

## Plover Bay Technologies – Results Comments

*FY17 results in-line, TP revised up to HKD2.85*

**BUY****TMT**

Plover Bay Technologies (Plover Bay) posted a strong set of FY17 results with net profit increased by 67.1% YoY to about USD8.8mn, in-line with our forecast. A final dividend of HK cents 3.5 per share was declared, full year payout ratio equals to 90%. Citing the tremendous opportunities in the global SD-WAN market, as well as the up-coming demand from the industrial IoT market, we believe the company would maintain a high growth of 35.5% CAGR in FY18-20E. We reiterate our BUY rating on Plover Bay and upgraded TP to HKD2.85 based on a 20x FY19E PER, or 28x FY18E PER for 35.7% upside potential.

**FY17 results in-line with our forecast** – Driven by a 49.6% gain in sales of wireless products, Plover Bay's FY17 top-line increased by 30.9% YoY to about USD37.1mn. GPM stood at 61.9%, which is on the mid-end of management's guidance due to the shift to more wireless products. Nevertheless, its strong control in SG&A, which the percentage over total revenue decreased by 3.1 ppt, helped achieve a 67.1% YoY gain in net profit. R&D expenses maintained at about 19.4% of the total revenue.

**Strong demand in the up-coming industrial IoT market** – Looking ahead, as industrial IoT applications (such as public safety, healthcare, logistics & transportation) are often mission-critical, Plover Bay's SD-WAN solutions will play an important role as it enables a secured, always-on, high-performance connectivity across a hybrid wireless WAN. IDC estimates that by 2021, the global SD-WAN market will reach USD8.05bn, representing a five-year CAGR of 69.6% for 2017-21. Given Plover Bay's leading position in the industry, we believe it can scale efficiently to meet the requirements of large, mission-critical Industrial IoT networks of the future. Hence, we are highly convinced that the company could maintain its robust growth and we expect the net profit of Plover Bay to record a CAGR of 35.5% to about USD24mn by FY20E.

**Potential beneficiary of new R&D tax deduction** – The Hong Kong Government has proposed to provide tax break in order to encourage R&D investment. Such that the initial HK\$2mn eligible R&D spending will enjoy a 300% tax deduction with the remainder at 200%. It is estimated that the R&D expenses of Plover Bay in FY18-20E to range from USD9.4mn to USD16.1mn, compared to the expected income tax of USD2.6mn to USD4.8mn during the period. The company is likely to receive a significant tax break for as much as a 20% boost on top of our earnings forecast.

### Key Financials – Fiscal Year Ended December 31

(USD'000)	FY16	FY17	FY18E	FY19E	FY20E
<b>Revenue</b>	<b>28,358</b>	<b>37,132</b>	<b>53,640</b>	<b>72,932</b>	<b>94,830</b>
Growth	29.7%	30.9%	44.5%	36.0%	30.0%
<b>Operating profit</b>	<b>6,675</b>	<b>10,629</b>	<b>15,819</b>	<b>22,181</b>	<b>29,049</b>
Growth	61.2%	59.2%	48.8%	40.2%	31.0%
<b>Net profit</b>	<b>5,240</b>	<b>8,754</b>	<b>13,209</b>	<b>18,521</b>	<b>24,256</b>
Growth	56.1%	67.1%	50.9%	40.2%	31.0%
			<b>CAGR FY18E-20E</b>		<b>35.5%</b>
EPS (US cents)	0.52	0.87	1.30	1.82	2.39
PER (x)	52.2	30.9	20.7	14.8	11.3
PBR (x)	11.3	9.5	8.4	7.0	5.8
Dividend Yield (%)	1.7%	2.4%	3.6%	5.1%	6.7%

Source: Company data, Oceanwide Securities

#### Recommendation

Ticker	1523 HK
Rating	BUY
Last Close	HKD2.10
Target Price	HKD2.85
Previous Target	HKD2.57
Up/(Down)side	35.7%
Previous Rating	BUY

#### Share Information

52-week range (HKD)	0.63 – 2.40
ADT (3M) (HKD'mn)	7.39
Market Cap. (HKD'mn)	2,130.9
Shares outstanding ('mn)	1,015.2
Free float (%)	25.53
SH-HK Connect	No
SZ-HK Connect	No

#### Major Shareholders

Mr. Chan Wing Hong Alex	74.47%
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#### Share Price Performance



Source: Bloomberg

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**High payout ratio will continue** – As at 31 Dec 2017, the company had net cash of USD14.8mn on hand. The full year dividend of HK cents 6.08 per share translates to a payout ratio of 90%, current dividend yield stands at 2.9%. Going forward, we expect the company to maintain a stable dividend payout ratio of no less than 75%.

## Plover Bay's results comments

Fiscal Year Ended 31 Dec USD'000	FY16		FY17		Comments	FY17	
	Reported	Reported	YoY	Forecast		vs Forecast	
<b>Revenue</b>	<b>28,358</b>	<b>37,132</b>	31%		Slightly below our estimation due to less shipment on wired SD-Wan routers	39,101	95%
Cost of sales	(10,413)	(14,157)	36%			(14,460)	98%
<b>Gross profit</b>	<b>17,945</b>	<b>22,975</b>	28%		61.9% GPM on product mix shift	24,641	93%
Other income	104	463	345%		Mainly due to FX gain	500	93%
Selling and distribution expenses	(1,697)	(1,636)	-4%		Strong control in SG&A expenses	(2,346)	70%
Administrative expenses	(3,412)	(3,958)	16%			(4,692)	84%
Research and development expenses	(4,990)	(7,189)	44%		R&D expenses was lower than estimation	(7,820)	92%
Other expenses	(1,275)	(26)	-98%		Absence of listing expenses	(22)	118%
<b>Profit before taxation</b>	<b>6,675</b>	<b>10,629</b>	59%			10,261	104%
Income tax expenses	(1,435)	(1,875)	31%		Blended tax rate of 17.6%	(1,693)	111%
<b>Profit for the year</b>	<b>5,240</b>	<b>8,754</b>	67%		NPM maintained at 24%, in-line with expectation	8,568	102%
EPS (US cents)	0.60	0.87				0.86	101%
DPS (HK cents)	3.66	6.08				4.99	122%
Payout ratio	78%	90%			Payout ratio higher than expected	75%	

Source: Company data, Oceanwide Securities

# Financial Statements

Income Statement (USD'000)						Cashflow Statement (USD'000)					
	2016	2017	2018E	2019E	2020E		2016	2017	2018E	2019E	2020E
Revenue	28,358	37,132	53,640	72,932	94,830	Operating cashflow					
Cost of goods sold	(10,413)	(14,157)	(19,616)	(26,254)	(33,364)	EBITDA	7,641	12,177	17,244	24,126	31,704
<b>Gross profit</b>	<b>17,945</b>	<b>22,975</b>	<b>34,025</b>	<b>46,678</b>	<b>61,466</b>	Tax paid	(346)	(2,547)	(2,610)	(3,660)	(4,793)
Other income and gains, net	104	463	300	300	300	<b>Operating cashflow before W/C</b>	<b>7,295</b>	<b>9,630</b>	<b>14,634</b>	<b>20,466</b>	<b>26,911</b>
Operating expenses	(11,351)	(12,783)	(18,506)	(24,797)	(32,716)	Change in working capital	(2,875)	(6,821)	(1,744)	(2,720)	(3,484)
<b>EBIT</b>	<b>6,698</b>	<b>10,655</b>	<b>15,819</b>	<b>22,181</b>	<b>29,049</b>	<b>Cash flow from operations</b>	<b>4,420</b>	<b>2,809</b>	<b>12,890</b>	<b>17,746</b>	<b>23,427</b>
Finance costs	(23)	(26)	-	-	-	Investing activities					
Profit before tax	6,675	10,629	15,819	22,181	29,049	Capex	(937)	(8,936)	(1,716)	(2,342)	(3,198)
Income tax expense	(1,435)	(1,875)	(2,610)	(3,660)	(4,793)	Others	-	-	-	-	-
Profit after tax	5,240	8,754	13,209	18,521	24,256	<b>Cash flow from investing activities</b>	<b>(937)</b>	<b>(8,936)</b>	<b>(1,716)</b>	<b>(2,342)</b>	<b>(3,198)</b>
Minority interest	-	-	-	-	-	Financing activities					
<b>Attributable profit to shareholders</b>	<b>5,240</b>	<b>8,754</b>	<b>13,209</b>	<b>18,521</b>	<b>24,256</b>	Bank loan movement	(920)	1,643	(1,944)	-	-
						Dividend paid	(3,228)	(5,824)	(9,501)	(11,896)	(16,034)
						Interest paid	(23)	(26)	-	-	-
						Issue/(Buyback) Shares	16,111	-	-	-	-
						Others	(2,286)	887	-	-	-
						<b>Cash flow from financing activities</b>	<b>9,654</b>	<b>(3,320)</b>	<b>(11,445)</b>	<b>(11,896)</b>	<b>(16,034)</b>
						<b>Net increase/decrease in cash and cash equivalents</b>	<b>13,137</b>	<b>(9,447)</b>	<b>(271)</b>	<b>3,508</b>	<b>4,195</b>
						Cash and cash equivalents at beginning of the Year	6,062	19,193	16,747	16,476	19,985
						Non Pledged time deposit	-	7,115	-	-	-
						Effect of foreign exchange rate	(6)	(114)	-	-	-
						<b>Cash and cash equivalents at end of the Year</b>	<b>19,193</b>	<b>16,747</b>	<b>16,476</b>	<b>19,985</b>	<b>24,180</b>
Per Share Items (US cents)						Ratio Analysis					
	2016	2017	2018E	2019E	2020E		2016	2017	2018E	2019E	2020E
EPS	0.52	0.87	1.30	1.82	2.39	<b>Growth (YoY%)</b>					
Diluted EPS	0.52	0.87	1.30	1.82	2.39	Revenue	29.7%	30.9%	44.5%	36.0%	30.0%
DPS (HK cents)	3.66	5.08	7.61	10.67	13.97	EBIT	61.7%	59.1%	48.5%	40.2%	31.0%
BVPS	2.42	2.83	3.20	3.85	4.66	Net profit	56.1%	67.1%	50.9%	40.2%	31.0%
						Diluted EPS	56.1%	68.5%	49.6%	40.2%	31.0%
						<b>Margins</b>					
						Gross profit margin	63.3%	61.9%	63.4%	64.0%	64.8%
						EBIT margin	23.6%	28.7%	29.5%	30.4%	30.6%
						Net profit margin	18.5%	23.6%	24.6%	25.4%	25.6%
						<b>Other ratios</b>					
						Sales/ avg. assets	118.5%	101.7%	129.3%	156.5%	172.4%
						Return on average assets	21.9%	24.0%	31.8%	39.7%	44.1%
						Return on average equity	33.4%	33.0%	43.2%	51.8%	56.2%
						ROIC	21.3%	28.5%	40.7%	47.4%	51.3%
						Dividend payout ratio	89.8%	75.0%	75.0%	75.0%	75.0%
						<b>Valuation measures</b>					
						PSR (x)	4.1	7.4	5.1	3.7	2.9
						PER (x)	22.1	30.9	20.7	14.8	11.3
						PBR (x)	4.8	9.5	8.4	7.0	5.8
						Dividend yield	4.1%	2.4%	3.6%	5.1%	6.7%
Balance Sheet (USD'000)						Key Ratios					
	2016	2017	2018E	2019E	2020E		2016	2017	2018E	2019E	2020E
Non-current assets						Debt to equity	1.3%	6.8%	-	-	-
PPE	694	1,995	2,188	2,448	2,800	Net debt to equity	-	-	-	-	-
Intangible assets	383	661	759	896	1,088	Capex/ Sales	3.3%	24.1%	3.2%	3.2%	3.4%
Others	106	22	22	22	22	Current ratio (x)	4.3	3.6	4.5	4.6	5.2
<b>Total non-current assets</b>	<b>1,183</b>	<b>2,678</b>	<b>2,969</b>	<b>3,366</b>	<b>3,910</b>	Quick ratio (x)	2.61	1.59	1.89	1.92	2.27
Current assets						Interest coverage (x)	332	468	-	-	-
Inventories	6,678	11,629	13,092	15,680	17,228	Days inventory (days)	190	236	230	200	180
Trade receivables	5,315	9,476	9,871	11,708	13,887	Days receivable (days)	161	191	180	150	140
Pledged bank balances	129	-	-	-	-	Days payable (days)	51	58	50	50	50
Cash and cash equivalents	19,193	16,747	16,476	19,985	24,180	Cash conversion cycle (days)	299	368	360	300	270
Others	-	29	29	29	29						
<b>Total current assets</b>	<b>31,315</b>	<b>37,881</b>	<b>39,468</b>	<b>47,401</b>	<b>55,323</b>						
<b>Total assets</b>	<b>32,498</b>	<b>40,559</b>	<b>42,437</b>	<b>50,767</b>	<b>59,233</b>						
Current liabilities											
Trade payables	1,884	2,630	2,744	4,449	4,692						
Deferred revenue	3,551	5,036	5,036	5,036	5,036						
Bank borrowings	318	1,944	-	-	-						
Tax liabilities	1,589	919	919	919	919						
Others	-	-	-	-	-						
<b>Total current liabilities</b>	<b>7,342</b>	<b>10,529</b>	<b>8,699</b>	<b>10,404</b>	<b>10,647</b>						
Non-current liabilities											
Deferred tax liabilities	56	95	95	95	95						
Deferred revenue	854	1,185	1,185	1,185	1,185						
<b>Total non-current liabilities</b>	<b>910</b>	<b>1,280</b>	<b>1,280</b>	<b>1,280</b>	<b>1,280</b>						
<b>Total liabilities</b>	<b>1,820</b>	<b>2,560</b>	<b>2,560</b>	<b>2,560</b>	<b>2,560</b>						
Shareholders' equity											
Share capital	1,288	1,307	1,307	1,307	1,307						
Reserves	22,958	27,443	31,151	37,777	45,999						
<b>Total shareholders' equity</b>	<b>24,246</b>	<b>28,750</b>	<b>32,458</b>	<b>39,084</b>	<b>47,306</b>						
Minority interest	-	-	-	-	-						
<b>Total equity</b>	<b>24,246</b>	<b>28,750</b>	<b>32,458</b>	<b>39,084</b>	<b>47,306</b>						

Source: Company data, Oceanwide Securities

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