Elektron Technology (EKT)

AIM - Electronic & Electrical Equipment

Today's interim results show that the group has made excellent progress in the first half, with revenues, pre-tax profits, earnings per share and the dividend all increasing. Given the state of the global economy, this is an impressive achievement.

The group acknowledges that some of its older, mature brands and businesses are seeing flat or lower revenues, but this is being more than offset by growth in newer brands and by expansion into other overseas markets.

The group is continuing to streamline its UK operations and the Romford office will close in the second half. In Europe, there is considerable potential for growth in Germany, France and Italy as well as in the emerging economies. There appears to be great potential in the Asia Pacific region, whilst the opportunities available in the Americas could make this a breakthrough year for the region.

Despite this progress, however, and the exciting prospects, Elektron's share price has fallen sharply since our last note of 12 May. At the time, the share price was 30p and it ran up to 45p later in the month. Although, at this point we are not increasing our forecasts for the year, the sell-off in the stockmarket seems to have had a particularly adverse effect on the company and the share price decline has left the shares on a prospective p/e ratio of just 6.0x which looks far too low. The shares are due a serious re-rating and we maintain our share price target of 66p.

Activities

Elektron Technology is a global technology group, employing some 1,200 people, two thirds of whom are based outside the UK. Manufacturing is undertaken in the UK, Tunisia and China although the group's products are distributed in 125 countries. Elektron operates in high margin niche markets and it currently owns fifteen brands in the engineered products sector.

These activities of the group's businesses are as follows: *Agar Scientific* – manufactures and distributes specialist microscopic equipment; *Arcolectric* - designs and manufactures appliance switches, indicator lights and fuseholders; *A S L* - designs and manufactures temperature control equipment; *Bulgin* - designs and manufactures industrial components such as battery holders, switches, filters and connectors; *Carnation Designs* - provides electronic management systems for specialist vehicles; *Digitron* - supplies temperature, pressure and other instruments for the food and healthcare sectors; *Henson* - designs and manufactures ophthalmic equipment; *Qados* - provides specialist equipment for the radiotherapy and x-ray imaging markets; *Queensgate Instruments* -,a specialist in nanopositioning and measurement devices; *Sheen* - supplies quality control instrumentation for the coatings industry; *SIFAM* - designs and manufactures analogue meters and control knobs; *Tinsley* - designs and manufactures precision measurement equipment; *Titman* - manufactures industrial and professional tungsten carbide router cutters; *Total Carbide* - designs and manufactures tungsten carbide wear parts and *Wallace* – designs and manufactures quality control instrumentation for the rubber industry

Results and Consensus Forecasts

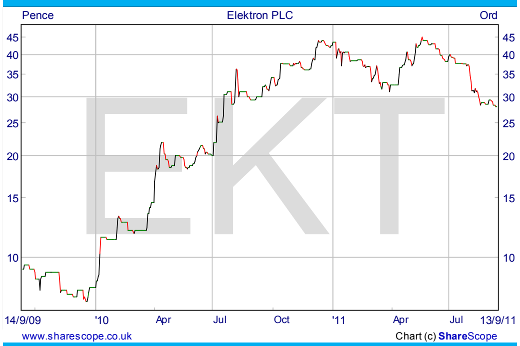
Year to 31st January	Revenue (£m)	Pre-Tax Profit* (£m)	Earnings per share* (p)	P/E Ratio	Net Dividend (p)	Net Yield (%)
2009A	35.6	0.89	1.32	21.2	0.45	1.6
2010A	29.9	1.62	1.95	14.4	0.50	1.8
2011A	50.0	5.06	4.20	6.7	0.80	2.9
2012E	68.0	6.70	4.70	6.0	1.00	3.6

* before exceptional items

KEY DATA

Share Price:	**28p**
Prospective p/e ratio:	**6.0x**
Prospective net yield:	**3.6%**
Market Capitalisation:	**£29.8m**
Next Results Due (Finals):	**MAY**
Gearing:	**25%**
NAV per share:	**15.1p**

SHARE PRICE PERFORMANCE



2010/11 High/Low: 45p/18.25p

SNAP BULLETS

- Impressive interim results
- Truly global business
- Continued plan to streamline UK operations
- Scope for further overseas expansion
- Introduction of new products
- Reduction in borrowings during the period
- Very modest rating

Date of Report : 15 September 2011

COMPANY DATA

Stockbrokers:
finnCap

Significant Shareholdings:
Mr J Kinder - 14.1%
Mr & Mrs N Slater - 8.3%
Directors - 8.0%
Henderson Global Investors - 7.0%
D & A Income Limited—5.6%
Panther Securities plc & related parties - 3.8%
Mr B Bridge - 3.2%

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Interim Results

An impressive set of figures has been produced by the group for the six month period ended 31 July, with revenues increasing by 67% to £34.4m (2010: £20.6m) and pre-tax profits before exceptional items rising by 35% to £3.33m (2010: £2.46m). The lower rate of growth in profits was due to lower operating margins as the group increased expenditure on R & D, sales and marketing, HR and IT as it gears up for further growth. Underlying earnings per share for the period rose by 6% to 2.38p (2010: 2.25p) with a higher tax charge and increase in the number of shares in issue having an adverse effect. The interim dividend has been increased by 8% to 0.27p (2010: 0.25p) and net debt at the end of the period has reduced to £3.98m (31 January 2011: £4.27m).

The latest results have clearly benefited from the acquisition of Hartest Holdings in September last year. However, the group has also been successful in passing on commodity price increases to its customers. During the period, the group incurred non-recurring and special items of £595,000 due to a further streamlining of the business, the amortisation of acquired intangible assets and abortive acquisition costs. Most of these costs relate to the UK where there is a need to rationalise the sometimes complex structure that has been built up through numerous acquisitions.

Looking at the group's operating regions, the group has continued to invest in the infrastructure of the UK business (H1 2011/12: 44% of revenues) whilst also continuing to streamline this so as to benefit from economies of scale and improved financial reporting. The group has also opened its new R & D Technology Centre in Cambridge and is currently seeking recruits for this. In the EMEA region,(H1 2011/12: 24% of revenues) the group has rationalised and expanded its distributor network, whilst in Asia Pacific (H1 2011/12: 21% of revenues) sales have more than doubled following the acquisition of Tinsley India which was part of Hartest Holdings. Turnover in the Americas (H1 2011/12: 11% of revenues) also increased during the period and the order book is at a record level.

Prospects

Excellent first half results have established a solid platform on which the group can build and current indications are that further progress will be made in the second half. The group has, so far at least, been able to recoup increases in raw material costs by passing on these price increases to customers and the group has a strong order book, albeit this typically only gives eight weeks' visibility. Although orders for the brands with mature products and businesses have generally trended flat to slightly lower and sales to the public sector have been weak, these factors have been more than offset by growth in brands with newer products such as *Carnation* and *Henson.* In addition, expansion into overseas territories has also helped.

The group will continue to streamline and review its UK operations as there are currently 10 sites in the UK and the review will consider a proposal for a new centre for High Tech manufacturing - if approved, future UK investment in manufacturing will be concentrated on one location. In addition, any brands that do not show sufficient growth and profit potential will be sold. The group will also continue to expand and invest in its geographical coverage of existing brands with particular emphasis on the *Carnation Genysis* brand and the Asia Pacific region. The second half of the financial year will see the introduction of the group's latest range of connectors which will dramatically increase its addressable market. There are also plans to increase the group's web presence via e-commerce and a suite of websites in different languages.

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