

INITIATE COVERAGE

Plover Bay Technologies (1523 HK)

Bringing Unbreakable Connectivity At 9% Dividend Yield

Plover Bay is an engineering-focused SD-WAN router provider that brings reliable connectivity with its proprietary technology SpeedFusion and the growing Peplink ecosystem. We forecast a three-year net profit CAGR of 22% in 2024-26 as Plover Bay rides on its growing customer base and rising subscription revenue. We expect a dividend yield of 7.4%/9.0% in 2024/25 respectively on solid cash flow generation and a generous dividend payout. Initiate coverage with BUY. Target price: HK\$5.94.

INVESTMENT HIGHLIGHTS

- **Leading SD-WAN router provider with proprietary technology SpeedFusion.** Plover Bay Technologies (Plover Bay) brings reliable connectivity through its software-designed wide area networks (SD-WAN) routers under the brand name Peplink and its patented technology SpeedFusion. SpeedFusion enables unbreakable connectivity by automatically detecting link failures and seamlessly redirecting traffic to working connections. We believe Plover Bay's competitive advantage lies in its growing Peplink ecosystem of value-added product portfolios and established user network.
- **Riding on rising demand for enhanced connectivity.** We forecast router sales to grow at a three-year CAGR of 20% in 2024-26, driven by: a) rising mobile data traffic, which is expected to grow at an eight-year CAGR of 21% in 2023-30; b) transition to 5G, which bolsters the uptake of its 5G products; and c) new connectivity services, such as Starlink, which provide reliable connectivity in underserved areas. Plover Bay became an authorised Starlink technology solutions provider in Jan 24 and connected 5,000 passengers on cruise ships by bonding multiple Starlink connections with its Peplink routers. We believe Plover Bay can expand its scale in existing verticals through: a) competitive Peplink routers with versatile bonding options, b) an established network of dedicated distributors and authorised Peplink & Starlink solution providers, and c) Starlink's growing subscriber base.
- **Rising recurring revenue...** We expect high-margin subscription and services to grow at a three-year CAGR of 21% in 2024-26 to US\$54m in 2026, driven by organic growth in subscription and services. We forecast subscription and services to contribute to 31.8%/32.2%/32.5% of total sales and 54.5%/55.0%/55.4% of gross profit in 2024-26 respectively.
- **...enhances solid cashflow generation.** Plover Bay is highly engineering-focused and is dedicated to the R&D of its software technology. It has high operating leverage with a 78% revenue growth in 2021-23 on a 13% R&D expense growth, and stands out from its peers with industry-leading operating margin as it only sells products to dedicated distributors while its peers focus on product distribution through their sales teams. Looking ahead, we expect Plover Bay to continue leveraging on its R&D team for technological advances with a higher operating margin of 34.0%/34.4%/34.8% and generate free cash flow of US\$25m/US\$38m/US\$46m in 2024-26 respectively.

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KEY FINANCIALS

Year to 31 Dec (US\$m)	2022	2023	2024F	2025F	2026F
Net turnover	87	94	115	139	165
Operating profit	26	32	39	48	57
Net profit (rep./act.)	23	28	34	42	50
EPS (cents)	2.1	2.6	3.1	3.8	4.6
PE (x)	19.4	15.7	12.9	10.5	8.8
P/B (x)	10.2	8.8	7.7	6.9	6.1
Dividend yield (%)	4.6	6.2	7.4	9.0	10.8
Net margin (%)	26.1	29.8	29.8	30.2	30.5
Net debt/(cash) to equity (%)	(46.1)	(64.3)	(53.0)	(53.5)	(54.0)
ROE (%)	54.4	60.1	64.0	69.0	73.5
Consensus net profit	-	-	-	-	-
UOBKH/Consensus (x)	-	-	-	-	-

Source: Plover Bay, Bloomberg, UOB Kay Hian

BUY

Share Price	HK\$3.14
Target Price	HK\$5.94
Upside	89.1%

COMPANY DESCRIPTION

Plover Bay specialises in the R&D of connectivity hardware and software, services and the sale of add-on software licences, warranty and support services.

STOCK DATA

GICS sector	Information Technology
Bloomberg ticker:	1523 HK
Shares issued (m):	1,101
Market cap (HK\$m):	3,457
Market cap (US\$m):	443
3-mth avg daily t'over (US\$m):	0.1

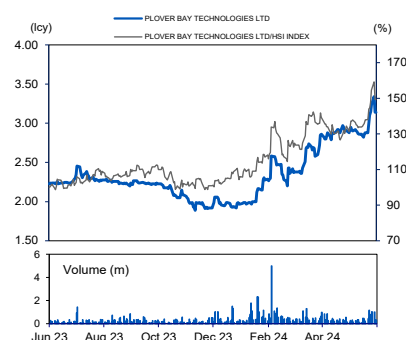
Price Performance (%)

52-week high/low	HK\$3.36/HK\$1.87				
1mth	3mth	6mth	1yr	YTD	
7.9	29.8	63.7	41.0	52.6	

Major Shareholders

	%
Wing Hong Chan	68.69
Grandeur Peak Global Advisors	2.66
FY24 NAV/Share (US\$)	0.05
FY24 Net Debt/Share (US\$)	(0.03)

PRICE CHART



Source: Bloomberg

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VALUATION/RECOMMENDATION

- We estimate revenue growth at 22%/21%/19% to US\$115m/US\$139m/US\$165m in 2024-26 respectively, primarily driven by rising recurring revenue growth of 21%/22%/20% in the same period. We expect net profit to grow 23%/22%/20% to US\$34m/US\$42m/US\$50m in 2024-26 respectively, thanks to an improving sales mix, stringent cost control and economies of scale.
- Initiate coverage with BUY and a target price of HK\$5.94** based on 10-year DCF model, assuming a 10.4% WACC and 2% terminal growth rate. The current price implies a 7.4%/9.0%/10.8% dividend yield in 2024-26, assuming a payout ratio of 95%.

DCF MODEL

(US\$m)	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F	2033F
EBIT	39.2	47.9	57.5	64.4	73.9	82.9	86.6	94.1	100.9	106.7
Effective tax rate (%)	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%
D&A	3.2	2.8	2.6	2.5	2.5	2.5	2.4	2.4	2.4	2.4
Changes in WC	(10.0)	(3.5)	(3.6)	(5.1)	(3.6)	(3.4)	(4.8)	(3.5)	(2.3)	(2.2)
Capex	(2.1)	(2.2)	(2.3)	(2.3)	(2.3)	(2.3)	(2.3)	(2.3)	(2.3)	(2.3)
FCF	24.5	37.9	45.7	50.1	59.6	67.4	69.2	76.8	83.9	88.9

Source: Plover Bay, UOB Kay Hian

KEY ASSUMPTIONS

(US\$m)	2022	2023	2024F	2025F	2026F
Revenue	87	94	115	139	165
Sales of SD-WAN routers	61	64	79	94	111
Fixed First Connectivity	14	15	18	22	26
Mobile First Connectivity	47	49	61	73	86
Warranty and support services	21	24	28	34	40
Software licences	4	7	9	11	13
Revenue Breakdown (%)	100.0	100.0	100.0	100.0	100.0
Sales of SD-WAN routers	70.5	67.9	68.2	67.8	67.5
Fixed First Connectivity	16.6	15.5	15.7	15.6	15.5
Mobile First Connectivity	53.9	52.4	52.5	52.2	51.9
Warranty and support services	24.3	25.2	24.4	24.1	24.4
Software licences	5.1	6.9	7.4	8.1	8.1
Gross margin breakdown (%)	53.6	54.0	54.1	54.3	54.5
Sales of SD-WAN routers	37.3	35.8	36.1	36.1	36.1
Fixed First Connectivity	42.7	42.6	43.0	43.0	43.0
Mobile First Connectivity	35.7	33.7	34.0	34.0	34.0
Warranty and support services	93.7	93.8	94.0	94.0	94.0
Software licences	87.2	88.1	89.0	89.0	89.0
Gross profit contribution (%)	100.0	100.0	100.0	100.0	100.0
Sales of SD-WAN routers	49.1	44.9	45.5	45.0	44.6
Fixed First Connectivity	13.3	12.2	12.5	12.3	12.2
Mobile First Connectivity	35.9	32.7	33.0	32.7	32.4
Warranty and support services	42.5	43.8	42.3	41.7	42.1
Software licences	8.3	11.3	12.2	13.2	13.2

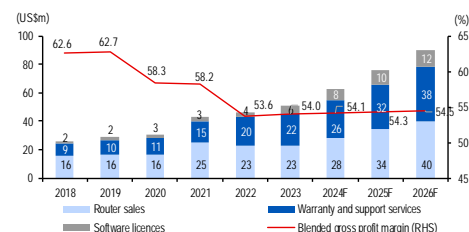
Source: Plover Bay, UOB Kay Hian

REVENUE FORECAST BY CATEGORY



Source: Plover Bay, UOB Kay Hian

GROSS PROFIT FORECAST BY CATEGORY



Source: Plover Bay, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (US\$m)	2023	2024F	2025F	2026F
Net turnover	94	115	139	165
EBITDA	35	42	51	60
Deprec. & amort.	(3)	(3)	(3)	(3)
EBIT	32	39	48	57
Total other non-operating income	0	0	1	1
Net interest income/(expense)	1	1	1	1
Pre-tax profit	33	40	49	59
Tax	(5)	(6)	(7)	(9)
Minorities	-	-	-	-
Net profit	28	34	42	50

CASH FLOW

Year to 31 Dec (US\$m)	2023	2024F	2025F	2026F
Operating	38	28	41	50
Pre-tax profit	33	40	49	59
Tax	(5)	(6)	(7)	(9)
Deprec. & amort.	3	3	3	3
Working capital changes	12	(10)	(4)	(4)
Others	(6)	0	0	0
Investing	(1)	(2)	(2)	(2)
Capex (growth)	(2)	(2)	(2)	(2)
Others	1	-	-	-
Financing	(29)	(28)	(35)	(42)
Dividend payments	(22)	(27)	(35)	(42)
Issue of shares	-	-	-	-
Proceeds from borrowings	13	11	11	11
Loan Payment	(19)	(10)	(10)	(10)
Others/interest paid	(1)	(2)	(1)	(1)
Net cash inflow (outflow)	8	(3)	4	5
Beginning cash & cash equivalent	29	37	34	38
Changes due to forex impact	0	-	-	-
Ending cash & cash equivalent	37	34	38	43

BALANCE SHEET

Year to 31 Dec (US\$m)	2023	2024F	2025F	2026F
Fixed assets	5	3	3	2
Other LT assets	3	3	3	3
Cash/ST investment	37	34	38	43
Other current assets	41	59	69	81
Total assets	85	99	113	129
ST debt	3	2	3	3
Other current liabilities	25	31	38	45
LT debt	2	1	1	1
Other LT liabilities	3	7	7	8
Shareholders' equity	50	57	65	73
Minority interest	0	0	0	0
Total liabilities & equity	85	99	113	129

KEY METRICS

Year to 31 Dec (%)	2023	2024F	2025F	2026F
Profitability				
Gross margin	54.0	54.1	54.3	54.5
Operating margin	33.9	34.0	34.4	34.8
Net margin	29.8	29.8	30.2	30.5
ROE	60.1	64.0	69.0	73.5
ROA	33.3	37.4	39.7	41.7
Growth				
Turnover	8.6	22.4	20.7	18.6
Gross profit	9.5	22.6	21.2	19.0
Pre-tax profit	24.9	22.5	22.2	20.0
Net profit	24.0	22.5	22.2	20.0
EPS	23.4	22.3	22.2	20.0
Leverage				
Debt to total capital	5.2	3.6	3.0	2.7
Debt to equity	8.9	6.2	5.3	4.8
Net debt/(cash) to equity	(64.3)	(53.0)	(53.5)	(54.0)
Interest cover (x)	91.5	317.9	397.2	448.5

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