

SMALL/MID CAP HIGHLIGHTS

Plover Bay Technologies (1523 HK)

Post-results NDR Meeting Takeaways

Plover Bay Technologies is primarily engaged in developing and commercialising software-defined wide area network (SD-WAN) products and solutions under its own brands “Peplink” and “Pepwave”. Riding on the rising affordability and availability of wireless network and the proliferation of cloud/IoT, management is bullish on the future growth of the SD-WAN industry, especially the wireless one, the focal development area of Plover Bay. The counter trades at 29x 2017 PE with a dividend yield of 3%.

WHAT'S NEW

- Robust 2017 results.** Plover Bay Technologies reported decent 2017 profit growth of 67% yoy to US\$8.75m on a 31% yoy increase in revenue. Stripping out the one-off listing expense of US\$1.2m recognised in 2016, the 2017 adjusted net profit growth should be at around 35% yoy, largely in line with revenue growth and indicating stable profit margin. Wireless SD-WAN routers was the key revenue driver and the company attributed the strong growth to surging demand for high-performance wireless SD-WAN products with stable mobile connectivity from multiple industrial verticals.

2017 RESULTS

Year to 31 Dec (HK\$m)	1H17	2H17	hoh %	FY16	FY17	yoy %
Revenue	18	19	8.7%	28	37	30.9%
Wireless Routers	10	12	17.4%	14	21	49.6%
Wired Routers	4	4	(5.0%)	8	8	3.2%
Software licences & warranty & support services	4	4	1.3%	6	8	22.7%
Gross profit	11	12	18.8%	18	23	28.0%
Wireless Routers	4	6	44.0%	7	11	48.9%
Wired Routers	3	3	(2.1%)	5	5	4.1%
Software licences & warranty & support services	3	4	3.8%	6	7	23.9%
SG&A	-6	-7	17.4%	-10	-13	28.2%
Net profit (adjusted)	4	5	11.7%	6	9	34.8%
Margin (%)						
GPM	59.0%	64.5%	5.4%	63.3%	61.9%	-1.4%
Wireless Routers	43.8%	53.7%	9.9%	49.4%	49.2%	-0.2%
Wired Routers	67.1%	69.2%	2.0%	67.5%	68.1%	0.6%
Software licences & warranty & support services	89.1%	91.3%	2.2%	89.3%	90.2%	0.9%
NPM	23.2%	23.9%	0.6%	22.9%	23.6%	0.7%
SG&A ratio	33.1%	35.7%	2.6%	35.2%	34.4%	-0.7%

Source: Plover Bay, UOB Kay Hian

KEY FINANCIALS

Year to 31 Dec (US\$m)	2015	2016	2017
Turnover	21.9	28.4	37.1
Gross profit	12.7	17.9	23.0
Pre-tax profit	4.1	6.7	10.6
Net profit (rep./act.)	3.4	5.2	8.8
EPS (US cents)	0.5	0.6	0.9
PE (x)	na	33.3	29.5
P/B (x)	na	8.3	10.6
Debt to equity (x)	17.4	1.3	6.8
ROE (%)	49.0	33.4	30.4
Dividend yield (%)	na	2.3	1.8

Source: Plover Bay, Bloomberg, UOB Kay Hian

NOT RATED

Share Price	HK\$1.96
Target Price	n.a.
Upside	n.a.

COMPANY DESCRIPTION

Plover Bay Technologies Limited designs, develops, markets and sells both wired and wireless SD-WAN router products and services. The Company offers its products and services to numerous industries around the world including the transportation, retail, and education markets.

STOCK DATA

GICS sector	Communications Equipment
Bloomberg ticker:	1523 HK
Shares issued (m):	1,014.7
Market cap (HK\$m):	2,029.5
Market cap (US\$m):	257.5
3-mth avg daily t'over (US\$m):	0.4

Price Performance (%)

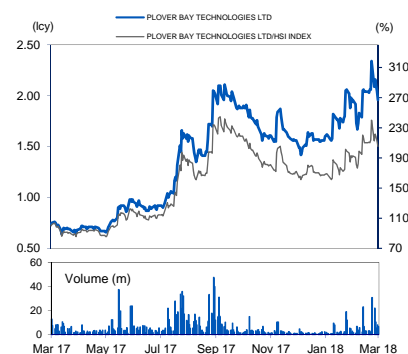
52-week high/low HK\$0.63/HK\$2.40

1mth	3mth	6mth	1yr	YTD
2.6	28.9	(0.5)	171.6	28.9

Major Shareholders

	%
Wing Hong Chan	73.91
FY18 NAV/Share (US\$)	0.03

PRICE CHART



Source: Bloomberg

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- Gross margin mildly declined due to product mix change.** Plover Bay's 2017 gross margin fell 1.4ppt yoy to 61.9%, as wireless SD-WAN router sales which command a lower gross margin than wired routers grew much faster than wired router sales. Gross margin of wireless SD-WAN router remained stable yoy and even improved strongly hoh in 2H17. Despite the lower margin, management said wireless SD-WAN routers would continue to be the key growth driver given its higher entry barriers and faster industry growth relative to wired SD-WAN routers. Entry barriers of wireless SD-WAN include radio frequency (RF), cloud and software technologies. Plover Bay's key competitive edge is its patented softwares --- SpeedFusion and InControl.

STOCK IMPACT

- What is SD-WAN?** SD-WAN is a technology for providing reliable, efficient and seamless data connectivity by using multiple wired or wireless WAN connections. SD-WAN enables an enterprise to deliver an automated, application-optimised, and integrated hybrid WAN. SD-WAN incorporates both automated software intelligence and a hybrid WAN, which includes at least two WAN connections and leverages on two or more different networks.

- Worldwide SD-WAN market to grow rapidly.** IDC forecasts the global SD-WAN market will reach US\$8.05b by 2021, representing a 2016-21 CAGR of 69.6% from only US\$574m in 2016. The growth drivers are primarily ballooning data traffic demand by enterprises as more business processes are digitized and more apps are accessed remotely. SD-WAN is a cost-effective way (relative to more expensive Multiprotocol Label Switching) to satisfy such rising enterprise demand for reliance network connection. In light of the upcoming 5G and industrial IoT, wireless SD-WAN is expected to grow much faster than wired SD-WAN. IDC predicts wireless SD-WAN will account for 15-20% of total SD-WAN infrastructure market by 2021.

- Aiming for market share gain in wireless SD-WAN router market.** As shown in its 2017 results, Plover Bay aims to keep the scale of its wired SD-WAN business but not to aggressively expand it further because of the lower entry barriers and keener market competition. The higher margins of wired SD-WAN vs that of wireless SD-WAN also keeps large players focusing more on the wired SD-WAN market. Management said wireless SD-WAN is the company's main focus and aims to gain more global market share by cutting prices when the company can lower its component costs by replacing more expensive Qualcomm chipset with lower cost Intel chipsets. Plover Bay became a leading wireless SD-WAN global player in 2017 with market share of about 20%.

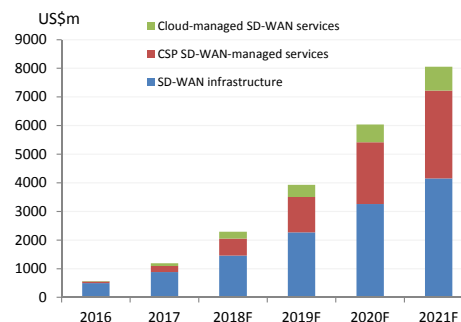
- New product launches to boost revenue and profitability.** Plover Bay is going to launch a high-performance wireless SD-WAN router "EPX" which can support 18 cellular connections and over 5,000 users/devices. Retail selling price of "EPX" could reach US\$34,000. Plover Bay has also launched SD-PMU (software-define power management unit), a power switch device combining both power management and router functions. Selling price is about US\$700.

RISK

- Larger rivals to enter this niche wireless SD-WAN market.** Plover Bay's router products are used in niche verticals such as public safety, maritime, transport, unmanned systems, construction and broadcasting media. Management believes large telecom equipment vendors have no intention to enter such a niche and small market. However, if the market would grow to a bigger size as IDC predicts, then there is a risk of fierce competition from those large rivals.

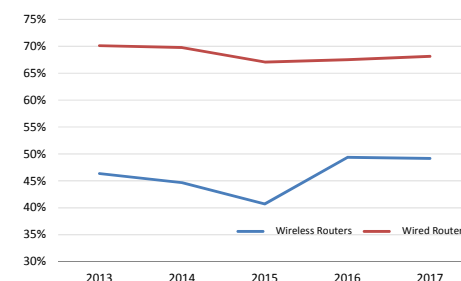
- Low order visibility.** As order visibility of Plover Bay is low, we view inventory management could be a challenge to the company, reflecting its long inventory turnover day of >230 days for 2017 (vs 190 days in 2016). Since Plover Bay does not establish its own sales team, the company does not set any business KPI, making revenue forecast more difficult. That say, Plover Bay's software licensing, warranty and support services are sources of recurring revenue. Existing customers are very likely to renew the warranty services once it expires one year later as the cloud service embedded in warranty service is essential to customers' data management.

GLOBAL SD-WAN MARKET SIZE



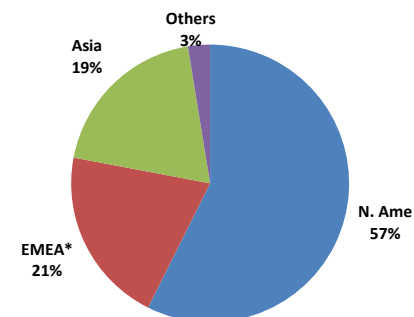
Source: IDC, UOB Kay Hian

GROSS MARGIN BY SEGMENTS



Source: Company, UOB Kay Hian

REVENUE MIX BY GEOGRAPHY (2017)



Source: Company, UOB Kay Hian

*Europe, Middle East, Africa

PROFIT & LOSS

Year to 31 Dec (US\$m)	2015	2016	2017
Revenue	21.9	28.4	37.1
Cost of sales	(9.2)	(10.4)	(14.2)
Gross profit	12.7	17.9	23.0
Operating expenses	(7.4)	(10.0)	(12.3)
Pre-tax profit	4.1	6.7	10.6
Tax	(0.8)	(1.4)	(1.9)
Minorities	0.0	0.0	0.0
Net profit (rep./act.)	3.4	5.2	8.8
Net profit(adj.)	3.4	6.5	8.8

BALANCE SHEET

Year to 31 Dec (US\$m)	2015	2016	2017
Cash/Near cash equiv.	6.1	19.2	16.7
Trade receivables	2.7	3.9	7.8
Inventories	4.1	6.7	11.6
Other current assets	1.6	1.5	1.7
Current assets	14.5	31.3	37.9
Plant and equipment	0.6	0.7	2.0
Other non-current assets	0.3	0.5	0.7
Total non-current assets	0.8	1.2	2.7
Total assets	15.3	32.5	40.6
Trade payables	1.0	1.9	2.6
Other payables and accruals	5.9	3.9	7.0
Tax payable	0.5	1.6	0.9
Current liabilities	7.5	7.3	10.5
Deferred revenue	0.7	0.9	1.2
Deferred tax liabilities	0.0	0.1	0.1
Total non-current liabilities	0.8	0.9	1.3
Total liabilities	8.2	8.3	11.8
Shareholders' equity	7.1	24.2	28.8

CASH FLOW

Year to 31 Dec (US\$m)	2015	2016	2017
Cash from Operating Activities	3.8	4.8	5.4
Profit before tax	4.1	6.7	10.6
Depreciation & Amortization	0.3	0.4	0.6
Chg in Non-Cash Work Cap	1.3	0.6	2.4
(Inc) Dec in Trade Receiv	(0.5)	(1.3)	(3.8)
(Inc) Dec in Inventories	(0.5)	(2.6)	(5.2)
Inc (Dec) in Accts Payable	(0.9)	0.8	0.7
Cash from Investing Activities	(0.9)	(0.9)	(8.9)
Acq of Fixed Prod Assets	(0.2)	(0.5)	(1.6)
Acq of Intangible Assets	(0.3)	(0.2)	(0.5)
Others	(0.4)	(0.2)	(6.8)
Cash from Financing Activities	0.2	9.7	3.3
Dividends paid	(2.8)	(3.2)	(5.8)
New bank loans	1.2	0.3	2.6
Net Changes in Cash	2.3	13.1	(9.4)
Cash and Cash Equivalent At End of Year	6.1	19.2	9.6

KEY METRICS

Year to 31 Dec (%)	2015	2016	2017
Growth			
Turnover	21.8	29.7	30.9
Gross profit	15.0	41.4	28.2
Pre-tax profit	(3.4)	61.2	59.2
Net profit	(10.3)	56.1	67.1
Net profit (adj.)	(10.3)	93.4	34.8
Profitability			
Gross margin	58.1	63.3	61.8
Pre-tax margin	18.9	23.5	28.6
Net margin	15.4	18.5	23.6
ROE	49.0	33.4	30.4
ROA	24.4	21.9	21.5
Leverage			
Debt to equity	17.4	1.3	6.8

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