

Plover Bay

Strong 2H17 results, booming SD-WAN markets and competitive new products

Strong 2H17 results driven by wireless SD-WAN routers growth

Plover Bay reported 2H17 revenue of USD19.3mn, grow by 18.5% yoy. Revenue from wireless SD-WAN routers recorded a strong growth of 34.1% thanks to increasing demand for unbreakable mobile connectivity from different industrial verticals such as public transports, maritime, and construction sites. 2H17 gross margin improved by 5.4ppt to 64.5% HoH despite an increase in revenue contribution from low-margin wireless SD-WAN routers business, which we believe was a reflection of improving products portfolio and price competition is not as fierce as expected in the SD-WAN market. 2H17 net profit came in at USD4.6mn, up 89.4% yoy thanks to no listing expenses occurred in 2H17. If we stripped off listing expenses; recurring net profit in 2H17 grew 46.4% yoy on strong sales growth and improving margins. Final dividend of 3.5 HK cents per share was proposed. A generous full year dividend payout ratio was maintained at 90% in FY17, same as last year.

SD-WAN market sets to boom in coming years

According to IDC, market size of SD-WAN (include both infrastructure and services) will grow from USD\$574mn in 2016 to USD8,055mn in 2021, representing 5-year CAGR of 69.6%, driven by increasing number of connected devices in IoT era and rising demand from cloud-managed SD-WAN services. Wireless SD-WAN is expected to enjoy higher growth than Fixed SD-WAN market, while IDC estimates 15-20% of SD-WAN infrastructure will go wireless by 2021. Plover Bay is a key player in the wireless SD-WAN market which accounted for 20% market share in 2017.

New products to diversify product line

In order to offer wider range of products, management introduced diverse new product line in 2018 including 1) EPX platform, 2) SpeedFusion Engine, and 3) Software Defined Power Management Unit. EPX platform targets high-end market which supports 5G network and allows up to 18 LTE-A connections. In contrast, palm sized SpeedFusion Engine, which is industry's smallest SD-WAN platform, targets low-cost affordable LTE market. In addition to SD-WAN, the company will also emphasize on SD-IoT market. Software Defined Power Management Unit was introduced to cater IoT network and devices demand. Management expects new products to contribute 20% of total revenue in FY18.

Valuation

We assume Plover Bay to report 35.5% YoY FY18 revenue growth on booming wireless SD-WAN demand and new products offering. We also assume 62.1% gross margin. We estimate net earnings in FY18 to grow 40% YoY to USD12.3mn. The counter is trading at 23.0x FY18 PE. As the SD-WAN router market sets to boom in the coming years, we believe the long-term growth prospect is still intact. Given Plover Bay's asset light business model, we expect the company will maintain 90% dividend payout in FY18. Dividend yield in FY18 is expected to be 3.9%.

NON RATED

Last Price 2.10

Key Data

Ticker	1523 HK
Market Cap (HK\$m)	2,131
3M avg Daily T/O (HK\$m)	7.4
52-week High/Low (HK\$)	2.4/ 0.63
Free Float (%)	25.9%
Shares O/S (m)	1,015

Performance	Absolute	Relative
1 month	4.9%	11.2%
3 months	38.5%	31.2%
6 months	27.1%	12.8%

Price Chart



Source: Bloomberg

Michael Cheung, CFA

Analyst

michael.cheung@crosby.com

+852 3476 2933

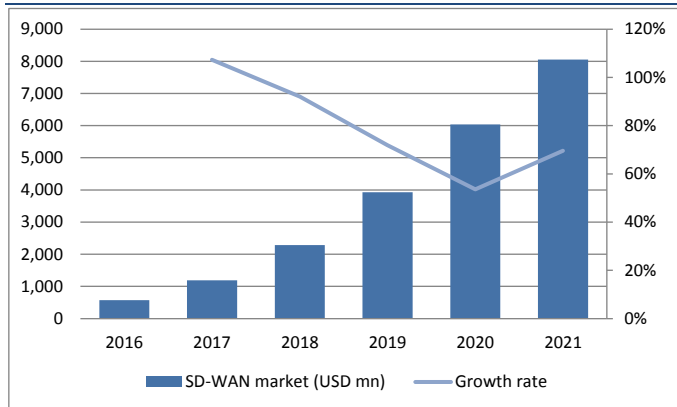
Warren Lau

Analyst

warren.lau@crosby.com

+852 3476 2725

Figure 1 Market size and growth rate of SD-WAN



Source: IDC

Figure 2 New product - EPX Platform

- Support 5G
- High performance SD-WAN platform supports up to 18x LTE-A connections
- Ready for both fixed/ wireless SD-WAN connections
- Rapid deployable in less than an hour
- Target high end market

Source: Company, Crosby Securities

Figure 3 New product – SpeedFusion Engine

- Palm size, industry's smallest SD-WAN platform
- Unbreakable connectivity
- Remotely deployed systems and IoT devices
- Plug-n-play integration, low power consumption
- Target low cost LTE market

Source: Company, Crosby Securities

Figure 4 New product – Software Define Power Management Unit

- Power management unit designed for mobile network deployment
- Cloud managed
- Software-define device start up sequence

Source: Company, Crosby Securities

Figure 5 Income statement assumptions

Year ended 31 Dec (USD '000)	2015	2016	2017	1H16	2H16	1H17	2H17
SD-WAN routers	17,672	21,978	29,305	8,958	13,020	13,899	15,406
YoY%	16.8%	24.4%	33.3%	1.6%	47.0%	55.2%	18.3%
Wired	6,987	7,687	7,932	3,273	4,414	4,067	3,865
YoY%	-6.8%	10.0%	3.2%	-12.1%	35.3%	24.3%	-12.4%
wireless	10,685	14,291	21,373	5,685	8,606	9,832	11,541
YoY%	39.9%	33.7%	49.6%	11.7%	53.8%	72.9%	34.1%
Warranty and support services	3,905	5,189	6,652	2,536	2,653	3,114	3,538
YoY%	51.3%	32.9%	28.2%	43.1%	24.4%	22.8%	33.4%
Software licenses	282	1,191	1,175	539	652	775	400
YoY%	19.0%	322.3%	-1.3%	269.2%	379.4%	43.8%	-38.7%
Turnover	21,859	28,358	37,132	12,033	16,325	17,788	19,344
YoY%	21.8%	29.7%	30.9%	12.1%	46.7%	47.8%	18.5%
COGS	(9,166)	(10,413)	(14,157)	(4,110)	(6,303)	(7,286)	(6,871)
Gross profit	12,693	17,945	22,975	7,923	10,022	10,502	12,473
Gross profit margin	58.1%	63.3%	61.9%	65.8%	61.4%	59.0%	64.5%
R&D	(3,907)	(4,990)	(7,189)	(2,015)	(2,975)	(3,268)	(3,921)
As % of rev	17.9%	17.6%	19.4%	16.7%	18.2%	18.4%	20.3%
Selling & Distribution	(1,003)	(1,697)	(1,636)	(607)	(1,090)	(637)	(999)
As % of rev	4.6%	6.0%	4.4%	5.0%	6.7%	3.6%	5.2%
Admin. Expenses	(2,710)	(3,412)	(3,958)	(1,344)	(2,068)	(1,974)	(1,984)
As % of rev	12.4%	12.0%	10.7%	11.2%	12.7%	11.1%	10.3%
Opex	(7,620)	(10,099)	(12,783)	(3,966)	(6,133)	(5,879)	(6,904)
As % of rev	34.9%	35.6%	34.4%	33.0%	37.6%	33.1%	35.7%
Operating profit	5,073	7,846	10,192	3,957	3,889	4,623	5,569
Operating profit margin	23.2%	27.7%	27.4%	32.9%	23.8%	26.0%	28.8%
Listing expenses	(1,001)	(1,252)	0	(537)	(715)	0	0
Other income	69	104	463	24	80	369	94
As % of rev	-0.3%	-0.4%	-1.2%	-0.2%	-0.5%	-2.1%	-0.5%
Other revenue, gains / losses	(932)	(1,148)	463	(513)	(635)	369	94
Finance cost	(1)	(23)	(26)	(14)	(9)	(11)	(15)
Pre-tax profit	4,140	6,675	10,629	3,430	3,245	4,981	5,648
Tax expenses	(783)	(1,435)	(1,875)	(629)	(806)	(846)	(1,029)
Effective Tax rate	18.9%	21.5%	17.6%	18.3%	24.8%	17.0%	18.2%
Minority Interests	0	0	0	0	0	0	0
Reported net profit	3,357	5,240	8,754	2,801	2,439	4,135	4,619
YoY%	-10.3%	56.1%	67.1%	102.2%	23.7%	47.6%	89.4%
Reported net profit margin	15.4%	18.5%	23.6%	23.3%	14.9%	23.2%	23.9%
Recurring net profit	4,358	6,492	8,754	3,338	3,154	4,135	4,619
YoY%	16.4%	49.0%	34.8%	73.0%	29.8%	23.9%	46.4%
Recurring net profit margin	19.9%	22.9%	23.6%	27.7%	19.3%	23.2%	23.9%

Source: Company, Crosby Securities

Information Disclosures

The information and opinions in this report were prepared by Crosby Securities Limited and/or its affiliate(s) (collectively, hereinafter “Crosby”) and the research analyst(s) named in this report.

Analyst Certification Disclosure

Each research analyst primarily responsible for the content of this research report, in whole or in part, certifies that with respect to each security or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about those securities or issuers and were prepared in an independent manner, including with respect to Crosby, and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that research analyst in the research report.

Each research analyst primarily responsible for the content of this research report further confirm that (i) neither they nor their respective associates (as defined in the Code of Conduct issued by the Hong Kong Securities and Futures Commission) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of the report; (ii) neither they nor their respective associates serve as an officer of any of the Hong Kong listed companies covered in this report; and (iii) neither they nor their respective associates have any financial interests in the stock(s) covered in this report.

Stock Ratings Disclosure:

Fundamental Rating System

Our Fundamental Ratings are based on our estimated potential total return for the stocks over a 12-month time horizon. Potential total return is the sum of (1) share price upside or downside express in percentage plus (2) gross dividend yield over the next 12 months.

Buy (B): The stock’s potential total return is expected to be over 10%/15% for Large Caps/Small&Mid Caps, respectively.

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.

Sell (S): The stock’s potential total return is expected to be less than -10% over the next 12 months.

Tactical Call Rating System

Our Tactical Calls are based on short-term share-price catalyst(s), technical factor(s) and/or quantitative analysis for a time horizon of 3 months. Our Tactical Calls could be on companies not covered by our fundamental rating system or contrary to our fundamental ratings of the same companies.

Tactical Buy (TB): The stock’s potential total return is expected to be over 20%.

Tactical Sell/Short (TS / TSH): The stock’s potential total return is expected to be less than -20%.

Closure/Expiry of Tactical Call: Our Tactical Call(s) will be considered closed or expires when (1) the share price(s) of our tactical Call(s) reaches either the Take-Profit or Cut-Loss levels after the initiation of the Tactical Call(s); or (2) after 3 months from the initiation of the Tactical Call(s), whichever comes earlier.

Not Rated (NR): Stocks that we have no Fundamental or Tactical Call rating

Under Review (UR): An indication of the stock's target price and/or rating are subject to possible change in the near term, usually in response to an event that may affect the investment case or valuation.

We generally define LargeCaps as companies with a total market capitalization of US\$5bn or above, while those with total market capitalization below this level are defined as Small&Mid Caps.

Due to daily price volatility, actual total market capitalization of stocks of defined size categories may temporarily deviate from the above thresholds and potential total return of stocks covered by our Fundamental Rating System may temporarily be inconsistent with the defined potential total return associated with the assigned fundamental ratings.

General Disclosures and Disclaimers

This report has been prepared based on information available to the public that we consider reliable, but Crosby Securities Limited (“Crosby”) has not independently verified the contents hereof and does not represent or warrant, expressly or impliedly, that it is fair, accurate, timely, reasonable or complete and it should not be relied on as such. The information and opinions contained herein are for investors’ reference only and do not take into account the particular investment objectives, financial situation or needs of individual clients, and does not constitute an offer to buy or sell or a solicitation of an offer to buy or sell the securities or other financial products or provide any investment advice or service. Under no circumstances shall the information contained herein or the opinions expressed herein constitute a personal recommendation to anyone.

Crosby may have positions in and may effect transactions in the securities of company(ies) referred to in the research report and may also perform or seek to perform investment banking or financial advisory services for those companies. Investors should aware that there is a possible conflict of interest that would affect the objectivity of the research reports attached herein. Crosby and our officers, directors and employees, excluding equity and credit analysts, may from time to time have long or short positions in, act as principal in, and buy or sell, the securities or other financial products, if any, referred to in this report.] Investors are advised to make their own independent evaluation of the information contained in this research report, consider their own individual investment objectives, financial situation and particular needs and consult their own professional and financial advisers as to the legal, business, financial, tax and other aspects before participating in any transaction in respect of the securities of company(ies) covered in this report. None of Crosby, its shareholders or any of its or their related personal shall be liable in any manner whatsoever for any loss or consequences howsoever arising from any use of or reliance on this document or any of its contents or otherwise in connection therewith.

The information contained in this report, as well as the opinions, valuations, ratings, estimates and forecasts are subject to change and may be amended from time to time without any notification. Past performance is not a reliable indicator of future performance. At different period, Crosby may release reports which are inconsistent with the opinions, valuations, ratings, estimates and forecasts contained herein.

Crosby’s salespeople, traders, and other professionals may provide oral or written market commentary or trading ideas that may be inconsistent with, and research different conclusion from, the recommendations and opinions presented in this report. Such ideas or recommendations reflect the different assumptions, views and analytical methods of the persons who prepared them, and Crosby is under no obligation to ensure that such other trading ideas or recommendations are brought to the attention of any recipient of this report. Crosby’s asset management areas, proprietary trading desks and other investing business may make investment decisions that are inconsistent with the recommendations or opinions expressed in this report.

THIS DOCUMENT IS STRICTLY CONFIDENTIAL TO THE RECIPIENT. IT IS BEING SUPPLIED TO YOU SOLELY FOR YOUR INFORMATION AND MAY NOT BE REPRODUCED, REDISTRIBUTED OR PASSED ON, DIRECTLY OR INDIRECTLY, TO ANY OTHER PERSON OR PUBLISHED, IN WHOLE OR IN PART, FOR ANY PURPOSE. NEITHER THIS DOCUMENT NOR ANY COPY OF IT MAY BE TAKEN OR TRANSMITTED OUTSIDE OF HONG KONG. THE DISTRIBUTION OF THIS DOCUMENT IN OTHER JURISDICTIONS MAY BE RESTRICTED BY LAW, AND PERSONS IN TO WHOSE POSSESSION THIS DOCUMENT COMES SHOULD INFORM THEMSELVES ABOUT, AND OBSERVE, ANY SUCH RESTRICTIONS. BY ACCEPTING THIS REPORT YOU AGREE TO BE BOUND BY THE FOREGOING INSTRUCTIONS.

This report is distributed in Hong Kong only to professional investors (as defined in the Securities and Futures Ordinance (Cap 571)) by Crosby, which is regulated by the Securities and Future Commission of Hong Kong. The research report herein are not provided to and may not be used by any person or entity in any jurisdiction where the provision or use thereof would be contrary to applicable laws, rules or regulations of any governmental authority or regulatory or self-regulatory organization or clearing organization or where Crosby is not authorized to provide such information or service.

Copyright of this report belongs to Crosby. Any form of unauthorized distribution, reproduction, publication, release or quotation is prohibited without Crosby’s written permission.