

Techcomp

Booming market in science & tech/health care/food safety

To summarize...

- Strong growth in 1H FY12/12A with NPAT US\$1.1m, +86.6% YoY.
- PRC market maintains primary position in the future.
- 66.9% of total revenue from distribution segment with an increasing forecast in the future.
- Some potential UK company would be the new acquisition brand after Precisa, Froilabo and IXRF.
- Stable CAGR, growth point in science & technology; public health care; food safety areas.

Strong growth in 1H FY12/12A with NPAT US\$1.1m, +86.6% YoY. Techcomp reported 1H FY12/12A NPAT US\$1.1m, +86.6% YoY. Revenue rose 12.2% YoY to US\$68.2m driven by PRC market growth both for Techcomp's distribution and manufacturing business with PRC sales rose 12.0% YoY to US\$52.4m in 1H FY12/12A. Gross margin dropped 1.0pp to 29.5% due to appreciation of Japanese Yen which increased COGS, and pricing support in Europe in order to improve sales. EBIT Margin rose 0.67pp to 2.27% with EPS increased 90% to US\$4.78. Net profit margin by segment for 1H FY12/12A is 1.7% (1H FY12/11A 2.7%) for distribution and 1.3% (1H FY12/11A 2.2%) for manufacturing, with 1H FY12/12A total net profit margin 1.65%. While net profit base appears low, we remind investors that Techcomp's P&L is highly seasonal, with 1H net profit typically accounting for only around ~5-10% of full year total (revenue is typically around 40% of year total).

Techcomp businesses in China and European market. Within the company's global business, PRC accounts for 76.9% of the total revenue and would still maintain its primary growth driver in the future. Management is guiding an above market average growth (10% to 12%) of revenue increase from PRC region till FY12/14F. In 1H FY12/12A, Techcomp acquired approximately 56% share in IXRF System Inc, a US base company specialized in the IXRF and would have a promising business development in XRF technology field due to food hygiene problem in PRC. PRC now has more than 300 FMB laboratories in use for food hygiene testing and would probably lunch more. Switzerland and France accounts for 6.3%, 5% respectively of the total revenue, given to Techcomp's acquire for Precisa and Froilabo in the year 2010 and 2009. However the Europe business is still facing continuous loss till end of this year.

Manufacturing and distribution segments. Techcomp has two business segments: manufacturing and distribution. Techcomp has its main distributed brands including Hitachi, Horiba Jobin Yvon, Nuair, UVP, Millrock, Tomy Digital Biology, Kurabo/Fujifilm, DNS dissolution, MiniSims, Park AFM, Siemens ultrapure water system, MVE.ect. Techcomp has competitive edge in distribution business for its brand making for years in the market, product improvement and market friendly distribution. Especially for Hitachi, which assigned Techcomp as the exclusive lab equipment distributor in PRC, renewed contract with Techcomp last year for another 5 years while usually the distribution contract in PRC market renew every single year. The company has been continuing to build out its manufacturing segment. For FY12/11A, manufacturing revenue accounted for 31.2% of total revenues but contributed 43.1% of total segment profits, increasing from 34.1% in FY12/10A. Manufacturing segment profit margin 10.6% is higher than distribution 6.4% in FY12/11A (FY12/10A: manufacturing segment margin 8.8%, distribution segment margin 7.8%). To increase market share of manufacturing business segment, the company has expanded its R&D team to 60 in PRC and 7 in Europe. Management also expects percentage revenue share of manufacturing products to grow in 2H as new products would be promoted, together with some Hitachi equipment price discount to reward its customers for their loyalty.

Ticker	1298 HK
Rating	Not Rated
Price (HK\$)	2.94
Target Price (HK\$)	n/a
12m Price Range (HK\$)	2.06 – 3.29
Market cap. (US\$m)	81.34
Daily t/o (US\$m)	0.1
Free float (%)	66.5

Financial summary

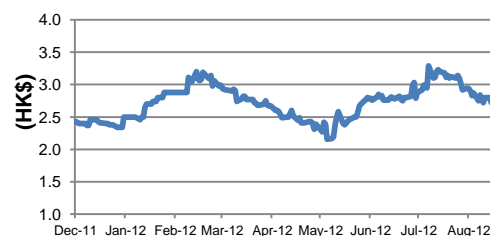
Year to Dec	09A	10A	11A
Turnover (HK\$m)	104.78	127.09	154.1
Net Profit (HK\$m)	7.37	10.5	8.4
EPS (HK\$)	0.03	0.05	0.04
P/E (x)	4.49	7.24	8.65
P/B (x)	0.74	1.39	1.15
EV/EBITDA (x)	4.16	6.30	7.47
Yield (%)	4.0%	2.4%	2.7%
ROE (%)	17.8%	21.2%	14.3%
ROCE (%)	17.8%	18.2%	13.3%
N. Gear. (%)	2.3%	10.2%	36.3%

Source: SBI E2

	12F	13F	14F
Consensus EPS (RMB)	0.0	0.1	-
Previous earnings (RMBm)	-	-	-
Previous EPS (RMB)	-	-	-

Price performance

Year to Dec	1m	3m	12m
Relative to HSI (%)	(5.2)	10.8	-
Actual price changes (%)	(5.8)	17.6	-



Source: Bloomberg

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Table 1. Segment Profit Information

US\$m		Distribution	Manufacturing	Total
2011A	Revenue	106.0	48.1	154.1
	Segment profit	6.7	5.1	11.8
	Segment margin	6.4%	10.6%	7.7%
2010A	Revenue	87.3	39.8	127.1
	Segment profit	6.8	3.5	10.3
	Segment margin	7.8%	8.8%	8.1%

Source: SBI E2-Capital

Acquisition of foreign brands. Precisa, Froilabo and IXRF are recent years acquisitions and to strengthen the company's overseas sales channel, brand portfolio and technology platform. The high end products would bring new business line in PRC, allowing the Techcomp to enter new markets and raise its brand equity profile.

Our view. In 2011, the life science instrument market size amounted to US\$37.4m in 2011, and is estimated to grow to US\$45.8m by 2016 with a compound annual growth rate of 4%, within which China would play a major role, according to DeciBio. According to 12th Five-Year Plan, the environment protection, new energy, new material and biotechnology would be the key technology development support from Chinese government, in which area Techcomp's instruments is widely used in domestic market. The company's design and manufacture various analytical instruments, life science equipment and laboratory instruments with a widely use in education institution, government institution, agricultural service company, development laboratory and food product companies. China has a huge potential in this field in the long run for its aging population problem, medical reform, food safety problem. We see this market as defensive compared to other machinery subsectors given the current economic slowdown.

Valuation. Techcomp is currently trading at 7.8x FY12/12F P/E base on Bloomberg consensus.

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