

Plover Bay Technologies – Results Comments

FY18 net profit up 21%, TP adjusted to HKD2.07

BUY**TMT**

Plover Bay Technologies (Plover Bay) posted a decent set of FY18 results with net profit increased by 21.3% YoY to about USD10.6mn. Although North American market was not affected by the new US tariff and recorded a 14.4 % YoY growth where EMEA market also up by 34.5% YoY, these were offsetted by a 12.8% decrease in the Asian market and resulted to about 13% below our estimates. A final dividend and a special dividend combined for 5.88 HK cents per share were declared for a full year payout ratio equals 108.5%. We have revised our forecast to reflect the related slowdown. However, we believe its net profit can still maintain a 27.9% CAGR in FY19E-21E given the huge market potential of SD-WAN, particularly with 5G in the coming. We reiterate our BUY rating with a new TP at HKD2.07 based on a 20x FY19E PER or 15.6x FY20E PER, for 66.9% upside potential.

Proportion of recurrent income rising – Driven by a 43.4% growth in provision of warranty and support services, Plover Bay's 1H18 top-line increased by 12.6% YoY to about USD41.8mn. Blended GPM stood at 62.6%, which is on the mid-end of management's guidance due to the revenue mix. Although the selling expenses surged by 28.8% YoY, its tight control in R&D expenses helped its net profit to increase by 21.3% YoY and achieve about 86% of our full-year forecast.

5G supercharges the SD-WAN opportunity – 5G is believed to be a huge enabler of SD-WAN because it provides high bandwidth and ultra-low latency in locations where fixed-line networks may not be available. In the meantime, Plover Bay's SD-WAN solutions are 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. With the popularity of the 5G network, more applications of the SD-WAN service might emerge in the near future, thus benefiting the business growth of Plover Bay in the near-term.

High dividend payout to maintain – As at 31 Dec 2018, the company had net cash of about USD27mn, compared to about USD17mn as at the end of FY17. The full year dividend of HK cents 8.80 per share translates to a current dividend yield of 7.1%. Looking forward, we expect the company to maintain a stable dividend payout ratio of no less than 75%.

Key Financials – Fiscal Year Ended December 31

(USD'000)	FY17	FY18	FY19E	FY20E	FY21E
Revenue	37,132	41,806	53,122	66,867	83,375
Growth	30.9%	12.6%	27.1%	25.9%	24.7%
Operating profit	10,629	12,213	13,653	17,536	22,351
Growth	59.2%	14.9%	11.8%	28.4%	27.5%
Net profit	8,754	10,620	13,653	17,536	22,351
Growth	67.1%	21.3%	28.6%	28.4%	27.5%
			CAGR FY19E-21E		27.9%
EPS (US cents)	0.87	1.04	1.33	1.70	2.17
PER (x)	18.3	15.3	12.0	9.3	7.3
PBR (x)	5.7	5.0	4.6	4.0	3.4
Dividend Yield (%)	4.9%	7.1%	6.3%	8.0%	10.2%

Source: Company data, China Tonghai Securities

Recommendation

Ticker	1523 HK
Rating	BUY
Last Close	HKD1.24
Target Price	HKD2.07
Previous Target	HKD2.57
Up/(Down)side	66.9%
Previous Rating	BUY

Share Information

52-week range (HKD)	0.85 – 2.23
ADT (3M) (HKD'mn)	0.37
Market Cap. (HKD'mn)	1,275.9
Shares outstanding ('mn)	1,029.0
Free float (%)	25.9
SH-HK Connect	No
SZ-HK Connect	No

Major Shareholders

Mr. Chan Wing Hong Alex	73.64%
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Share Price Performance



Source: Bloomberg

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Results comments

Fiscal Year Ended 31 Dec USD'000	FY17		FY18		YoY	Comments	FY18	
	Reported	Reported	Reported	Reported			Forecast	vs Forecast
Revenue	37,132	41,806			13%	Slightly below our estimation due to project delay in Malaysia	48,132	87%
Cost of sales	(14,157)	(15,617)			10%		(18,447)	85%
Gross profit	22,975	26,189			14%	0.7ppt improve in GPM, due to product mix shift	29,685	88%
Other income	463	295			-36%	Mainly due to FX gain	300	98%
Selling and distribution expenses	(1,636)	(2,107)			29%	SG&A expenses 7% above our expectation	(1,973)	107%
Administrative expenses	(3,958)	(4,814)			22%		(4,573)	105%
Research and development expenses	(7,189)	(7,318)			2%	R&D expenses was lower than estimation	(8,664)	84%
Other expenses	(26)	(32)			23%		0	na
Profit before taxation	10,629	12,213			15%		14,776	83%
Income tax expenses	(1,875)	(1,593)			-15%	Blended tax rate of 13.0%, thanks to the tax deduction in "Policy Address 2017"	(2,438)	65%
Profit for the year	8,754	10,620			21%	NPM maintained at 25.4%, in-line with expectation	12,338	86%
EPS (US cents)	0.87	1.04					1.21	86%
DPS (HK cents)	6.08	8.80					7.09	124%
Payout ratio	90%	108%				Payout ratio higher than expected	75%	

Source: China Tonghai Securities

New vs Original Estimates

USD'mn	FY19E			FY20E		
	Original	New	Change	Original	New	Change
Revenue	61.4	53.1	-13.5%	77.7	66.9	-13.9%
GPM	61.7%	63.4%	1.7 ppt	61.7%	64.1%	2.3 ppt
Operating Profit	20.1	16.4	-18.8%	26.4	21.0	-20.4%
Net Profit	16.8	13.7	-18.8%	22.0	17.5	-20.4%
NPM	27.4%	25.7%	-1.7 ppt	28.4%	26.2%	-2.1 ppt

Source: China Tonghai Securities

Thanks to the increasing global awareness of SD-WAN technologies, the market demand for high performance internet connectivity remains robust. However, Plover Bay's revenue growth in the Asian market experienced a hiccup in FY18, due to the project delay in Malaysia. There is also a sales interruption as the company shifted all the manufacturing process of its product that shipped to the US, from Mainland China to Taiwan, in order to avoid the tariff. Looking forward, we believe there is still a high uncertainty in the Asia market and the US tariff, therefore we have lowered the top-line forecasts in our model by 13.5%, and 13.9%, for FY19E and 20E, respectively. However, we maintain a positive view on the company given the strong market potential of the connectivity and the IoT segments.

In terms of GPM, its overall GPM for FY19E and 20E should be able to maintain at between 62% and 65%. With its stringent cost control measures, we believe that the company will have better economies of scale in the future, when its NPM will improve from 25.4% in FY18 to 26.8% in FY21E. Based on our new estimates, we expect the company to register a 27.9% CAGR in net profit in FY19E-21E.

Financial Statements

Income Statement (USD'000)						Cashflow Statement (USD'000)					
	2017	2018	2019E	2020E	2021E		2017	2018	2019E	2020E	2021E
Revenue	37,132	41,806	53,122	66,867	83,375	Operating cashflow					
Cost of goods sold	(14,157)	(15,617)	(19,434)	(24,034)	(29,477)	EBITDA	12,177	13,643	17,526	22,436	28,515
Gross profit	22,975	26,189	33,688	42,834	53,898	Tax paid	(2,547)	(2,526)	(2,698)	(3,465)	(4,417)
Other income and gains, net	463	295	300	300	300	Operating cashflow before W/C	9,630	11,117	14,829	18,971	24,098
Operating expenses	(12,783)	(14,239)	(17,636)	(22,133)	(27,430)	Change in working capital	(6,821)	8,374	(322)	653	(139)
EBIT	10,655	12,245	16,351	21,001	26,768	Cash flow from operations	2,809	19,491	14,506	19,624	23,959
Finance costs	(26)	(32)	-	-	-	Investing activities					
Profit before tax	10,629	12,213	16,351	21,001	26,768	Capex	(1,821)	(1,293)	(1,608)	(1,978)	(2,297)
Income tax expense	(1,875)	(1,593)	(2,698)	(3,465)	(4,417)	Others	(7,115)	7,115	-	-	-
Profit after tax	8,754	10,620	13,653	17,536	22,351	Cash flow from investing activities	(8,936)	5,822	(1,608)	(1,978)	(2,297)
Minority interest	-	-	-	-	-	Financing activities					
Attributable profit to shareholders	8,754	10,620	13,653	17,536	22,351	Bank loan movement	1,643	(632)	(1,306)	-	-
						Dividend paid	(5,824)	(8,351)	(10,869)	(11,686)	(14,958)
						Interest paid	(26)	(32)	-	-	-
						Issue/(Buyback) Shares	-	-	-	-	-
						Others	887	937	-	-	-
						Cash flow from financing activities	(3,320)	(8,078)	(12,175)	(11,686)	(14,958)
						Net increase/decrease in cash and cash equivalents	(9,447)	17,235	724	5,960	6,705
						Cash and cash equivalents at beginning of the Year	19,193	9,632	26,850	27,574	33,533
						Non Pledged time deposit	7,115	-	-	-	-
						Effect of foreign exchange rate	(114)	(17)	-	-	-
						Cash and cash equivalents at end of the Year	16,747	26,850	27,574	33,533	40,238
Per Share Items (US cents)						Ratio Analysis					
	2017	2018	2019E	2020E	2021E		2017	2018	2019E	2020E	2021E
EPS	0.87	1.04	1.33	1.70	2.17	Growth (YoY%)					
Diluted EPS	0.84	1.00	1.33	1.70	2.17	Revenue	30.9%	12.6%	27.1%	25.9%	24.7%
DPS (HK cents)	6.08	8.80	7.76	9.97	12.70	EBIT	59.1%	14.9%	33.5%	28.4%	27.5%
BVPS	2.79	3.18	3.45	4.02	4.74	Net profit	67.1%	21.3%	28.6%	28.4%	27.5%
						Diluted EPS	64.9%	19.0%	32.7%	28.4%	27.5%
						Margins					
						Gross profit margin	61.9%	62.6%	63.4%	64.1%	64.6%
						EBIT margin	28.7%	29.3%	30.8%	31.4%	32.1%
						Net profit margin	23.6%	25.4%	25.7%	26.2%	26.8%
						Other ratios					
						Sales/ avg. assets	101.7%	97.4%	113.5%	129.7%	142.1%
						Return on average assets	24.0%	24.7%	29.2%	34.0%	38.1%
						Return on average equity	33.0%	34.6%	40.0%	45.6%	49.6%
						ROIC	28.5%	31.2%	37.1%	41.1%	44.7%
						Dividend payout ratio	89.6%	108.5%	75.0%	75.0%	75.0%
						Valuation measures					
						PSR (x)	4.4	3.9	3.1	2.4	2.0
						PER (x)	18.3	15.3	12.0	9.3	7.3
						PBR (x)	5.7	5.0	4.6	4.0	3.4
						Dividend yield	4.9%	7.1%	6.3%	8.0%	10.2%
Balance Sheet (USD'000)						Key Ratios					
	2017	2018	2019E	2020E	2021E		2017	2018	2019E	2020E	2021E
Non-current assets						Debt to equity	6.8%	4.0%	-	-	-
PPE	1,995	2,470	2,890	3,416	3,943	Net debt to equity	-	-	-	-	-
Intangible assets	661	891	904	921	943	Capex/ Sales	4.9%	3.1%	3.0%	3.0%	2.8%
Others	22	30	30	30	30	Current ratio (x)	3.6	4.0	4.5	4.9	5.4
Total non-current assets	2,678	3,391	3,824	4,366	4,916	Quick ratio (x)	1.59	2.54	2.90	3.31	3.85
Current assets						Interest coverage (x)	468	426	-	-	-
Inventories	11,629	8,372	8,666	8,454	8,506	Days inventory (days)	236	234	160	130	105
Trade receivables	9,476	6,413	6,685	6,871	7,291	Days receivable (days)	73	69	45	37	31
Pledged bank balances	-	-	-	-	-	Days payable (days)	58	57	45	43	41
Cash and cash equivalents	16,747	26,850	27,574	33,533	40,238	Cash conversion cycle (days)	251	246	160	124	95
Others	29	269	269	269	269						
Total current assets	37,881	41,904	43,194	49,127	56,304						
Total assets	40,559	45,295	47,018	53,494	61,220						
Current liabilities											
Trade payables	2,630	2,274	2,518	3,145	3,477						
Deferred revenue	5,036	-	-	-	-						
Bank borrowings	1,944	1,306	-	-	-						
Tax liabilities	919	216	216	216	216						
Others	-	6,763	6,763	6,763	6,763						
Total current liabilities	10,529	10,559	9,497	10,124	10,456						
Non-current liabilities											
Deferred tax liabilities	95	109	109	109	109						
Deferred revenue	1,185	-	-	-	-						
Others	-	1,909	1,909	1,909	1,909						
Total non-current liabilities	1,280	2,018	2,018	2,018	2,018						
Total liabilities	11,809	12,577	11,515	12,142	12,474						
Shareholders' equity											
Share capital	1,307	1,326	1,326	1,326	1,326						
Reserves	27,443	31,392	34,177	40,026	47,419						
Total shareholders' equity	28,750	32,718	35,503	41,352	48,745						
Minority interest	-	-	-	-	-						
Total equity	28,750	32,718	35,503	41,352	48,745						

Source: Company data, China Tonghai Securities

Rating Definitions	Disclaimer and Risk Statement
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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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