

Techtronic Industries (00669)

Gross margin increased 50bps, result of new product introduction
Hong Kong | Industrials

9 September 2022

Company Profile

Techtronic Industries ('TTI') founded in 1985 and is a world leader in Power Tools, Accessories, Hand Tools, Outdoor Power Equipment, and Floorcare and Cleaning for Do-It-Yourself (DIY), professional and industrial users in the home improvement, repair, maintenance, construction and infrastructure industries, with brands like MILWAUKEE, RYOBI and HOOVER etc. MILWAUKEE is the number one and fastest-growing global brand in the professional tool market. MILWAUKEE professional cordless outdoor equipment, which is now the fastest-growing brand of cordless professional-grade outdoor products for landscapers and lawn and garden enthusiasts. RYOBI is the number one DIY tool and cordless outdoor power equipment brand worldwide.

The Power Equipment Division includes industrial power tools, accessories, hand tools, storage, layout and measuring tools, outdoor products, and professional, consumer, and trade power tools. The vast array of products in this division provide a complete line of products for household, construction and infrastructure projects.

The Floorcare and Cleaning Division includes upright vacuums, canisters, bagged and bagless vacuums, stick vacuums, broom vacuums, and a complete line of carpet and floor cleaners. Each product line contains specific designs for both home and commercial use.

In addition to developing one runaway successful product after another, the network effect of TTI interchangeable battery systems. For example, the flagship MILWAUKEE M18 platform now has 251 products that run off the same M18 battery and is rapidly growing. This is attractive to new customers who gain access to a wide range of tools that run off the same powerful battery. It also creates a loyal customer base with access to a continuous stream of new products available as bare tools powered by batteries they already own.

Gross margin increased 50bps, result of new product introduction

For the 1H2022, TTI reported revenue for the period grew by 10.0% YoY, amounting to US\$7,034mn. EBIT amounted to US\$633mn, an increase of 10.7% as compared to the US\$572mn reported in the same period last year. Profit attributable to Owners of the Company amounted to US\$578mn as compared to US\$524mn reported in the same period last year, an increase of 10.4%. Basic earnings per share was at US31.59 cents (2021: US28.62 cents), an increase of 10.4% YoY. Interim dividend per share approx. US12.23 cents, an increase of 11.8% YoY.

Gross margin increased 50bps to 39.1% as compared to 38.6% reported in the same period last year. The margin improvement was the result of new product introduction, product mix, category expansion, improvements in operational efficiency and supply chain productivity together with very effective action plans to navigate global supply constraints, commodity headwinds and logistic costs increase.

Buy (Initial Coverage)

CMP HKD90.55
(Closing price as of 5 September)
Target HKD 112.4(+24.1%)

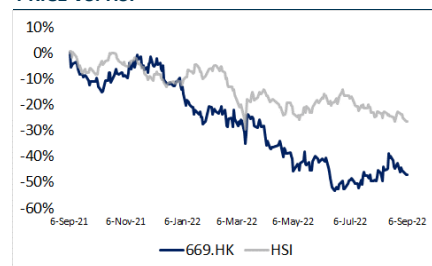
COMPANY DATA

O/S SHARES (MN) :	1834.677
MARKET CAP (HKD MN) :	166130.1
52 - WK HI/LO (HKD):	172.55/79.10

SHARE HOLDING PATTERN, %

Horst Julius Pudwill	20.07%
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PRICE VS. HSI



Source: Phillip Securities (HK) Research

KEY FINANCIALS

HKD mn	FY20	FY21	FY22E	FY23E
Revenue	9,812	13,203	14,507	16,399
Net profit	801	1,099	1,207	1,312
Reported EPS	0.44	0.60	0.65	0.71
P/E ratio, x	26.5	19.3	17.6	16.2
Dividend Yield, %	1.5%	2.0%	2.3%	2.5%

Source: Company reports, Phillip Securities Est.

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By business segment, Power Equipment segment delivered sales growth of 14.9% YoY in local currency to US\$6.6bn. Flagship MILWAUKEE business continued to flourish with 25.8% local currency sales growth YoY. DIY (Do-it-Yourself) /Consumer Power Equipment business grew low single digits in local currency, while the RYOBI Outdoor business outperformed the overall market despite being impacted by unfavorable weather conditions. Floorcare and Cleaning business was impacted by a reduction of COVID-related demand, leading to a decline in sales of 17.8% YoY to US\$472mn in 1H2022.

All geographic regions delivered solid sales growth in the first half. Rest of World featuring Australia and Asia delivered outstanding 23.0% YoY growth in local currency. Europe grew 14.1% YoY in local currency and North America grew 10.5% YoY in local currency.

Investment Thesis

For 2022FY revenue guidance, management is expecting revenue growth at mid-single digits. While there is doubtful of the outlook for the U.S. economy, especially as the U.S. housing market continues slow down. However, Home Depot, one of TTI's customers, beat its 2Q2022 results, citing consumers spending more time in their homes and continued structural support for demand for home improvement projects, and reaffirming its guidance of approximately 3% revenue growth in 2022. Therefore, we expect TTI to at least meet its revenue guidance, or even slightly beat in 2H2022. We expect FY2022-FY2023 EPS to be USD0.26 and USD0.28 respectively, with PT of HKD112.4, implies a FY2022E P/E of 21.9x (~5-yrs historical average). Our investment rating is "Buy".

Risk factors

1) Resurgence of COVID in Mainland China; 2) The pace of product innovation is lower than expected; 3) Hikes in commodity prices; and 4) Industry competition is greater than expected.

Financial

Consolidated Statement of Profit or Loss

Dec Y/E, USD mn	FY19	FY20	FY21	FY22E	FY23E
Revenue	7,667	9,812	13,203	14,507	16,399
COGS	(4,774)	(6,059)	(8,082)	(8,957)	(10,134)
Gross Profit	2,893	3,753	5,122	5,550	6,265
Other income	11	11	13	14	16
Interest income	40	37	32	36	28
Selling expenses	(1,195)	(1,573)	(2,165)	(2,294)	(2,642)
General & Admin exp	(805)	(1,006)	(1,352)	(1,499)	(1,685)
R&D costs	(230)	(317)	(426)	(457)	(516)
Operating Profit	713	905	1,224	1,349	1,466
Finance costs	(52)	(44)	(42)	(52)	(55)
Share of result of a JV	0.1	0.4	0.0	0.2	0.2
Profit before tax	661	861	1,182	1,298	1,411
Income tax	(46)	(60)	(83)	(91)	(99)
Shareholders Net profit	615	801	1,099	1,207	1,312
Reported EPS, Diluted	0.34	0.44	0.60	0.65	0.71
DPS	0.13	0.17	0.24	0.26	0.28
Payout ratio	39%	40%	40%	40%	40%
Shares outstanding	1,826	1,828	1,831	1,833	1,832

Key Financial Data

Dec Y/E	FY19	FY20	FY21	FY22E	FY23E
Valuation Ratio					
P/S ratio, x	2.8	2.2	1.6	1.5	1.3
P/E ratio, x	34.4	26.5	19.3	17.6	16.2
Dividend Yield, %	1.1%	1.5%	2.0%	2.3%	2.5%

Per share data (USD)

EPS	0.34	0.44	0.60	0.65	0.71
BVPS	1.86	2.13	2.58	3.00	3.45
DPS (HKD)	1.03	1.35	1.85	2.05	2.23

Growth & Margin

Growth					
Revenue Growth	9.2%	28.0%	34.6%	9.9%	13.0%
Gross Profit Growth	10.6%	29.7%	36.5%	8.4%	12.9%
Operating Profit Growth	11.2%	30.2%	37.3%	9.8%	8.7%
Net Profit Growth	11.2%	30.2%	37.2%	9.8%	8.7%

Margin

Gross Profit Margin	37.7%	38.3%	38.8%	38.3%	38.2%
Operating Profit Margin	9.3%	9.2%	9.3%	9.3%	8.9%
Net Profit Margin	8.0%	8.2%	8.3%	8.3%	8.0%

Key Ratios

ROE	19.1%	21.9%	25.5%	23.6%	22.2%
ROA	8.8%	9.4%	9.8%	8.8%	8.7%

Consolidated Statement of Financial Position

Dec Y/E, USD mn	FY19	FY20	FY21	FY22E	FY23E
Non Current Asset					
PPE	1,087	1,333	1,853	2,204	2,458
Others	1,588	1,717	2,093	2,169	2,233
Total Non Current Assets	2,674	3,050	3,946	4,374	4,690
Current Asset					
Inventory	2,113	3,224	4,850	5,439	5,736
Trade and other receivables	1,229	1,367	2,022	2,323	2,663
Bank balance and cash	1,412	1,534	1,874	1,987	2,475
Others	271	215	315	316	314
Total Current Assets	5,024	6,340	9,062	10,065	11,188
Total Assets	7,698	9,390	13,008	14,439	15,878
Non Current Liabilities					
Long-term debt	755	940	1,028	1,132	1,221
Other Non-current Liabilities	331	466	578	693	818
Total Non-current Liabilities	1,086	1,406	1,606	1,824	2,039
Current Liabilities					
Interest-bearing Borrowings	732	385	2,253	2,356	2,445
Trade payables	2,177	3,248	3,992	4,304	4,583
Others	308	448	435	461	485
Total Current Liabilities	3,218	4,081	6,679	7,121	7,512
Equity					
Shareholders' equity	3,395	3,903	4,723	5,494	6,327
Non-controlling interests	(0.3)	(0.1)	-	-	-
Total equity	3,394	3,903	4,723	5,494	6,327
Total Liabilities and Equity	7,698	9,390	13,008	14,439	15,878

Consolidated Statement of Cash Flow

Dec Y/E, USD mn	FY19	FY20	FY21	FY22E	FY23E
CFO					
Profit before income tax	661	861	1,182	1,298	1,411
D&A add-back	325	404	427	384	440
Others	(7)	59	68	(76)	(72)
Net (inc)/dec working capital	(255)	(166)	(1,778)	(553)	(333)
Net cash flow from operating activities	724	1,159	(101)	1,054	1,447
CFI					
Purchase of PP&E	(616)	(617)	(1,057)	(812)	(757)
Others	47	37	32	151	153
Net cash flow from investing activities	(568)	(580)	(1,025)	(661)	(604)
CFF					
Dividends paid	(224)	(262)	(394)	(436)	(479)
Others	386	(236)	1,866	155	124
Net cash flows from financing activities	163	(498)	1,472	(281)	(355)
Net Change in Cash	308	122	341	112	488
Cash and CE at Y/E	1,412	1,534	1,874	1,987	2,475

Current Price as of: Sep 5

Source: PSHK Est.

PHILLIP RESEARCH STOCK SELECTION SYSTEMS

Total Return	Recommendation	Rating	Remarks
>+20%	Buy	1	>20% upside from the current price
+5% to +20%	Accumulate	2	+5% to +20% upside from the current price
-5% to +5%	Neutral	3	Trade within \pm 5% from the current price
-5% to -20%	Reduce	4	-5% to -20% downside from the current price
<-20%	Sell	5	>20% downside from the current price

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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