



中國通海證券
CHINA TONGHAI SECURITIES

Plover Bay Technologies Limited

1H20 results in-line

Results comments

Plover Bay Technologies (Plover Bay) delivered a satisfactory set of 1H20 results with net profit decreased by 11% YoY to about USD5.1mn, largely in-line with our expectation considering the negative impact from COVID-19 and seasonality effect. Sales to North America declined as channel partners experienced project delays caused by COVID-19 related shutdowns, while its strategic effort to setup regional warehouses near the end of 2019 has also relieved the needs for inventory restocking among its largest channel partners. Outside of North America, strong sales growth was record in various markets including the Netherlands, UK, Denmark Malaysia, Vietnam and Thailand. An interim dividend of 3.03 HK cents per share was declared for a payout ratio of 79%. We reiterate our BUY rating with TP at HKD1.52 based on a 15x FY20E PER, for 49% upside potential.

GPM pressured due to product mix: Driven by a 12.7% growth in the wireless SD-WAN sales and 21.6% growth in provision of software licences, Plover Bay's 1H20 total revenue increased by 9.4% YoY to about USD24.1mn. The proportion of recurrent income increased by 0.3 ppt to 30.1% in 1H20. Blended GPM dropped by 5.1 ppt to 58.7%, which is on the low-end of management's guidance due to the mix of lower margin series to expand its customer base. The total SG&A expenses and R&D expenses to turnover ratio increased by 1.4 ppt YoY driven by development projects for new technologies and products, as well as the increased headcount and marketing activities. As a result, NPM in 1H20 dropped by 4.9 ppt to 21.2% for a 11.1% YoY net profit decrease, achieving about 37% of our full-year forecast.

Well-positioned for the 5G era: Plover Bay is well-positioned for the coming wave of 5G-driven opportunities in the enterprise and industrial wireless networking market. In the coming months, the company will launch a new subscription service called *SpeedFusion Cloud* utilizing its proprietary technologies. Together with its wireless SD-WAN on 4G LTE and 5G, *SpeedFusion Cloud* enables secure and unbreakable access to enterprise and cloud resources anywhere with a simple and hassle-free setup. With the popularity of the 5G network, more applications of the SD-WAN service might emerge in the near future, the company will be enhancing its partnership with selected manufacturing partners to capture the 5G mega opportunity.

Interim dividend payout of 79%: As at 30 Jun 2020, the company had net cash of USD21.3mn on hand. An interim dividend of 3.03 HK cents per share was declared, translating into a 79% payout ratio (1H19: 80%). Looking forward, we expect the company to maintain a stable dividend payout ratio of no less than 75%, equivalent to an annualize yield of 7.5% at current price.

Plover Bay's Key Financials

(US\$'000)	FY18	FY19	FY20E	FY21E	FY22E
Revenue	41,806	45,910	52,687	61,060	71,780
Growth	12.6%	9.8%	14.8%	15.9%	17.6%
Operating profit	12,213	13,994	16,538	19,309	22,776
Growth	14.9%	14.6%	18.2%	16.8%	18.0%
Net profit	10,620	12,089	13,810	16,123	19,018
Growth	21.3%	13.8%	14.2%	16.8%	18.0%
EPS (US cents)	1.04	1.15	1.31	1.53	1.81
PER (x)	12.6	11.4	10.0	8.5	7.2
PBR (x)	4.2	4.0	3.8	3.3	2.9
Dividend Yield	8.6%	10.9%	7.5%	8.8%	10.4%

Source: Company Data, China Tonghai Securities

Equity Research

TMT

31 July 2020

Ticker	1523 HK
Stock Rating	BUY
Industry View	POSITIVE
Price Target (HK\$)	1.52
Price (30-Jul-2020)	HKD 1.02
Potential	49.0%
Upside/Downside	Upside
Market Cap (HK\$m)	1,073
Shares Outstanding (mn)	1,052
Free Float (%)	28.0
3M Avg Daily Turnover (HK\$m)	0.70
52 Week range	HKD 0.90-1.22



Source: Bloomberg

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RESULTS COMMENTS

Fiscal Year Ended 31 Dec	1H19	1H20				FY20
USD'000	Reported	Reported	YoY	Comments	Forecast	Completion Rate
Revenue	22,025	24,102	9%	Considering the seasonal effect, revenue is in-line with our forecast	52,687	46%
Cost of sales	(7,965)	(9,966)	25%		(19,589)	51%
Gross profit	14,060	14,136	1%	GPM dropped by 5.1 ppt to 58.7%	33,098	43%
Other income	219	284	30%		300	95%
Selling and distribution expenses	(1,168)	(1,337)	14%	Key operating costs to turnover ratio increased by 1.4ppt to 34.5%, mainly due to the increased operating costs from its enlarged R&D and operation teams in Lithuania and Taiwan	(2,634)	51%
Administrative expenses	(2,609)	(2,912)	12%		(6,059)	48%
Research and development expenses	(3,513)	(4,070)	16%		(8,166)	50%
Other expenses	(54)	(31)	-43%		0	na
Profit before taxation	6,935	6,070	-12%		16,538	37%
Income tax expenses	(1,177)	(950)	-19%	Blended tax rate of 15.7%	(2,729)	35%
Profit for the year	5,758	5,120	-11%	NPM dropped by 4.9ppt to 21.2%,	13,810	37%
EPS (US cents)	0.56	0.49			1.31	
DPS (HK cents)	3.49	3.03			7.68	
Payout ratio	80%	79%		Payout ratio similar to previous corresponding period	75%	

Source: Company Data, China Tonghai Securities

FINANCIAL STATEMENTS

Plover Bay Technologies

Income statement (US\$'000)	2018	2019	2020E	2021E	2022E	Cashflow statement (US\$'000)	2018	2019	2020E	2021E	2022E
Revenue	41,806	45,910	52,687	61,060	71,780	EBITDA	12,177	13,643	18,204	21,401	25,411
Cost of goods sold	(15,617)	(17,136)	(19,589)	(22,634)	(26,550)	Others	0	0	0	0	0
Gross profit	26,189	28,774	33,098	38,426	45,230	Change in working capital	(6,821)	8,374	490	(404)	(231)
Operating expenses	(14,239)	(15,169)	(16,860)	(19,417)	(22,754)	Tax paid	(2,547)	(2,526)	(2,729)	(3,186)	(3,758)
Other items, net	295	484	300	300	300	Operating cash flow	2,809	19,491	15,966	17,812	21,422
EBIT	12,245	14,089	16,538	19,309	22,776	Capex	(1,821)	(1,293)	(1,871)	(2,341)	(2,935)
Finance costs	(32)	(95)	0	0	0	Others	(7,115)	7,115	0	0	0
Pre-tax profit	12,213	13,994	16,538	19,309	22,776	Investing cash flow	(8,936)	5,822	(1,871)	(2,341)	(2,935)
Tax	(1,593)	(1,905)	(2,729)	(3,186)	(3,758)	Change in borrowings	1,643	(632)	0	0	0
Minority Interest	0	0	0	0	0	Others	(4,963)	(7,446)	(11,436)	(11,220)	(13,162)
Attributable profits	10,620	12,089	13,810	16,123	19,018	Financing cash flow	(3,320)	(8,078)	(11,436)	(11,220)	(13,162)
Net profit	10,620	12,089	13,810	16,123	19,018	Net change in cash	(9,447)	17,235	2,659	4,251	5,325
						Free cash flow	988	18,198	14,095	15,471	18,487
Per Share Items (US\$'000)	2018	2019	2020E	2021E	2022E						
EPS (US cents)	1.04	1.15	1.31	1.53	1.81	Ratio Analysis	2018	2019	2020E	2021E	2022E
DPS (HK cents)	8.80	11.11	7.68	8.96	10.57	Growth (YoY%)					
BVPS (US cents)	0.03	0.03	0.03	0.04	0.04	Revenue	12.6	9.8	14.8	15.9	17.6
						EBIT	14.9	15.1	17.4	16.8	18.0
Balance sheet (US\$'000)	2018	2019	2020E	2021E	2022E	Attributable profit	21.3	13.8	14.2	16.8	18.0
PPE	2,470	4,403	4,591	4,816	5,087	Diluted EPS	19.5	10.5	14.2	16.8	18.0
Intangible assets	891	1,087	1,104	1,126	1,156	Margins (%)					
Other non-current assets	30	30	30	30	30	Gross profit margin	62.6	62.7	62.8	62.9	63.0
Inventories	8,372	7,387	6,567	6,456	6,637	EBIT margin	29.3	30.7	31.4	31.6	31.7
Trade receivables	6,413	8,245	8,499	8,899	9,194	Net profit margin	25.4	26.3	26.2	26.4	26.5
Cash and equivalents	26,850	28,926	31,585	35,837	41,162	Other ratios (%)					
Other current assets	269	0	0	0	0	Return on assets	24.7	25.4	27.0	29.4	31.6
Total assets	45,295	50,078	52,376	57,163	63,265	Return on equity	34.6	36.2	39.1	41.4	42.9
Long-term borrowings	0	0	0	0	1	ROIC	31.2	35.0	37.4	38.6	39.9
Other non-current liabilities	2,018	1,963	1,963	1,963	1,963	Net debt to equity	(78.1)	(83.6)	(85.5)	(85.6)	(86.3)
Accounts payable	2,274	2,614	2,538	2,423	2,669	Interest coverage (x)	382.7	148.3	na	na	na
Short-term borrowings	1,306	393	393	393	393	Valuation measures ratios					
Other current liabilities	6,979	8,900	8,900	8,900	8,900	PER (x)	12.6	11.4	10.0	8.5	7.2
Total liabilities	12,577	13,870	13,794	13,679	13,926	PBR (x)	4.2	4.0	3.8	3.3	2.9
Total shareholders' equity	32,718	34,114	36,488	41,391	47,247	Dividend yield (%)	8.6	10.9	7.5	8.8	10.4
Minority interests	0	0	0	0	0						
Total equity	32,718	34,114	36,488	41,391	47,247						

Source: Company Data, China Tonghai Securities

Note: FY End 31 Dec

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