

Plover Bay Technologies (01523.HK)

Peplink-Starlink partnership and recurring revenue model driving long-term profitability
Information Technology Equipment |

19 March 2024

Investment Summary

Plover Bay Technologies (01523.HK) recorded solid growth in its financial performance for the fiscal year 2024, with total revenue reaching \$116.79 million, representing a 23.9% YoY increase. This growth was primarily driven by the strong sales performance of mobile-first connectivity products, as well as stable expansion in software licensing and warranty support services. Benefiting from an expansion in gross profit margin and operating leverage, profit attributable to equity holders increased by 35.4% to \$38.05 million, with diluted earnings per share (EPS) rising to 3.45 cents, reflecting a 35.3% YoY growth. The company declared a second interim dividend of HK13.37 cents per share and a special dividend of HK5.65 cents per share, totaling HK19.02 cents, with a payout ratio of approximately 111.0%.

Revenue Growth Driven by Mobile-First Connectivity Products

As of December 31, 2024, the company recorded \$116.79 million in revenue, marking a 23.9% YoY growth compared to 2023. Among its product segments, mobile-first connectivity products exhibited the strongest growth, generating \$66.18 million in revenue, a 34.0% increase YoY, driven by the Peplink-Starlink partnership, which significantly boosted demand for SD-WAN routers across various markets. Revenue from fixed network-first connectivity products stood at \$17.15 million, up 17.5% YoY, reflecting sustained demand for fixed network solutions from enterprise and government clients. Software licensing revenue reached \$8.18 million, growing 25.7%, primarily due to the expansion of InControl2 service subscriptions and other software licensing agreements. While warranty and support services grew at a slower pace, they still contributed \$25.28 million, up 6.4% YoY, demonstrating the company's ongoing efforts to expand service-based revenue streams and strengthen its recurring income base.

North American Market Continues to Expand, While Asian Market Faces Short-Term Pressure

The North American market remained the company's primary growth driver, with revenue reaching \$74.76 million, reflecting a 37.5% YoY increase. The region's revenue contribution rose from 57.7% in 2023 to 64.0% in 2024. This growth was mainly driven by the increasing adoption of SD-WAN solutions among enterprises, government agencies, and the transportation sector, particularly in applications such as vehicles, railways, and telemedicine.

The Europe, Middle East, and Africa (EMEA) market also showed stable growth, with revenue reaching \$29.06 million, up 5.5% YoY. This reflects continued demand for SD-WAN solutions in the region, though growth was slower than in North America, possibly due to longer procurement cycles among enterprises.

The Asian market reported \$8.76 million in revenue, marking a 12.2% decline YoY, primarily due to the volatility in government procurement projects, which led to short-term growth constraints. Meanwhile, revenue from other emerging markets surged by 78.4% to \$4.21 million, indicating strong market penetration in the maritime, energy, and remote connectivity sectors, showcasing significant growth potential in these industries.

Accumulate

CMP HKD5.65
(Closing price as of 14 March)
Target HKD 6.58 (+16.5%)

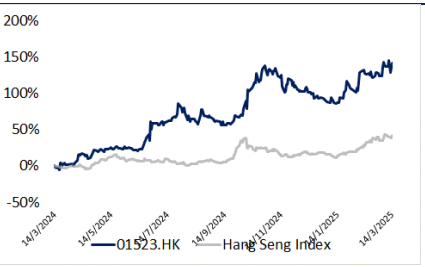
COMPANY DATA

O/S SHARES (MN) :	1,102.407
MARKET CAP (HKD MN) :	6063.2
52 - WK HI/LO (HKD):	5.700/1.902

SHARE HOLDING PATTERN, %

Chan Wing Hong	68.59%
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PRICE VS. HSI



Source: Phillip Securities (HK) Research

KEY FINANCIALS

USD mn	FY23	FY24	FY25E	FY26E
Revenue	94.26	116.79	143.88	177.53
Net profit	28.10	38.05	46.67	57.11
Reported EPS	0.0256	0.0346	0.0423	0.0516
P/E ratio, x	28.3	21.1	17.2	14.1
Dividend Yield, %	3.4%	5.3%	5.8%	6.9%

Source: Company reports, Phillip Securities Est.

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Gross Margin Expansion Enhances Profitability

During the period, gross profit reached \$64.15 million, up 26.0% YoY, with the gross margin improving from 54.0% to 54.9%. This was mainly attributed to lower 5G module costs and economies of scale. Among key product segments, mobile-first connectivity product gross margin improved significantly to 37.9%, up 4.2 percentage points from 2023, illustrating the company's effective supply chain management and product mix optimization. Fixed network-first connectivity products also saw their gross margin increase from 42.6% to 45.4%, demonstrating relatively low pricing pressure in this segment. Warranty and support services maintained a high gross margin of 94.3%, while software licensing achieved a gross margin of 91.4%, reflecting the company's successful push toward high-value-added services, further strengthening overall profitability.

The company's revenue growth was primarily driven by the Peplink-Starlink partnership, which expanded SD-WAN product applications across multiple industries. In particular, the North American market saw increased penetration into government agencies, enterprises, and transportation sectors through its distribution channels. Additionally, recurring revenue streams played a crucial role in driving overall growth, with new subscription revenue growing by 36% YoY in 2024, while subscription adoption rates increased from 30.5% at the end of 2023 to 34.1%. This indicates a steady rise in customer demand for warranty and support services.

Moreover, the company benefited from declining 5G module costs and product mix optimization, which significantly improved mobile-first connectivity product margins, further driving overall profitability. Despite the decline in Asian market revenue, this was mainly due to the cyclical nature of government procurement projects and does not affect the company's long-term growth prospects.

Looking ahead, as computing power advances, edge routers are likely to evolve into local computing nodes, reducing reliance on centralized cloud servers. The explosive growth in IoT devices will drive greater integration of local edge computing into connectivity solutions, reducing latency and enabling real-time data processing. Meanwhile, 5G Fixed Wireless Access (FWA) is becoming increasingly prevalent in home and enterprise applications, and the company plans to develop additional multi-WAN-supported products and subscription solutions to meet the market's growing demand for higher bandwidth and reliability. Furthermore, the company is actively enhancing "on-demand" connectivity solutions, enabling enterprise clients to dynamically manage network traffic, and has introduced a mobile application to simplify network management for non-technical users.

Investment Thesis and Valuation

Plover Bay Technologies demonstrates strong growth momentum, particularly with the Peplink-Starlink partnership and recurring revenue model driving long-term profitability. Given the company's solid financial position, consistent earnings growth, and stable dividend policy, we forecast the company's earnings per share (EPS) for FY2025 and FY2026 to be 0.0423 and 0.0516 USD, respectively. Our target price is set at HK\$6.58, corresponding to a 16.4x forward P/E ratio for FY2026, which is in line with the company's five-year historical average valuation. Our investment rating is "Accumulate".

Risk factors

1) Global trade policy changes may impact supply chains and market demand; 2) Competitive pressure from new entrants in the SD-WAN market; and 3) Uncertainty in government procurement cycles may affect market performance in Asia.

Financial

Consolidated Statement of Profit or Loss

Dec Y/E, USD mn	FY22	FY23	FY24	FY25E	FY26E
Revenue	86.76	94.26	116.79	143.88	177.53
COGS	(40.25)	(43.35)	(52.64)	(64.47)	(78.63)
Gross Profit	46.51	50.91	64.15	79.41	98.90
Other income/gains	0.18	1.36	2.05	2.30	2.84
Distribution and selling exp.	(3.10)	(3.54)	(4.35)	(5.23)	(6.53)
General & Admin exp.	(8.17)	(7.02)	(7.75)	(9.84)	(12.38)
R&D, consultancy and other exp.	(8.79)	(8.41)	(8.50)	(10.47)	(13.89)
Operating Profit	26.63	33.30	45.61	56.18	68.95
Finance costs, net	(0.24)	(0.35)	(0.29)	(0.32)	(0.19)
Profit before tax	26.38	32.95	45.33	55.86	68.76
Income tax	(3.72)	(4.85)	(7.28)	(9.19)	(11.65)
Shareholders Net profit	22.66	28.10	38.05	46.67	57.11
Reported EPS	0.0207	0.0256	0.0346	0.0423	0.0516
Reported EPS, Diluted	0.0206	0.0255	0.0345	0.0423	0.0516

Key Financial Data

Dec Y/E	FY22	FY23	FY24	FY25E	FY26E
Valuation Ratio					
P/S ratio, x	9.1	8.4	6.9	5.6	4.5
P/E ratio, x	35.0	28.3	21.1	17.2	14.1
Dividend Yield, %	2.6%	3.4%	5.3%	5.8%	6.9%

Per share data (HKD)

EPS	0.16	0.20	0.27	0.33	0.40
BVPS	0.31	0.36	0.40	0.43	0.50
DPS (HKD)	0.146	0.194	0.299	0.327	0.389

Growth & Margin

Growth					
Revenue Growth	17.0%	8.6%	23.9%	23.2%	23.4%
Gross Profit Growth	7.8%	9.5%	26.0%	23.8%	24.6%
Operating Profit Growth	7.2%	25.1%	37.0%	23.2%	22.7%
Net Profit Growth	6.9%	24.0%	35.4%	22.7%	22.4%
Margin					
Gross Profit Margin	53.6%	54.0%	54.9%	55.2%	55.7%
Operating Profit Margin	30.7%	35.3%	39.1%	39.0%	38.8%
Net Profit Margin	26.1%	29.8%	32.6%	32.4%	32.2%

Key Ratios

ROE	54.4%	60.1%	71.4%	79.8%	86.6%
ROA	29.2%	33.3%	38.9%	40.7%	44.2%

Consolidated Statement of Financial Position

Dec Y/E, USD mn	FY22	FY23	FY24	FY25E	FY26E
Non Current Asset					
PPE	3.31	4.52	3.37	3.47	3.12
Others	2.18	2.59	2.08	2.09	2.11
Total Non Current Assets	5.49	7.11	5.45	5.56	5.23
Current Asset					
Inventory	32.33	16.94	16.16	22.49	36.36
Trade and other receivables	12.05	17.42	15.50	21.89	29.34
Bank balance and cash	28.66	36.75	65.93	62.13	60.55
Others	4.75	7.07	7.08	7.28	7.38
Total Current Assets	77.80	78.17	104.67	113.78	133.62
Total Assets	83.29	85.28	110.11	119.35	138.86
Non Current Liabilities					
Contract liabilities	3.75	5.62	11.40	14.40	18.40
Other Non-current Liabilities	1.02	2.19	1.30	1.20	1.10
Total Non-current Liabilities	4.77	7.81	12.70	15.60	19.50
Current Liabilities					
Interest-bearing Borrowings	6.47	1.18	8.52	5.44	5.67
Trade payables	6.90	4.69	7.42	10.40	11.02
Others	21.86	21.38	25.18	27.28	31.38
Total Current Liabilities	35.23	27.24	41.12	43.12	48.07
Equity					
Shareholders' equity	43.29	50.22	56.30	60.63	71.29
Non-controlling interests	-	-	-	-	-
Total equity	43.29	50.22	56.30	60.63	71.29
Total Liabilities and Equity	83.29	85.28	110.11	119.35	138.86

Consolidated Statement of Cash Flow

Dec Y/E, USD mn	FY22	FY23	FY24	FY25E	FY26E
CFO					
Profit before income tax	26.4	33.0	45.3	55.9	68.8
D&A add-back	2.8	3.1	3.3	1.5	1.6
Others	(2.3)	(7.6)	(7.3)	(9.2)	(11.6)
Net (inc)/dec working capital	(9.3)	9.2	13.9	(10.0)	(20.8)
Net cash flow from operating activities	17.6	37.7	55.2	38.2	37.9
CFI					
Purchase of PP&E	(0.8)	(0.7)	(0.2)	(1.6)	(1.3)
Others	(0.3)	(0.3)	0.9	1.8	2.8
Net cash flow from investing activities	(1.1)	(1.0)	0.8	0.2	1.5
CFF					
Dividends paid	(20.8)	(22.0)	(32.7)	(42.3)	(46.4)
Others	1.4	(6.8)	6.1	0.1	5.4
Net cash flows from financing activities	(19.4)	(28.8)	(26.6)	(42.2)	(41.0)
Net Change in Cash	(2.9)	7.9	29.3	(3.8)	(1.6)
Cash and CE at Y/E	28.7	36.7	65.9	62.1	60.6

Current Price as of: March 14

Source: PSHK Est.

PHILLIP RESEARCH STOCK SELECTION SYSTEMS

Total Return	Recommendation	Rating	Remarks
>+20%	Buy	1	>20% upside from the current price
+5% to +20%	Accumulate	2	+5% to +20% upside from the current price
-5% to +5%	Neutral	3	Trade within $\pm 5\%$ from the current price
-5% to -20%	Reduce	4	-5% to -20% downside from the current price
<-20%	Sell	5	>20% downside from the current price

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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