

## Plover Bay Technologies (1523 HK)

### SC Net: Aims To Focus On SD-WAN Routers For Industrial Verticals

#### Hardware

25 Apr 2017

### Not Rated

**Contacts:** Alex Chan  
 Founder & Chairman

**Visit Rationale:** Sector Coverage

#### Basic Share Information

Market cap	HK\$0.70b / US\$0.09b
Daily volume (3mth)	US\$0.65m
Shares outstanding	1,000.0m
Free float	25%
Net debt-to-equity	-77.85%
1 yr high	HK\$0.78
1 yr low	HK\$0.40
Major shareholding	75%
Visit date	10 Mar 17

Note: Share price and market data as of 24 April 2017

#### Why is the stock interesting now?

Plover Bay Technologies claims to be the fifth-largest software defined wide area network (SD-WAN) router vendor globally with a 6.4% market share based on 2015 revenue. The company adopts an asset-light business model, whereby it designs and develops SD-WAN routers, outsources the manufacturing process to Taiwan-based contract manufacturers, and sells products under its own brands (*Peplink* and *Pepwave*) through third-party distributors. The company mainly targets overseas customers, including North America (48.8% of FY16 sales), EMEA (24.5%), Asia (20.3%) and other regions (6.4%).

Plover Bay says that the SD-WAN router market is still niche (in terms of the global enterprise router market), but notes that, based on projections by various market research firms, it is a rapidly-growing segment. For example, International Data Corporation (IDC, unlisted) projects the SD-WAN router market to post a 90% CAGR over 2015–20 to reach US\$6bn in 2020. Management says that SD-WAN routers, which use multiple wired and wireless connections and enable software to select the best performing one automatically, have emerged as an alternative to traditional routers in recent years. Key benefits of SD-WAN routers (versus traditional enterprise routers) include: cost-savings; enhanced reliability; and scalability, according to the company. Management believes that these features make SD-WAN routers a good match for outdoor applications including transportation, public security, maritime, and unmanned systems. Management aims to focus on and strengthening its leadership position in these key industrial verticals, given that: 1) traditional players such as Cisco Systems (CSCO US) and Huawei Technologies (unlisted) already dominate the traditional enterprise router market (mostly for office use), but lack presence in specialized verticals at present; 2) routers for industrial verticals require more product customization and industry expertise, so the markets for them tend to be long-tail versus the traditional enterprise router market, which gives specialized SD-WAN router vendors (such as Plover Bay) room to gain market share and maintain high GPMs in the medium term; and 3) management expects significant future growth in these industrial verticals driven by increased adoption of internet of things (IoT).

Management adds that it expects to expand the applications of SD-WAN technologies to new verticals (such as broadcasting) in the future. In addition to sales of SD-WAN router devices, the company says that it derives a small portion of revenue from provision of proprietary *SpeedFusion* software and *InControl* cloud service (hosted by Plover Bay) for managing these devices. Management expects increased revenue from software licenses and cloud services subscriptions, which, it says, could improve future gross margins.

#### Valuation: Low

As of the last close, the company's shares are trading at a trailing twelve-month (TTM) PER of 15.0x, lower than the average of 16.9x for peers Cisco and Juniper Networks (JNPR US). Plover Bay's TTM ROE and ROA of 33.4% and 21.9% are higher than the respective peer averages of 14.2% and 7.4%.

#### Short-term Catalysts?

No catalysts identified.

#### SCNet Index

Plover Bay Technologies is not in SCNet Index at present. The stock price has risen 27% in the past three months, outperforming the country small cap index by 25%. In terms of GPM and revenue growth, Plover Bay tops the SCNet stocks universe, and its dividend yield also falls in the high range of the universe.



**Walden Shing**

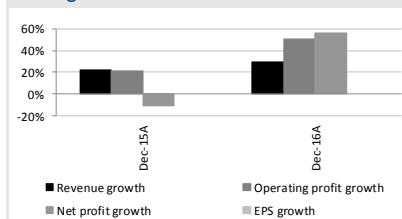
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### Earnings Trends



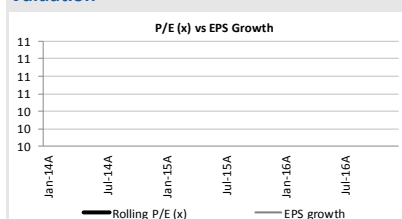
Source: Company data, Bloomberg

### Price / Volume



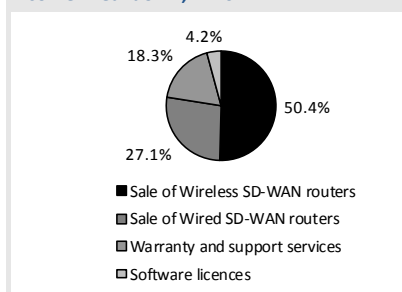
Source: Bloomberg

### Valuation



Source: Company data, Bloomberg

### Income Breakdown, FY16



Source: Company data

## Key Investment Metrics

### Revenue Growth

Low Medium **High**

Revenue grew 30% YoY to US\$28mn in FY16, which management says was driven by enhanced brand awareness of SD-WAN routers and strong demand for high-performance internet connectivity. Management guides for 20–25% YoY revenue growth for FY17.

### Profit Margins

Low Medium **High**

GPM was up 5ppt YoY to 63% in FY16, which management says was driven by increased sales of higher-margin wireless models and increased revenue from higher-margin software and cloud services business. NPM grew 3ppt YoY to 19% in FY16 (and grew 2ppt YoY to 23% if listing expenses are excluded). Management expects GPM to remain stable YoY for FY17.

### Shareholder Returns

Low Medium **High**

Plover Bay Technologies' dividend yield was around 5.2% for FY16.

### Balance Sheet Risks

High Medium **Low**

The company maintains a net cash position with a net-debt-to-equity ratio of -77.85% as at the end of FY16.

## Barriers to Entry

Low **Medium** High

Entry barriers for the SD-WAN router industry include: 1) technical expertise and intellectual property needed in SD-WAN router development; 2) long time periods needed and financial commitments required to build up distribution networks; and 3) sticky customers who are reluctant to switch router suppliers.

## International Exposure/Breakdown

**High** Medium Low

The company's revenue was 48.8% from North America, 24.5% from EMEA, 20.3% from Asia and 6.4% from other regions in FY16. Management indicates that it aims to continue to focus on North America and other overseas markets going forward.

## FX Exposure

High Medium **Low**

The company's revenue is mainly denominated in USD and its costs are also primarily paid in USD.

## Corporate Governance

Low **Medium** High

Plover Bay is currently 75% held by its founder and Chairman Alex Chan. The company has announced both interim and final dividends for H1 FY16 and H2 FY16, respectively, since it listed on Hong Kong Stock Exchange in July 2016.

## Company Snapshot

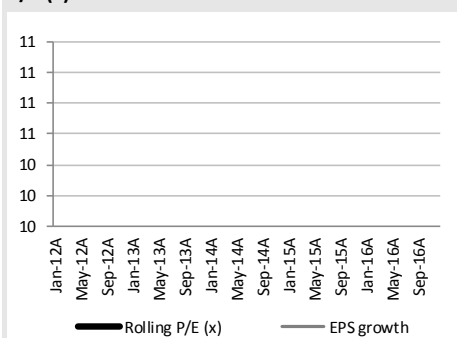
Founded in 2006 and headquartered in Hong Kong, Plover Bay claims to be the fifth-largest SD-WAN router vendor globally with a 6.4% market share of 2015 revenue, according to market research firm Quocirca (unlisted). The company designs, develops, and sells products under its own brands *Peplink* and *Pepwave*, through 400 distributors mainly in North America, EMEA and Asia. Plover Bay Technology was listed on the Main Board of the Hong Kong Stock Exchange in July 2016.

	Dec-12A	Dec-13A	Dec-14A	Dec-15A	Dec-16A	Trend
Total turnover (US\$m)		13.31	17.95	21.86	28.36	▬ ▬ ▬ ▬ ▬
Operating profit (US\$m)		3.06	4.41	5.36	8.08	▬ ▬ ▬ ▬ ▬
Pre-tax profit (US\$m)		3.01	4.29	4.14	6.68	▬ ▬ ▬ ▬ ▬
Net income to ord equity (US\$m)		2.57	3.74	3.36	5.24	▬ ▬ ▬ ▬ ▬
Net profit growth			45.9%	(10.3%)	56.1%	▬ ▬ ▬ ▬ ▬
P/E (x)					15.00	▬ ▬ ▬ ▬ ▬
P/B (x)					3.71	▬ ▬ ▬ ▬ ▬
ROE			56.8%	49.0%	33.4%	▬ ▬ ▬ ▬ ▬
Dividend yield		0.0%	0.0%	0.0%	5.2%	▬ ▬ ▬ ▬ ▬
EPS (US\$)					0.01	▬ ▬ ▬ ▬ ▬

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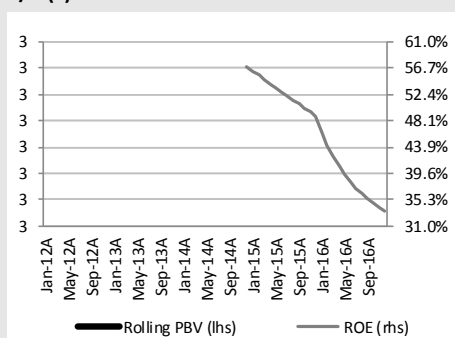
Source: Bloomberg

### P/E (x) vs EPS Growth



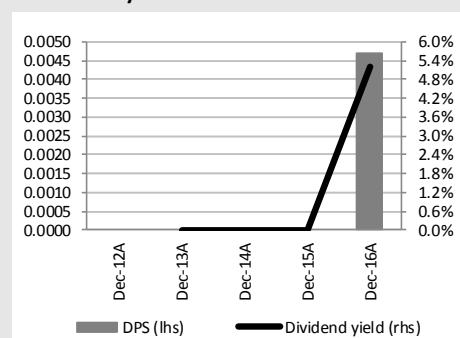
Source: Bloomberg

### P/B (x) vs ROE



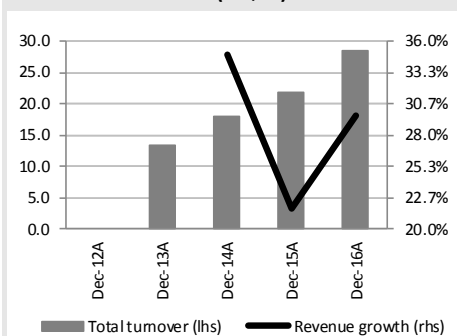
Source: Bloomberg

### Dividend Payout and Yield



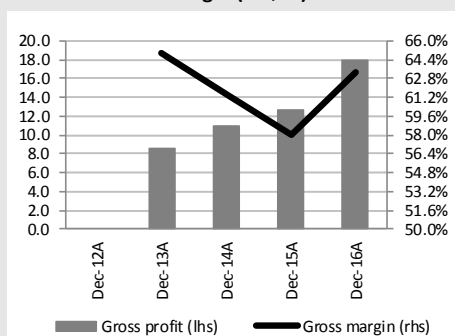
Source: Bloomberg

### Turnover and Growth (US\$m)



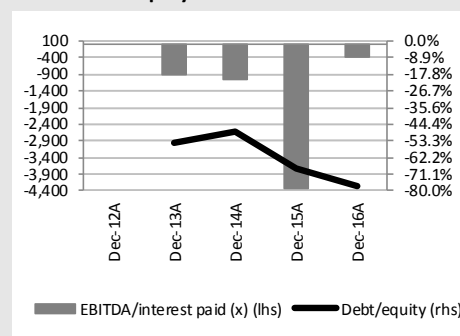
Source: Bloomberg

### Gross Profit and Margin (US\$m)



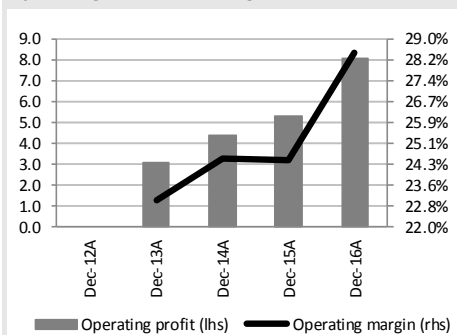
Source: Bloomberg

### Net Debt To Equity and Interest Cover



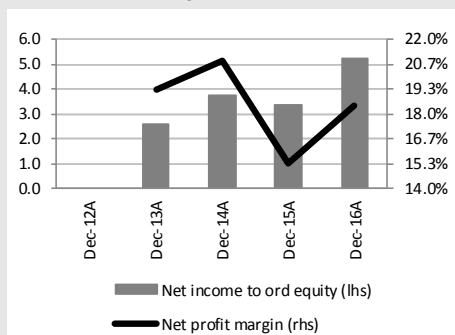
Source: Bloomberg

### Operating Profit and Margin (US\$m)



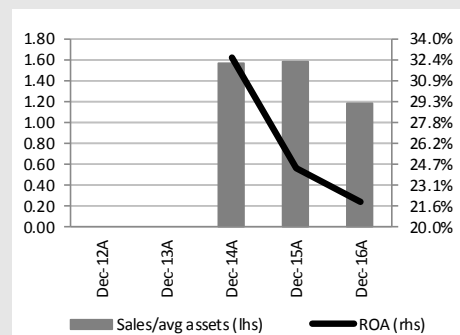
Source: Bloomberg

### Net Profit and Margin (US\$m)



Source: Bloomberg

### ROA and Asset Turnover



Source: Bloomberg

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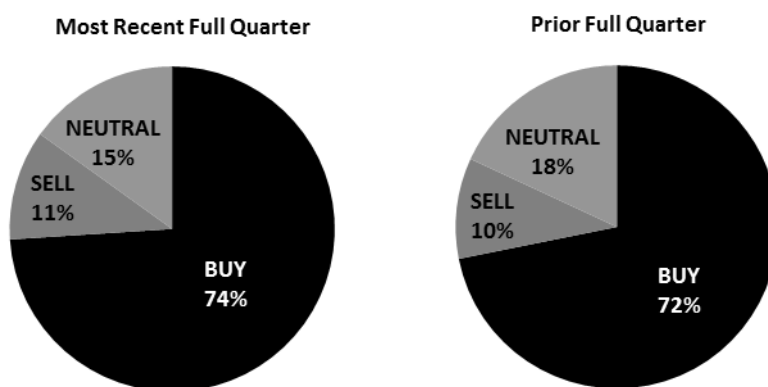
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