



HEDGE EXPRESS



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Techtronics (669 HK, HK\$9.25)

TRADING BUY

Light at the end of tunnel

Weak interims finally well discounted

We attended the company's analysts' presentation yesterday.

Share price was badly hammered down prior to the interim results yesterday due to anticipated weak results. Market has been adjusting earnings expectations downward since its confirmation of the loss of OEM orders in late Jan. The impact was shown by the 8% sales fall in the floor care appliances division. As such 1H06 net profit growth of 10.4% to HK\$504m was in line with market expectations.

Improved 2H outlook. Going forward, management holds a positive view on 2H. "We are confident of being able to deliver a strong performance in the second half of 2006." In addition, at least low double digit turnover growth is guided for most product divisions, meaning the company will be on track to deliver a net profit of HK\$1.2-1.3b (+18-28% profit growth) for 2006 or translating into a reasonable forward P/E of just 11-12x.

New products to fire growth. It looks like the power equipment division will continue to maintain its growth momentum with the sales of lithium-ion Milwaukee and RIGID power tools in 2H06. Other new products include the Ryobi's expanded 18V cordless platform, strategic alliance with Sears' Craftsman line, high pressure washer, trimmer/edger combos, etc.

Floor care appliances to rebound. OEM sales will stage a rebound in 2007 on the back of several new OEM partnerships and the expanded partnership with Sears' Kenmore line for upright vacuum cleaners in addition to new products such as Dirt Devil's KONE in North America and the first hygienic vacuum cleaner, an "anti-infective filter system", in Germany.

Improved financials. Net gearing dropped from 184.5% as at Jun 05 to 76.2% as at Jun 06. Further improvement is expected in 2H as the company enters the peak shipment period with much stronger cash inflow.

Short covering. Short selling activities were rampant prior to the interim results. Any short covering will trigger a major technical rebound in the next few days. Share price has more than halved from the peak achieved late last year. We were negative on this stock in the beginning of the year, but the current valuation and price level look set to provide a good entry point for long term investors wanting to get back to this well managed company.

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