

Company Report

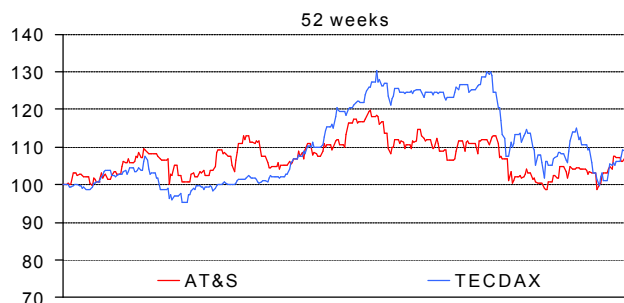
AT&S

Austria, IT & new media

from Accumulate to Buy

András Szálkai +361-235-5134
andras.szalkai@erstebroker.hu

| EUR mn | 2005/06 | 2006/07e | 2007/08e | 2008/09e |
|-----------------|---------|----------|----------|----------|
| Net sales | 374.7 | 475.9 | 556.8 | 606.9 |
| EBITDA | 67.0 | 88.3 | 107.0 | 116.3 |
| EBIT | 26.3 | 40.0 | 50.7 | 55.8 |
| Net profit | 28.1 | 28.7 | 36.1 | 40.4 |
| EPS (EUR) | 1.09 | 1.17 | 1.55 | 1.74 |
| CEPS (EUR) | 2.66 | 3.16 | 4.04 | 4.37 |
| BVPS (EUR) | 9.68 | 9.89 | 11.12 | 12.45 |
| Div/share (EUR) | 0.29 | 0.32 | 0.41 | 0.44 |
| EV/EBITDA (x) | 6.5 | 5.3 | 4.2 | 3.6 |
| P/E (x) | 14.7 | 13.6 | 10.3 | 9.2 |
| P/CE (x) | 6.0 | 5.1 | 4.0 | 3.7 |
| Dividend yield | 1.8% | 2.0% | 2.6% | 2.8% |



| Performance | 12M | 6M | 3M | 1M |
|-------------|------|-------|-------|------|
| in EUR | 6.8% | -8.3% | -4.2% | 2.6% |

| | | | | | |
|--------------------------------|-------|--------------|----------|--------------|-------------------|
| Share price (EUR) | 16.00 | Reuters | ATSV.DE | Free float | 52.2% |
| Number of shares (mn) | 23.2 | Bloomberg | AUS GY | Shareholders | Androsch 21.51% |
| Market capitalization (EUR mn) | 372 | Div. ex-date | 27/07/06 | | Dörflinger 21.52% |
| Enterprise value (EUR mn) | 466 | Target price | 20.5 | Homepage: | www.ats.net |

Turning from a regional player into a global one

- Last year, AT&S was able to surpass its performance from the IT/telecom boom year seen in 2000. We now expect a new phase of development in the company's history, during which the second Chinese plant in Shanghai will start production.
- During the stagnation/contraction of the last five years, investors did not recognize the changes made at the company. AT&S will soon become a global player in the PCB market.
- The company's 1Q06/07 results, reported on July 26, were better than expected.
- AT&S increased its profit guidance for 2006/07 from EPSEUR 1.10 to EUR 1.15.
- We have increased our expectations for the whole forecast horizon. We expect EUR 475mn in revenue and EPS of EUR 1.17 for 2006/07. For 2007/08, we expect EUR 556mn in revenue and EPS of 1.55.
- We calculate that AT&S will buy back 2.59mn own shares by March 2007 and see a possibility of further share buybacks.
- Our new 12-month target price amounts to EUR 20.5, representing 28% upside. The peer group comparison shows a premium, but we do not see as the most relevant valuation method in this case.
- Due to the >20% upside, we upgrade our recommendation to Buy.

Company Report

AT&S' position in the global PCB market

AT&S on way to becoming global player

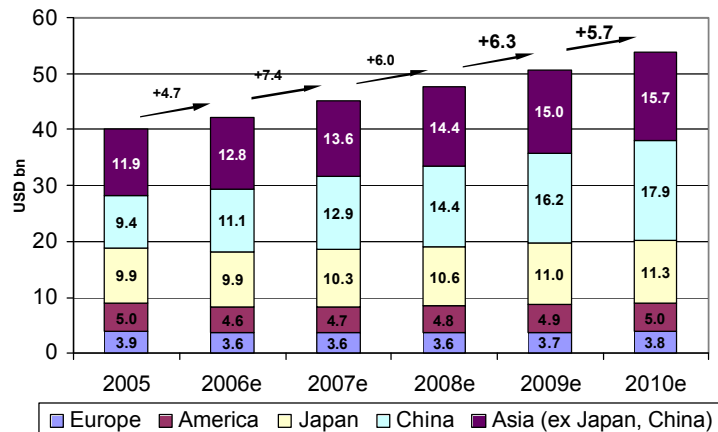
In the last few years, AT&S moved from being a mid-size European player into a global player in the strongly growing PCB market. A major step in this development was the start of production at the new Shanghai-II plant in China, after acquisitions in India (2004) and Korea (2006). Asia (especially China) became the largest production site for electronic applications, and suppliers followed their customers. AT&S also followed this trend. What differentiates AT&S is that the firm continued to be a big player and a reliable supplier in the European market.

Printed circuit boards (PCBs): Current market trends

PCB market expected to show strong growth

The printed circuit board industry has grown consistently in recent years. With volumes up 4.4% in 2005, the total market size reached USD 40bn, the same level as in 2000. However, we can see different regional trends. While Asia is booming, markets in Europe and the US are stagnating. Growth for 2006 is estimated at 4.7%. Asia ex-Japan will grow by 12.1%. At the same time, Japan should remain unchanged and markets in Europe and the US are expected to decrease. Industry advisor Prismark expects this growth to continue for the next few years. As a single market, China is expected to take over market leadership from Japan already in 2006, and will dominate the market by 2010. Europe and the US will stagnate, while Asia should account for 83.6% of world PCB production by that time.

Development of the global PCB market



Source: Prismark, AT&S

Booming markets in Asia, niches in Europe

AT&S expects sustained and significant price competition among Asian suppliers to continue fueling the migration of large-scale production to Asia. As we mentioned above, Asia's PCB production should reach about USD 34bn by 2010 (83.6% of the total), with China accounting for more than half of this figure. AT&S only expects niches to survive in Europe, for which the company is well positioned. European manufacturers of PCBs increasingly depend on additional services and strategies. These include design and prototyping services, and concentrating on niche markets for applications in the medical, military and aviation sectors. AT&S' core business - handset PCB production - is quickly being shifted exclusively to Asia.

Handset PCB production fuelled by continued strong growth in mobile telephone market AT&S' core mobile telephone market continued to post strong growth. Mobile phone sales are expected to rise to 930mn units in 2006 and to break the billion unit barrier in 2007. According to Telecom Trends International, CAGR is expected to be 11% p.a., meaning around 1.5bn handsets shipped by 2010. The demand will be fuelled by

Company Report

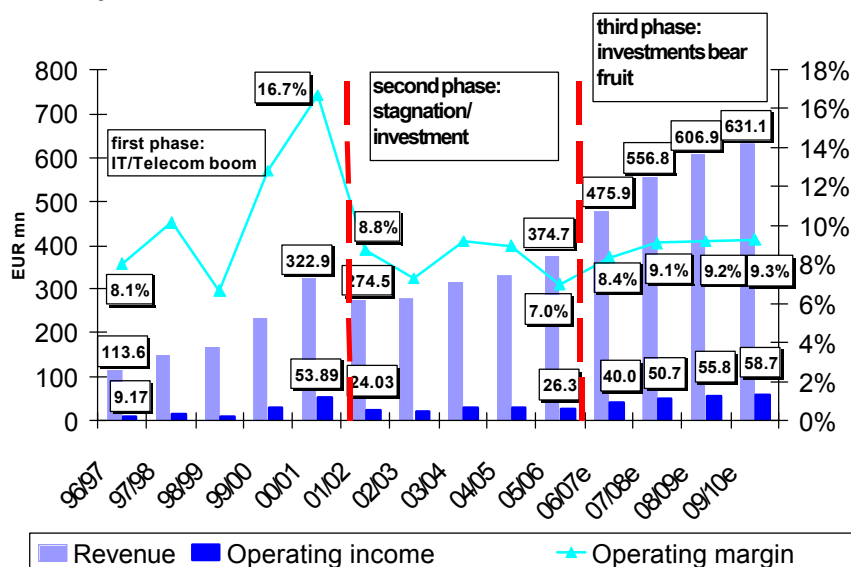
emerging markets for lower-price products, such as India and Africa. At the same time, there is a general trend in the PCB industry towards ever-greater technological complexity, particularly in the handset PCB sector. This is borne out by the strong demand for flexible and microvia circuit boards, where AT&S currently has good positions.

AT&S: Entering a new phase

Last year, AT&S was able to surpass its performance from the IT/telecom boom seen in 2000. We now expect a new phase of development in the company's history, as the second Chinese plant in Shanghai will start production this August. We see three phases of the company's development:

- First phase, 1997-2000: The establishment of the company and peak year in 2000 (due to the IT/telecom boom).
- Second phase, 2000-2005: Stagnation, contraction. However, the company survived the crisis years and started to expand in Asia.
- Third phase, 2006 onwards: Given normal global economic growth, we expect last year's investments to bear fruit. New capacity in China, India and Korea should make the company a profitable global player in the PCB market.

Phases of development at AT&S



Source: AT&S, Erste Bank

Investors have not realized changes made at company

During the stagnation/contraction of the last five years, investors did not notice the changes at the company. AT&S will soon become a global player in the PCB market. In light of the acquisition of Tofic in Korea (February 2006) and the earlier start of the Shanghai II plant, we believe that AT&S is entering a new path in its development and could enter a new growth phase. We also see a chance for higher and more stable margins, as the new Chinese capacities have a big cost advantage, which should help profitability.

Company Report

Revenue projection

Revenue to be driven by Asia, especially China

After the above-mentioned acquisition of Korea's Tofic, the earlier production start in China and the latest news that a new business line trading/DCC will contribute around EUR 20mn in revenue in 2006/07, we prepared our revenue models for the period until the 2009/10 business year. We expect Austrian revenue to stagnate in the next few years, with growth of Chinese production the main driver for the company. For the 2009/10 business year, we expect revenues from China to reach the level of the Austrian production. We also expect very solid development at the Korean subsidiary. AT&S not only acquired new revenue, but also bought flex PCB technology, which will help it to reach a new customer group. We expect the company's revenue to reach EUR 631.1mn by 2009/2010.

Revenue forecast for AT&S by geographical segments

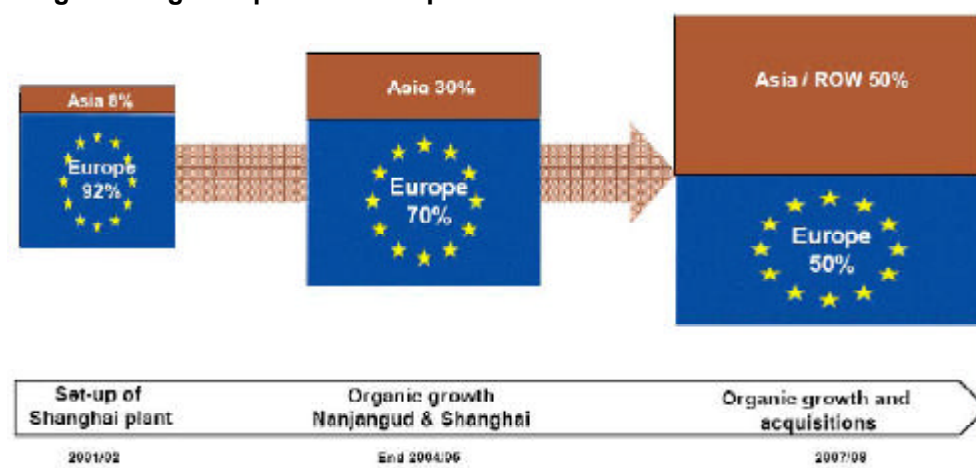
| EUR mn | 2005/06a | % | 2006/07e | 2007/08e | 2008/09e | 2009/10e | % |
|------------------------|----------------|---------------|----------------|----------------|----------------|----------------|---------------|
| Austria | 242,128 | 64.6% | 246,971 | 251,910 | 256,948 | 251,809 | 39.9% |
| China | 102,570 | 27.4% | 147,896 | 187,896 | 227,896 | 246,128 | 39.0% |
| India | 30,000 | 8.0% | 30,000 | 32,000 | 35,000 | 36,750 | 5.8% |
| Korea | 0 | 0.0% | 31,000 | 52,000 | 60,000 | 63,000 | 10.0% |
| Asia | 132,570 | 35.4% | 208,896 | 271,896 | 322,896 | 345,878 | 54.8% |
| Trading/DCC | 0 | 0.0% | 20,000 | 32,958 | 27,028 | 33,461 | 5.3% |
| Total revenue | 374,698 | 100.0% | 475,866 | 556,764 | 606,872 | 631,147 | 100.0% |
| Revenue growth y/y (%) | 12.7% | | 27% | 17% | 9% | 4% | |

Source: AT&S, Erste Bank

Asia's share within revenue to reach 54.8% by 2010

The regional revenue breakdown will change significantly during the next year. European (i.e. Austrian) production will be shifted to Asia. The chart detailing revenue forecasts by geographic segments (from an AT&S presentation) confirms the view that this is the beginning of a new era. AT&S expects to have moved 50% of its production to Asia as early as 2007/08. In our projection, Austria's share will drop from last year's 64.6% to 39% by 2009/10, while Asia's share will increase from 27.4% to 54.8% during the same timeframe.

Target for regional production repatriation



Source: AT&S

Austria still plays major role in operation

AT&S stated that, "the Austrian operations still play a major part in its strategy, but they need to make major efforts in order to safeguard their long-term future. The strength of the EUR against the USD and the yuan/USD peg put the European sites at a massive

Company Report

competitive disadvantage, and limit their growth potential. Over the past five years, AT&S has had to absorb a fall of about 40% in its export prices from currency movements alone. As a result it is becoming increasingly difficult to compete directly with Asian suppliers. The Austrian production facilities will therefore increasingly focus on European niche markets in the industrial and medical technology sectors.”

BenQ at risk?

We see the decision to shift the majority of new production capacities to Asia as very wise strategically, but we still have some concerns regarding the European/Austrian capacities. BenQ/Siemens (formerly Siemens Mobile), which accounts for about 10% of AT&S' revenue, has had problems, as the demand for their mobile phones is sliding. Taipei-based BenQ, which took over Siemens AG's unprofitable handset division less than a year ago, has struggled to profit from the acquisition after inheriting a brand name damaged by out-of-date and faulty phones. BenQ also failed to bring some of its new products to the market on time, prompting more consumers to defect to competitors such as Nokia and Motorola. Almost half of its workforce is based in Germany. The press has also reported that BenQ plans to market a “low-price” BenQ-Siemens branded mobile phone in 3Q in a bid to boost sales in emerging markets. BenQ shipped about 8mn handsets in 2Q06, making it the sixth-largest cell-phone maker, with about 3.5% of the global market. Some press reports say that BenQ will shut down its entire mobile production in Germany by 2007-08, with EU subsidy problems and the sales contract with Siemens the only obstacles to an earlier shutdown.

European production site seeks niches to remain competitive

AT&S might be affected if the market position of BenQ deteriorates further, or if BenQ were to consider changing suppliers when production is moved to Asia. The company has repeatedly tried to calm investors, saying that they have a very good relationship with the new Taiwanese management and they do not believe that their supplier position is in danger. AT&S has tried to cope with these problems by focusing on niches in Europe and trying to gain new customers among industrial concerns (automotive and defense industries, etc.) and medical electronic equipment makers. These producers plan to maintain their European production longer-term, due to the more sophisticated production and for technology/security reasons. AT&S announced its AT&TACK strategy last year, based on this thinking. The new trading/DCC business line was also launched to support European customers via cheaper Asian procurement (in which AT&S has an advantage).

Ukraine, India new opportunities

Another new development (according to Mr. Androsch, the chairman of the supervisory board of AT&S and the largest shareholder in the company) is that AT&S is considering building a new plant in Ukraine and widening its capacity in India to meet growing demand. Both decisions would be based on big customers (Nokia and Motorola) building or planning to build new capacities in these countries. Building new capacities in Ukraine would diversify AT&S' European production base with a low-cost production site. However, this would not necessarily mean a reduction of Austrian production, as the more technologically sophisticated products can still be produced economically in Austria.

1Q results better than expected, providing optimism for full year

AT&S reported its 1Q06/07 results on July 27. The company generated EUR 104.8mn in revenue, slightly better than we expected. EBIT was EUR 5.8mn, 29% better than our forecast, as margins were above 5% (not below, as in our estimates). However, EBIT was 34% lower than last year, due to ramp up costs at the China plant. Net income beat our expectation by 86%, reaching EUR 6.7mn, again on the back of positive tax expenses, like last year. We expect a 0% effective tax rate. The good earnings led the company to increase its full-year guidance.

Company Report

AT&S 1Q 06/07 earnings

| EUR '000 | 1Q 06/07a | 1Q06/07e | 1Q05/06 | y/y | Difference to Erste |
|----------------|-----------|----------|---------|--------|---------------------|
| Total revenues | 104,800 | 102,000 | 89,882 | 16.6% | 2.7% |
| Gross profit | 15,900 | 15,400 | 16,950 | -6.2% | 3.2% |
| Margin% | 15.2% | 15.1% | 18.9% | -19.5% | 0.5% |
| EBITDA | 15,400 | 16,000 | 19,400 | -20.6% | -3.8% |
| Margin% | 14.7% | 15.7% | 21.6% | -31.9% | -6.3% |
| EBIT | 5,800 | 4,500 | 8,786 | -34.0% | 28.9% |
| Margin% | 5.5% | 4.4% | 9.8% | -43.4% | 25.4% |
| Net Income | 6,700 | 3,600 | 6,396 | 4.8% | 86.1% |
| EPS | 0.26 | 0.14 | 0.25 | 4.6% | 86.0% |

Source: Erste Bank, AT&S

We revised our forecasts based on new developments

We have adjusted our estimates, in keeping with the company's new guidance. AT&S said after the 1Q results were announced that it expects EUR 475mn in revenue in 2006/07, up from EUR 450mn, due to new revenues from the trading/DCC business. The EPS forecast was increased to EUR 1.15 (from EUR 1.1), due to the better than expected 1Q business developments. The 2007/08 guidance of EUR 550mn in revenue and EPS of EUR 1.4 was not changed.

Our forecast close to firm's guidance, although we are more optimistic on 2007/08 EPS

Our forecast does not differ much from the company's 2006/07 guidance, as we see the same trends influencing the company's performance this year. We expect lower margins in 1H. 2H should see higher margins, once production starts in Shanghai and start-up costs no longer burden profitability. We believe that AT&S' management is too conservative regarding 2007/08. We also calculated with the effect of the share repurchase (described later). We expect 1.2% higher revenue and an EPS of EUR 1.55, which is 10.9% higher than the firm's guidance.

AT&S new guidance compared to Erste Bank forecasts

| | FY06/07e | | Difference | FY07/08e | | Difference |
|---------------------------|----------|---------|------------|----------|---------|------------|
| | Erste | AT&S | | Erste | AT&S | |
| Total revenue (in EUR mn) | 475,866 | 470,000 | 1.2% | 556,764 | 550,000 | 1.2% |
| EPS (in EUR) | 1.17 | 1.15 | 1.9% | 1.55 | 1.40 | 10.9% |

Source: Erste Bank, AT&S

2008-10 to be driven by Asian growth, tax benefits to end

As demand for PCBs grows, AT&S will add new capacities in Asia during 2008/09 and 2009/2010. Prismark has estimated 6.4% and 5.8% growth for 2008 and 2009, respectively, while we have estimated a conservative 4% revenue growth rate for both years. As the Asian production sites have much better profitability, we expect the margins to widen during the forecast period. The EBIT margin should increase from 7% to 9.3% during our forecast period, alongside an increase in the gross margin from 16.4% to 17.5%. AT&S had a positive tax benefit in 2005/06. According to the company, it will start to pay taxes this year, with the effective tax rate rising to between 10% and 20% in 2007/08. We calculated with a 20% tax rate. The company also announced a change in its financing and capital structure policy. The share repurchase will decrease the number of shares, boosting EPS in 06/07 and 07/08 by more than the increase in net income.

Company Report

AT&S revenue and profit forecast 2005/06a - 2009/10e

| EUR mn | 2005/06a | 2006/07e | 2007/08e | 2008/09e | 2009/10e |
|-------------------------------|----------------|----------------|----------------|----------------|----------------|
| Total revenue | 374,698 | 475,866 | 556,764 | 606,872 | 631,147 |
| Gross profit | 61,501 | 80,897 | 97,434 | 106,203 | 110,451 |
| Margin% | 16.4% | 17.0% | 17.5% | 17.5% | 17.5% |
| EBITDA | 67,020 | 88,259 | 106,984 | 116,326 | 120,055 |
| Margin% | 17.9% | 18.5% | 19.2% | 19.2% | 19.0% |
| EBIT | 26,342 | 39,973 | 50,666 | 55,832 | 58,697 |
| Margin% | 7.0% | 8.4% | 9.1% | 9.2% | 9.3% |
| Net Income | 28,149 | 28,739 | 36,065 | 40,386 | 44,057 |
| Diluted number of shares (mn) | 25.810 | 24.515 | 23.220 | 23.220 | 23.220 |
| EPS (in EUR) | 1.09 | 1.17 | 1.55 | 1.74 | 1.90 |

Source: AT&S, Erste Bank

Share repurchase

Canceling 2.1mn shares, buying back 2.59mn

AT&S said that after its Korean and Indian acquisitions and the finalization of its Shanghai investment, the company wants to change its capital structure. It will start a share buyback program, and expects its net gearing to increase to 50%. Based on a resolution passed by the AGM on July 4, the management board has again been authorized to repurchase own shares within 18 months (i.e. until January 4, 2008). As a result, a total of 2.59mn shares (or 10% of the issued share capital) may be repurchased. The AGM also authorized the cancellation of 2.1mn own shares repurchased between January 1, 2002 and April 30, 2003. We calculated with these changes in our forecast.

AT&S could complete share buyback by March 2007

AT&S can finalize the repurchase of 2.59mn shares by March 31, 2007, when the financial year ends for the company. The firm will announce the latest stage of the program on its website. By August 4, AT&S had already bought 655,200 shares. The weekly average buying pace is 55,000 shares. Therefore, the company should complete the entire purchase process by the end of the business year.

Cash flow and share buyback projection 2006/07-2009/10

| EUR mn | 2006/07e | 2007/08e | 2008/09e | 2009/10e |
|--------------------------------|----------|----------|----------|----------|
| Net cash flow from operation | 109,936 | 103,249 | 97,654 | 107,064 |
| Net cash flow from investing | -98,000 | -75,000 | -55,000 | -60,000 |
| Net cash flow before financing | 11,936 | 28,249 | 42,654 | 47,064 |
| Dividend payment estimate | -7,485 | -7,472 | -9,545 | -10,252 |
| Share buyback | -41,440 | 0 | 0 | 0 |
| - Number of shares (mn) | 2.59 | 0.00 | 0.00 | 0.00 |
| Net debt (eop) | 96,072 | 80,828 | 53,194 | 20,583 |
| Net gearing (eop) | 41.8% | 31.3% | 18.4% | 6.4% |

Source: Erste Bank

In case of 50% gearing, EPS could be higher in coming years

The company could continue its share buyback program if the net gearing level were to rise to 50% (and stay at this level). We calculated with this theoretical opportunity, but did not incorporate it into our official forecast. EPS could increase by 2.6%, 8% and 15.1% in 2007/08, 2008/09 and 2009/10, respectively, creating potential for a further upgrade possibility. However, the company's CAPEX requirements could change, and we cannot rule out acquisitions - especially as AT&S has yet to establish a foothold in the US in its march to becoming a truly global player.

Company Report

Theoretical cash flow and share buyback projection 2006/07e-2009/10e

| EUR mn | 2006/07e | 2007/08e | 2008/09e | 2009/10e |
|---------------------------------|----------|----------|----------|----------|
| Net cash flow from operation | 109,532 | 103,239 | 97,622 | 107,013 |
| Net cash flow from investing | -98,000 | -75,000 | -55,000 | -60,000 |
| Net cash flow before financing | 11,532 | 28,239 | 42,622 | 47,013 |
| Dividend payment estimate | -7,485 | -7,439 | -9,051 | -9,621 |
| Possible share buyback | -41,440 | -32,000 | -27,200 | -30,400 |
| - Number of shares (mn) | 2.59 | 2.00 | 1.70 | 1.90 |
| - as of outstanding shares | 10.0% | 8.6% | 8.0% | 9.7% |
| Net debt (eop) | 96,416 | 113,806 | 114,966 | 115,579 |
| Net gearing (eop) | 42.1% | 50.5% | 50.6% | 50.8% |
| EPS new (in EUR) | 1.16 | 1.59 | 1.88 | 2.18 |
| Difference to original forecast | -1.2% | 2.5% | 8.0% | 15.1% |

Source: Erste Bank

Changes in our estimates

We increased our estimates for entire forecast horizon

We increased our revenue and net income estimates for each of the four forecasted years, with the exception of our 2006/07 net income forecast (as the start-up costs for Shanghai and Korea will bring down the margins). The major reasons for the higher revenue are the consolidation of Korea's Tofic and the revenue from the new trading/DCC line. Our EPS and DPS forecasts also changed significantly, due to the share repurchase program. We now calculate with AT&S paying out 10% of its cash earnings (CEPS).

Erste Bank change in estimates

| | FY06/07 | FY06/07 | change | FY07/08 | FY07/08 | change |
|--------------------------|---------|---------|--------|---------|---------|--------|
| | new | old | | new | old | |
| Total revenues | 475,866 | 413,121 | 15.2% | 556,764 | 454,433 | 22.5% |
| Gross profit | 80,897 | 79,526 | 1.7% | 97,434 | 79,526 | 22.5% |
| EBITDA | 88,259 | 90,211 | -2.2% | 106,984 | 96,835 | 10.5% |
| EBIT | 39,973 | 41,725 | -4.2% | 50,666 | 47,261 | 7.2% |
| Net Income | 28,739 | 33,275 | -13.6% | 36,065 | 37,821 | -4.6% |
| Diluted number of shares | 24,515 | 25,843 | -5.1% | 23,220 | 25,843 | -10.2% |
| EPS | 1.17 | 1.29 | -9.0% | 1.55 | 1.46 | 6.1% |
| DPS | 0.32 | 0.27 | 19.2% | 0.41 | 0.27 | 52.3% |

Source: Erste Bank

Erste Bank change in estimates

| | FY08/09 | FY08/09 | change | FY09/10 | FY09/10 | change |
|--------------------------|---------|---------|--------|---------|---------|--------|
| | new | old | | new | old | |
| Total revenues | 606,872 | 499,876 | 21.4% | 631,147 | 549,864 | 14.8% |
| Gross profit | 106,203 | 87,478 | 21.4% | 110,451 | 96,226 | 14.8% |
| EBITDA | 116,326 | 103,000 | 12.9% | 120,055 | 111,725 | 7.5% |
| EBIT | 55,832 | 51,487 | 8.4% | 58,697 | 56,636 | 3.6% |
| Net Income | 40,386 | 42,070 | -4.0% | 44,057 | 47,862 | -8.0% |
| Diluted number of shares | 23,220 | 25,843 | -10.2% | 23,220 | 25,843 | -10.2% |
| EPS | 1.74 | 1.63 | 6.8% | 1.90 | 1.85 | 2.6% |
| DPS | 0.44 | 0.27 | 63.5% | 0.46 | 0.27 | 69.8% |

Source: Erste Bank

Company Report

Valuation

Our new 12-month target price is EUR 20.5, up from EUR 18.9

After revising our forecast, we set our new DCF-based target price (in line with our new 12-month target price system) at EUR 20.5, up from the earlier EUR 18.9. We used the 5- and 10-year Austrian treasury yield as the risk-free rate. We used a 1.5% TV growth rate, as, in the past, the growth was cyclical (we wanted to remain on the conservative side). For the capital structure, we used a 40:60 ratio for the first five years and 30:70 for the terminal value calculation, as AT&S' cash generation (without a new share buyback) would bring the equity/debt ratio below 50:50 very quickly. In TV growth and the capital structure, we see some potential upside for our valuation in the case of a more stable growth rate and clearly defined long-term capital structure policy.

DCF valuation

| EUR mn | 2006/07e | 2007/08e | 2008/09e | 2009/10e | 2010/11e | Terminal value |
|------------------------|----------|----------|----------|----------|----------|----------------|
| EBITDA | 88,259 | 106,984 | 116,326 | 120,055 | 118,083 | |
| Change in WC | 13,954 | 36 | 11,493 | 3,774 | 3,925 | |
| Tax | -6,396 | -10,133 | -11,166 | -11,739 | -9,846 | |
| Capex | -98,000 | -75,000 | -55,000 | -60,000 | -65,000 | |
| FCF | -2,183 | 21,887 | 61,653 | 52,090 | 47,162 | 684,826 |
| PV FCF | 105,738 | | | | | |
| PV Terminal Value (TV) | 455,650 | | | | | |
| Enterprise Value | 561,389 | | | | | |
| Net Debt | 96,072 | | | | | |
| Equity Value | 465,317 | | | | | |
| EV/share | 18.98 | | | | | |
| 12 month target price | 20.5 | | | | | |

WACC Calculation

| | |
|----------------------------|--------------|
| Risk-free rate | 3.40% |
| Premium to equity | 4.5% |
| Beta | 1.20 |
| Cost of equity | 8.8% |
| Cost of debt | 6.50% |
| Effective tax rate (%) | 17.0% |
| After-tax cost of debt (%) | 5.4% |
| Equity weight (%) | 60.0% |
| Debt weight (%) | 40.0% |
| WACC | 7.44% |

Source: Erste Bank

WACC - perpetuity

| | |
|----------------------------|--------------|
| TV Growth | 1.5% |
| Risk-free rate | 4.5% |
| Premium to equity | 4.5% |
| Beta | 1.20 |
| Cost of equity | 9.9% |
| Cost of debt | 6.5% |
| Effective tax rate (%) | 20.0% |
| After-tax cost of debt (%) | 5.2% |
| Equity weight (%) | 70% |
| Debt weight (%) | 30% |
| WACC | 8.49% |

Peer group comparison

Peer group comparison not very useful, but does indicate premium

We also compared the company's valuation with those of its closest peers. This type of valuation is not very useful - the other companies are not directly comparable to AT&S, as they differ in size, market and market position. The valuations based on 2007 and 2008 EV/Sales and EV/EBTDA show a premium of 30% to 9% and 0% to 6% to the peer group medians. On the basis of 2008 P/E, AT&S is only traded at a discount of 1%. We would advise that investors focus on the DCF model for valuation purposes. With our 12-month target price set according to our DCF, the valuation gap would have been even larger.

Company Report

As more global player, AT&S may converge more toward Ibiden than its smaller peers

We believe that AT&S should be traded with a premium to its peers (the closest are Compeq, Unimicron, which are Taiwanese PCB companies), as it has a more diversified and global production capacity and two highly advanced PCB technologies, microvia and flex. Ibiden (the largest peer, from Japan) is traded at much higher multiples than the average, as it is a more diversified company. AT&S could converge more toward Ibiden than to its smaller Taiwanese, US and European peers.

Peer group comparison

| (EUR mn) | Market Cap | Sales | | | EBITDA | | | EPS | | |
|----------------------------------|-------------|-------------|-------------|-------------|-------------|--------------|--------------|--------------|--------------|-------------|
| | | 2006e | 2007e | 2008e | 2006e | 2007e | 2008e | 2006e | 2007e | 2008e |
| Aspocomp | 79 | 179 | 199 | 240 | 15.5 | 28.5 | 39.0 | -0.37 | -0.01 | 0.21 |
| Balda AG | 369 | 455 | 693 | 725 | 69.3 | 99.9 | 107.9 | 0.66 | 0.98 | 1.24 |
| Compeq | 448 | 428 | 471 | 540 | 58.3 | 53.8 | 51.6 | 0.03 | 0.03 | 0.04 |
| Coretec Inc | 11 | 64 | 70 | | 6.1 | 6.3 | | 0.09 | 0.10 | |
| Ibiden | 3,900 | 2,584 | 2,891 | 3,117 | 656.0 | 772.1 | 784.8 | 1.82 | 2.15 | 2.34 |
| Merix Corp. | 95 | 331 | 350 | | 51.4 | 57.3 | | 1.00 | 1.14 | |
| Ttm Tech Inc | 225 | 236 | 254 | | 54.1 | 60.2 | | 0.73 | 0.79 | |
| Unimicron | 646 | 787 | 1,002 | 1,153 | 208.4 | 257.3 | 304.7 | 0.11 | 0.14 | 0.15 |
| AT&S | 412 | 476 | 557 | 607 | 88.3 | 107.0 | 116.3 | 1.17 | 1.55 | 1.74 |
| EUR | Price | EV/Sales | | | EV/EBITDA | | | P/E | | |
| | | 2006e | 2007e | 2008e | 2006e | 2007e | 2008e | 2006e | 2007e | 2008e |
| Aspocomp | 3.0 | 0.6x | 0.7x | 0.5x | 7.3x | 4.9x | 3.2x | high | high | 12.1x |
| Balda AG | 8.3 | 0.9x | 0.6x | 0.5x | 6.1x | 4.2x | 3.3x | 12.8x | 8.6x | 6.4x |
| Compeq | 0.3 | | | | | | | 12.9x | 10.2x | 9.3x |
| Coretec Inc | 0.9 | 0.3x | 0.2x | | 3.3x | 2.8x | | 10.2x | 9.5x | |
| Ibiden | 39.4 | 2.2x | 1.9x | 1.7x | 8.7x | 7.2x | 6.7x | 22.3x | 19.0x | 17.1x |
| Merix Corp. | 8.4 | | | | | | | 8.4x | 7.5x | |
| Ttm Tech Inc | 9.4 | 1.4x | | | 5.9x | | | 13.0x | 11.9x | |
| Unimicron | 1.0 | 1.3x | 1.1x | 0.9x | 5.0x | 4.2x | 3.5x | 8.6x | 7.3x | 6.5x |
| Median | | 1.1x | 0.7x | 0.7x | 6.0x | 4.2x | 3.4x | 12.8x | 9.5x | 9.3x |
| AT&S | 16.0 | 1.1x | 0.9x | 0.8x | 5.3x | 4.2x | 3.6x | 13.6x | 10.3x | 9.2x |
| Premium/discount to peers | | -3% | 30% | 9% | -12% | 0% | 6% | 7% | 8% | -1% |

Source: JCF, Erste Bank

We upgrade to Buy

Our new 12-month target price arrives at EUR 20.5, which represents 28% upside to the current share price level. Due to the upside of more than 20%, we upgrade our recommendation from Accumulate to Buy. In our view, investors lost sight of the changes at the company during the stagnation/contraction of the last five years. AT&S will soon become a global player in the PCB market, and its valuation should reflect these changes sooner or later. We see some risks (cyclicality, BenQ, European production), but also upside potential to our forecast, in which we tried to remain conservative. If global economic growth remains at the current level over the next few years, AT&S should be a very good play on investing in the high-growth mobile handset PCB business.

Company Report

| Income Statement (IFRS, EUR mn, 31/3) | 2005/06 | 2006/07e | 2007/08e | 2008/09e | 2009/10e |
|--|--------------|--------------|--------------|--------------|--------------|
| Sales revenues | 374.7 | 475.9 | 556.8 | 606.9 | 631.1 |
| Cost of goods sold | -313.2 | -395.0 | -459.3 | -500.7 | -520.7 |
| Gross profit | 61.5 | 80.9 | 97.4 | 106.2 | 110.5 |
| SG&A | -40.4 | -49.0 | -55.7 | -59.5 | -61.2 |
| Other operating revenues | 5.0 | 8.1 | 8.9 | 9.1 | 9.5 |
| EBITDA | 67.0 | 88.3 | 107.0 | 116.3 | 120.1 |
| Depreciation | -40.7 | -48.3 | -56.3 | -60.5 | -61.4 |
| EBIT | 26.3 | 40.0 | 50.7 | 55.8 | 58.7 |
| Financial result | -5.6 | -6.3 | -6.3 | -6.1 | -4.4 |
| EBT | 20.8 | 33.7 | 44.4 | 49.7 | 54.3 |
| Tax expenses | 7.6 | -5.4 | -8.9 | -9.9 | -10.9 |
| Minority interests | -0.2 | 0.4 | 0.5 | 0.6 | 0.7 |
| Net result after minorities | 28.1 | 28.7 | 36.1 | 40.4 | 44.1 |
| Balance Sheet (IFRS, EUR mn, 31/3) | 2005/06 | 2006/07e | 2007/08e | 2008/09e | 2009/10e |
| Intangible assets | 4.5 | 11.8 | 9.7 | 7.6 | 5.6 |
| Tangible assets | 217.4 | 259.9 | 280.7 | 277.2 | 277.9 |
| Financial assets | 8.8 | 8.8 | 8.8 | 8.8 | 8.8 |
| Total fixed assets | 230.7 | 280.4 | 299.1 | 293.6 | 292.3 |
| Inventories | 41.4 | 45.4 | 55.6 | 61.6 | 64.0 |
| Receivables and other current assets | 92.7 | 123.7 | 128.1 | 139.6 | 145.2 |
| Other assets | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Cash and cash equivalents | 72.4 | 17.9 | 17.9 | 17.9 | 17.9 |
| Total current assets | 206.6 | 187.0 | 201.5 | 219.0 | 227.1 |
| TOTAL ASSETS | 437.3 | 467.5 | 500.6 | 512.7 | 519.4 |
| Shareholders' equity | 249.8 | 229.6 | 258.2 | 289.0 | 322.8 |
| Minorities | 0.5 | 0.1 | -0.4 | -1.0 | -1.7 |
| Interest-bearing LT debts | 32.6 | 24.6 | 24.6 | 24.6 | 24.6 |
| Other LT liabilities | 26.9 | 37.5 | 43.4 | 46.8 | 48.7 |
| Total long-term liabilities | 59.5 | 62.1 | 68.0 | 71.4 | 73.3 |
| Interest-bearing ST debts | 62.2 | 89.3 | 74.0 | 46.4 | 13.8 |
| Other ST liabilities | 65.2 | 86.3 | 100.8 | 106.8 | 111.1 |
| Total short-term liabilities | 127.5 | 175.6 | 174.8 | 153.2 | 124.9 |
| TOTAL LIAB. & EQUITY | 437.3 | 467.5 | 500.6 | 512.7 | 519.4 |
| Cash Flow Statement (IFRS, EUR mn, 31/3) | 2005/06 | 2006/07e | 2007/08e | 2008/09e | 2009/10e |
| Cash flow from operating activities | 67.9 | 63.6 | 93.8 | 90.0 | 102.2 |
| Cash flow from investing activities | -61.0 | -98.0 | -75.0 | -55.0 | -60.0 |
| Cash flow from financing activities | -32.8 | -20.2 | -18.8 | -35.0 | -42.2 |
| CHANGE IN CASH & CASH EQU. | -25.9 | -54.6 | 0.0 | 0.0 | 0.0 |
| Margins & Ratios | 2005/06 | 2006/07e | 2007/08e | 2008/09e | 2009/10e |
| Sales growth | 12.7% | 27.0% | 17.0% | 9.0% | 4.0% |
| EBITDA margin | 17.9% | 18.5% | 19.2% | 19.2% | 19.0% |
| EBIT margin | 7.0% | 8.4% | 9.1% | 9.2% | 9.3% |
| Net profit margin | 7.5% | 6.0% | 6.5% | 6.7% | 7.0% |
| ROE | 12.0% | 12.0% | 14.8% | 14.8% | 14.4% |
| ROCE | 13.3% | 10.2% | 10.9% | 11.6% | 12.1% |
| Equity ratio | 57.2% | 49.1% | 51.5% | 56.2% | 61.8% |
| Net debt | 21.2 | 94.9 | 79.6 | 52.0 | 19.4 |
| Working capital | 79.1 | 11.4 | 26.7 | 65.8 | 102.2 |
| Capital employed | 298.4 | 362.1 | 380.8 | 386.8 | 389.2 |
| Inventory turnover | 7.9 | 9.1 | 9.1 | 8.5 | 8.3 |

Company Report

Contacts

Group Research

Head of Research

Friedrich Mostböck +43 (0)50 100-11902

CEE Equity Research

Co-Head: Günther Artner, CFA +43 (0)50 100-11523

Co-Head: Henning Eßkuchen +43 (0)50 100-19634

Günter Hohberger (*Banks*) +43 (0)50 100-17354

Franz Hörl +43 (0)50 100-18506

Daniel Lion (*IT*) +43 (0)50 100-17420

Tamás Pletser, CFA (*Oil & Gas*) +361 235-5133

Christoph Schultes (*Insurance*) +43 (0)50 100-16314

Maria Veronika Sutedja, MBA +43 (0)50 100-11905

Andras Szalkai (*Telecom*) +361 235-5134

Vladimira Urbankova (*Pharma*) +4202 24 995 940

Gerald Walek (*Machinery*) +43 (0)50 100-16360

Angelika Zwerenz, CIAA, MBA (*Banks*) +43 (0)50 100-11903

International Equities

Jürgen Rene Ulamec +43 (0)50 100-16574

Alexander Sikora-Sickl +43 (0)50 100-19835

International Fixed Income & Currencies

Veronika Lammer (*Euroland, SW*) +43 (0)50 100-11909

Veronika Posch (*Corporates*) +43 (0)50 100-19633

Rainer Singer (*US, Japan*) +43 (0)50 100-11185

Elena Stelov, CIAA (*Corporates*) +43 (0)50 100-19641

Macro & Fixed Income Coordination CEE

Rainer Singer +43 (0)50 100-11185

Editor Research CEE

Brett Aarons +420 224 995 904

Research, Croatia

Vilim Klemen (*Equity*) +385 62 37 28 12

Alen Kovac (*Fixed Income*) +385 62 37 13 83

Research, Czech Republic

Head: Viktor Kotlan (*Fixed Income*) +420 224 995-217

Maria Feherova (*Fixed Income*) +420 224 995 232

Jan Hajek, CFA (*Equity*) +420 224 995 324

Lubos Mokras (*Fixed Income*) +420 224 995-456

David Navratil (*Fixed Income*) +420 224 995-439

Jacob Zidon (*Equity*) +420 224 995-340

Research, Hungary

Levente Blaho (*Equity*) +361 235-5117

József Miró (*Equity*) +361 235-5131

Orsolya Nyeste (*Fixed Income*) +361 235-5130

Research, Poland

Artur Iwanski (*Equity*) +48 22 3306253

Michal Majerski (*Equity*) +48 22 3306251

Agnieszka Plaska (*Equity*) +48 22 3306252

Wojtek Wasilewski (*Equity*) +48 22 3306250

Research, Slovakia

Head: Juraj Kotian (*Fixed Income*) +421 2 59 574-139

Michal Musak (*Fixed Income*) +421 2 5957-4512

Institutional Sales

Head of Sales Equities & Derivatives

Brigitte Zeittberger-Schmid +43 (0)50 100-83123

Equity Sales Vienna XETRA & CEE

Josef Breitetgger +43 (0)50 100-83122

Hind Al Jassani +43 (0)50 100-83111

Ana Milatovic +43 (0)50 100-83131

Ernst Mosser +43 (0)50 100-83132

Manfred Radinger +43 (0)50 100-83121

Stefan Raidl +43 (0)50 100-83113

Sales Derivatives

Christian Luig +43 (0)50 100-83181

Christian Klikovich +43 (0)50 100-83162

Armin Pflingstl +43 (0)50 100-83171

Roman Rafeiner +43 (0)50 100-83172

Thomas Schneidhofer +43 (0)50 100-83182

Brigitta Weillinger +43 (0)50 100-83151

Equity Sales, London

Head: Michal Rizek +4420 7623-4154

Dieter Benesch +4420 7623-4154

Federica Gessi-Castelli +4420 7623-4154

Declan Wooloughan +4420 7623-4154

Treasury - Erste Bank Vienna

Sales Retail & Sparkassen

Head: Manfred Neuwirth +43 (0)50100-84250

Domestic Sales Fixed Income

Head: Thomas Schaufler +43 (0)50100-84225

Treasury Domestic Sales

Head: Gottfried Huscava +43 (0)50100-84130

Corporate Desk

Head: Leopold Sokolicek +43 (0)50100-84601

Alexandra Blach +43 (0)50100-84141

Roman Friesacher +43 (0)50100-84143

Claudia Pongracz +43 (0)50100-84145

Christian Skopek +43 (0)50100-84146

Fixed Income Institutional Desk

Head: Thomas Almen +43 (0)50100-84323

Martina Fux +43 (0)50100-84113

Michael Konczer +43 (0)50100-84121

Ingo Lusch +43 (0)50100-84111

Ulrich Inhofner +43 (0)50100-84324

Karin Rauscher +43 (0)50100-84112

Company Report

Important Disclosures

General disclosures: All recommendations given by Erste Bank Research are independent and based on the latest company, industry and general information publicly available. The best possible care and integrity is used to avoid errors and/or misstatements. No influence on the rating and/or price target is being exerted by either the covered company or other internal Erste Bank departments. Each research piece is reviewed by a senior research executive, the rating is agreed upon with an internal rating committee of senior research executives. Erste Bank Compliance Rules state that no analyst is allowed to hold a direct ownership position in securities issued by the covered company or derivatives thereof. Analysts are not allowed to involve themselves in any paid activities with the covered companies except as disclosed otherwise. The analyst's compensation is primarily based not on investment banking fees received, but rather on performance and quality of research produced.

Specific disclosures:

- (1) Erste Bank and/or its affiliates hold(s) an investment in any class of common equity of the covered company of more than 5%.
- (2) Erste Bank and/or its affiliates act(s) as market maker or liquidity provider for securities issued by the covered company.
- (3) Within the past year, Erste Bank and/or its affiliates has managed or co-managed a public offering for the covered company.
- (4) Erste Bank and/or its affiliates has received compensation from this company for the provision of investment banking services within the past year.
- (5) Erste Bank and/or its affiliate(s) expects to receive or intends to seek compensation for investment banking services from this company in the next three months.

| Company | Disclosure | Comment |
|---------|------------|---------|
| AT&S | -- | -- |

Erste Bank rating definitions

| | |
|-------------------|----------------------------|
| Buy | > +20% to target price |
| Accumulate | +10% < target price < +20% |
| Hold | 0% < target price < +10% |
| Reduce | -10% < target price < 0% |
| Sell | < -10% to target price |

Our target prices are established by determining the fair value of stocks, taking into account additional fundamental factors and news of relevance for the stock price (such as M&A activities, major forthcoming share deals, positive/negative share/sector sentiment, news) and refer to 12 months from now. All recommendations are to be understood relative to our current fundamental valuation of the stock. The recommendation does not indicate any relative performance of the stock vs. a regional or sector benchmark.

Published by Erste Bank der oesterreichischen Sparkassen AG Börsegasse 14, OE 543 A-1010 Vienna, Austria. Tel. +43 (0)50100-ext.



Erste Bank Homepage: www.erstebank.at On Bloomberg please type: **ERBK<GO>**.

This research report was prepared by Erste Bank der oesterreichischen Sparkassen AG ("Erste Bank") or its affiliate named herein. The information herein has been obtained from, and any opinions herein are based upon, sources believed reliable, but we do not represent that it is accurate or complete and it should not be relied upon as such. All opinions, forecasts and estimates herein reflect our judgement on the date of this report and are subject to change without notice. The report is not intended to be an offer, or the solicitation of any offer, to buy or sell the securities referred to herein. From time to time, Erste Bank or its affiliates or the principals or employees of Erste Bank or its affiliates may have a position in the securities referred to herein or hold options, warrants or rights with respect thereto or other securities of such issuers and may make a market or otherwise act as principal in transactions in any of these securities. Erste Bank or its affiliates or the principals or employees of Erste Bank or its affiliates may from time to time provide investment banking or consulting services to or serve as a director of a company being reported on herein. Further information on the securities referred to herein may be obtained from Erste Bank upon request. Past performance is not necessarily indicative for future results and transactions in securities, options or futures can be considered risky. Not all transaction are suitable for every investor. Investors should consult their advisor, to make sure that the planned investment fits into their needs and preferences and that the involved risks are fully understood. This document may not be reproduced, distributed or published without the prior consent of Erste Bank. Erste Bank der oesterreichischen Sparkassen AG confirms that it has approved any investment advertisements contained in this material. Erste Bank der oesterreichischen Sparkassen AG is regulated by the Financial Services Authority for the conduct of investment business in the UK.