

Plover Bay Technologies – Results Comments

1H18 results in-line, TP maintained at HKD2.57

BUY
TMT

Plover Bay Technologies (Plover Bay) 1H18 net profit jumped by 14.7% YoY to USD4.1mn. Considering the seasonal effect, the 1H numbers are in-line with our forecast. An interim dividend of 2.92 HK cents per share was declared for a payout ratio of 80%. Citing the tremendous opportunities in the global SD-WAN market and the company's sustainable product pipeline, as well as the minimal impact from the trade war, an even better 2H18 is expected. We reiterate our BUY rating on Plover Bay with TP of HKD2.57 based on a 20x FY19E PER for 101% upside potential.

GPM stood at high-end of guidance – Driven by a 35.1% gain in provision of warranty and support services, Plover Bay's 1H18 top-line increased by 10.9% YoY to about USD17.8mn. Blended GPM stood at 63.4%, which is on the high-end of management's guidance thanks to the improving product mix. Although the selling expenses surged by 66% YoY, its tight control in administrative and R&D expenses helped its net profit to increase by 14.7% YoY and achieve about 38% of our full-year forecast.

A potential IoT play – Plover Bay's SD-WAN solutions is playing an important role in the mission-critical industrial IoT applications (such as public safety & healthcare) as it enables a secured, always-on, high-performance connectivity across a hybrid wireless WAN. Given Plover Bay's leading position in the industry, we expect the net profit of Plover Bay to record a CAGR of 33.6% to about USD22mn by FY20E.

Minimal effect on the trade war – Plover Bay has been outsourcing its manufacturing to Taiwanese EMS providers for better IP protection. However, some of the low end products are made by their factories in the Mainland China and part of those were included in the tariff list. The new tariff is expected to be effective on 30 Aug 18, the company is currently shifting all the manufacturing process of the low end product that shipped to the US, from Mainland China to Taiwan, in order to avoid the tariff.

Interim dividend payout of 80% – As at 30 Jun 2017, the company had net cash of USD21mn on hand, compared to about USD15mn as at the end of FY17. The interim dividend of 2.92 HK cents per share was declared. Looking forward, we expect the company to maintain a stable dividend payout ratio of no less than 75%. In addition, its accounts receivable days improved to 41 days compared to 93 days in FY17.

Key Financials – Fiscal Year Ended December 31

(USD'000)	FY16	FY17	FY18E	FY19E	FY20E
Revenue	28,358	37,132	48,132	61,413	77,689
Growth	29.7%	30.9%	29.6%	27.6%	26.5%
Operating profit	6,675	10,629	14,776	20,142	25,688
Growth	61.2%	59.2%	39.0%	36.3%	27.5%
Net profit	5,240	8,754	12,338	16,819	22,033
Growth	56.1%	67.1%	40.9%	36.3%	31.0%
			CAGR FY18E-20E		33.6%
EPS (US cents)	0.52	0.87	1.21	1.65	2.17
PER (x)	31.8	18.9	13.5	9.9	7.6
PBR (x)	6.9	5.8	5.2	4.4	3.7
Dividend Yield (%)	2.9%	4.8%	5.5%	7.6%	9.9%

Source: Company data, Oceanwide Securities

Recommendation

Ticker	1523 HK
Rating	BUY
Last Close	HKD1.28
Target Price	HKD2.57
Previous Target	HKD2.57
Up/(Down)side	100.8%
Previous Rating	BUY

Share Information

52-week range (HKD)	0.98 – 2.40
ADT (3M) (HKD'mn)	1.17
Market Cap. (HKD'mn)	1,301.5
Shares outstanding ('mn)	1,016.8
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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Results comments

Fiscal Year Ended 31 Dec USD'000	1H17	1H18	YoY	Comments	FY18	
	Reported	Reported			Forecast	Completion Rate
Revenue	17,788	19,728	11%	Considering the seasonal effect, revenue is in-line w with our forecast	48,132	41%
Cost of sales	(7,286)	(7,279)	0%		(18,447)	39%
Gross profit	10,502	12,449	19%	63.4% GPM ahead our estimation	29,685	42%
Other income	369	83	-78%	Absence of FX gains	300	28%
Selling and distribution expenses	(637)	(1,058)	66%	Mainly due to increased in marketing expenses	(1,973)	54%
Administrative expenses	(1,974)	(2,166)	10%		(4,573)	47%
Research and development expenses	(3,268)	(3,511)	7%	Strong control in R&D expenses	(8,664)	41%
Other expenses	(11)	(21)	91%	Due to share-based payments to employees	0	na
Profit before taxation	4,981	5,776	16%		14,776	39%
Income tax expenses	(846)	(1,033)	22%	Blended tax rate of 17.6%	(2,438)	42%
Profit for the year	4,135	4,743	15%	NPM maintained at 24%	12,338	38%
EPS (US cents)	0.41	0.47			1.21	
DPS (HK cents)	2.58	2.92			9.46	
Payout ratio	81%	80%		Payout ratio similar to last corresponding period	75%	

Source: 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	48,132	61,413	77,689	Operating cashflow					
Cost of goods sold	(10,413)	(14,157)	(18,447)	(23,515)	(29,694)	EBITDA	7,641	12,177	16,201	22,087	29,042
Gross profit	17,945	22,975	29,685	37,898	47,995	Tax paid	(346)	(2,547)	(2,438)	(3,323)	(4,354)
Other income and gains, net	104	463	300	300	300	Operating cashflow before W/C	7,295	9,630	13,763	18,763	24,688
Operating expenses	(11,351)	(12,783)	(15,210)	(18,055)	(21,908)	Change in working capital	(2,875)	(6,821)	562	(2,829)	(2,446)
EBIT	6,698	10,655	14,776	20,142	26,387	Cash flow from operations	4,420	2,809	14,324	15,934	22,241
Finance costs	(23)	(26)	-	-	-	Investing activities					
Profit before tax	6,675	10,629	14,776	20,142	26,387	Capex	(937)	(8,936)	(1,716)	(2,342)	(3,198)
Income tax expense	(1,435)	(1,875)	(2,438)	(3,323)	(4,354)	Others	-	-	-	-	-
Profit after tax	5,240	8,754	12,338	16,819	22,033	Cash flow from investing activities	(937)	(8,936)	(1,716)	(2,342)	(3,198)
Minority interest	-	-	-	-	-	Financing activities					
Attributable profit to shareholders	5,240	8,754	12,338	16,819	22,033	Bank loan movement	(920)	1,643	(1,944)	-	-
						Dividend paid	(3,228)	(5,824)	(9,177)	(10,924)	(14,561)
						Interest paid	(23)	(26)	-	-	-
						Issue/(Buyback) Shares	16,111	-	-	-	-
						Others	(2,286)	887	-	-	-
						Cash flow from financing activities	9,654	(3,320)	(11,121)	(10,924)	(14,561)
						Net increase/decrease in cash and cash equivalents	13,137	(9,447)	1,487	2,668	4,482
						Cash and cash equivalents at beginning of the Year	6,062	19,193	16,747	18,234	20,902
						Non Pledged time deposit	-	7,115	-	-	-
						Effect of foreign exchange rate	(6)	(114)	-	-	-
						Cash and cash equivalents at end of the Year	19,193	16,747	18,234	20,902	25,384
Per Share Items (US cents)						Ratio Analysis					
	2016	2017	2018E	2019E	2020E		2016	2017	2018E	2019E	2020E
EPS	0.52	0.87	1.21	1.65	2.17	Growth (YoY%)					
Diluted EPS	0.52	0.87	1.21	1.65	2.17	Revenue	29.7%	30.9%	29.6%	27.6%	26.5%
DPS (HK cents)	3.66	6.08	7.09	9.67	12.67	EBIT	61.7%	59.1%	38.7%	36.3%	31.0%
BVPS	2.42	2.83	3.14	3.72	4.45	Net profit	56.1%	67.1%	40.9%	36.3%	31.0%
						Diluted EPS	56.1%	68.8%	39.5%	36.3%	31.0%
						Margins					
						Gross profit margin	63.3%	61.9%	61.7%	61.7%	61.8%
						EBIT margin	23.6%	28.7%	30.7%	32.8%	34.0%
						Net profit margin	18.5%	23.6%	25.6%	27.4%	28.4%
						Other ratios					
						Sales/ avg. assets	118.5%	101.7%	117.2%	135.5%	147.0%
						Return on average assets	21.9%	24.0%	30.0%	37.1%	41.7%
						Return on average equity	33.4%	33.0%	40.7%	48.3%	53.0%
						ROIC	21.3%	28.5%	38.7%	44.5%	48.7%
						Dividend payout ratio	91.1%	89.6%	75.0%	75.0%	75.0%
						Valuation measures					
						PSR (x)	5.9	4.5	3.5	2.7	2.1
						PER (x)	31.8	18.9	13.5	9.9	7.6
						PBR (x)	6.9	5.8	5.2	4.4	3.7
						Dividend yield	2.9%	4.8%	5.5%	7.6%	9.9%
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%	3.6%	3.8%	4.1%
Others	106	22	22	22	22	Current ratio (x)	4.3	3.6	4.6	4.6	5.2
Total non-current assets	1,183	2,678	2,969	3,366	3,910	Quick ratio (x)	2.61	1.59	2.18	2.10	2.52
Current assets						Interest coverage (x)	332	468	-	-	-
Inventories	6,678	11,629	11,619	14,151	15,136	Days inventory (days)	190	236	230	200	180
Trade receivables	5,315	9,476	8,718	10,610	12,169	Days receivable (days)	68	93	66	63	57
Pledged bank balances	129	-	-	-	-	Days payable (days)	51	58	50	50	50
Cash and cash equivalents	19,193	16,747	18,234	20,902	25,384	Cash conversion cycle (days)	207	271	246	213	187
Others	-	29	29	29	29						
Total current assets	31,315	37,881	38,600	45,692	52,718						
Total assets	32,498	40,559	41,569	49,058	56,628						
Current liabilities											
Trade payables	1,884	2,630	2,424	4,019	4,117						
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	-	-	-	-	-						
Total current liabilities	7,342	10,529	8,379	9,974	10,072						
Non-current liabilities											
Deferred tax liabilities	56	95	95	95	95						
Deferred revenue	854	1,185	1,185	1,185	1,185						
Total non-current liabilities	910	1,280	1,280	1,280	1,280						
Total liabilities	1,820	2,560	2,560	2,560	2,560						
Shareholders' equity											
Share capital	1,288	1,307	1,307	1,307	1,307						
Reserves	22,958	27,443	30,603	36,498	43,969						
Total shareholders' equity	24,246	28,750	31,910	37,805	45,276						
Minority interest	-	-	-	-	-						
Total equity	24,246	28,750	31,910	37,805	45,276						

Source: Company data, Oceanwide Securities

Rating Definitions	Disclaimer and Risk Statement
BUY We expect the stock to have a total return of > 15% over the next 12 months	This document is published by Oceanwide Securities Company Limited ("Oceanwide Securities"), a licensed corporation (central entity number AAC577) regulated by the Securities and Futures Commission in Hong Kong. This document is for distribution in Hong Kong only to persons who are "Professional Investors" as defined in Part 1 of Schedule 1 of Securities and Futures Ordinance (Cap 571) of Hong Kong and any rules made thereunder. This document is not intended for distribution to or use by, any person or entity who is a citizen or resident of any jurisdiction where such distribution or use would be contrary to applicable law or regulation within such jurisdiction. This document does not constitute an offer or a solicitation of an offer to buy or sell any securities. This document is circulated to addresses solely and may not be reproduced or redistributed to any other person or published, in whole or in part, for any purpose. The research is based on information obtained from sources believed to be reliable, but Oceanwide Securities does not make any representation or warranty as to its accuracy, completeness or correctness. Opinions expressed are subject to change without prior notice. Any recommendation does not have regard to specific investment objectives, financial situation and particular needs of any specific addressee. Oceanwide Securities accepts no liability whatsoever for any direct or consequential loss arising from any use of this document. Oceanwide Securities and its affiliates as well as persons associated with any of them from time to time may or may not have interests in the securities mentioned in this document. The prices of securities may move up or down, and past performance is not an indication of future performance. Investors shall consider seeking separate legal or financial advice before making investment decisions.
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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