

Plover Bay (1523 HK)

New European team could be catalyst, maintain lucrative dividend payout

- Dividend payout ratio reached 123% in FY19, represented 9.7% dividend yield
- Near term catalysts: Regional warehouses and new team in Lithuania
- FusionSIM and PrimeCare could be future growth driver
- Currently trading at 11.9x FY20 PE, dividend yield is expected to be 8.4% in FY20

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Plover Bay reported 2H19 revenue of US\$23.9m, which grew by 8.2% YoY. SD-WAN router sales recorded growth of 8.2% to US\$17.1m. Warranty services and software licenses segments growth slowed to 8.2%/ 7.5% YoY in 2H19 from 31.1% and 21.9% YoY in 1H19 respectively due to one large customer renewed their contact and maintained order size. 2H19 GPM narrowed 0.6ppt YoY to 61.6% due to focusing more on SME clients to subscribe entry-level products in order to broaden customer bases. 2H19 net profit came in at US\$6.3m, up 7.7% YoY. Final DPS of HK4.64cents and a special dividend of HK2.98cents were proposed; together with HK3.49cents interim dividend, FY19 full year payout ratio was 123%, increased from 109% in FY18. Proposed full year dividend payout reached US\$14.8m, which was backed by strong operating cash flow of US\$15.9m in FY19. Dividend yield for FY19 reached 9.7%

Near term catalysts: Regional warehouses and new team in Lithuania

Plover Bay has completed their regional warehouses set up in the US and Europe to improve channel efficiency and reduce inventory risk for their distributors. We expect distributors will be more aggressive on making orders given less inventory risks, thus Plover Bay could align channel with their business growth. The company has set up a new team in Lithuania with 40 staffs, out of which 30 are engineers. This new team could 1) strengthen the company's R&D in new product development, 2) build regional warehouses in Lithuania for European clients, and 3) help building relationship with European telecom operators.

FusionSIM and PrimeCare could be future growth driver

Plover Bay is developing FusionSIM, which enables instant injection of mobile SIM cards through the cloud. Cloud management system could help customers dynamically manage their wireless connections and maximize network coverage in any location. Target customers of FusionSIM include mobile virtual network operators (MVNOs) in North America. The company will also launch PrimeCare, which is a subscription package for a bundle of services include router equipment, cloud management, SpeedFusion, and warranty and support. Cloud management and SpeedFusion services could simplify network deployment thus lower capex barrier to adopt Plover Bay's products. Warranty and support services in PrimeCare bundle will generate sustainable recurring income.

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We assume Plover Bay to report 14.5% YoY revenue growth in FY20 on 1) set up of regional warehouse to encourage distributors placing more orders; 2) new team in Lithuania to strengthen R&D and enhance sales in Europe; and 3) PrimeCare services lowered capex barrier. We assume GPM in FY20 to shrink by 1.2ppt to 61.5% on more SME clients subscribe entry-level products. We estimate earnings in FY20 would be US\$13.0m (+7.5% YoY). Based on this rough estimate, the counter is trading at 11.9x FY20 PE. If we assume the company pays out 100% of FY20 earnings, dividend yield in FY20 could be 8.4%.

Key risk: A global Coronavirus outbreak could disrupt supply chain. Plover Bay is increasing purchase from Korean and Japan for potential component shortage.

NON RATED

Last Price (HK\$)*	1.14
Target Price (HK\$)	N/A
Upside / (Downside)(%)	N/A
Previous rating	Non Rated
Previous TP	N/A
Hang Seng Index*	26,371.21
* Prices as of mid-day close	2-Mar-20

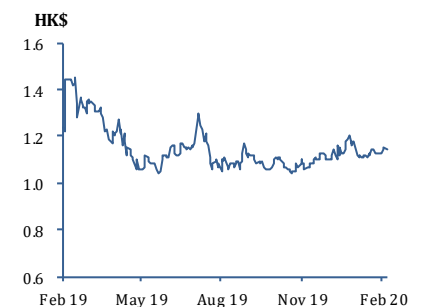
Key Data

Ticker	1523 HK
Market Cap (HK\$m)	1,194
3M avg Daily T/O (HK\$m)	0.6
52-week High/Low (HK\$)	1.53/ 1.03
Free Float (%)	26.3%
Shares O/S (m)	1,047.4

Performance Absolute Relative

1 month	2.7%	3.4%
3 months	7.5%	8.8%
6 months	3.6%	2.0%

Price Chart



Source: Bloomberg

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Figure 1 Income statement assumptions

Year ended 31 Dec (USD '000)	2017	2018	2019	2020E
SD-WAN routers	29,305	30,421	32,519	37,217
YoY%	33.3%	3.8%	6.9%	14.4%
Wired	7,932	8,170	7,853	7,617
YoY%	3.2%	3.0%	-3.9%	-3.0%
wireless	21,373	22,251	24,666	29,599
YoY%	49.6%	4.1%	10.9%	20.0%
Warranty and support services	6,652	9,539	11,282	12,974
YoY%	28.2%	43.4%	18.3%	15.0%
Software licenses	1,175	1,846	2,109	2,362
YoY%	-1.3%	57.1%	14.2%	12.0%
Turnover	37,132	41,806	45,910	52,553
YoY%	30.9%	12.6%	9.8%	14.5%
COGS	(14,157)	(15,617)	(17,136)	(20,233)
Gross profit	22,975	26,189	28,774	32,320
Gross profit margin	61.9%	62.6%	62.7%	61.5%
R&D	(7,189)	(7,318)	(7,221)	(9,460)
As % of rev	19.4%	17.5%	15.7%	18.0%
Selling & Distribution	(1,636)	(2,107)	(2,411)	(2,628)
As % of rev	4.4%	5.0%	5.3%	5.0%
Admin. Expenses	(3,958)	(4,814)	(5,537)	(6,306)
As % of rev	10.7%	11.5%	12.1%	12.0%
Opex	(12,783)	(14,239)	(15,169)	(18,394)
As % of rev	34.4%	34.1%	33.0%	35.0%
Operating profit	10,192	11,950	13,605	13,927
Operating profit margin	27.4%	28.6%	29.6%	26.5%
Listing expenses	0	0	0	0
Other income	463	295	484	1,259
As % of rev	1.2%	0.7%	1.1%	2.4%
Other revenue, gains / losses	463	295	484	1,259
Finance cost	(26)	(32)	(95)	(80)
Pre-tax profit	10,629	12,213	13,994	15,106
Tax expenses	(1,875)	(1,593)	(1,905)	(2,115)
Effective Tax rate	17.6%	13.0%	13.6%	14.0%
Minority Interests	0	0	0	0
Reported net profit	8,754	10,620	12,089	12,991
YoY%	67.1%	21.3%	13.8%	7.5%
Reported net profit margin	23.6%	25.4%	26.3%	24.7%

Source: Company, Crosby Securities

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