

**AT SYSTEMATIZATION****SUBSCRIBE**

IPO

RM0.33 (Target Price: RM0.67)

PP7004/11/2005

Mesdaq : 120.6

3 February 2005

Total automated solutions

- **ATS Group is primarily a designer and manufacturer of industrial automation systems and machinery.**
- **It has manufacturing plants in Penang and Suzhou, China and serves a wide range of customers including MNCs in the electrical and electronics, medical devices and automotive industries.**
- **ATS's major clients include top notch MNCs such as ASE Electronics (M), B.Braun Medical Industries S/B, Agilent Technologies Malaysia, Mattel (M) S/B, Renesas Semiconductor and Western Digital.**
- **ATS's revenue and EBITDA has grown at an impressive CAGR of 37% and 93% respectively over FY02-FY05. EBITDA margins have similarly expanded from some 10% in FY02 to 25% for the nine months of FY05 attributable to lower cost as its products are mass-produced and commercialised.**
- **FY06 earnings growth of 61% y-y will be driven organically as well as through tax savings, via its recently secured pioneer status.**
- **Based on a fair P/E of 15x for a Mesdaq counter, ATS should be fairly valued at RM0.67.**

Background

ATS Group is an integrated designer and manufacturer of Industrial Automation Systems and Machinery with supporting activities including Fabrication of Parts and Equipment, and provision of Industrial Automation Support Products and Services.

ATS primarily serves the electrical and electronics, medical devices and automotive industries. Its products and services include automated test handling systems, automated laser marking and vision inspection systems, fully automated assembly system, clean room Class 1 intelligent conveyor transport system, automated production line integration system, fabrication of precision parts and equipment and industrial automation support product and services. Apart from serving customers locally, its products are also exported to Japan, United States, France, Belgium, Taiwan, Korea, China, Thailand, Indonesia and Philippines.

Estimates

YE 28 Feb (RMm)	04	05E	06E	07E
Revenue	18.8	29.6	35.5	40.8
EBITDA	4.5	7.7	9.4	10.8
EBITDA Margin %	23.7	25.9	26.5	26.5
PBT	3.5	6.6	8.3	9.6
Net Profit	2.9	4.7	7.5	8.6
EPS (sen)	1.8	2.8	4.5	5.2
GDPS (sen)	-	-	-	-

Valuations (based on IPO price)

YE 28 Feb	04	05E	06E	07E
P/E (x)	18.8	11.8	7.4	6.4
G. Div. Yield (%)	-	-	-	-
EV / EBITDA (x)	11.4	6.2	4.9	4.1
P/NTA (x)	-	1.7	1.4	1.1
ROE (%)	-	14.5	18.9	17.9

Other Key Data

Market Cap.	RM55.3m/US\$14.6m
Issued Shares (million)	167.5
Est. Free Float	28.1%
Major S'holder	Pegasus (54.8%)

Pegasus shareholders are Beh Lai Lien (34.6%), Lai Siaw Ling (34.6%), Wong Pow Keong (15.4%), Yap Kim Lean (15.4%)

Reuters	XXX.KL
Bloomberg	ATSY MK

**Strengths****Total complete solution house**

ATS has full in-house capabilities to provide total solutions including engineering design, software design and development, fabrication of parts, jigs and fixtures, and machine assembly, installation and commissioning. In effect, it offers its customers of various industries a total complete solution for industrial automation systems.

In-house research and development team

ATS has in own in-house research and development team comprising some 40 engineers to create innovative products and enhancements to sustain its competitive edge. For the past 3 financial years, ATS has spent an average of 8% of turnover on its R&D expenses. In addition, the company also has its own intellectual properties including patent pending for its Vision system and in-house developed real-time multitasking operating control software.

Product quality assured

ATS serves a broad range of customers including MNCs operating in Malaysia and overseas. These include the likes of ASE Electronics (M), B.Braun Medical Industries S/B, Agilent Technologies Malaysia, Mattel (M) S/B, Renesas Semiconductor and Western Digital. The ability to serve this clientele base is testament of their high quality standards as well as their competitive pricing, good after sales service and product reliability. Besides, its products have attained ISO 9001:2000 certifications and meet requirements for Clean Room Class 1 and GMP standards.

Not dependent on a single customer

Unlike most other small manufacturing entities, ATS is not dependent on a single customer as a source of revenue and earnings. For the 9-mths ended FY05, its top ten customers accounted for 34.9% of revenue with its largest customer, Agilent Technologies accounting for 10.4% of revenue. This is nevertheless a drastic improvement over FY04 when its top ten customers accounted for 60.6% of revenue. As a whole, ATS has a total of 140 various MNC and local manufacturers as its clientele base.

Major concerns**No long term contractual agreement with clients**

ATS does not have any long-term contractual agreements with its customers. Nevertheless, its products and services continue to be well received as evidenced by its repeat orders from existing customers. It also has a good working relationship with its customers where 70% of its top ten customers have been dealing with ATS for five years or more.

Dependence on the electrical and electronics industry

The group sells its products and services mainly to customers from various sub-sectors of the electrical and electronics industries and as such, to a certain extent is dependent on the outlook and cyclical nature of the above industries. To mitigate this risk, ATS is exploring new products in different industries, customers and geographical markets, for example, it has customers such as B. Braun, which is in the medical supplies business and Mattel, in the toy business.

Competitive risks

The industrial automation industry is competitive and subject to rapid technological changes and new product development. No assurance can be given that ATS will be able to maintain its competitive edge over its competitors as well as its customer base. Its in-house team of engineers however mitigates this by developing proprietary automated solutions using advance technological know how.

**Prospects bright for the industrial equipment industry**

The specialised machinery and equipment industry is worth some RM343.6m in 2000 and forecasted to grow at approximately 5%-8% p.a. over the next 5 years based on independent consultant, Vital Factor Consulting. This growth is likely to be supported by the strong export market for such products (which increased at an annual rate of 12.7% between 1999-2003), firm domestic demand as the manufacturing sector continues to shift from labour intensive processes to high technology applications and lastly, with high import replacement of such products, estimated at RM25.1bn in 2003, this leaves ample room for growth for local manufacturers.

Valuation and Recommendation

To remain competitive, ATS plans to continually develop new products such as high speed test mark cure system, colour recognition system and clean room Class 1 assembly systems. It also intends to standardise some popular products so that it can mass develop such products. These include existing product such as its test handling system, laser marking system and fully automated assembly systems. These should ensure topline growth for the group as well as margin expansion with increased production volume, given that much development cost is incurred on initial prototype models.

Consequently, we are projecting ATS's net earnings to jump another 61% in FY06 or an EPS of 4.5sen. This is however largely driven by the lower tax rate we are assuming going forward as ATS only recently secured pioneer status for its business. Based on a fair PER of 15x for the Mesdaq sector, we are looking at a fair value of RM0.67. **SUBSCRIBE.**

PEER COMPARISON

Company	FYE MM/YY	Last Price (RM)	Mkt Cap (RM m)	Rev (RM m)	Net Profit (RM m)	P/E (x)
Pentamaster	12/05	2.05	272.9	86.6	17.3	15.8
LKT Industrial	12/04	1.39	92.2	155.0*	11.2*	8.2
ATS	2/05	0.33	55.3	29.6	4.7	11.8
Average ex-ATS						12.0

*based on annualised 3Q04 results. Note however that there has been steady fluctuation in LKT's earnings

EARNINGS ESTIMATES

YE 31 Dec (RMm)	2003	2004	2005E	2006E	2007E
Turnover	16.6	18.8	29.6	35.5	40.9
Growth %	45.8%	13.2%	57.4%	20.0%	12.0%
EBITDA	3.2	4.5	7.7	9.4	10.8
Margin %	19.3%	23.7%	25.9%	26.5%	26.5%
Depreciation	(0.7)	(0.7)	(0.9)	(1.0)	(1.1)
Net Interest expense	(0.3)	(0.2)	(0.2)	(0.0)	(0.1)
Pre-tax Profit	2.2	3.5	6.6	8.3	9.6
Margin %	13.4%	18.8%	22.3%	23.5%	23.5%
Taxation	(0.7)	(0.6)	(1.9)	(0.8)	(1.0)
Effective tax rate %	-32.0%	-17.0%	-29.0%	-10.0%	-10.0%
Net Profit	1.5	2.9	4.7	7.5	8.6
Growth %	-1889.3%	96.1%	58.3%	61.1%	15.0%
EPS (sen)	0.9	1.8	2.8	4.5	5.2

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