

**AUTRON CORP (AAT AU, S\$0.225)  
New angles for future growth**

**Buy (Initial)  
12 June, 2003**

Year end June (A\$m)	2001	2002	2003E	2004E
Turnover	181.3	160.4	210.5	255.0
Net Profit	14.0	-17.2	14.5	18.0
<i>IBES Estimate</i>			<i>n.a.</i>	<i>n.a.</i>
EPS (cts)	2.9	-3.3	2.1	2.6
EPS Growth	141%	N.M	N.M	24%
PER (x)	6.8	N.A.	9.4	7.5

Exchange rate: 1AUD=1.1385SGD

Leveraging on its market leadership in the Asia Pacific SMT equipment distribution network, Autron has since diversified from a pure distributor into a manufacturer and assembler of equipment parts for its principals. The move has allowed the company to move up the value chain so as to enhance margins as well as to tap into the outsourcing trend of equipment parts and modules by Original Equipment Makers to Asia Pacific. Valuation at 9.4x FY6/03 and 7.5x FY6/04 earnings is not demanding. Market has yet to factor in the turnaround story. In April 2003, Temasek has taken a 9.9% stake in the company by subscribing for 59.05m new shares at S\$0.1775 per share. This should boost investor sentiment as well. Buy.

- **Restructuring and moving up the value chain.** Hit by the sudden downturn in the electronic cycle for the last 2 years, Autron has since restructured its business model in 2002, which has resulted in one off charges and write offs that led to full year losses of A\$17.2m. With a trimmer business structure and foray into higher margin contract equipment manufacturing, Autron has managed to turnaround its operation as seen from the A\$4.0m interim profits in FY06/03. We expect such earnings momentum to continue over the next 2 years, as Autron transforms itself into a one stop contract manufacturer cum distributor of electronic equipment for its principals in the Asia Pacific Region.
- **Acquisition of IC Equipment enhanced its manufacturing capability.** Autron is an established supplier of capital equipment to printed circuit board assembly (PCBA) and semiconductor manufacturers in the Asia Pacific region. To integrate vertically and enhance its manufacturing capability, Autron acquired IC Equipment for S\$5m in Oct 2002, paid by the issue of 16.7m new Autron shares valued at S\$0.30 per share.

IC Equipment is an equipment contract manufacturer (EMS) that has over 20 years experience in the design and engineering of semiconductor equipment. IC Equipment services OEMs like Agilent, Electroglas, VI Technology, OSI Systems, Daiichi, Olympus and Teradyne.

The acquisition is complementary to Autron's existing distribution business as IC Equipment brought on board the design, engineering and manufacturing capabilities. This has allowed Autron to expand into product licensing and co-manufacturing with its principals. Margins for manufacturing can easily double that of distribution business at about 8-9%.

Autron's latest manufacturing foray has seen some success. Already, a plant has been set up in Shanghai in April this year to manufacture machine parts for SMT equipment lines, namely feeder and robotic arms. These are compatible parts that can be used for various brand names SMT lines, ie by Fuji, Assemboen (Philips), Panasonics and Siemens. This aside, Autron has also started production of some machine parts for Assemboen, whereby it has exclusive distributorship. In fact, Autron

has an agreement with Assemboen to take over its sales and service operations in Asia. We believe that such outsourcing trend by OEMs to Asia is an ongoing process given the need to lower costs. Autron is well positioned to ride on the trend.

- **Taping the fast growing reconditioned machine business as additional income stream.** Apart from contract equipment and part manufacturing, Autron has made inroad into the reconditioned equipment market. Due to the tight capex budget of electronics companies, demand has been growing for "good-condition" 2<sup>nd</sup> hand SMT machines. With the shift of manufacturing base from US and Europe to Asia, Autron has identified the opportunity and expects to ride on the trend given its strong distribution network in Asia. This will allow Autron to widen its customer base, catering to both the first and lower tier manufacturers.

Autron, with its strong engineering and after sale capabilities, is well positioned to serve the reconditioned equipment market. Unlike most reconditioned machine dealers, who merely trade the machines, Autron can provide warranties and services for the machines. As Autron is able to source 2<sup>nd</sup> hand machines at very low prices, usually at residual value, margins for reconditioned business are much higher at 13% as compared to its current distribution margins of 4-5%. As this division started in April 2003, impact on earnings will only be felt going into FY6/04. We expect the division to be a significant earnings driver over the next 2 to 3 years. The company has received meaningful orders from customers since operations started.

#### Valuation

- Given its new business focus and restructuring, Autron is set for earnings turnaround, starting from FY03 and into the next 2 years. We believe that this is only a beginning with growth momentum expected to carry into FY04-05 as its new businesses in reconditioned equipment and contract manufacturing begin to contribute meaningfully. Margin expansion coupled with increased revenue from new divisions are expected to drive growth of over 25% over the next 2 years.
- Valuation at 9.4x FY6/03 and 7.5x FY6/04 earnings is not demanding. Market has yet to factor in the turnaround story. In April 2003, Temasek has taken a 9.9% stake in the company by subscribing for 59.05m new shares at S\$0.1775 per share. This should boost investor sentiment as well. Buy.

#### COMPANY PROFILE

- **Dual listing on both Australian and Singapore Stock Exchanges.** The group supplies and distributes capital equipment and back-end semiconductor packaging equipment to the electronics industry in the Asia Pacific region under its various subsidiaries.
- **Established clientele.** The group has a large customer base of over 500 blue chip names including Seagate, Nokia, Philips, HP and their contract manufacturers such as Solectron, Flextronics, and SCI Sanmina.
- **Largest distribution network in China.** Autron has approximately 20 sales and engineering centres based in China. After the acquisition of IC Equipment, Autron can also leverage on IC's plant in Shanghai. Autron is committed to giving customers a response within 4 hours.

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