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MEMBER CORPORATION OF AUSTRALIAN STOCK EXCHANGE LIMITED
RESEARCH

AUTRON CORPORATION LTD (AAT)

RECOMMENDATION:

SHORT TERM: **STRONG BUY**
LONG TERM: **OUTPERFORM**
CURRENT PRICE: **$0.42**
DATE: **24 APRIL 2001**
SECTOR: **TELECOMMUNICATIONS**

CAPITAL PROFILE :

Issued Capital:	494.3M Ord
Market Capitalisation:	$207.6M
12 Mth Price Range:	$0.26 – 0.57
Ave Monthly Volume:	10.0M
Shareholders Funds:	$59.3M
Return on Equity	30.2%
NTAV p.s.:	$0.08
Gearing:	Nil

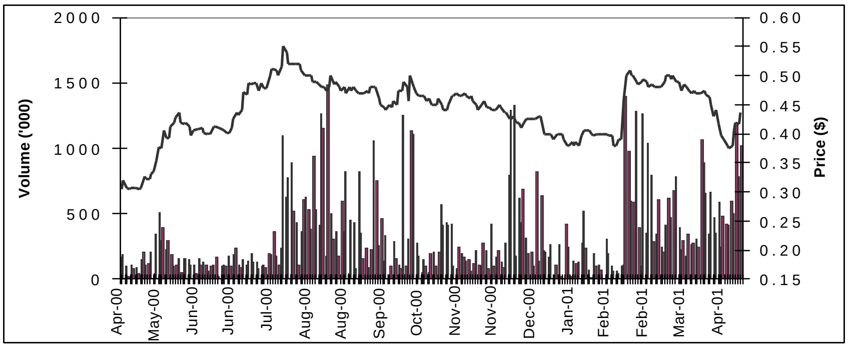
MAJOR SHAREHOLDERS

YAH & Associates	179.8M (36.4%)

INTERIM RESULT & SINGAPORE LISTING

The strong result was above expectations, reflecting the inclusion of AmTec and strong capital equipment demand throughout South East Asia.

This strong growth is expected to continue for the next two years, with the expanded operations. The acquisition of AmTec has elevated AAT to a leading position in a strong, growth segment of the IT industry. Expect further price appreciation, with a 12 month target of $0.65.



KEY POINTS

Interim Result - AAT reported a 549% increase in profit to $7.14M and a 361% increase in EPS to 1.73¢, on a 362% increased in revenue to $96.2M. The interim dividend increased by 0.25¢ to 0.5¢ fully franked.

The strong revenue growth follows the inclusion of the American Tec (AmTec) acquisition from July 2000, which effectively doubled the size of the operations, strong demand from the existing customer base and a weak A$. Underlying profit growth was stronger with $1M of costs and losses incurred in the first half that will not be repeated in the second half.

This growth reflects increasing demand for electronics equipment throughout the Asian region, an expansion of agencies and increasing sales of consumables. The increasing equipment demand is due to strong consumer demand from technological advancements and new product development, shortages of capacity and a relocation of manufacturing to the region.

Singapore Listing – AAT has confirmed its dual listing on the Singapore Exchange on 3 May 2001. This is important as it:

- Improves the profile of AAT within the region, especially among customers, suppliers, government and banks;
- Increases the opportunities for acquisitions in the region, using Singapore listed equity; and
- Should result in a re-rating of AAT to a valuation more in line with the IT sector in Singapore.

Forecasts – The profit forecast for 2001 is conservative, based on the interim result and forecasts for both companies pre-acquisition, taking no account of currency gains, integration and other cost savings, and expansion opportunities. Likewise, forecasts for 2002 are based on continued growth of the existing business and continued relocation of manufacturing to the region.

Reasons to Buy – With the AmTec acquisition, AAT offers leveraged exposure to the rapidly expanding global electronics sector through a leading and well-positioned company, with expanded geographical coverage, leading agencies and a strengthened position with its suppliers, and strong growth prospects at an attractive valuation. Despite the recent price rise, AAT is trading at a significant PE discount to the market for 2002. We have a 12 month price target of $0.65.

Activities

AAT provides services to the electronics industry in Asia, especially the printed circuit board assemblers and the semiconductor manufacturers.

This includes production-line design, machinery supply, installation, warranty and service, and related consumables.

ANALYST: Brent Mitchell (03) 92681126

Price: $0.42 Yr to 30/6	98(a)	99(a)	00(a)	01(e)	02(e)
Revenue ($m)	26.7	35.2	50.0	189.2	210.0
Profit ($m)		4.2	5.8	15.5	20.6
Earnings (cps)[1]		1.4	1.7	3.1	3.8
Price:Earnings (x)[1]		30.3	24.1	13.8	11.2
Dividend (cps)		0.4	0.8	1.3	1.5
Yield (%)		1.0	1.8	3.0	3.6
Franking (%)		100.0	100.0	0.6	0.0

[1]Fully diluted for Rights, Performance Shares, Conv Notes & Options
Based on the current AAT share price of $0.42 & exchange rate of HK$4.00

BACKGROUND

History

AAT is the renamed base of Pacific Communications, following the sale in May 1998 of that company's closed circuit TV business. AAT completed the acquisition of Niche Tech, a Singapore based company, on 4/11/98, effective from 30/6/98.

Niche Tech, established in 1989, is a Singapore based supplier, installer and service and maintenance provider of sophisticated capital equipment for the manufacture of printed circuit boards in Singapore, Malaysia, Thailand and China.

AAT was relisted on the Australian Stock Exchange in January 1999, following the issue of 6.25m shares at $0.80. This was followed on 30/7/1999 by a $6m issue of Convertible Notes, mainly to Citibank in Australia and Singapore.

On 21/3/00, AAT announced the acquisition of American Tec (AmTec) for HK$100m (A$22.5m), comprising cash of HK$54m (A$12.1m) and HK$46m (A$10.3m) in AAT shares at A$1.05 per share. The cash component was funded by 1:6 rights issue at $1.05 per share (pre a 4:1 split) which raised $16.4m. AmTec is a similar company to Niche Tech, operating in North Asia and competing with Niche Tech in China

On 24/4/01, AAT announced a dual compliance listing on the Singapore Exchange Ltd, to commence on 3/5/2001.

Activities

Printed Circuit Board Assembly (PCBA)

Through Niche Tech in Singapore, Malaysia, Thailand, the Philippines and Indonesia, and AmTec in Hong Kong and China, AAT is a fully integrated supplier and distributor of PCBA and other machinery for multinational and local companies in the electronics industry. These services include:

Capital Equipment – Configuration, implementation and supply of equipment to meet customers' manufacturing process requirements for printed circuit board, semiconductor and related electronic product assemblies;

Servicing – Provision of warranty, technical, marketing and sales support services to customers, including a 24 hour standby service covering maintenance, breakdown and spare parts supply;

Spare Parts & Consumables – Distribution of spare parts and consumables, including specialised cleaning paper (Ultratech) vacuum handling tools, fume extractors, pick and place nozzles, multifunctional feeders, and chemical cleaning materials; and

Used Machinery – Niche Tech also purchases, reconditions and sells used equipment.

AAT has a combined customer base of over 300 companies, with many represented in multiple locations, with some client relationships existing for up to 17 years. Over 80% of the major customers are listed companies on international exchanges, within the region or within China,

AAT agencies cover complete production lines and include the leading supplier in each area, such as Speedline (printers, ovens, wave soldering & encapsulation), Siemans (pick & place), and Genrad (inspection equipment).

Semiconductors

During the first half of 2001, AAT established a new division to concentrate on distribution of semiconductor equipment. The division is run by a leading and experienced industry executive, covering all of South East Asia, China, Taiwan and possibly Korea. The product range includes existing semiconductor agencies held by both Niche Tech and AmTec, including Camalot (Dispenser & Matrix BGA mounter), MPM (Wafer printing), and Accel (BGA cleaner).

Smartag (S) Pte Ltd (AAT 52%)

Smartag is a Singapore based company specialising in radio frequency intelligence. Its principle product is the Smartag label, a paper-thin identification label with a programmable integrated circuit connected to an antenna, capable of communicating through radio frequency signals with a fixed or handheld reader/writer over distances of 1 metre. Smartag has strategic alliances with Singapore Technology Corporation, Philips and Sihl, with a number of current evaluation projects.

SHAW and persons associated with it (within the meaning of S849 of the Corporations Law) have an interest in the securities of AAT. SHAW has participated in capital raisings for AAT and has earned fees for such activities.

INTERIM REPORT

A strong result for the 6 months to 31/12/00, with a 549% increase in net profit to $7.14m on a 361% increase in revenue to $96.16m. AAT also declared an interim dividend of 0.5¢ fully franked. The result puts AAT in line to meet company forecasts of a profit of $15.5m for 2001.

		6 Months to 31/12		
Item		**1999(a)**	**2000(a)**	**% Ch**
Revenue	($m)	20.84	96.16	+361.5
EBIT	($m)	1.92	9.34	+379.6
Interest	($m)	-0.27	-0.35	
Pre-tax Profit	($m)	1.68	8.99	+435.1
Tax	($m)	-0.73	-1.87	
Net Profit after Tax	($m)	0.95	7.13	
Minorities	($m)	0.15	0.01	
Net Profit	($m)	1.10	7.14	+549.2
EPS (Weighted Average)	(¢)	0.37	1.73	+361.2
EPS (Wtd Av –pre-goodwill)	(¢)	0.41	1.85	+351.2
DPS	(¢)	0.25	0.50	+100.0
EBIT Margin	(%)	9.35	9.46	
Tax rate	(%)	43.3	20.7	
Gearing	(%)	31.2	0.0	
Shareholder Funds	($m)	13.6	59.3	+336.0
Return on Equity	(%)	16.6	30.2	
Total Assets	($m)	35.9	117.4	+227.0
Net Tangible Asset Value	(¢)	3.6	8.3	+130.6

The strong revenue growth reflects:

- Inclusion of the AmTec acquisition from 1/7/00, which effectively doubled the size of the operations;
- Strong demand from the existing customer base across Asia, resulting from technological advancements and product development, shortages of capacity, a relocation of manufacturing to the region, expansion of agencies and extension of agencies across the region.
- Establishment of the new semiconductor division;
- Expanding sales of consumables, especially cleaning paper; and
- A weak A$.

While operating profit rose by 380%, the underlying growth was stronger, with $1m of additional costs and losses, which will not be repeated in the second half. By division:

Printed Circuit Board Equipment

Experienced strong profit growth and higher margins, with profit growth in Niche Tech (Southern Asia) of 168% and in AmTec (China) of 42%. Adjusting for currency gains, Niche Tech was still robust with a 77% increase. However, the AmTech profit margins were below budget, due to integration costs within China.

Semiconductor

Profit was 73% below budget, due to a 3 month delay in the commencement of the major agency and the requirement for additional personnel training.

Australia

Remaining Australian operations lost around $0.8m. Management has advised that this division will be effectively closed in the second half.

Smartag

Incurred a small loss during the period.

The Balance Sheet has strengthened with the acquisition of AmTec on 1/7/2000 and the $16.4m rights issue, with: Shareholder Funds rising by 336% to $59.3m; Total Assets increasing by 227% to $117.4m; no net debt; and net cash of $19m (4¢ ps).

OUTLOOK

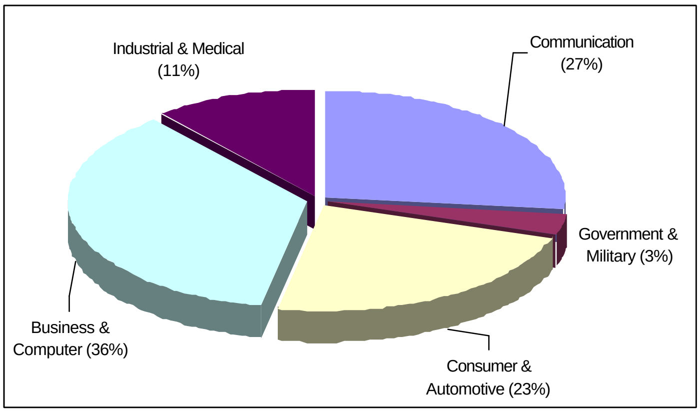
Further expansion of revenue is expected in the second half of 2001 continuing for at least the two subsequent years, from:

Expansion of the Global and Regional Electronics markets

Strong global growth is expected for at least the next 4 years, driven by escalating consumer demand and the rapid changes in technology, especially:

- The increasing shift from analogue to digital systems in communications area and continued growth in Personal Access Devices, mobile phones etc.
- Continued growth in consumer and automotive sector (23% of end use) and communications (27%). This has seen business and computing fall to 36% of end-use, with PC falling to under 15%.

End use applications of Printed Circuit Boards



Source: BPA (Technology & Management) Ltd

The Asian Pacific region's share of this market is expected to continue to rise above the current 40%, driven by:

- Strong regional economic growth, with 5.3% Compound Annual Growth Rate (CAGR) in GDP in the 10 years to 2010. The increasing per capita income and living standards in the region will result in increased demand for products ranging from black and white television to mobile phones and DVD players. This will result in establishment of increased local brands and manufacture.
- Continued relocation of manufacturing to the region and faster expansion of existing manufacturing, as companies utilise the lower cost base in Asia. This also reflects a move from in-house manufacture to contract manufacturers such as Solectron and Flextronics. These companies are customers of AAT and have a large and growing production base in Asia. This could also be helped by China's entry into the World Trade Organisation.

Increased Market Share

AAT is expected to increase market share as a result of:

- Joint marketing presentations with Speedline and Siemens;
- Geographical coverage across most areas of Asia and expanded agency range; and
- The ability to design, supply, install and warranty an entire production line. This includes service on 24 hours a day and 365 days a year basis.

Expansion of Semiconductor Equipment Division

Continued expansion of the recently established separate semiconductor division. The benefits from establishment of this new division will be:

- Improved marketing and servicing to a smaller base of around 30 key customers, which require a higher level of expertise;
- It will help AAT acquire new agencies in semiconductor manufacture, to take advantage of the future growth cycles.

Despite the slow down in PC sales, which now comprise less than 40% of end use for semiconductors, demand for semiconductor equipment in the Asian region remains strong, due to:

- Continued relocation of manufacturing to the region; and
- Continued investment in capacity to meet future demand. Due to equipment and infrastructure demands, companies have to invest now to meet expected demand in 2003 – 2004.

While this division's result was disappointing in the first half, this should improve substantially in the second half with full operation of the agencies. For 2002, this division could generate annualised sales of over $35m.

Consumables (Materials)

AAT through its Ultratech subsidiary has continued to expand supply of cleaning paper and related cleaning products, with strong demand from existing and new customers in Asia, to be supplemented by 10 additional distribution agreements in new territories. However, there is greater long run potential within the Asian region and the other represented markets on the back of MPM's market share for stencil printers. On this basis, we believe Ultratech products could generate sales of A$20m within five years. The same potential exists for other consumables, such as solder paste, adhesives and chemicals.

Smartag (52% owned)

After a small loss in the first half, Smartag continues to build revenue from the evaluation projects, with breakeven expected in the second half. Although Smartag has good potential, it will need significant contracts to have any significant profit effect.

FORECASTS

For 2001, SHAW forecasts revenue to increase by 278% to $189m, driven by:

- Inclusion of AmTec for the full 12 months. On a proforma consolidated basis, revenue is forecast to increase by 38%;
- Continued expansion of the global and regional electronics market and increased penetration of the semiconductor manufacturing area;
- Acquisition of new agencies, particularly the Camalot agency and the progressive assumption of the Genrad agency; and
- A higher level of servicing, parts revenue and continued expansion of consumable sales.

The previous forecast of a 165% increase in profit to $15.5m has been retained, being the AAT forecast in the Rights prospectus. This assumes a 76% increase in the second half profit to $8.3m. The lower second half increase reflects conservatism and comparison with a significantly stronger second half of 2000. Profit growth will driven by revenue growth and:

- Improved margins on the AAT business from a higher level of Letter of Credit funding and the merging of operations;
- Increasing returns from expansion of the materials area, especially cleaning paper; and
- A lower level of losses in Australia in the second half and a move to break-even by Smartag.

	Statutory Consolidation Year to 30/6							**Proforma Consolidation[1,4] Year to 30/6**				
Item	**1999(a) $m**	**2000(a) $m**	**Ch %**	**2001(e) $m**	**Ch %**	**2002(e) $m**	**Ch %**	**1999(a) $m**	**2000(a) $m**	**Ch %**	**2001(e) $m**	**Ch %**
Revenue - AAT								35.2	50.0	42.2		
- ATL								64.1	100.3	56.5		
Revenue	**35.2**	**50.0**	**42.2**	**189.2**	**278.3**	**235.0**	**24.2**	**99.3**	**150.3**	**51.4**	**189.2**	**25.9**
EBIT	**6.1**	**8.2**	**35.7**	**20.7**	**151.7**	**29.4**	**41.9**	**7.7**	**15.2**	**96.6**	**20.7**	**36.5**
Interest	-0.2	-0.6		-0.7		**-2.1**		-0.4	-0.9		-0.4	
Net Profit before Tax	5.9	7.7	29.9	20.0	160.8	**27.3**	36.3	7.1	14.3	100.9	20.0	40.0
Tax	-1.7	-1.9		-4.6		**-6.7**		-2.1	-3.1		-4.6	
Net Profit	**4.2**	**5.8**	**39.8**	**15.5**	**164.9**	**20.6**	**33.3**	**5.1**	**11.3**	**122.8**	**15.5**	**37.3**
Adjustments[2]								1.5	1.4		0.7	
Normalised Net Profit								**6.5**	**12.7**	**94.2**	**16.2**	**27.1**
EBIT Margins (%)	17.2	16.5		10.9		12.5		7.8	10.1		10.9	
Tax Rate (%)	29.4	24.6		22.8		24.5		29.3	21.6		22.8	
Return on Equity (%)	0.0	24.3		24.9		21.5						
Weighted Av. Iss Cap (m)	196.4	248.9		474.6		516.6						
EPS - Weighted Av (cps)	2.1	2.3	10.3	3.3	38.9	4.0	22.4					
PE - Weighted Average (x)	19.8	17.9		12.9		10.5						
Diluted Iss Capital (m)	301.9	383.9		532.5		540.0						
EPS - Fully Diluted (cps)[3]	1.4	1.7	25.5	3.1	75.9	3.8	24.5					
PE - Fully Diluted (x)[3]	30.3	24.1		13.7		11.0						
Dividend Per share (cps)	0.44	0.75		1.25		1.50						
Dividend Payout Ratio (%)	20.6	32.0		38.4		37.6						

[1] Notional consolidation includes ATL Full Year results to 31/3 and AAT Full Year results to 30/6.
[2] Non-recurring agency fees relating to set-up costs in China: allocation of commission on contracts completed after year-end; and add-back of Goodwill.
[3] Diluted for Rights, Conv Notes, Options. Adds back tax adjusted Convertible Note interest & notional return on all subscriptions
[4] Based on the current AAT share price of $0.42 & exchange rate of HK$4.00

For 2002, revenue is expected to increase by 24% to $235m, driven by:

- A full 12 months contribution from an established semiconductor division of around $35m;
- Increased sales as new agencies receive increased customer acceptance; and
- Continued growth in second hand machine sales and consumables.

Profit is expected to increase by 33% to $20.6m, driven by revenue growth and realisation of some benefits from the integration of AmTec, including more efficient deployment of sales and servicing staff, economies of scale in purchasing, especially equipment from the agency principals.

The above forecasts are conservative, assuming only industry growth and taking no account of currency gains in the second half, the leading position of its agencies, or any additional agencies.

DIVIDENDS

AAT has a stated dividend policy of maintaining a Dividend Payout Ratio of 33% - 50% of Weighted Average EPS. This should result in full year dividends of 1.25¢ (partly franked) and 1.50¢ (unfranked) in 2001 and 2002 respectively. The second half dividend and future dividends are expected to be mostly unfranked.

ISSUED CAPITAL

Assuming all performance shares are issued and all options exercise, the Total Diluted Issued Capital would be as follows:

Current Issued Capital (31/12/00)	**489.7**
Exercise of Options	4.6
Issued Capital as at 30/6/01	**494.3**
Options expiring Nov 2001	22.2
Profit performance (American Tec) to be issued in 2002 (based on 2001 performance)[1]	16.0
Issued Capital as at 30/6/02	**532.5**
Profit performance (American Tec) to be issued in 2003 (based on 2002 performance)[1]	7.5
Profit performance (American Tec) to be issued in 2004 (based on 2003 performance)[1]	7.5
Fully diluted Issued Capital	**547.5**

[1] Based on the current AAT share price of $0.42 & exchange rate of HK$4.00

Based on a Diluted Issued Capital of 547.5m as at 31/6/04 and a current Price of $0.42, the Diluted EPS and PE for 2001 will be 3.8¢ per share and 11.0x respectively.

SINGAPORE LISTING

On 24/4/2001, AAT confirmed expected approval for a dual compliance listing on the Singapore Exchange on 3/5/2001. This will be positive for AAT, as:

- It improves the profile of AAT within the region, especially among customers, suppliers, government and banks, resulting in increased access to funds, as well as government ecommerce support;
- It increases the opportunities for acquisitions in the region, using Singapore listed equity; and
- This should result in a re-rating of AAT to a valuation more in line with the IT sector in Singapore. This is due to the larger number of listed IT stocks and increased appreciation of the growth potential of the sector. IT stocks in Singapore generally trade in a PE range of 15x – 25x.

The listing will be preceded by an official launch on 2/5/2001 and will be accompanied by a number of retail and institutional investor presentations in both Singapore and Hong Kong, accompanied by further media coverage on TV and investment and trade magazines.

REASONS TO BUY

- The acquisition of American Tec has significantly changed the nature of AAT, giving it increased exposure to the region and strengthening the relationship with principal suppliers. AAT has moved from a position of being dependent on these suppliers going forward to a position of those suppliers now being dependent on AAT.
- The expanded Board and Management of AAT have extensive distribution experience in the Asian electronics industry, with leading agencies, strong customer relationships and familiarity with local procedures and customs. Management has been strengthened further with the appointment of Voo Kim Seng in October 2000, as Group Financial Controller;
- AAT offers low risk exposure to the rapidly expanding and developing global electronics industry without any product risk. Increasingly, the global electronics manufacturing sector is concentrating in Asia, especially China and Malaysia, with Singapore as the regional hub for major equipment suppliers and Hong Kong as a hub for expansion into China;
- The increased financial strength and expansion of opportunities will result in continued strong revenue and profit growth. Since listing AAT has generated Return on Equity of over 20%;
- Despite the substantial increase in share price since listing, AAT remains undervalued, trading at a significant discount to the general market, with potential for a further upward re-rating; and
- The Singapore listing will introduce new shareholders and a new range of comparable companies, resulting in an upward re-rating.