

Plover Bay Technologies – Results Comments

Upbeat 1H17 results, TP revised up to HKD2.57

BUY

TMT

Plover Bay Technologies posted strong 1H17 results with net profit jumping by 47.6% YoY to USD4.1mn, or about 51% of our original FY17E forecast. An interim dividend of HK cents 2.58 per share was declared. Citing the tremendous opportunities in the global SD-WAN market, as well as the company's sustainable and innovative product pipeline, we believe the company can maintain its high growth in the near future and thus deserve a higher valuation. We reiterate our BUY rating on Plover Bay with TP revised up to HKD2.57 based on a 25x FY18E PER on the upgraded FY18 EPS of US cents 1.32 (previously US cents 1.21) for 58.5% upside potential.

1H17 results ahead of our forecast – Driven by a 72.9% gain in sales of wireless products, Plover Bay's 1H17 top-line increased by 47.8% YoY to about USD17.8mn. GPM stood at 59.0%, which is on the low-end of management's guidance due to aggressive pricing for tapping into new sizable customers such as the transportation operators in Taiwan and Turkey. Nevertheless, its strong control in SG&A and R&D expenses helped its net profit to achieve about 51% of our original full-year forecast. Considering the seasonal effect, the 1H numbers are actually ahead of our expectation.

Revising up our earnings estimates – Plover Bay has a clear business roadmap in securing its leadership position in key segments. Besides a Remote SIM bank and SD-Power Management Unit, it will also be launching the industry's very first Advanced Performance SD-WAN (APX), a product that is capable of supporting up to 18 LTE-A connections compared to the current 8. In addition, it will introduce the industry's smallest SD-WAN product, the SpeedFusion Engine, which is a small footprint product that allows system builders to easily integrate SD-WAN capability into their products. It has also teamed up with JVC Kenwood to enable SD-WAN in its next-gen smart camcorders. With higher visibility and sustainable product pipeline, we believe the company can maintain its robust growth in the near future. Thus, we have revised up our profit forecast for FY17E-FY19 by 5.8%, 9.0% and 7.9%, respectively.

High payout ratio will continue – As at 30 Jun 2017, the company had net cash of USD16.2mn on hand. The interim dividend of 2.58 HK cents per share translates to a payout ratio of 81%. Looking forward, we expect the company to maintain a stable dividend payout ratio of no less than 75%.

Key Financials – Fiscal Year Ended December 31st

(USD'000)	FY15	FY16	FY17E	FY18E	FY19E
Revenue	21,859	28,358	39,101	53,640	72,932
Growth	21.8%	29.7%	37.9%	37.2%	36.0%
Operating profit	4,140	6,675	10,261	15,819	22,181
Growth	-3.4%	61.2%	53.7%	54.2%	40.2%
Net profit	3,357	5,240	8,568	13,209	18,521
Growth	-10.3%	56.1%	63.5%	54.2%	40.2%
			CAGR FY17E-19E		47.0%
EPS (US cents)	0.34	0.52	0.86	1.32	1.85
PER (x)	39.8	25.5	24.3	15.8	11.2
PBR (x)	18.8	5.5	7.7	6.5	5.4
Dividend Yield (%)	N/A	3.5%	3.1%	4.8%	6.7%

Source: Company data, Quam Securities

Recommendation

Ticker	1523 HK
Quam's Rating	BUY
Last Close	HKD1.62
Target Price	HKD2.57
Previous Target	HKD1.41
Up/(Down)side	58.5%
Previous Rating	BUY

Share Information

52-week range (HKD)	0.42– 1.72
ADT (3M) (HKD'mn)	10
Market Cap. (HKD'mn)	1,620
Shares outstanding ('mn)	1,000
Free float (%)	25.0
SH-HK Connect	No
SZ-HK Connect	No

Major Shareholders

Mr. Chan Wing Hong Alex	75.0%
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Share Price Performance



Source: Bloomberg

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Plover Bay's results comments

Fiscal Year Ended 31 Dec	1H16		1H17		FY17		
	Reported	Reported	YoY	Commts	Previous Forecast	Completion Rate on Previous	Revised Forecast
Revenue	12,033	17,788	48%	In-line with expectation	36,941	48%	39,101
Cost of sales	(4,110)	(7,286)	77%		(13,297)	55%	(14,460)
Gross profit	7,923	10,502	33%	59.0% GPM due to aggressive pricing strategy	23,644	44%	24,641
Other income	24	369	1438%	Mainly due to FX gain	100	369%	500
Selling and distribution expenses	(607)	(637)	5%	Stong control in SG&A expenses	(2,216)	29%	(2,346)
Administrative expenses	(1,344)	(1,974)	47%		(4,433)	45%	(4,692)
Research and development expenses	(2,015)	(3,268)	62%	R&D expenses are lower than estimation	(7,388)	44%	(7,820)
Other expenses	(551)	(11)	-98%	Absence of listing expenses	(5)	220%	(22)
Profit before taxation	3,430	4,981	45%		9,702	51%	10,261
Income tax expenses	(629)	(846)	34%	Blended tax rate of 17%	(1,601)	53%	(1,693)
Profit for the year	2,801	4,135	48%	NPM maintained at 23%, in-line with expectation	8,101	51%	8,568
EPS (US cents)	0.37	0.41			0.81		0.86
DPS (HK cents)	1.73	2.58			4.72		4.99
Payout ratio	60%	81%		Payout ratio higher than expected	75%		75%

Source: Company data, Quam Securities

New vs Original Estimates

USD'mn	FY17E			FY18E			FY19E		
	Original	New	Change	Original	New	Change	Original	New	Change
Revenue	36.9	39.1	5.8%	48.7	53.6	10.1%	64.4	72.9	13.2%
GPM	64.01%	63.02%	-0.99 ppt	64.59%	63.43%	-1.16 ppt	64.77%	64.00%	-0.77 ppt
Operating Profit	9.7	10.3	5.8%	14.5	15.8	9.0%	20.6	22.2	7.9%
Net Profit	8.1	8.6	5.8%	12.1	13.2	9.0%	17.2	18.5	7.9%
NPM	21.93%	21.91%	-0.02 ppt	24.88%	24.62%	-0.26 ppt	26.66%	25.40%	-1.26 ppt

Source: Quam Securities

Thanks to the increasing global awareness of SD-WAN technologies, the market demand for high performance internet connectivity is strong. Owing to Plover Bay's highly sustainable product pipeline, we have raised the top-line forecasts in our model by 5.8%, 10.1% and 13.2%, for FY17E-19E, respectively. In terms of GPM, as the company may adopt a more aggressive pricing strategy for large contracts or new market segments, we have trimmed our overall GPM for FY17E-19E to between 63 and 64%. With its stringent cost control measures, we believe that the company will have better economies of scale in the future, when its NPM will jump from 21.9% in FY17E to 25.4% in FY19E. Based on our new estimates, we expect the company to register a 47.0% CAGR in net profit in FY17E-19E.

Financial Statements

Income Statement (USD'000)						Cashflow Statement (USD'000)					
	2015	2016	2017E	2018E	2019E		2015	2016	2017E	2018E	2019E
Revenue	21,859	28,358	39,101	53,640	72,932	Operating cashflow					
Cost of goods sold	(9,166)	(10,413)	(14,460)	(19,616)	(26,254)	EBITDA	4,509	7,641	11,040	16,853	23,595
Gross profit	12,693	17,945	24,641	34,025	46,678	Non-cash items & adjustments	-	-	-	-	-
Other income and gains, net	69	104	500	300	300	Tax paid	(777)	(346)	(1,693)	(2,610)	(3,660)
Operating expenses	(8,621)	(11,351)	(14,858)	(18,506)	(24,797)	Operating cashflow before W/C	3,732	7,295	9,347	14,243	19,935
EBIT	4,141	6,698	10,283	15,819	22,181	Change in working capital	(712)	(2,875)	(1,174)	(3,229)	(4,062)
Finance costs	(1)	(23)	(22)	-	-	Cash flow from operations	3,020	4,420	8,173	11,014	15,873
Profit before tax	4,140	6,675	10,261	15,819	22,181	Investing activities					
Income tax expense	(783)	(1,435)	(1,693)	(2,610)	(3,660)	Capex	(480)	(937)	(913)	(1,247)	(1,705)
Profit after tax	3,357	5,240	8,568	13,209	18,521	Others	(436)	-	-	-	-
Minority interest	-	-	-	-	-	Cash flow from investing activities	(916)	(937)	(913)	(1,247)	(1,705)
Attributable profit to shareholders	3,357	5,240	8,568	13,209	18,521	Financing activities					
						Bank loan movement	1,238	(920)	(318)	-	-
						Dividend paid	(2,800)	(3,228)	(5,681)	(8,162)	(11,889)
						Interest paid	(1)	(23)	(22)	-	-
						Issue/(Buyback) Shares	-	16,111	-	-	-
						Others	1,765	(2,286)	-	-	-
						Cash flow from financing activities	202	9,654	(6,021)	(8,162)	(11,889)
						Net increase/decrease in cash and cash equivalents	2,306	13,137	1,238	1,605	2,278
						Cash and cash equivalents at beginning of the Year	3,696	6,062	19,193	20,431	22,036
						Effect of foreign exchange rate	60	(6)	-	-	-
						Cash and cash equivalents at end of the Year	6,062	19,193	20,431	22,036	24,314
Per Share Items (US cents)						Ratio Analysis					
	2015	2016	2017E	2018E	2019E		2015	2016	2017E	2018E	2019E
EPS	0.34	0.52	0.86	1.32	1.85	Growth (YoY%)					
Diluted EPS	0.34	0.52	0.86	1.32	1.85	Revenue	21.8%	29.7%	37.9%	37.2%	36.0%
DPS (HK cents)	N/A	3.66	4.99	7.70	10.80	EBIT	-	61.7%	53.5%	53.8%	40.2%
BVPS	0.71	2.42	2.71	3.22	3.88	Net profit	-10.3%	56.1%	63.5%	54.2%	40.2%
						Diluted EPS	-	56.1%	63.5%	54.2%	40.2%
						Margins					
						Gross profit margin	58.1%	63.3%	63.0%	63.4%	64.0%
						EBIT margin	18.9%	23.6%	26.3%	29.5%	30.4%
						Net profit margin	15.4%	18.5%	21.9%	24.6%	25.4%
						Other ratios					
						Sales/ avg. assets	N/A	118.5%	115.4%	139.7%	161.6%
						Return on average assets	N/A	21.9%	25.3%	34.4%	41.0%
						Return on average equity	N/A	33.4%	33.4%	44.5%	52.2%
						ROIC	40.2%	21.3%	31.6%	41.0%	47.7%
						Dividend payout ratio	N/A	89.8%	75.0%	75.0%	75.0%
						Valuation measures					
						PSR (x)	5.3	4.1	5.3	3.9	2.9
						PER (x)	34.5	22.1	24.3	15.8	11.2
						PBR (x)	16.3	4.8	7.7	6.5	5.4
						Dividend yield	N/A	4.1%	3.1%	4.8%	6.7%
						Key Ratios					
						Debt to equity	42.8%	1.3%	-	-	-
						Net debt to equity	-	-	-	-	-
						Capex/ Sales	2.2%	3.3%	2.3%	2.3%	2.3%
						Current ratio (x)	1.9	4.3	4.7	4.7	5.2
						Quick ratio (x)	0.81	2.61	2.83	2.61	2.69
						Interest coverage (x)	4509	332	502	-	-
						Days inventory (days)	N/A	190	170	150	150
						Days receivable (days)	N/A	161	150	140	130
						Days payable (days)	N/A	51	50	50	50
						Cash conversion cycle (days)	N/A	299	270	240	230

Source: Company data, Quam Securities

Rating Definitions	Disclaimer and Risk Statement
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HOLD We expect the stock to have a total return of < 15% and >-15% over the next 12 months	
SELL We expect the stock to have a total return of < -15% over the next 12 months	
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