



Company Report: Techtronic Industries (00669 HK)

公司报告: 创科实业 (00669 HK)

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A Global Leader in the Electric Tool Industry, Building an Ecosystem of Electric Tools, Initiate With "Accumulate"

全球电动工具行业领导者，构建电动工具“生态系统”，首予“收集”

- **Techtronic Industries Company Limited ("TTI", or the "Company") is a global leader in electric tool industry with competitive advantages.** 1) The Company's multi-brand strategy is able to meet the needs of consumers; its main brands have strong brand competitiveness. 2) The Company has strong technological development; the rechargeable battery system developed by the Company has advantages of strong compatibility, superior performance, and adaptability to complex environments. 3) The Company's battery platform is compatible with a wide variety of products, and its sales model of "bare tool + batteries" offers an ecosystem in the tool industry. 4) The Company is working with Home Depot, the largest home improvement retailer in North America, and has gained channel advantages.
- **The medium- and long-term development prospects of the power tool industry are promising.** 1) The power tool industry has rich applications and stable consumer demand. 2) Cordless tools have obvious advantages in ease of use and convenience, and the long-term development trend is positive. 3) As a leader in the industry, the Company's development is superior to that of its peers, and its market share will continue to increase.
- **Initiate with "Accumulate" and a TP of HK\$107.30.** We forecast the Company's revenue in 2023-2025 to be US\$13,929 mn/ US\$15,034 mn/ US\$16,617 mn, respectively. Our TP represents 22.0x/ 20.4x/ 17.9x 2023-2025 PE ratio and 4.3x 2023 PB ratio.
- **创科实业（“TTI”或“公司”）是全球电动工具行业龙头，具备多种优势。** 1) 公司采用多品牌战略满足不同消费者的各类需求，旗下主要品牌具备较强品牌竞争力。2) 公司技术积累深厚。公司研发的充电式电池系统具有兼容性强、性能优越、可适应复杂环境的优势。3) 公司电池平台兼容产品种类繁多，裸工具+电池的销售模式打造工具行业的“生态系统”。4) 公司与北美最大的家装零售商家得宝深度合作，渠道优势明显。
- **电动工具行业中长期发展前景向好。** 1) 工具行业应用场景丰富，消费需求稳固。2) 无绳化工具在易用性、便利性上有较为明显的优势，长期发展趋势向好。3) 公司作为行业龙头，发展优于同业，市场占有率将继续提升。
- **首予“收集”，目标价为 107.30 港元。**我们预计公司 2023-2025 年营收分别为 13,929/15,034/16,617 百万美元。我们的目标价对应 22.0 倍/ 20.4 倍/ 17.9 倍的 2023-2025 年市盈率及 4.3 倍的 2023 年市净率。

Rating:

Accumulate
Initial

评级:

收集 (首次覆盖)

6-18m TP 目标价:

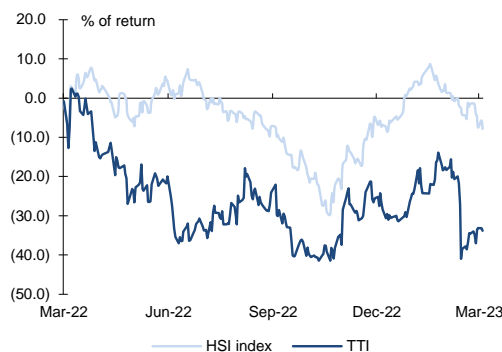
HK\$107.30

Share price 股价:

HK\$84.050

Stock performance

股价表现



Change in Share Price	1 M	3 M	1 Y
股价变动	1 个月	3 个月	1 年
Abs. % 绝对变动 %	(21.6)	(12.7)	(30.5)
Rel. % to HS Index 相对恒指变动 %	(12.8)	(10.5)	(29.1)
Avg. share price (HK\$) 平均股价 (港元)	87.0	93.4	93.3

Source: Bloomberg, Guotai Junan International.

Year End	Turnover	Net Profit	EPS	EPS	PER	BPS	PBR	DPS	Yield	ROE
年结	收入	股东净利	每股净利	每股净利变动	市盈率	每股净资产	市净率	每股股息	股息率	净资产收益率
12/31	(USD m)	(USD m)	(USD)	(Δ%)	(x)	(USD)	(x)	(USD)	(%)	(%)
2021A	13,203	1,099	0.600	37.1	1,096.5	2.574	4.2	0.215	2.0	25.5
2022A	13,254	1,077	0.589	(2.0)	1,118.4	2.837	3.8	0.251	2.3	21.7
2023F	13,929	1,148	0.625	6.2	1,053.0	3.211	3.4	0.246	2.3	20.7
2024F	15,034	1,244	0.676	8.1	974.0	3.615	3.0	0.264	2.4	19.8
2025F	16,617	1,419	0.769	13.8	855.9	4.080	2.7	0.293	2.7	20.0

Shares in issue (m) 总股数 (m)	1,834.8	Major shareholder 大股东	Pudwill Horst Julius 19.8%
Market cap. (HK\$ m) 市值 (HK\$ m)	154,856.9	Free float (%) 自由流通比率 (%)	75.1
3 month average vol. 3 个月平均成交股数 ('000)	7,186.5	FY23 Net gearing (%) FY23 净负债/股东资金 (%)	53.8%
52 Weeks high/low (HK\$) 52 周高/低 (HK\$)	135.700 / 72.700		

Source: the Company, Guotai Junan International.

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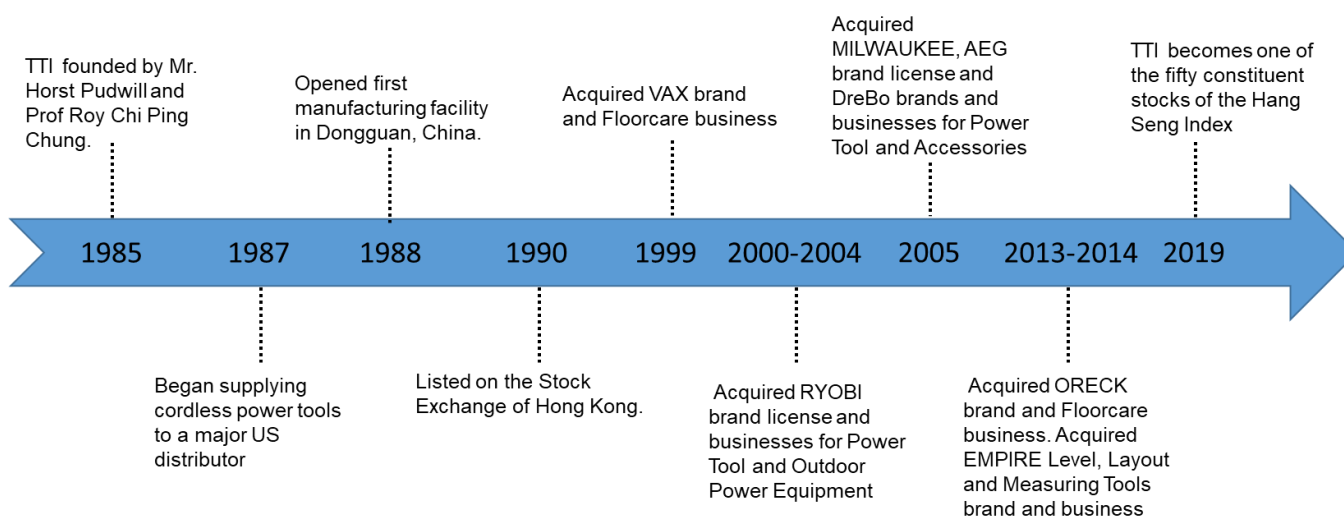
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COMPANY PROFILE

The Company leads the development trend of electric tools and has strong brand effect

Techtronic Industries Company Limited ("TTI", or the "Company") is a fast-growing world leader in power tools, accessories, hand tools, outdoor power equipment (OPE), and floorcare and cleaning industries. The Company was established in 1985 and listed on the Hong Kong Stock Exchange in 1990. Driven by brand acquisition and its own technological innovation, the Company has successfully transformed from original equipment manufacturer (OEM)/ original design manufacturer (ODM) model, to original brand manufacturer (OBM) model, and has become a global leader in electric tools.

Figure-1: TTI's development milestones



Source: the Company, Guotai Junan International.

The Company's shareholding structure is stable, and the founder Mr. Horst Pudwill is the largest shareholder. Mr. Horst Pudwill is one of the founders of the Company and is now the Company's executive director, holding 19.80% of the Company's shares and is the largest shareholder of the Company. The Company's ownership structure is stable.

Table-1: TTI's shareholding structure

Person	Position	Main Responsibility	Shareholding Ratio*
Horst Julius Pudwill	Chairman / Co-founder / Executive Director	Strategic planning and development	19.80%
JPMorgan Chase&Co.	n.a	n.a	7.24%
The Bank of New York Mellon Corporation	n.a	n.a	5.00%




































Source: the Company, Guotai Junan International.

The Company operates multiple brands and has a wide range of products, which closely meets the needs of consumers. The Company's brand portfolio has been strongly enhanced through acquisition and licensing. The Company's brand portfolio currently includes MILWAUKEE, AEG, RYOBI and HART power tools, accessories and hand tools; RYOBI and HOMELITE outdoor power equipment; EMPIRE layout and measuring products; and HOOVER, ORECK, VAX and DIRT DEVIL floor care and appliances. The Company implements multi-brand coordinated development for different consumers. Each brand includes a wide range of categories and closely meets the needs of consumers. For example, MILWAUKEE provides high-end products for industrial and professional users, and RYOBI focuses on consumer-grade DIY products.

The Company has been developing electric and cordless power tools for many years, and has successfully built an ecosystem of electric tools, utilizing technological advantages. As one of the first companies to focus on electrification and cordless power tools, TTI has strong technical advantages in key components such as brushless motors, lithium battery packs and electronic control systems. TTI has developed a universal battery platform with strong intercompatibility and applied it to various brands and series of products. For example, the MILWAUKEE M18 series has more than 250 products, all of which use

the same rechargeable lithium battery system, and the subsequent replacement of the battery system still ensures continuous compatibility with the same series of products. The compatible battery platform not only provides TTI's customers with an attractive option of "bare tool + replaceable batteries", but also maintains the loyalty of its customers due to the high cross-brand switching costs, enabling the Company to successfully build a power tools ecosystem.

Figure-2: TTI's brands and representative products

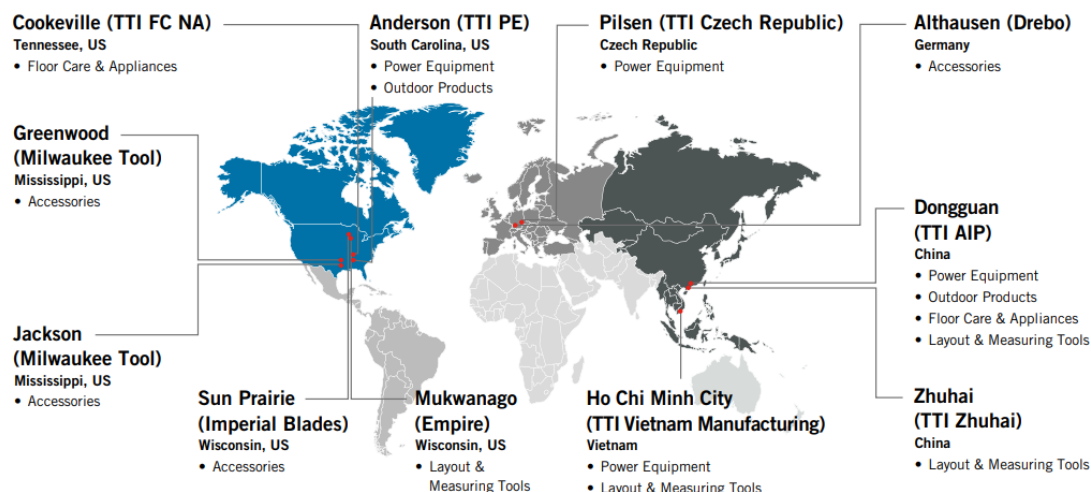
Core Brands	Positioning	Representative Products							
 MILWAUKEE (2005 [^])	<ul style="list-style-type: none"> Industrial and professional power tools Hand tools and storage 								
 RYOBI [*] (2000-2004 [^])	<ul style="list-style-type: none"> Consumer / DIY power tools Outdoor garden equipment 								
 HOOVER (2007 [^])	<ul style="list-style-type: none"> Premium / commercial floor care 								
Other Brands									
 AEG [*] (2005 [^])	 HOMELITE (2002 [^])	 STILETTO (2007 [^])	 HART	 IMPERIAL BLADES (2018 [^])	 EMPIRE (2014 [^])	 VAX (1999 [^])	 DIRT DEVIL (2003 [^])	 ORECK (2013 [^])	
									
<ul style="list-style-type: none"> Professional power tools 	<ul style="list-style-type: none"> Consumer outdoor garden equipment 	<ul style="list-style-type: none"> Premium lightweight hand tools 	<ul style="list-style-type: none"> Consumer hand tools 	<ul style="list-style-type: none"> Oscillating multi-tool accessories 	<ul style="list-style-type: none"> Layout and measuring tools 	<ul style="list-style-type: none"> High performance floor care 	<ul style="list-style-type: none"> Consumer floor care 	<ul style="list-style-type: none"> Professional / commercial floor care 	

Source: the Company, Guotai Junan International.

Note:
[^] Year of TTI's brand acquisition or licensing.
^{*} TTI uses AEG (a registered trademark of AB Electrolux (publ.)) and RYOBI (a registered trademark of Ryobi Limited) under license. All other trademarks are owned by TTI.

In the face of uncertainty in global trade relations, TTI continues to diversify its global manufacturing. Due to uncertainties in global trade relations in recent years, the Company has gradually reduced its dependence on the production capacity in China, and has been expanding its manufacturing facilities in Vietnam, Mexico and the United States since 2018. The proportion of the Company's production capacity in China dropped from 70% in 2019 to 50% in 2021.

Figure-3: TTI's global manufacturing and product development footprint

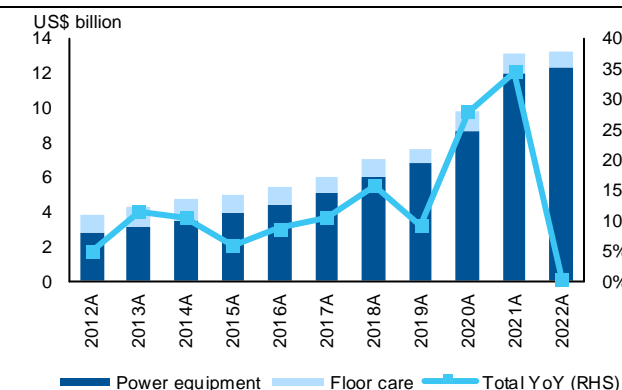


Source: the Company, Guotai Junan International.

The Company's performance remained solid, and the gross profit margin continues to increase

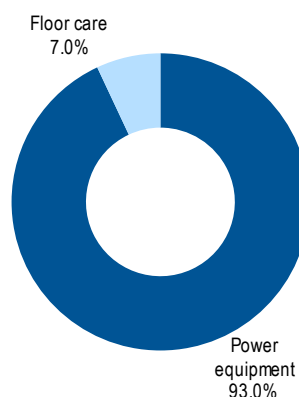
Demand for power tools is stable, and the Company's revenue is growing steadily. In 2022, the Company's revenue was US\$13.25 billion (+0.4% yoy), and net profit attributable to the parent of US\$10.77 billion (-2.0% yoy). Since the local Covid epidemic outbreak in 2020, DIY demand has increased, and the North American real estate market has continued to prosper, which has led to continued strong demand in the tool industry, and the Company's revenue has maintained rapid growth for two consecutive years. Since 2022, as the US Federal Reserve continues to raise interest rates to suppress downstream demand, the Company's revenue growth rate dropped. Power equipment (including OPE) is the Company's main business, accounting for 93.0% of total revenue in 2022, and floor care business accounted for 7.0% of total revenue.

Figure-4: The Company's revenue



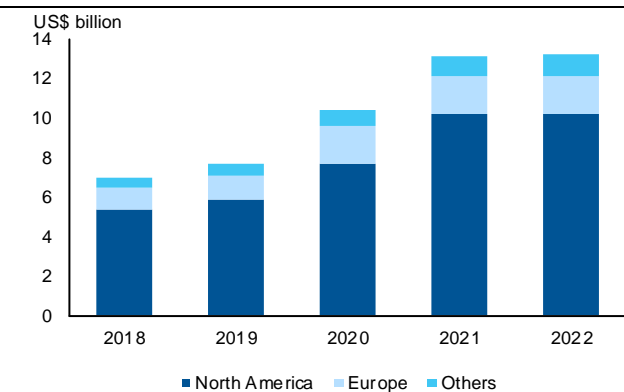
Source: the Company, Guotai Junan International.

Figure-5: Revenue breakdown by business in 2022

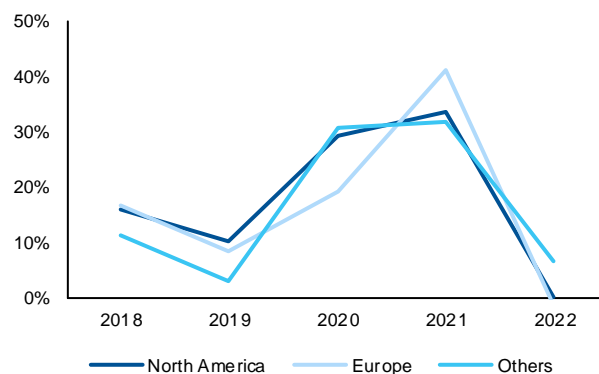


Source: the Company, Guotai Junan International.

The Company's core market is North America, and is developing steadily in Europe, Asia Pacific and other regions. Because of the popularity of DIY and low population density, North America is the region with the largest share of global power tools sales. The Company works closely with Home Depot, the largest home improvement and building materials retailer in North America, to meet the needs of consumers across North America. In the past few years, the Company's North American revenue accounted for more than 75% of its total. In addition, the Company actively expands markets in other regions and maintains steady development in Europe, Asia Pacific and other regions.

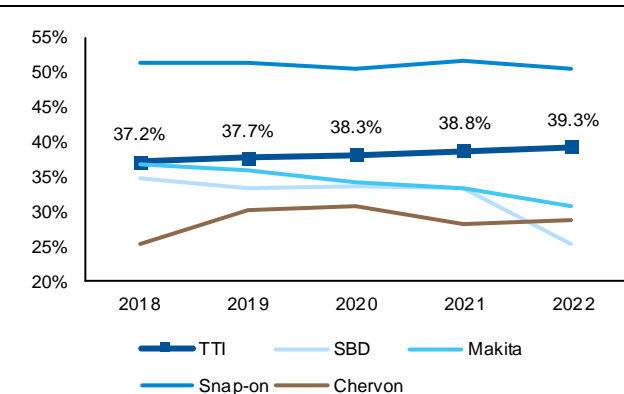
Figure-6: Revenue breakdown by region


Source: the Company, Guotai Junan International.

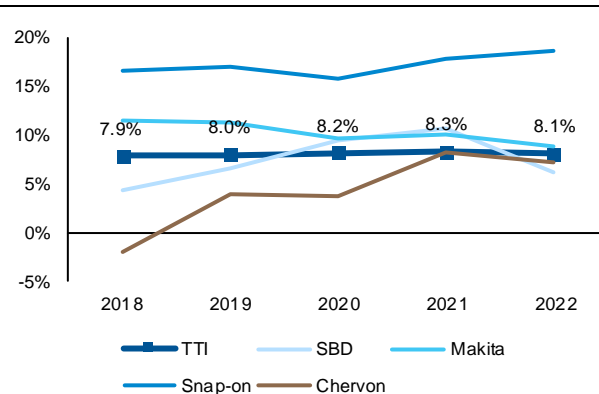
Figure-7: Revenue growth by region


Source: the Company, Guotai Junan International.

TTI's gross profit margin is increasing year by year, and revenue growth has been faster than its peers. The Company's gross profit margin has steadily increased from 34.2% in 2013 to 39.3% in 2022, higher than its main competitors Stanley Black & Decker and Makita. In the past few years, the Company has been in the leading position in the industry.

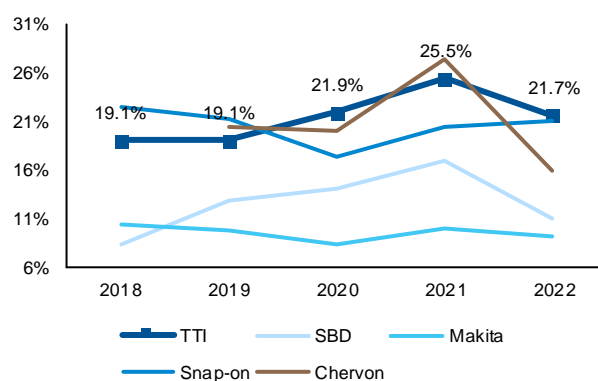
Figure-8: The Company's gross margin


Source: the Company, Guotai Junan International.

Figure-9: The Company's net margin


Source: the Company, Guotai Junan International.

The Company's ROE is industry-leading. In 2022, the Company's ROE was 21.7% (-3.8pct yoy). The ROE of the Company is in the leading position in the industry, much higher than that of major competitors such as Stanley Black & Decker and Makita. Since 2012, the Company's ROE has been steadily increasing, showing the Company's excellent operating capabilities, and we expect that this advantage will remain in the future.

Figure-10: The Company's ROE


Source: the Company, Guotai Junan International.

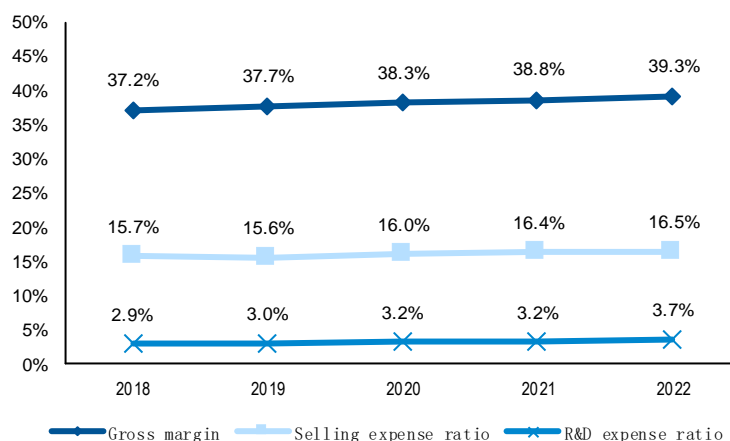
Note: For comparison, the Company's FY22 data is displayed as 2021A.

Discussion on the Company's increasing gross profit margin

Recently, some investors have questioned the Company's profitability and issued short-sell reports. The Company has refuted the short-sell reports on several fronts. We want to discuss the Company's gross margin. The Company's sustained gross margin improvement had some investors accusing the Company of profit manipulation, but we are confident on the Company's integrity. We believe that the Company's gross profit margin improvement comes from the following:

- 1) The strong growth of the Company's Milwaukee's business has affected its revenue composition. As the Company's main brand, Milwaukee has maintained rapid growth and has gradually become the Company's main business, accounting for more than 50% of the Company's total revenue in 2022. As a brand with high gross profit margin, Milwaukee has made continuing contribution to the Company's gross profit margin growth. On the other hand, the Company's "bare tool + batteries" sales strategy has greatly promoted growth of the Company's battery business. The battery business has a high gross profit margin while maintaining rapid growth, contributing to the improvement in the Company's overall gross profit margin.
- 2) The Company maintains a high rate of sales expenses and R&D expenses to ensure the competitiveness of its products. The Company's sales expense ratio has increased in recent years, indicating that the Company has increased investment in sales to maintain brand competition of the company's products. In addition, the company's R&D expense rate has been increasing year by year. The Company's continuous investment in R&D ensures the technical advantages of its power tools ecosystem, further enhancing product competitiveness and maintaining high gross margins.

Figure-11: The Company's gross margin continues to increase



Source: the Company, Guotai Junan International.

Therefore, we believe that the Company's strong product competitiveness guarantees its profitability, and the possibility of financial fraud is low.

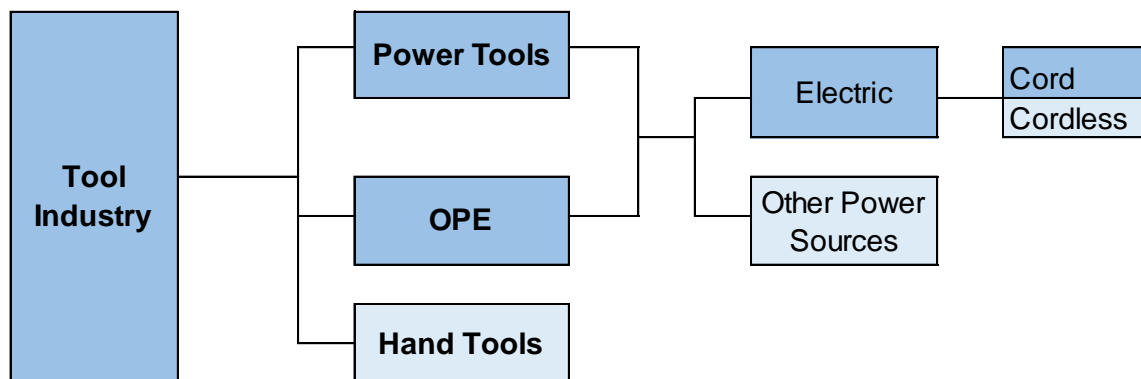
INDUSTRY ANALYSIS

The market of power tools and OPE has maintained steady growth

The tool industry includes hand tools, power tools, and OPE. For power tools, power types include electric, pneumatic, and fuel oil. Electric power tools can be further divided into two categories, corded and cordless. According to the different types of

consumers, they can be divided into industrial grade, professional grade and consumer grade.

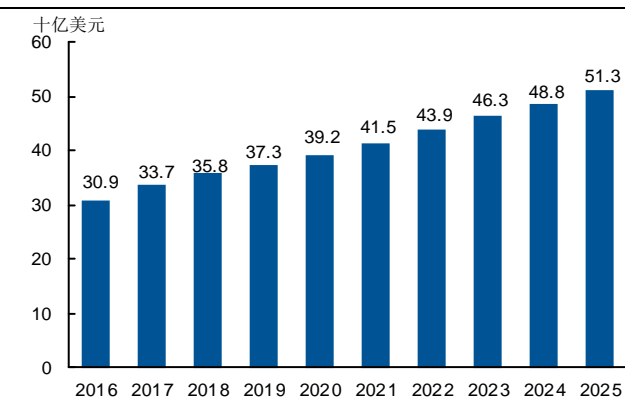
Figure-12: Division of tool industry



Source: Frost & Sullivan, Guotai Junan International.

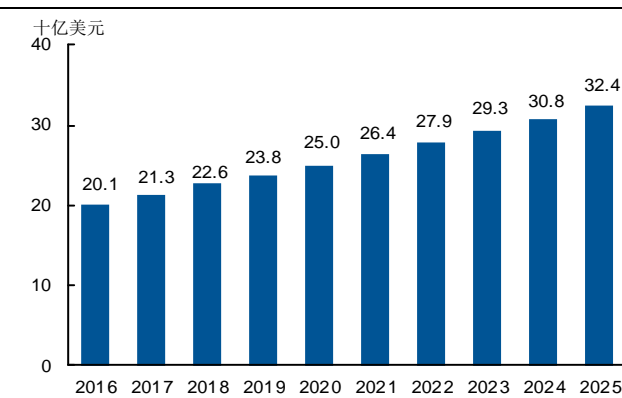
The tool industry has broad applications, strong downstream demand, strong consumption attributes, and has maintained steady growth. According to Frost & Sullivan, the global power tool market grew from US\$30.9 billion in 2016 to US\$39.2 billion in 2020, with a compound annual growth rate of 6.1%. It is expected that the global power tool market will maintain a compound annual growth rate of 5.5% over the next few years, and will further grow to a market size of US\$51.3 billion by 2025. The global power tool market size grew at a CAGR of 6.2% from 2016 to 2020. It is expected to maintain a compound annual growth rate of 5.9% over the next few years. For the global OPE market, the market size in 2016 was US\$20.1 billion, and grew to US\$25 billion in 2020, with compound annual growth rate of 5.6%. It is expected that the global OPE market will maintain compound annual growth rate of 5.3% over the next few years, and will further grow to a market size of US\$32.4 billion by 2025.

Figure-13: Global market size of power tools



Source: Frost & Sullivan, Guotai Junan International.

Figure-14: Global market size of OPE

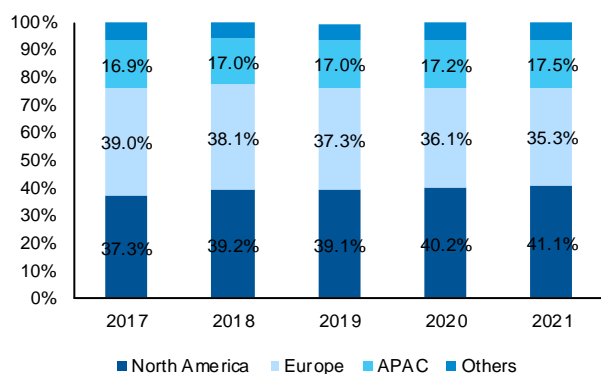


Source: Frost & Sullivan, Guotai Junan International.

Europe and America are the main consumer markets

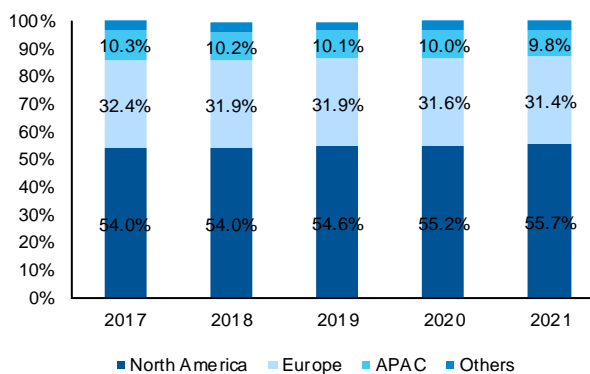
The European and American markets are the main consumer markets, and this trend is expected to continue. According to Frost & Sullivan, European and American markets are the main markets of power tools. The high per capita income, high per capita housing area, and high labor costs in Europe and the United States provide opportunities for the development of electric tools. In contrast, the power tool market in the Asia Pacific region is relatively small. Most countries in Asia are densely populated, with small living areas and small DIY market. Australia and New Zealand have similar living conditions to Europe and the United States, but the population base is too small to match the consumption scale in Europe and America. Therefore, we expect that the Europe and America markets will still be the main market for power tools in the future.

Figure-15: Global market size of power tools by region



Source: Frost & Sullivan, Guotai Junan International.

Figure-16: Global market size of OPE by region



Source: Frost & Sullivan, Guotai Junan International.

All brand manufacturers work closely with offline retailers, and offline sales account for a relatively high proportion of overall sales. Major power tools and OPE brands work closely with offline retailers such as Home Depot, Lowe's, and Walmart. According to Frost & Sullivan, in 2020, offline channels occupied 90% of all channels of the power tool industry, and online channels occupied 10%. Offline channels will still be the main channels. There are many types of power tools with different functions. For consumers, pre-sales and after-sales consultation and maintenance is important. Therefore, all brand manufacturers attach great importance to their relationship with offline channels. With the development of the internet, offline retailers are gradually introducing models of ordering online and picking up goods offline, so the integration of online and offline channels will be closer. We expect that offline sales will remain popular in the future.

Cordless electric tools have become a development trend

Electric tools are the main types of power tools, and will further develop towards cordless power tools in the future. According to Frost & Sullivan, the power tool market occupied 74% of the total tool market in 2020. Among them, cordless electric tools occupied 56.3%. With the advancement of battery technology, cordless power tools are developing rapidly. Compared with corded tools, cordless power tools are powered by battery packs, which have significant safety and convenience advantages. For consumers, a battery pack can be purchased and matched with a variety of compatible tools to provide consumers with personalized choices. The penetration rate of cordless electric tools is expected to continue to increase in the future.

The proportion of electric OPE is still relatively low. At present, OPE is still mainly pneumatic, and the proportion of electric OPE is relatively low. Compared with pneumatic OPE, cordless electric equipment has advantages of low noise and low pollution. In the future, as battery technology continues to advance, the substitution effect from cordless devices will become more significant.

The advantages of cordless tools are outstanding, and market share will continue to increase. Cordless tools have obvious advantages in ease of use and convenience, and the long-term development trend is positive. At the same time, cordless tools have the advantages of low pollution and low noise. As importance on environmental, social, and governance issues grow in popularity, the environmental protection factors will also help increase the penetration rate of cordless power tools. With the continuous advancement in battery technology, battery life is no longer a restricting factor in the development of cordless tools. According to Frost & Sullivan's estimates, the market share of cordless electric power tools will rise from 47.0% in 2020 to 56.2% in 2025, and the market share of cordless penetration rate of OPEs will rise from 17.0% to 19.9% in 2025.

Table-2: Compound growth rate of power tools divided by power source

Period	Overall	Corded	Cordless
2016-2020	6.2%	4.2%	9.3%
2020-2025	5.9%	2.1%	9.9%
2016-2025	6.0%	3.0%	9.6%

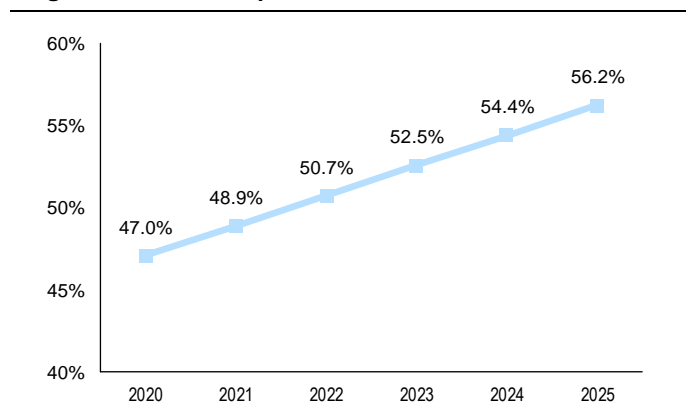
Source: Frost & Sullivan, Guotai Junan International.

Table-3: Compound growth rate of power tools divided by power source

Period	Overall	Corded	Cordless
2016-2020	5.6%	4.9%	8.4%
2020-2025	5.3%	4.4%	9.0%
2016-2025	5.4%	4.6%	8.7%

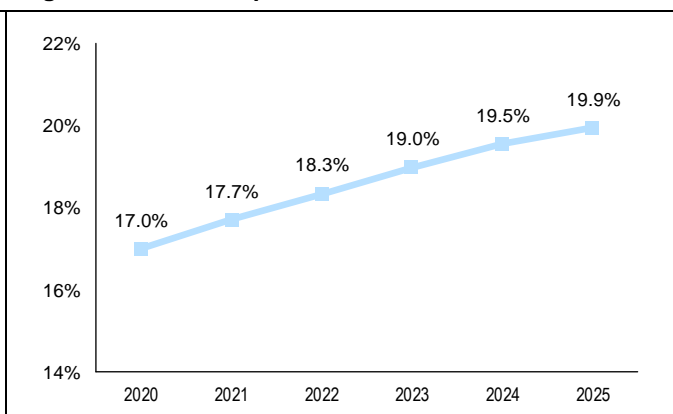
Source: Frost & Sullivan, Guotai Junan International.

Figure-17: Cordless penetration rate of electric tools



Source: Frost & Sullivan, Guotai Junan International.

Figure-18: Cordless penetration rate of OPE



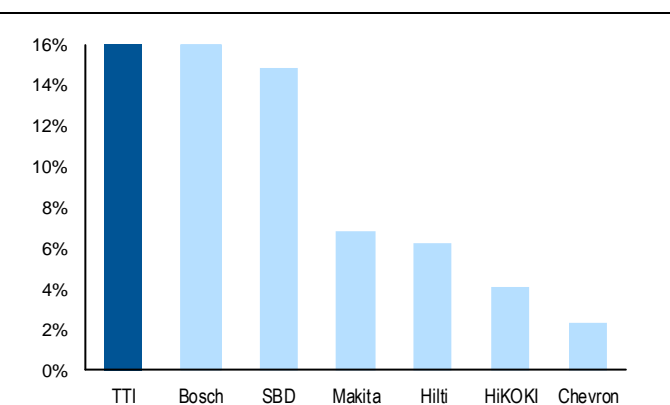
Source: Frost & Sullivan, Guotai Junan International.

The industry is highly concentrated and the competition landscape is stable

The tool industry has a high degree of concentration and a relatively stable competitive landscape. The Company's main competitors in the field of power tools include Bosch and Stanley Black & Decker. The concentration ratio of top 5 companies in power tool industry exceeds 60.7%, showing a high industry concentration. In the field of OPE, the Company's main competitors include Chervon, Stanley Black & Decker, Bosch and Greebo, with the concentration ratio of top 5 companies in OPE industry exceeding 62.3%. Overall, the tool industry has a high degree of concentration, a relatively stable competitive landscape, and industry leaders occupy a major share of the market. Especially in the fields of power tools and OPE which have relatively high barriers to entry, the development advantages of leading enterprises are more obvious.

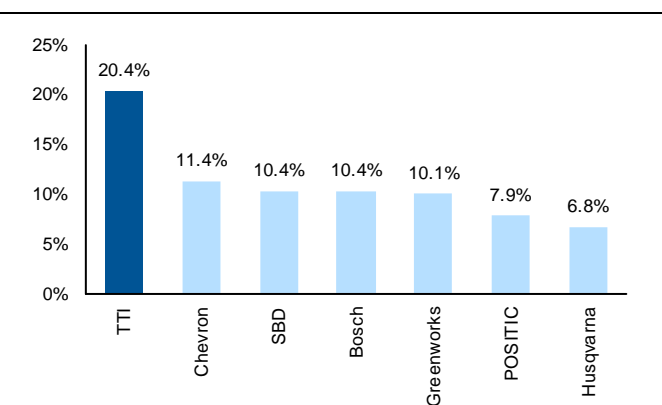
The Company's brand competitiveness is strong, and its market share continues to expand. TTI is mainly focusing on the subdivision of power tools with a high technical threshold, and was the first to adopt a rechargeable battery power system platform. With upgrades in battery technology, the Company has become the biggest beneficiary of the trend of electrification and cordless power tools. Relying on strong product competitiveness, the Company's market share in the electric tools and OPE industries continues to increase. According to Frost & Sullivan's calculations, the Company ranked first in market share of the power tool industry and OPE industry in 2020, with market share of 16.6% and 20.4%, respectively.

Figure-19: Market share of electric power tool industry in 2020



Source: Frost & Sullivan, Guotai Junan International.

Figure-20: Market share of electric OPE industry in 2020



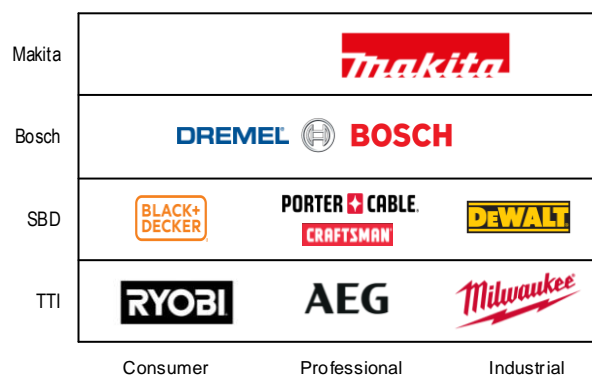
Source: Frost & Sullivan, Guotai Junan International.

COMPETITION ANALYSIS

Brand: Coordinated development of multiple brands to establish brand competitiveness

Coordinated development of multiple brands to meet different consumer demands. The Company implements multi-brand coordinated development for different types of consumers. Each brand includes a wide range of categories and closely meets the needs of its target consumers. For example, MILWAUKEE provides high-end products for industrial and professional users, RYOBI focuses on providing consumer products for DIY and gardening enthusiasts, and AEG is mainly for professional technicians.

Figure-21: Brand Positioning of TTI and Other Leading Power Tool Manufacturers



Source: the Company, Guotai Junan International.

Technology: Battery platform with technical advantages

TTI continues to invest in key technologies to establish a battery platform with technological advantages. After years of technical development, the Company has certain technical advantages in battery systems. The Company has a number of innovations in the battery platform used in its own products, among which three key technologies determine the technical advantages of the Company's battery platform: brushless motors, control systems and lithium battery packs. The achieved technical advantages include: 1) long life and low noise brushless motor; 2) longer battery runtime; 3) stronger environmental adaptability, for example, the Company's battery system can operate in cold conditions as low as -18°C. These advantages make the Company's products more attractive to consumers with longer durability and reliability characteristics.

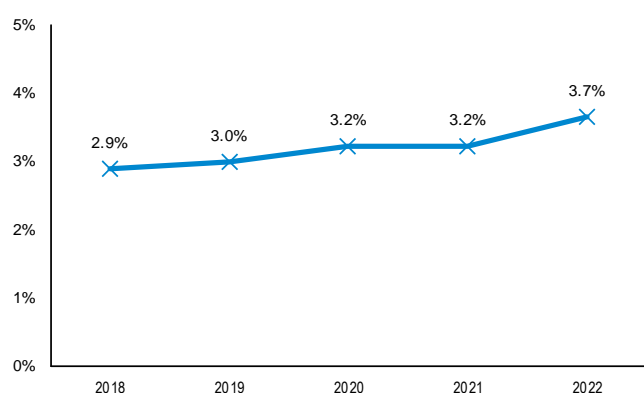
Figure-22: Key Components of TTI's Battery System



Source: the Company.

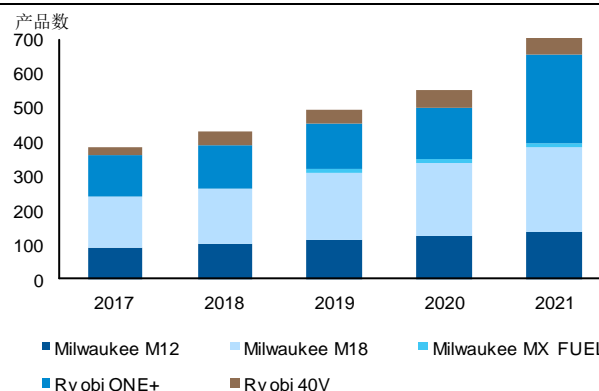
The Company's R&D expense ratio is significantly higher than that of its peers. TTI's R&D expense ratio in 2022 reached 3.7%, significantly surpassing its peers. We expect the Company to continue to maintain R&D expense ratio of over 3% and continue to invest in R&D to expand its rechargeable product lineup by utilizing more of its own technological advantages in key components such as brushless motors, lithium battery packs and control systems.

Figure-23: The Company's R&D Expense



Source: the Company, Stanley Black & Decker, Makita, Guotai Junan International.

Figure-24: Compatible Products on TTI's Major Battery Platforms



Source: the Company, Guotai Junan International.

The Company's battery platform has a strong ecosystem, with one battery platform being compatible with hundreds of products. The Company has developed a leading universal battery platform under its core brand, including MILWAUKEE's M12 series, M18 series and MX FUEL series, RYOBI's ONE+ series and 40V series, HOOVER and VAX's ONEPWR series, each of which can share its own battery system, while subsequent battery system upgrades will remain compatible. For example, the RYOBI ONE+ platform was launched with nickel-cadmium batteries in 1996, and was upgraded to lithium batteries in 2007. The new lithium batteries can still be used on old tools, and the old nickel-cadmium batteries can also be used in new products. For a certain series, the Company continues to increase the number of compatible products, allowing users to adapt hundreds of products through one battery system. In addition, the general-purpose battery platform provides customers with the purchase plan of "bare tool + replaceable batteries", which generally reduces purchase cost for customers and is more attractive.

Third-party tools or battery systems are not compatible with the Company's brand, which increases cost for customers switching brands. The universal battery platform developed by the Company is only applicable to the Company's products and is not compatible with third-party products. On the other hand, the Company's technical advantages make

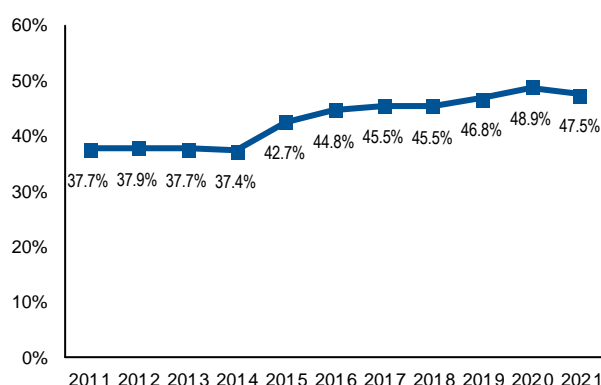
third-party battery systems unable to achieve the performance of the original battery system. Therefore, the combination of battery systems and tools increases cost for customers brand switching and helps to maintain the loyalty of its customers.

Channels: Close cooperation with offline channels

TTI has established a close working relationship with Home Depot. Home Depot is the largest home improvement retailer in North America and the number one retailer of power tools, with 2,317 stores in North America as at 2021. The Company has a close working relationship with Home Depot, for example, in the form of exclusive sales of RYOBI products at Home Depot. As TTI's largest distributor for the past decade, Home Depot contributed 47.5% of TTI's total sales in 2021.

Since the outbreak, Home Depot's online channels have gradually developed, and its sales model has been continuously optimized. Home Depot stores have a strong offline channel advantage, on the one hand because of the number of Home Depot stores, and on the other hand because Home Depot employs skilled workers to provide customers with high-quality pre-sales and after-sales services. The tool industry has not been severely impacted by e-commerce in the past few years. Since the outbreak, distributors such as Home Depot have also expanded their online services, adopting the model of online ordering and store pickup to enrich sales models. In the past two years, Home Depot's online sales have developed rapidly, and the proportion of online sales in 2021 will increase to 13.7%. It is expected that Home Depot will continue to consolidate its channel advantages in the future, and its online services will also develop rapidly. The Company's close cooperation with Home Depot will continue to help the Company's sales growth in the North American market.

Figure-25: Home Depot's Contribution to the Company



Source: the Company, Guotai Junan International.

In addition, the Company is still actively expanding other sales channels. The Company's online platform continues to expand. In addition to the cooperation with Home Depot, the Company's brand MILWAUKEE is actively being developed on e-commerce platforms such as Amazon. Offline, another tools brand of the Company, HART, has been exclusively sold in Wal-Mart, a large supermarket chain in the United States. The Company's active expansion of sales channels will help the Company further consolidate its leading position in the power tool industry and OPE industry.

GROWTH PROSPECTS ANALYSIS

The Company has made efforts to develop the global market and actively enter online channels

Long-term demand in European and American markets remains resilient, and new demand has been released in the Asia-Pacific region. The North American market is TTI's largest market, accounting for 77.2% of revenue in 2022. Although the US real estate market is facing pressure from the Fed's interest rate hikes, it will continue to maintain resilience in the medium and long term, and drive demand in the tool industry to continue to be strong. According to Frost & Sullivan, the North

American region will still be the region with the highest compound growth rate for the power tool industry and OPE industry in the next few years, while the Asia-Pacific region will rank second. In 2022, the Company continued to achieve stable growth in other regions, with operating income increasing by 6.5% YoY, showing that the Company is actively expanding in other regions of the world. It is expected that the proportion of the Company's revenue from Europe and the Asia-Pacific region will further increase in the future, contributing new development space for the Company.

Table-4: Compound growth rate of power tools by region

Period	Overall	North America	Europe	Asia-Pacific	Others
2016-2020	6.2%	9.0%	3.4%	6.8%	4.8%
2020-2025	5.9%	7.8%	3.3%	6.5%	4.6%
2016-2025	6.0%	8.4%	3.4%	6.6%	4.7%

Source: Frost & Sullivan, Guotai Junan International.

Table-5: Compound growth rate of OPE by region

Period	Overall	North America	Europe	Asia-Pacific	Others
2016-2020	5.6%	6.4%	4.9%	5.3%	1.6%
2020-2025	5.3%	5.9%	4.4%	5.4%	2.2%
2016-2025	5.4%	6.1%	4.6%	5.4%	2.0%

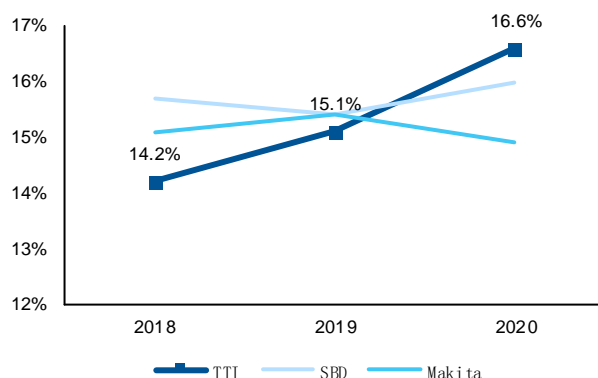
Source: Frost & Sullivan, Guotai Junan International.

The Company is actively cutting into online channels to broaden sales direction. The Company has entered the online platform of Home Depot and joined e-commerce platforms such as Amazon to expand online channels. The Company's RYOBI brand is exclusively sold on Home Depot's online retail channel, and continues to consolidate the Company's working relationship with dealers. The Company's main brand MILWAUKEE has entered the Amazon e-commerce platform, further targeting global consumers. In addition, the Company also sells brands such as Hoover and VAX through the dual channel model of official self-operated website and e-commerce platform.

The Company continues updating products to drive consumer demand for replacement

The Company actively invests in research and development, and their products are constantly updated. The Company is actively building its ecosystem with the battery platform as the core. The product is always compatible with its battery platform, making the Company's main series of products a tools system with the battery platform as the core. The Company's main components are all self-developed and self-produced. Its battery platform has the advantages of long battery life, high power, high speed, high efficiency, low noise, and light weight. It has great advantages in service life and portability of electric tools.

The Company will benefit from the increase in penetration rate of cordless power tools and continue to expand its market share. The Company has been working in the field of electric tools for many years, with strong brand competitiveness and obvious technical advantages. In the past few years, the Company has grasped the development trend of electric and cordless tools, and its market share has increased significantly. The Company's rich product line will continue to meet the needs of its consumers, and the Company is the biggest beneficiary of the increase in the cordless power tools. According to Frost & Sullivan's calculations, TTI's market share has continued to expand in the past few years. In 2018, the market share was 14.2%, ranking third, and in 2020 it rose to 16.6%, ranking first. We expect that the Company will continue to expand its market share by virtue of its technological advantages and brand competitiveness.

Figure-26: Market share of major companies in power tools


Source: Frost & Sullivan, Guotai Junan International.

The Company's main brands will continue to be the drivers of revenue and profit growth. As far as the power tools business is concerned, Milwaukee and Ryobi have strong growth potential. Milwaukee mainly focuses on professional users, and its industries include electrical, mechanical, engineering transformation, transportation maintenance, etc. The Company's penetration rate in the professional user market continues to increase. Since 2015, Milwaukee's revenue growth has remained above 20%, which has become an important driver of the Company's overall revenue and gross profit margin. It is expected that the compound annual growth rate of Milwaukee's revenue in the next three years will remain at 20%, and it will continue to play the key role in boosting growth of the Company's revenue and gross profit margin.

EARNINGS FORECASTS AND RECOMMENDATIONS

Core assumptions

Power Equipment Business

(1) The global market of power tools and OPE will continue to maintain steady growth. Although overall market demand may be weakened due to the unstable economic environment, under the trend of electrification and cordless power tools, the electrical tool market can still maintain relatively stable and continuous growth.

(2) Backed by rising R&D expenses, we believe TTI's more aggressive new product expansion than most peers on its leading battery platform will drive its market share growth. At the same time, thanks to its channel and brand advantages, TTI's market share is expected to further increase.

We forecast that the Company's power tools business revenue from 2023 to 2025 will be US\$12,999 million/ US\$14,057 million/ US\$15,555 million, with growth rates of 5.4%/8.1%/10.7%.

Floorcare business

We forecast that the revenue of the Company's floorcare business in 2023-2025 will be US\$930 million/ US\$977 million /1,062 million, with growth rate of 2.6%/ 7.5%/ 10.0%.

Table-6: Core Forecast Assumptions

	2021A	2022A	2023E	2024E	2025E
Revenue by segment (USD mn)					
Power Equipment	11,961,	12,329	12,999	14,057	15,555
Floorcare	1,242	925	930	977	1,062

Operating margin by segment

Power Equipment	9.7%	10.0%	10.1%	10.2%	10.3%
Floorcare	2.4%	-4.1%	-2.7%	-2.5%	-2.3%

Key financial data (USD mn)

Revenue	13,203	13,254	13,929	15,034	16,617
Gross profit	5,122	5,213	5,514	6,008	6,705
EBIT	1,224	1,227	1,317	1,425	1,593
Shareholder's profit	1,099	1,077	1,148	1,244	1,419
Basic EPS (USD)	0.600	0.589	0.625	0.676	0.769

Source: the Company, Guotai Junan International.

Earnings forecasts and recommendations

We forecast that the Company's revenue in 2023-2025 will be US\$7,302 million/ US\$9,851 million/ US\$13,244 million, respectively, yoy growth rate of 36.2%/ 34.9%/ 34.4%. Shareholders' profit will be US\$913 million/ US\$1,291 million/ US\$1,804 million, with a growth rate of 45.9%/ 41.4%/ 39.7% and PER of 21x/ 15x/ 10x, respectively.

The weighted average industry PER is 30 in 2023. Considering the uncertainty of the Company's performance recovery, we conservatively give the Company a PER of 22x in 2023, represented a TP of HK\$107.30. Therefore, We give an investment rating of "Accumulate", and a TP of HK\$107.30. Our TP represents PER 22.0x/ 20.4x/ 17.9x in 2023-2025 and PBR 4.3x in 2023, with an upside of 27.1%.

Table-7: Peers comparison

Company	Stock Code	Currency	Last Price	Market Cap (HKD mn)	PE (fiscal year)				PB (fiscal year)				ROE(%)	D/Y(%)	EV/EBITDA
					22A	23F	24F	25F	22A	23F	24F	25F	23F	23F	23F
Global Listed Peers															
Techtronic Industries Co Ltd	00669 HK	HKD	84.400	154,857	18.3	16.2	13.9	11.7	3.8	3.2	2.8	2.5	21.2	2.4	11.0
Chervon Holdings Ltd	02285 HK	HKD	43.050	22,001	18.5	14.8	11.7	11.2	2.8	2.4	2.0	1.8	17.4	1.2	9.9
Stanley Black & Decker Inc	SWK US	USD	84.050	100,963	11.8	82.2	16.4	11.7	1.4	1.4	1.4	1.3	2.4	3.8	17.7
Makita Corp	6586 JP	JPY	3,260.000	52,655	13.7	51.0	31.1	20.7	1.2	1.2	1.1	1.1	2.2	0.8	19.5
Snap-On Inc	SNA US	USD	247.080	103,018	14.4	14.6	14.0	14.2	2.9	2.7	2.5	2.3	19.3	2.6	10.2
Husqvarna Ab-B Shs	HUSQB SS	SEK	91.920	38,541	27.1	18.0	14.2	12.2	2.2	2.1	2.0	1.8	11.9	3.2	9.1
Seb Sa	SK FP	EUR	105.700	48,703	18.4	14.7	11.8	10.5	1.8	1.7	1.6	1.4	12.3	2.2	7.9
Electrolux Ab-B	ELUXB SS	SEK	124.980	26,090	n.a.	20.8	8.6	6.7	2.1	1.9	1.6	1.4	10.4	3.7	6.1
Js Global Lifestyle Co Ltd	01691 HK	HKD	8.030	28,062	9.2	7.9	6.9	0.5	1.6	1.4	1.2	n.a.	18.9	5.2	4.9
Irobot Corp	IRBT US	USD	43.960	9,463	n.a.	n.a.	n.a.	n.a.	2.5	3.3	3.9	n.a.	-28.9	0.0	n.a.
Nilfisk Holding A/S	NLFSK DC	DKK	134.000	4,038	12.0	10.7	8.8	7.1	1.9	1.6	1.4	1.2	16.3	1.3	5.6
Simple Average					15.9	25.1	13.7	10.7	2.2	2.1	1.9	1.6	9.4	2.4	10.2
Weighted Average					16.1	30.3	15.1	12.1	2.5	2.2	2.0	1.9	13.0	2.7	11.8
Mainland China Listed Peers															
Hang Zhou Great Star Indus-A	002444 CH	CNY	19.700	26,709	14.8	12.5	10.3	197.0	1.9	1.6	1.4	n.a.	13.2	0.4	9.4
Globe Jiangsu Co Ltd-A	301260 CH	CNY	33.290	18,248	52.0	20.2	14.1	n.a.	9.7	6.6	4.5	n.a.	32.0	n.a.	n.a.
Ken Holding Co Ltd-A	300126 CH	CNY	6.280	2,152	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Beijing Roborock Technolog-A	688169 CH	CNY	347.350	36,692	27.3	22.0	18.3	9.6	3.4	3.0	2.6	2.1	13.6	0.8	17.5
Ecovacs Robotics Co Ltd-A	603486 CH	CNY	81.040	52,299	27.2	21.8	17.7	17.3	7.2	5.8	4.7	n.a.	26.9	1.5	16.0
Kingclean Electric Co Ltd-A	603355 CH	CNY	29.320	18,976	17.8	15.9	13.3	n.a.	4.6	4.0	3.6	n.a.	29.7	4.6	12.2
Simple Average					27.8	18.5	14.7	74.6	5.4	4.2	3.3	2.1	23.1	1.8	13.8
Weighted Average					23.5	19.2	15.8	56.3	4.8	3.9	3.3	2.1	20.9	1.5	14.6

RISK FACTORS

Global recession risk

The current global macro environment is facing great uncertainty. The Federal Reserve's continuous interest rate hikes in order to curb inflation may lead to global economic recession, curb consumer demand in the tool industry market, and make the Company's continuous and stable growth trend unsustainable.

Intensified market competition risk

There are many competitors in the tool industry, and the Company faces competition. If competitors significantly surpass the Company in terms of technology, channels, brands, etc., the Company's market share may decline.

Unstable trade relations between China and the United States

Since the trade war between China and the United States broke out in 2018, the Company has begun to deploy production bases around the world to spread the risk of trade conflicts. However, about 50% of the current production capacity is still concentrated in China. Companies face risk of higher costs in the event of future instability in US-China trade relations.

Financial Statements and Ratios

Income Statement						Balance Sheet					
Year end 31 Dec (USD m)	2021A	2022A	2023F	2024F	2025F	Year end 31 March (HK\$ m)	2021A	2022A	2023F	2024F	2025F
Total revenue	13,203	13,254	13,929	15,034	16,617	Property, plant and equipment	1,853	2,086	2,539	3,059	3,671
Cost of sales	(8,082)	(8,041)	(8,415)	(9,026)	(9,912)	Right-of-use assets	553	683	724	768	814
Gross profit	5,122	5,213	5,514	6,008	6,705	Goodwill	577	599	617	635	654
Other income	13	14	16	19	23	Intangible assets	850	1,124	1,191	1,263	1,339
Selling and distribution expenses	(2,165)	(2,191)	(2,303)	(2,510)	(2,801)	Others	113	287	295	303	311
General and administrative expenses	(1,352)	(1,350)	(1,419)	(1,531)	(1,692)	Total non-current assets	3,946	4,778	5,366	6,028	6,789
R&D expenses	(426)	(484)	(523)	(579)	(657)	Cash & cash equivalents	1,874	1,429	795	643	371
Operating profit	1,192	1,201	1,285	1,406	1,577	Inventories	4,850	1,713	1,648	1,947	2,348
Finance income and costs - net	(10)	(44)	(51)	(69)	(52)	Trade and bills receivables	2,022	2,018	2,058	2,624	3,252
Profit before tax	1,182	1,157	1,235	1,337	1,526	Others	315	3,377	4,527	4,414	4,425
Income tax	(83)	(80)	(86)	(94)	(107)	Total current assets	9,062	8,537	9,028	9,628	10,396
Profit after tax	1,099	1,077	1,148	1,244	1,419	Trade and bills payables, other payables, deposits and accruals	4,095	3,854	4,106	4,467	4,956
Non-controlling interest	0	0	0	0	0	Borrowings	2,253	1,953	2,012	2,072	2,134
Shareholders' profit / loss	1,099	1,077	1,148	1,244	1,419	Others	331	415	446	487	534
Basic EPS (USD)	0.600	0.589	0.625	0.676	0.769	Total current liabilities	6,679	6,222	6,564	7,026	7,623
						Borrowings	1,028	1,198	1,234	1,271	1,309
						Other Payables and deposit	49	60	45	30	26
						Others	529	629	648	668	688
						Total non-current liabilities	1,606	1,888	1,927	1,969	2,023
						Total liabilities	8,285	8,110	8,491	8,995	9,646
						Share capital	683	685	709	739	775
						Share reserves and retained earnings	4,039	4,521	5,193	5,922	6,764
						Total shareholders' equity	4,723	5,205	5,902	6,660	7,539
						Minority interest	0	0	0	0	0
						Total equity	4,723	5,205	5,902	6,660	7,539
Cash Flow Statement						Financial Ratios					
Year end 31 March (HK\$ m)	2021A	2022A	2023F	2024F	2025F	Year end 31 March	2021A	2022A	2023F	2024F	2025F
Profit before tax	861	1,182	1,157	1,235	1,337	Gross margin (%)	38.8	39.3	39.6	40.0	40.4
Depreciation & amortization	404	427	47	181	247	Operating margin (%)	9.0	9.1	9.2	9.4	9.5
Changes in working capital	-166	-1,778	-332	-858	-359	Net margin (%)	8.3	8.1	8.2	8.3	8.5
Income tax paid	-51	-47	-137	-178	-199	ROE (%)	25.5	21.7	20.7	19.8	20.0
Other adjustments	-1,150	995	-305	716	180	ROA (%)	10.2	8.7	8.8	8.8	9.0
Cash from operating activities	-101	779	430	1,096	1,207	Net gearing ratio (%)	41.5	46.6	53.8	51.8	51.0
Capital expenditure	-459	-747	-878	-1,040	-1,240						
Other investing activities	-566	124	150	157	178						
Cash from investing activities	-1,025	-623	-729	-882	-1,062						
Net changes in borrowings	1,968	-328	96	99	102						
Dividends paid	-394	-425	-452	-486	-541						
Other financing activities	-101	151	20	21	22						
Cash from financing activities	1,472	-602	-335	-365	-417						
Cash at beg of year	346	-445	-634	-152	-272						
Net changes in cash	-6	0	0	0	0						
Effect of exchange rate changes	1,534	1,874	1,429	795	643						
Cash at End of Year	1,874	1,429	795	643	371						

Source: the Company, Guotai Junan International.

15 March 2023

Techtronic Industries 创科实业 (00669 HK)

Company Report

Company Rating Definition

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

Rating		Definition
Buy	买入	Relative Performance > 15%; or the fundamental outlook of the Company or sector is favorable.
Accumulate	收集	Relative Performance is 5% to 15%; or the fundamental outlook of the Company or sector is favorable.
Neutral	中性	Relative Performance is -5% to 5%; or the fundamental outlook of the Company or sector is neutral.
Reduce	减持	Relative Performance is -5% to -15%; or the fundamental outlook of the Company or sector is unfavorable.
Sell	卖出	Relative Performance < -15%; or the fundamental outlook of the Company or sector is unfavorable.

Sector Rating Definition

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

Rating		Definition
Outperform	跑赢大市	Relative Performance > 5%; or the fundamental outlook of the sector is favorable.
Neutral	中性	Relative Performance is -5% to 5%; or the fundamental outlook of the sector is neutral.
Underperform	跑输大市	Relative Performance < -5%; or the fundamental outlook of the sector is unfavorable.

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- (3) Guotai Junan and its group companies do not hold equal to or more than 1% of the market capitalization of the issuer mentioned in this Research Report.
- (4) Guotai Junan and its group companies have not had investment banking relationships with the issuer mentioned in this Research Report within the preceding 12 months.
- (5) Guotai Junan and its group companies are not making a market in the securities in respect of the issuer mentioned in this Research Report.
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