A$6.2m) and the absence of restructuring charges (A$5.5m in FY02). Autron's net profit would have exceeded expectations if not for the strength of the A$. Autron's reporting currency is A$ while its functional currently is US$. The A$ appreciated by 11% against the US$ in the fourth quarter of FY03,and strengthened by 18% during the last six months of FY03. The foreign exchange loss reported in FY03 was A$4.3m, of which about three–quarters was unrealised.

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	270,434	310,812
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	214,695	245,388
Gross profit	**29,510**	**24,226**	**33,342**	**55,739**	**65,424**
Other Income	15,497	7,837	9,914	12,811	13,726
Operating exp	26,082	31,684	34,858	47,596	54,703
Exceptional	0	(15,200)	6,205	0	0
Operating inc	**18,925**	**(14,821)**	**14,603**	**20,953**	**24,447**
Financing	(1,638)	(1,420)	(1,783)	(2,124)	(1,986)
Pre–tax	17,287	(16,241)	12,820	18,829	22,461
Tax	(3,265)	(732)	(1,368)	(3,352)	(4,043)
Minority	(7)	(269)	56	0	0
Net earnings	**14,015**	**(17,242)**	**11,508**	**15,478**	**18,418**
EPS (cents)	2.9	(3.2)	1.7	2.2	2.7
Shares out–FD	516,397	533,795	685,902	691,227	693,225
Y/Y change (%)					
Sales	+379.4	−10.4	+11.0	+59.7	+14.9
Gross profit	+296.2	−17.9	+37.6	+67.2	+17.4
Operating	+112.9	−178.3	−198.5	+43.5	+16.7
EPS		−211.4	−151.9	+33.5	+18.7
Shares out–FD		+3.4	+28.5	+0.8	+0.3
Margin (%)					
Gross profit	17.3	15.9	19.7	20.6	21.0
Operating	11.1	−9.7	8.6	7.7	7.9
Tax	18.9	−4.5	10.7	17.8	18.0
Net earnings	8.2	−11.3	6.8	5.7	5.9

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	592	2,986
Receivables	52,298	38,216	63,318	94,426	107,673
Inventories	20,634	33,218	35,364	55,880	63,868
Others	2,226	952	0	0	0
Current assets	92,376	78,325	106,098	150,898	174,526
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	78,231	90,760
ST debt	784	17100	28476	28476	23476
Tax/provisions	3,418	2,067	1,440	3,563	4,254
Dividend	2,472	0	421	3,715	4,052
Current liabilities	51,432	82,542	78,244	113,985	122,542
LT debt	797	1192	6397	6397	6397
Deferred tax	171	148	35	35	35
Net assets	**67,474**	**49,220**	**80,954**	**93,598**	**106,827**
Contributed equity	44,138	48,753	74,508	76,924	77,654
Reserve/profit	22,794	(295)	5,850	16,078	28,576
Minority	542	762	596	596	596
Total equity	**67,474**	**49,220**	**80,954**	**93,598**	**106,827**

Cash flow statements

Year end: June	2001	2002	2003	2004E	2005E
	A$'000	A$'000	A$'000	A$'000	A$'000
Profit	14,022	(16,973)	11,508	15,478	18,418
adjustments:–					
Depr/amorti	1,755	4,205	5,643	6,713	7,672
Income tax/others	(418)	(1,542)	(2,148)	(1,368)	(3,352)
Provision–debt/stock	3,081	12,024	0	1,893	2,176
Exchange effects	0	1,690	4,327	0	0
	18,440	(596)	19,330	22,715	24,915
Working cap chg	(10,676)	(7,834)	(41,495)	(21,299)	(8,707)
Cash flow–operating	**7,764**	**(8,430)**	**(22,165)**	**1,416**	**16,208**
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
Cash flow–investing	**(12,338)**	**(12,569)**	**(3,239)**	**(4,800)**	**(5,100)**
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)	(3,715)
Others	(793)	(1,134)	343	0	0
Cash flow–financing	**(792)**	**6,165**	**7,115**	**(3,439)**	**(8,715)**
Exchange effects	742	(1,122)	0	0	0
Net chg in cash/equiv	**(4,624)**	**(15,956)**	**(18,289)**	**(6,824)**	**2,393**

Key ratios

Year end: June	2001	2002	2003	2004E	2005E
Solvency ratios					
Net debt/equity(%)	cash	25	34	28	20
Net cash/(debt) (A$m)	15.6	(12.4)	(27.5)	(26.6)	(21.2)
Current ratio (x)	1.8	0.9	1.4	1.3	1.4
Interest cover (x)	11.6	n.m.	11.7	9.9	12.3
Efficiency ratios					
Inventory days	109	88	134	125	124
Debtor days	54	94	95	95	95
Creditor days	116	180	129	133	135
Ave. fixed asset turns	41	27	15	16	17
ROCE (%)	27.4	0.6	7.3	16.3	17.9
ROAE (%)	27.6	−3.5	8.2	17.9	18.5
Value ratios					
EV/sales (x)	1.5	1.7	1.5	1.0	0.8
EV/EBITDA (x)	13.9	34.7	14.1	9.4	8.1
PER (x) – Fiscal	14.3	Loss	22.5	16.8	14.2
PER (x) – Calendar	n.a.	Loss	16.8	14.7	n.a.
P/CFPS (x)	13.4	Loss	16.6	12.9	11.0

Management	
Managing Director	Tan Cheng–Leong
Executive Director	Samuel Wu
Executive Director	Dr Lim Boh–Soon
Financial controller	Eric Lim

Shareholder information (date) %	
Tan Cheng–Leong (MD)	9.3
Samuel Wu (ED)	3.1
Temasek Holdings	8.6
Simon Lee	3.4
Lim Tock–Yen (Director, ICEqmt)	2.2

Market information	
Estimated free float %	65
Main listing(s)	Australian Exchange/Singapore Exch
Average daily volume (3 months)	12.1m

Capital history – ordinary shares		
Number of shares (Oct 2003)		687.9m
Paid up capital (June 2003)		A$74.5m
Last issue (new shares)	Oct 03	2.0m
	Apr 03	30.4m

Seasonality (%)	Sales	Op. Profit
H1	48	47
H2	52	53

Business profile (%) – FY2003	Sales
Equipment distribution	91
Re–conditioned equipment	5
Manufacturing	3
Others	1
Total	**100**

Geographical split (%) – FY2003	Sales
North Asia	78
South Asia	22
Total	**100**

Fig 2 Revenue mix by business

June year end	FY02	FY03	FY04E	FY05E
Revenue	**A$m**	**A$m**	**A$m**	**A$m**
Equipment distribution	149.5	153.4	203.5	219.7
Re–conditioned equipment distribution	0.0	9.0	35.0	46.2
Manufacturing (ICEqmt)	0.0	5.0	30.0	42.9
Others	3.1	2.0	2.0	2.0
Total	152.6	169.3	270.4	310.8
Percentage of total	**%**	**%**	**%**	**%**
Equipment distribution	98	91	75	71
Re–conditioned equipment distribution	0	5	13	15
Manufacturing (ICEqmt)	0	3	11	14
Others	2	1	1	1
Total	100	100	100	100

Source: Autron, Cazenove estimates

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Leong Wai Mun.

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