

### Company Profile

Price (S\$) 0.52						Top-line growth assumptions	
						Base case	
						50%	70%
Year to 30 June	1998A	1999A	2000A	2001F	2002F	2002F	2002F
Revenue (S\$m)	17.7	38.1	54.4	189.2	283.9	246.0	321.7
Net profit (S\$m)	(0.6)	4.6	6.3	15.5	20.8	18.0	23.6
EPS (cts)	(0.5)	1.6	1.6	3.1	4.0	3.5	4.6
EPS growth (%)	NA	NA	4.4	92.8	28.6	11.5	45.7
PE (x)	NA	33.4	32.0	16.6	12.9	14.9	11.4
DPS (cts)	0.3	0.3	0.6	0.6	0.6		
Div yield (%)	0.6	0.5	1.2	1.2	1.2		
P/Book (x)	12.0	10.5	5.5	4.3	2.9		
ROE (%)	(11.9)	31.4	17.2	25.6	22.8		

#### Highlights:

- ❑ **Business.** Autron is a leading distributor of PCBA equipment in the region. An essential in electronics manufacturing processes, PCBA equipment is the backbone of the CM industry.
- ❑ **China will prove to be a strong growth platform.** With recent acquisitions in HK & Taiwan, Autron is well-poised to tap into the high-growth Chinese electronics industry, which will benefit from 2 key trends: 1) Continuing influx of Taiwanese investments onto the mainland, & 2) China's growing home-grown tech companies.
- ❑ **Distribution vs Manufacturing – which is better?** In our view, Autron's distribution business has clear advantages over the highly competitive contract manufacturing business, and therefore a better model to ride on the growing electronics industry. The only risk therein is that of losing the distribution franchise.
- ❑ **Valuations.** Singapore CMs are currently trading at an average 23x forward PE on the back of 20% Cagr. Given Autron's stronger growth profile, and better margins (vs manufacturing), we believe 20x FY02 PE, or S\$0.80 is a fair value.

#### Background information

- **Business.** Autron is a leading distributor of PCBA equipment (also known as SMT equipment) to the electronics industry. Although SMT equipment is the mainstay product, the company also distributes some PCB and back-end semicon equipment. Besides hardware distribution, the company also provides value-added services such as systems integration and maintenance. Currently, the distribution business accounts for 70% of earnings, with services accounting for the remaining 30%.

Autron is the exclusive distributor for various brands of PCBA equipment, with the most prominent being Siemens & Speedline.

- **History.** Founded more than 20 years, Autron was listed on the ASX in 1998, before it secured a dual listing on SGX two months ago.
- **Geographical reach.** Autron started out as an Asean-centric distributor. But following the acquisition of fellow-distributors in HK & Taiwan, the company now has exclusive distribution rights for Siemens & Speedline brands for the whole Asia-Pacific ex-Japan/Korea region.
- **Competition.** Unlike the semicon equipment industry, SMT equipment is a much smaller, yet niche market. The dominant players in this industry include: Siemens, Speedline (both of which are carried by Autron; have about 30% market share) & the Japanese players (eg. Fuji, Panasonic, KME).
- **Customers.** Customer base is broad (about 500+), which includes contract manufacturers & OEMs alike.

### China – a strong growth platform

With the recent acquisitions of distributors in China & Taiwan, Autron will be well-positioned to tap into the huge growth potential in China. A boom of China's electronics-manufacturing industry (which will fuel demand for PCBA equipment) is imminent given the:

#### 1. Influx of Taiwanese investments into China

For cost reasons, Taiwanese manufacturers have been flocking into China. Despite the Taiwanese government imposing restrictions of tech investments in China, the influx of investments has continued unabated. Legal loopholes (which allow Taiwanese tech companies to invest in China via offshore investments) as well as the gradual relaxation of investment restrictions by the Taiwanese government have been strong push factors. Taking advantage of the situation, we have seen (and hear of anecdotally) Taiwanese companies relocating / expanding their manufacturing facilities aggressively in China. With China and Taiwan possibly gaining accession into the WTO in 2002, it could pave the way for further relaxation of such investment restrictions, and set the stage for investment growth to accelerate.

#### 2. Emerging home-grown tech companies

Within China itself, home-grown OEMs such as Legend and budding CMs are also giving the tech industry a boost. Success stories of Chinese OEMs such as Legend are already well-known. What is probably less well-known is that Chinese-owned CMs are also emerging very quickly, reminiscent of a similar boom of the CM industry in Singapore several years back.

### Distribution vs Manufacturing – which is better?

Despite recent tech woes, there is no doubt that the CM industry will continue to grow on the back of outsourcing trends. Autron will also benefit from the same outsourcing trend, given that the PCBA equipment it distributes is the manufacturing backbone for CMs. With this in mind, investors would

probably be asking - are CMs or distributors better poised to tap into the outsourcing story? We take the view that distribution (at least in Autron's case) is a superior business model, for the following reasons:

- **Competition is less stiff.** CM is a cut-throat business: entry barriers are low and competition is ever-increasing. Comparatively, Autron's competitive environment is less harsh. Autron is the largest distributor of its kind in the Asia-Pacific ex-Japan/ Korea region; in such a fragmented market, size is a natural deterrent to competition. Moreover, PCBA equipment is a niche business, with probably only about a dozen major players in the industry (Autron's key principals, Siemens and Speedline have 30% market share).
- **Margins are better.** CM margins are netting 3%+. On the other hand, Autron gets around 10% net margins.
- **Low inventory risks.** Unlike CMs, which are exposed to inventory risks (components), Autron does not need to hold inventory.
- **Lower funding risks.** As there is no need to hold inventory, Autron has better working capital management than CMs. Proof is the company's strong cash position (negligible debt, S\$20m cash).
- **Minimal capex required.** As a distributor, Autron has minimal need to invest in manufacturing facilities / equipment.

## Risks

- **Depreciating Yen.** Autron's key franchises are Siemens and Speedline, both of which are European brands. Should the Yen depreciate further, the Japanese brands will be more cost-competitive.
- **Losing the distribution franchise.** Considering what has happened to Cycle & Carriage, investors will inevitably be concerned with similar risks. However, the industry-specific nature of the equipment business makes it less susceptible to such risks:
  1. With a comprehensive distribution network in Asia, Autron has significant clout. As such, it will not be easy to replace the company with another distributor.
  2. For the same reason, it will not be easy for principals to penetrate distribution business by themselves. A distribution network cannot be built overnight from scratch.
  3. Manufacturers such as Siemens are more focussed on R&D & manufacturing, and would probably prefer not to over-stretch themselves by getting involved in the distribution business.

## Valuations

- Singapore CMs (Venture & Omni) are trading at an average of 23x forward PE, on the back of 20% Cagr.
- Given Autron's stronger growth profile, and better margins (vs CMs), we believe it is fair to accord 20x FY02 PE on the stock. On that basis, a one-year price target of S\$0.80 is reasonable.

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<b>Contract Mfr</b>	<b>Price (S\$)</b>	<b>CY01 PE</b>	<b>FY00-03 EPS Cagr</b>
Venture	12.70	25.5	20%
Omni	2.92	20.7	20%
Average		23.1	20%