Previous Page

Cheap Tech Stock? Do Tell!

By Bill Mann (TMF Otter)
July 15, 2004

At year's beginning, when everyone in the world was all hot and bothered about the "sure thing" of China's economic ascendancy, we had a simple warning, borne of years of watching such sure things: "Watch out."

One particularly incoherent **Ivanhoe Energy** (Nasdaq: IVAN) shareholder promised to write me every single day as the company continued to plow to ever higher prices on the back of its China projects. The company is down nearly 70% in the interim. I don't hear from him much, though I would note that the stock is up today. I miss my friend. Maybe he'll write. Right when everyone got all excited about China, it slowed. It slowed even more when its central bank cranked down on domestic borrowing. Add in some good old-fashioned securities fraud among some big Chinese companies like **ChinaLife** (NYSE: LFC), and the love affair, perhaps predictably, cooled off in a hurry.

That the speculative excess is being purged is a good thing. It must be remembered, though, that just because China's growth to the sky story has been discredited doesn't mean that the overall trend isn't true. And some of the companies that are making money in China have been savaged in the market along with the ones losing money to China. I try to track both kinds of companies. One of the former, **UTStarcom** (Nasdaq: UTSI), continues to have significant growth and contract wins in China and elsewhere, though its stock has been battered along with nearly every other "China story." Were UTStarcom given a seat on the rocketship along with other China-centric companies that would be understandable. It wasn't. At present, the company trades at a P/E of about 15, and after I make some cyclical adjustments to its cash flows from operations, I calculate free cash flow to be at about the same level. The company has a net cash position of some $350 million, lowering its enterprise value further.

UTStarcom's business is one that has specific application to low-income regions. Its core product is discount wireless phone equipment and handsets. Yes, mobile phones, the same business where **Nokia** (NYSE: NOK) is getting slaughtered by a global glut. But UTStarcom's application is a little different. Their hand-phone technology has limited reach, which matches well with -- you guessed it -- people with limited financial means who would like the freedom of wireless phones and who do not require much mobility, in areas where legacy telecom infrastructure is rare to nonexistent. How much of China falls under this definition? Try most of it.

At the moment, UTStarcom equipment services some 32 million such customers in China alone, mainly through **China Telecom** (NYSE: CHA). The company recently signed a $55 million deal to provide IP-based coverage to China Telecom customers in Shanghai, where the company estimates it holds more than 50% of the infrastructure market.

Where else is the company operating? It signed a deal in May with **Chunghwa Telecom** (NYSE: CHT), Taiwan's national carrier, to provide broadband services. It also is launching programs in Chile, Honduras, and elsewhere in Latin America, and most recently signed a messaging services contract with American VoIP carrier Vonage.

But it seems that UTStarcom is painted with three brushes: telecom, which is bad; China, which for the time being is bad; and wireless, which is also bad. That's fine. UTStarcom has used the negative sentiment to launch a 5 million share buyback campaign, as well as an acquisition of **Audiovox's** (Nasdaq: VOXX) handset division, which has posted 50% revenue growth over last year. And yet, the stock continues to drop.

Sometimes the stock market simply makes no sense at all.

Bill Mann owns shares in Chunghwa Telecom. Does UTStarcom qualify as a Hidden Gem? Come see what Tom Gardner and his guest analysts dig up each month. A free trial is yours for the askin'.

Legal Information. ©1995-2004 The Motley Fool. All rights reserved.

Previous Page