

Hong Kong | TMT

2 August 2019

Plover Bay (1523 HK)

Momentum driven by new European R&D and sales team

Warranty services and software licenses business drove sales and GPM growth

Plover Bay reported 1H19 revenue of US\$22.0m, which grew by 11.6% YoY. SD-WAN router sales recorded growth of 5.5% to US\$15.5m in 1H19 on 1) 8.5% YoY growth in wireless SD-WAN sales; and 2) 2.5% YoY decrease in wired SD-WAN router sales. Warranty services and software licenses segments remained the key growth engine, with revenue surged 31.1% and 21.9% YoY respectively on increasing SD-WAN customer base and releasing of new software features. 1H19 GPM went up 0.7ppt YoY to 63.8% on higher sales proportion from higher margin warranty services and software licenses business. 1H19 net profit came in at US\$5.8m, up 21.4% YoY. Bottom line outgrew top line thanks to a better GPM and lower opex ratio of 33.1% in 1H19 versus 34.1% a year ago. Interim DPS of HK3.49cents was proposed; represented a same payout ratio of 80% as last year. Proposed dividend payout reached US\$4.6m, backed by strong operating cash flow of US\$8.7m in 1H19.

Ready to set up new European R&D and sales team

In 1H19, Plover Bay recorded a 20.1% YoY revenue growth in North America while only reported 0.6% YoY revenue growth in EMEA region. As SD-WAN adoption is increasing in both North America and European markets, we believe the difference in growth momentum was due to lack of sales channel in Europe. The company used to focus on the U.S. market and built extensive sales channel. Management is trying to duplicate the same successful strategy in Europe; and starts to build a team over there which consists of sales, engineering and supporting personnel. This new team could 1) strengthen the company's R&D, especially in Cloud software development, 2) build own sales channel and reduce the reliance on resellers in Europe, and 3) help building relationship with European telecom operators. Management targets European team to reach breakeven in FY19.

SpeedFusion Cloud could be long term driver

Compare to hardware installation, after-sales warranty and software licenses business are more sustainable with higher margins. Plover Bay focus more on SME clients to subscribe entry-level products in order to broaden SD-WAN and Cloud services customer bases. However, the initial network deployment investment could be huge for SME clients. The company is developing SpeedFusion Cloud, a pay-per-usage Cloud service for unbreakable connectivity which massively simplifies network deployment. From client's perspective, they turn Capex into Opex to reduce initial investment. The company is establishing partnerships with telecom operators to build up global presence for SpeedFusion Cloud. Management expects SpeedFusion Cloud could be key revenue contributor to the warranty and service segment in 2-3 years.

Currently trading at 13.5x FY19 PE, dividend yield is expected to be 6.9% in FY19

We assume Plover Bay to report 15.8% YoY revenue growth in FY19 on 1) newly build sales team in Europe to tackle lacking European sales channel; 2) increasing SD-WAN adoption in the U.S.; and 3) broadening client base drive growth from warranty and software licenses business. We assume GPM in FY19 to increase by 0.7ppt to 63.3% on increasing sales proportion from higher margin warranty and software licenses business. We also prudently assume effective tax rate of FY19 to be 14.9%, which increase from 13.0% in FY18 due to uncertainty of whether HK Government's Supertax deduction could be applied on the company's R&D expenses this year. We estimate earnings in FY19 would be US\$12.6m (+18.2% YoY). Based on this rough estimate, the counter is trading at 13.5x 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 6.9%.

NON RATED

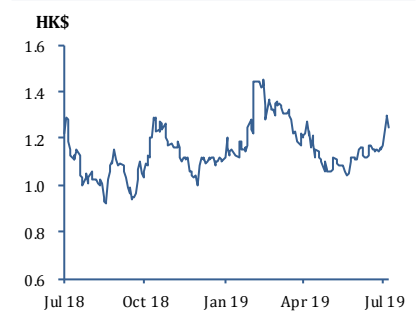
Last Price (HK\$)*	1.25
Target Price (HK\$)	N/A
Upside / (Downside)(%)	N/A
Previous rating	Non Rated
Previous TP	N/A
Hang Seng Index*	27,565.70
* Prices as of	1-Aug-19

Key Data

Ticker	1523 HK
Market Cap (HK\$m)	1,293
3M avg Daily T/O (HK\$m)	0.3
52-week High/Low (HK\$)	1.53/ .84
Free Float (%)	26.1%
Shares O/S (m)	1,034.7

Performance	Absolute	Relative
1 month	13.0%	16.2%
3 months	7.4%	15.8%
6 months	12.1%	11.5%

Price Chart



Source: Bloomberg

Michael Cheung, CFA
 michael.cheung@crosby.com
 +852 3476 2933

Andy Chan, CAIA
 andy.chan@crosby.com
 +852 3476 2725

Figure 1 Income statement assumptions

Year ended 31 Dec (USD '000)	2016	2017	2018	2019E
SD-WAN routers	21,978	29,305	30,421	34,052
YoY%	24.4%	33.3%	3.8%	11.9%
Wired	7,687	7,932	8,170	7,987
YoY%	10.0%	3.2%	3.0%	-2.2%
wireless	14,291	21,373	22,251	26,066
YoY%	33.7%	49.6%	4.1%	17.1%
Warranty and support services	5,189	6,652	9,539	12,179
YoY%	32.9%	28.2%	43.4%	27.7%
Software licenses	1,191	1,175	1,846	2,182
YoY%	322.3%	-1.3%	57.1%	18.2%
Turnover	28,358	37,132	41,806	48,413
YoY%	29.7%	30.9%	12.6%	15.8%
COGS	(10,413)	(14,157)	(15,617)	(17,755)
Gross profit	17,945	22,975	26,189	30,658
Gross profit margin	63.3%	61.9%	62.6%	63.3%
R&D	(4,990)	(7,189)	(7,318)	(7,867)
As % of rev	17.6%	19.4%	17.5%	16.2%
Selling & Distribution	(1,697)	(1,636)	(2,107)	(2,382)
As % of rev	6.0%	4.4%	5.0%	4.9%
Admin. Expenses	(3,412)	(3,958)	(4,814)	(6,039)
As % of rev	12.0%	10.7%	11.5%	12.5%
Opex	(10,099)	(12,783)	(14,239)	(16,288)
As % of rev	35.6%	34.4%	34.1%	33.6%
Operating profit	7,846	10,192	11,950	14,370
Operating profit margin	27.7%	27.4%	28.6%	29.7%
Listing expenses	(1,252)	0	0	0
Other income	104	463	295	483
As % of rev	0.4%	1.2%	0.7%	1.0%
Other revenue, gains / losses	(1,148)	463	295	483
Finance cost	(23)	(26)	(32)	(108)
Pre-tax profit	6,675	10,629	12,213	14,745
Tax expenses	(1,435)	(1,875)	(1,593)	(2,192)
Effective Tax rate	21.5%	17.6%	13.0%	14.9%
Minority Interests	0	0	0	0
Reported net profit	5,240	8,754	10,620	12,552
YoY%	56.1%	67.1%	21.3%	18.2%
Reported net profit margin	18.5%	23.6%	25.4%	25.9%
Recurring net profit	6,492	8,754	10,620	12,552
YoY%	49.0%	34.8%	21.3%	18.2%
Recurring net profit margin	22.9%	23.6%	25.4%	25.9%

Source: Company, Crosby Securities

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