

Plover Bay

Unbreakable connectivity

One of the key players in blooming SD-WAN market

Plover Bay is a SD-WAN (Software Defined Wide Area Network) router vendor with international business exposures. As traditional WAN router is only connected to one single WAN connection, it is relatively difficult to scale up and relocate. To address the shortcomings, SD-WAN router enables software to pick best performing connections from multiple WAN connections. According to Quocirca, an IT advisor and researcher, market size of SD-WAN will grow from USD\$380mn in 2015 to USD 1,510mn in 2020, representing 5-year CAGR of 31.8%. It is expected SD-WAN's share in total global router market to increase from 10.4% in 2015 to 38.0% in 2020. Plover Bay was the world's fifth largest SD-WAN router providers in terms of revenue in 2015 with 6.4% market share.

SpeedFusion facilitate unbreakable network connectivity

Plover Bay's SpeedFusion, a SD-WAN Multi-Cellular Bonding Technology, has been nominated for the "Best Mobile Technology Breakthrough" award in GSMA's 2017 Global Mobile Awards (one of the competitors is Qualcomm's Snapdragon 820 Processor). SpeedFusion facilitates unbreakable network connectivity which fulfills the demand for rapidly-deployable connectivity in harsh and remoted areas. SpeedFusion's customers included Osborne Construction which deployed instant network connectivity in remote construction sites across Britain; and emerging market telecom operators, e.g. Indosat, to ensure continuous connection for PoS and ATM systems. Future application includes fast growing auto-driving industry, which demand unbreakable connectivity for the vehicles.

Asset-light model with high gross margin

Plover Bay focuses on design and sale of SD-WAN routers. The company maintains an asset-light business model and outsources manufacturing process to three OEMs, two located in Taiwan and the other one is a Taiwanese company with manufacturing base in Dongguan. This model helps Plover Bay to maintain 58.1% and 65.8% gross margin in FY15 and 1H16. The business model is also currency neutral with both sales and raw material (CPUs, wireless modules, etc) are mostly denominated in USD while operating costs are mostly in HKD.

Valuation

We assume Plover Bay to report 9.7% YoY 2H16 revenue growth. We also assume 66% gross margin in 2H16, up 5.4ppt YoY given increasing sales proportion from high-margin software licenses and warranty business. We estimate the recurring net earnings (excluded listing expenses) in 2H16 and FY16 to be USD3.44mn and USD6.77mn respectively. The counter is trading at 12.6x FY16 PE, 24% discount to Cisco's 16.6x FY16 PE. As the SD-WAN router market gathers pace (Quocirca expected 36% market growth in 2017), Plover Bay, as one of the market leader, with SpeedFusion distinguished their market position, we believe the long-term growth prospect still intact. The company announced 1.73 HK cents dividends in 1H16 or a payout ratio of 79% of net profit (included listing expenses). We believe a ~80% dividend payout could be maintained in 2H16 given the low capex associated with its asset-light model. Dividend yield for FY16 is expected to be 4.4%.

NON RATED

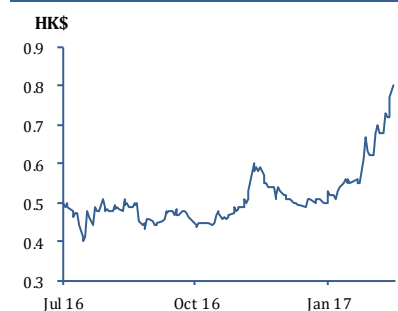
Last Price 0.77

Key Data

Ticker	1523 HK
Market Cap (HK\$m)	800
3M avg Daily T/O (HK\$m)	4.2
52-week High/Low (HK\$)	0.8/ 0.38
Free Float (%)	25.0%
Shares O/S (m)	1,000

Performance	Absolute	Relative
1 month	40.0%	36.5%
3 months	35.1%	28.7%
6 months	57.1%	50.2%

Price Chart



Source: Bloomberg

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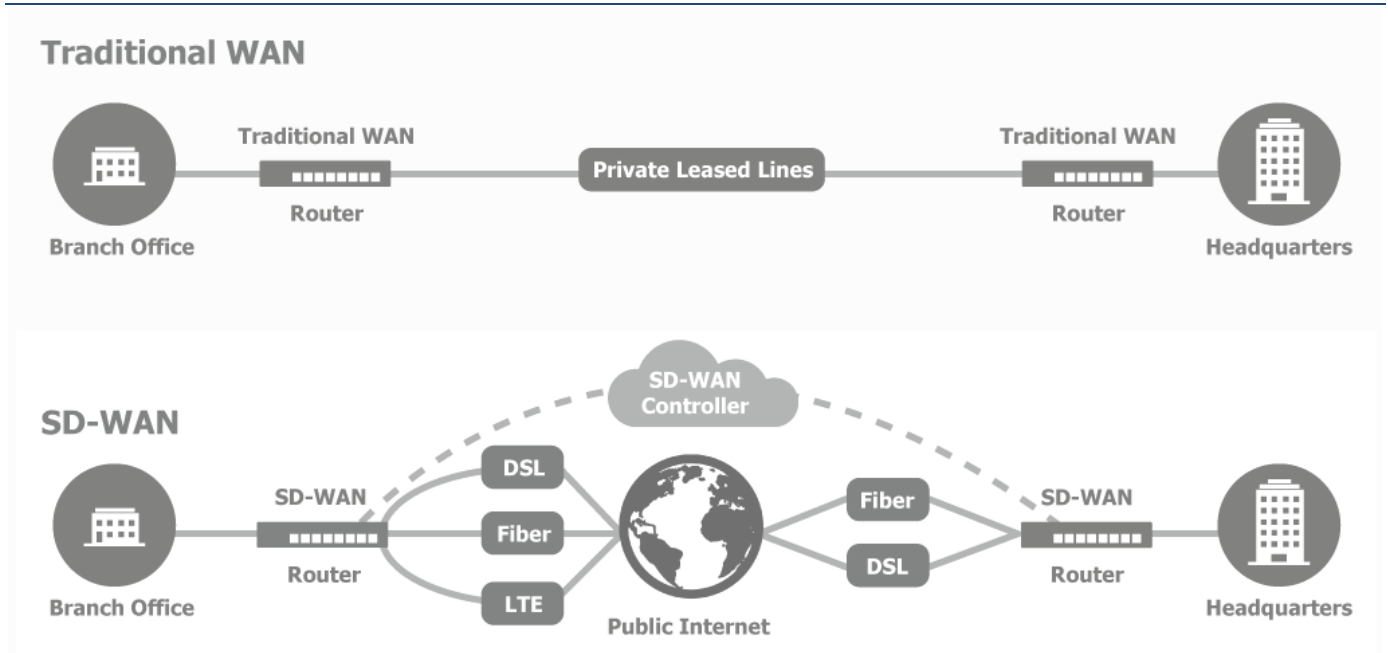
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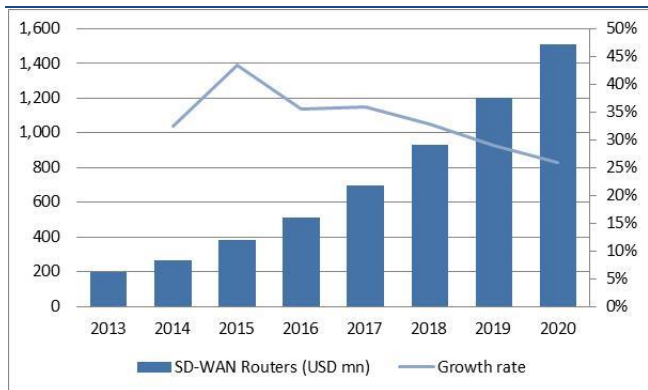
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Figure 1 Traditional WAN and SD-WAN



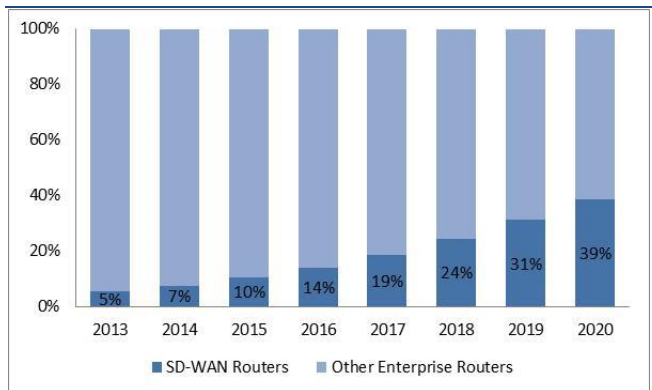
Source: Company

Figure 2 Market size and growth rate of SD-WAN Routers



Source: Quocirca

Figure 3 SD-WAN Routers market share



Source: Quocirca

Figure 4 Nominee for GSMA's Global Mobile Awards 2017 under Best Mobile Technology Breakthrough category

Altiostar for Altiostar vRAN (Virtual RAN) Solution
Parallel Wireless for Reimagined Rural Solution
Peplink for SpeedFusion SD-WAN Multi-Cellular Bonding
Qorvo for Qorvo® RF Fusion™ Portfolio
Qualcomm for Qualcomm® Snapdragon™ 820 Processor

Source: GSMA

Figure 5 Income statement assumptions

Year ended 31 Dec (USD '000)	2013	2014	2015	2016	1H15	2H15	1H16	2H16
SD-WAN routers	10,990	15,128	17,672	18,210	8,816	8,856	8,958	9,252
YoY%		37.7%	16.8%	3.0%			1.6%	4.5%
Wired	6,487	7,493	6,987	6,372	3,725	3,262	3,273	3,099
YoY%		15.5%	-6.8%	-8.8%			-12.1%	-5.0%
wireless	4,503	7,635	10,685	11,838	5,091	5,594	5,685	6,153
YoY%		69.6%	39.9%	10.8%			11.7%	10.0%
Software licenses and warrenty	2,316	2,818	4,187	6,025	1,918	2,269	3,075	2,950
YoY%		21.7%	48.6%	43.9%			60.3%	30.0%
Turnover	13,306	17,946	21,859	24,235	10,734	11,125	12,033	12,202
YoY%		34.9%	21.8%	10.9%			12.1%	9.7%
COGS	(4,655)	(6,910)	(9,166)	(8,259)	(4,786)	(4,380)	(4,110)	(4,149)
Gross profit	8,651	11,036	12,693	15,976	5,948	6,745	7,923	8,053
Gross profit margin	65.0%	61.5%	58.1%	65.9%	55.4%	60.6%	65.8%	66.0%
R&D	(3,136)	(3,969)	(3,907)	(4,065)	(2,034)	(1,873)	(2,015)	(2,050)
As % of rev	23.6%	22.1%	17.9%	16.8%	18.9%	16.8%	16.7%	16.8%
Selling & Distribution	(830)	(1,035)	(1,003)	(1,217)	(467)	(536)	(607)	(610)
As % of rev	6.2%	5.8%	4.6%	5.0%	4.4%	4.8%	5.0%	5.0%
Admin. Expenses	(1,706)	(2,049)	(2,710)	(2,686)	(1,284)	(1,426)	(1,344)	(1,342)
As % of rev	12.8%	11.4%	12.4%	11.1%	12.0%	12.8%	11.2%	11.0%
Opex	(5,672)	(7,053)	(7,620)	(7,968)	(3,785)	(3,835)	(3,966)	(4,002)
As % of rev	42.6%	39.3%	34.9%	32.9%	35.3%	34.5%	33.0%	32.8%
Operating profit	2,979	3,983	5,073	8,008	2,163	2,910	3,957	4,051
Operating profit margin	22.4%	22.2%	23.2%	33.0%	20.2%	26.2%	32.9%	33.2%
Listing expenses	0	0	(1,001)	(1,370)	(544)	(457)	(537)	(833)
Other income	34	306	69	64	59	10	24	40
Other revenue, gains / losses	34	306	(932)	(1,306)	(485)	(447)	(513)	(793)
Finance cost	(4)	(4)	(1)	(28)	(1)	0	(14)	(14)
Pre-tax profit	3,009	4,285	4,140	6,674	1,677	2,463	3,430	3,244
Tax expenses	(444)	(542)	(783)	(1,271)	(292)	(491)	(629)	(642)
Effective Tax rate	14.8%	12.6%	18.9%	19.0%	17.4%	19.9%	18.3%	19.8%
Reported net profit	2,565	3,743	3,357	5,403	1,385	1,972	2,801	2,602
YoY%		45.9%	-10.3%	60.9%			102.2%	31.9%
Reported net profit margin	19.3%	20.9%	15.4%	22.3%	12.9%	17.7%	23.3%	21.3%
Recurring net profit	2,565	3,743	4,358	6,773	1,929	2,429	3,338	3,435
YoY%		45.9%	16.4%	55.4%			73.0%	41.4%
Recurring net profit margin	19.3%	20.9%	19.9%	27.9%	18.0%	21.8%	27.7%	28.1%

Source: Company, Crosby Securities

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Neutral (N): The stock’s potential total return is expected to be ranging from -10% to 10%/15% for Large Caps/Small&Mid Caps, respectively.

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