

Plover Bay

Re-igniting growth engine in FY19

Warranty and software license drove 2H18 revenue, lucrative dividend payout

Plover Bay reported 2H18 revenue of US\$22.1m, which grew by 14.1% YoY, speeded up from 10.9% YoY growth in 1H18. SD-WAN router sales recorded disappointing growth of 2.3% to US\$15.8m in 2H18 due to 1) shortages of certain electronic components, e.g. MLCC; and 2) production capacity constrains by Taiwan OEMs. Revenue from warranty & support services and software licenses surged 50.7% and 145.8%, respectively, on increasing SD-WAN and Cloud services customer bases. 2H18 GPM edged down 0.9ppt to 62.2% HoH. 2H18 net profit came in at US\$5.9m, which was up by 27.2% YoY. Net profit outgrew revenue thanks to a significant lower effective tax rate of 8.7% in 2H18, compare to 18.2% in 2H17, which attributed to tax reductions implemented by the HKSAR Government on corporates' R&D expenses. Final DPS of HK\$0.0436 was proposed, alongside with a special DPS of HK\$0.0152 on strong operating cash flow of US\$19.5m, up from US\$2.8m in FY17. Full year dividend payout ratio reached 109%, up from 90% in FY17.

Wide range of new products to deliver in FY19

In FY19, Plover Bay will focus on promoting wide range of new products, including 1) MBX router, which is 4x LTE-A Pro compatible, and upgradeable to 5G cellular modules; 2) FusionSIM which pools data plans from various operators to create customized data plans for end-customers; and 3) IoT applications, such as software defined power management unit (SD-PMU).

Relieving of electronic components shortage and OEMs' capacity constrain

Sales growth of SD-Wan products was dragged by electronic components shortage and Taiwan OEMs' production capacity constraint in 2H18. Through channel check, the demand/ supply dynamics of electronic components, like MLCC, was more balanced in 2019. Management stated that production from Taiwanese OEMs is expected to be much smoother in FY19 as well.

Software and services business are long term driver

As the client base grows, warranty services and software license business becomes an important revenue stream. We expect a strong growth momentum from warranty and software licenses segments thanks to increasing SD-WAN and Cloud services customer bases. In FY19, Plover Bay may focus more on entry-level products in order to broaden customer bases for long term software and services business.

Currently trading at 13.0x FY19 PE, dividend yield is expected to be 7.0% in FY19

We assume Plover Bay to report 20.0% YoY in FY19 revenue growth on 1) promoting wide range of new products; 2) relieving of both electronic components shortage and Taiwan OEMs' capacity constrains; and 3) strong growth momentum from warranty and software licenses segments. We assume GPM in FY19 may drop to 61.5% as Plover Bay may focus more on entry-level products to broaden customer bases. We also assume effective tax rate of FY19 to be 14.5%, thanks to tax reductions on R&D expenses. We estimate earnings in FY19 would be US\$12.9m (+21.8% YoY). Based on this rough estimate, the counter is trading at 13.0x FY19 PE. We expect the company will maintain 91% regular payout in FY19, with no special dividend. Dividend yield in FY19 is expected to be 7.0%.

NON RATED

Last Price (HK\$)*	1.24
Target Price (HK\$)	N/A
Upside / (Downside)(%)	N/A
Previous rating	Non Rated
Previous TP	N/A
Hang Seng Index*	28,583.01
* Prices as of	31-7-2018

Key Data

Ticker	1523 HK
Market Cap (HK\$m)	1,276
3M avg Daily T/O (HK\$m)	0.4
52-week High/Low (HK\$)	2.23/ .85
Free Float (%)	25.9%
Shares O/S (m)	1,029.0

Performance	Absolute	Relative
1 month	8.9%	4.5%
3 months	5.2%	-3.3%
6 months	19.6%	18.2%

Price Chart



Source: Bloomberg

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Figure 1 Income statement assumptions

Year ended 31 Dec (USD '000)	2016	2017	2018	2019E
SD-WAN routers	21,978	29,305	30,421	35,862
YoY%	24.4%	33.3%	3.8%	17.9%
Wired	7,687	7,932	8,170	8,579
YoY%	10.0%	3.2%	3.0%	5.0%
wireless	14,291	21,373	22,251	27,284
YoY%	33.7%	49.6%	4.1%	22.6%
Warranty and support services	5,189	6,652	9,539	12,134
YoY%	32.9%	28.2%	43.4%	27.2%
Software licenses	1,191	1,175	1,846	2,166
YoY%	322.3%	-1.3%	57.1%	17.3%
Turnover	28,358	37,132	41,806	50,162
YoY%	29.7%	30.9%	12.6%	20.0%
COGS	(10,413)	(14,157)	(15,617)	(19,313)
Gross profit	17,945	22,975	26,189	30,850
Gross profit margin	63.3%	61.9%	62.6%	61.5%
R&D	(4,990)	(7,189)	(7,318)	(8,159)
As % of rev	17.6%	19.4%	17.5%	16.3%
Selling & Distribution	(1,697)	(1,636)	(2,107)	(2,375)
As % of rev	6.0%	4.4%	5.0%	4.7%
Admin. Expenses	(3,412)	(3,958)	(4,814)	(5,518)
As % of rev	12.0%	10.7%	11.5%	11.0%
Opex	(10,099)	(12,783)	(14,239)	(16,052)
As % of rev	35.6%	34.4%	34.1%	32.0%
Operating profit	7,846	10,192	11,950	14,798
Operating profit margin	27.7%	27.4%	28.6%	29.5%
Listing expenses	(1,252)	0	0	0
Other income	104	463	295	354
As % of rev	-0.4%	-1.2%	-0.7%	-0.7%
Other revenue, gains / losses	(1,148)	463	295	354
Finance cost	(23)	(26)	(32)	(22)
Pre-tax profit	6,675	10,629	12,213	15,130
Tax expenses	(1,435)	(1,875)	(1,593)	(2,199)
Effective Tax rate	21.5%	17.6%	13.0%	14.5%
Minority Interests	0	0	0	0
Reported net profit	5,240	8,754	10,620	12,931
YoY%	56.1%	67.1%	21.3%	21.8%
Reported net profit margin	18.5%	23.6%	25.4%	25.8%
Recurring net profit	6,492	8,754	10,620	12,931
YoY%	49.0%	34.8%	21.3%	21.8%
Recurring net profit margin	22.9%	23.6%	25.4%	25.8%

Source: Company, Crosby Securities

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