Plover Bay Technologies (1523 HK)

1H26: Meaningful Gross Margin Expansion

Highlights

- Plover Bay's 1H26 attributable net profit grew 28% yoy to US$28m, representing 50% of our full-year estimate, thanks to robust sales growth in North America and Asia, meaningful gross margin expansion and continuous operating leverage.
- Management highlights Peplink's deployment in physical AI and is positive on its gross margin outlook, thanks to better product mix, economies of scale and price adjustment to be reflected in 2H26.
- Maintain BUY and raise target price to HK$9.86 from HK$9.77 based on DCF.

1H26 Results

(US$m)	1H26	yoy	hoh	1H25	2H25	2025
Revenue	74.6	18.5%	11.0%	62.9	67.2	130.1
One-time sales	52.5	16.1%	11.1%	45.2	47.3	92.5
Recurring sales	22.1	24.7%	10.7%	17.7	19.9	37.6
Gross profit	43.8	25.4%	12.0%	35.0	39.2	74.1
Operating profit	32.3	30.3%	18.9%	24.8	27.2	52.0
Net profit	27.7	27.9%	16.5%	21.7	23.8	45.5
Margins (%)						
Gross margin	58.8	3.2ppt	0.5ppt	55.5	58.3	57.0
Operating margin	43.4	3.9ppt	2.9ppt	39.4	40.5	40.0
Net margin	37.2	2.7ppt	1.7ppt	34.4	35.4	34.9

Source: Plover Bay

Results

- **Robust 1H26 results.** Revenue grew 18.5% yoy to US$75m in 1H26, accounting for 48.8% of our full-year estimate of US$153m, driven by strong growth in 5G products such as MAX BR2 Pro. By region, North America registered the strongest growth of 27.2% yoy. Sales from Asia grew rapidly by 22.3% yoy on strong deliveries to multi-year large projects, while EMEA declined 2.5% yoy due to large-scale project timing. Gross margin expanded by 3.3ppt yoy to 58.8% despite rising memory costs, supported by favourable sales mix towards high-end products, economies of scale, and growing recurring sales. Net profit grew 28% yoy to US$28m, representing 50% of our full-year estimate of US$55m, thanks to higher gross margin and stronger-than-expected operating leverage. Net margin improved 2.8ppt yoy to 37.2%.

Key Financials

Year to 31 Dec (US$m)	2024	2025	2026F	2027F	2028F
Net turnover	117	130	153	177	204
EBITDA	47	55	66	77	89
Operating profit	44	52	64	75	87
Net profit (rep./act.)	38	45	56	65	76
Net profit (adj.)	38	45	56	65	76
EPS (cents)	3.5	4.1	5.0	5.9	6.9
P/E (x)	26.0	21.8	17.8	15.3	13.1
P/B (x)	17.6	16.8	16.0	14.1	12.3
EV/EBITDA (x)	20.1	17.1	14.2	12.1	10.7
Dividend yield (%)	4.3	4.9	5.4	6.2	7.3
Net margin (%)	32.6	34.9	36.5	36.8	37.3
Net debt to equity (%)	(97.4)	(92.1)	(85.3)	(87.5)	(88.6)
Interest cover (x)	151.3	202.4	329.7	245.0	290.4
ROE (%)	71.4	78.9	92.3	98.2	100.5
Consensus net profit	-	-	55	65	75
UOBKH/Consensus (x)	-	-	1.01	1.00	1.01

Source: Plover Bay, Bloomberg, UOB Kay Hian

BUY (Maintained)	
Share Price	HK$7.01
Target Price	HK$9.86
Upside	40.6%
Previous TP	HK$9.77

Analyst(s)

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Stock Data

GICS sector	Information Technology
Bloomberg ticker	1523 HK
Shares issued (m)	1,106
Market cap (HK$m)	7,755
Market cap (US$m)	994
3-mth avg daily t'over (US$m)	1.4

Price Performance (%)

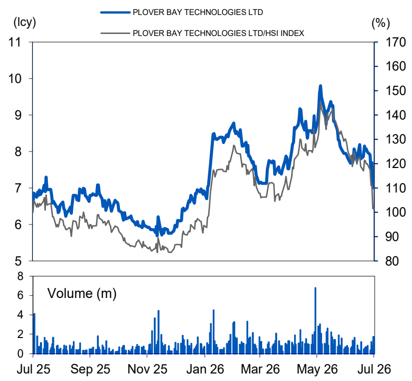
52-week high/low				HK$9.85HK$5.66
1mth	3mth	6mth	1yr	YTD
(11.8)	(6.9)	1.2	9.6	18.0

Major Shareholders	**%**
Chan Wing Hong Alex	68.9%

Balance Sheet Metrics

FY26 NAV/Share (US$)	0.06
FY26 Net Debt/Share (US$)	(0.05)

Price Chart



Source: Bloomberg

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.

- **Robust subscription growth.** Recurring revenue grew 24.7% yoy to US$22.1m, representing 29.6% of sales, vs 28.1% in 1H25. Gross profit contribution from software licenses and warranty and support services reached 49.7% in 1H26, vs 49.4% in 1H25. Contract liabilities grew 10.5% hoh from Dec 25 to US$42.6m.
- **80% interim dividend payout.** DPS was 15.66 HK cents and interim dividend payout ratio was 80.1%, in line with its historical level in 2023-25.
- **Subscription take-up rate continued to improve.** Subscription take-up rate increased to 41.4% in Jun 26 from 38.6% in Dec 25, backed by a 25.9% yoy rise in the number of devices under a subscription. The company will continue to upgrade its software features to improve its subscription take-up rate.
- **Launching multi-satellite connectivity products.** Plover Bay launched the new Peplink Max Orbit series in early-Jun 26 that integrates multiple low-earth orbit (LEO) satellite connections, including Starlink, OneWeb and Iridium. The new MAX Orbit series also embeds new SpeedFusion Boost features which can keep enterprise throughput steady through satellite handovers, obstructions, and adverse weather. Management is optimistic about the outlook for the Max Orbit series.
- **Physical AI as an emerging growth driver.** Peplink routers are deployed in physical AI across established markets, such as a mega infrastructure of over 300 construction sites, semi-autonomous vessels and AI-assisted pool safety. Management sees growing demand from physical AI (such as autonomous and tele-operated systems) that require reliable connectivity for operations and sees physical AI as an emerging growth driver.
- **2H26 outlook.** Management sees strong product pipeline and growth momentum in North America and Europe. We see limited impact of rising memory costs on its gross margin, backed by: a) rising deployment of its higher-margin high-end products, b) its price adjustment that has yet to be reflected in 1H26, and c) growing recurring revenue.

Earnings Revision

- We keep our 2026-28 revenue forecasts largely unchanged and raise 2026-28 net profit forecasts by 1%/1%/1% respectively to factor in higher gross margin.

Valuation/Recommendation

- **Maintain BUY and raise target price to HK$9.86,** based on 10-year DCF model, assuming a 9.9% WACC and 2% terminal growth rate. The current price implies 17.8x 2026F PE, which is 1SD above its historical mean of 13.6x, and a 5.4%/6.2%/7.3% dividend yield in 2026-28 respectively, assuming a payout ratio of 95%.

Profit & Loss

Year to 31 Dec (US$m)	2025	2026F	2027F	2028F
Net turnover	130	153	177	204
EBITDA	55	66	77	89
Deprec. & amort.	(3)	(2)	(2)	(2)
EBIT	52	64	75	87
Total other non-operating income	1	1	2	2
Net interest income/(expense)	1	1	1	1
Pre-tax profit	54	67	78	91
Tax	(9)	(11)	(13)	(15)
Minorities	-	-	-	-
Net profit	45	56	65	76
Net profit (adj.)	45	56	65	76

Balance Sheet

Year to 31 Dec (US$m)	2025	2026F	2027F	2028F
Fixed assets	3	3	2	2
Other LT assets	2	2	3	3
Cash/ST investment	56	61	69	79
Other current assets	57	65	73	81
Total assets	118	131	147	165
ST debt	1	7	7	7
Other current liabilities	45	48	56	64
LT debt	1	1	1	1
Other LT liabilities	11	13	13	13
Shareholders' equity	59	62	71	81
Minority interest	0	0	0	0
Total liabilities & equity	118	131	147	165

Cash Flow

Year to 31 Dec (US$m)	2025	2026F	2027F	2028F
Operating	52	54	68	78
Pre-tax profit	54	67	78	91
Tax	(9)	(11)	(13)	(15)
Deprec. & amort.	3	2	2	2
Working capital changes	(2)	(4)	0	(0)
Other operating cashflows	6	0	0	0
Investing	(8)	(2)	(2)	(2)
Capex (growth)	(1)	(2)	(2)	(2)
Others	(7)	-	-	-
Financing	(54)	(48)	(58)	(67)
Dividend payments	(44)	(53)	(57)	(66)
Issue of shares	1	-	-	-
Proceeds from borrowings	-	6	-	-
Loan repayment	(9)	-	-	-
Others/interest paid	(2)	(1)	(1)	(1)
Net cash inflow (outflow)	(10)	4	9	9
Beginning cash & cash equivalent	66	56	61	69
Changes due to forex impact	0	-	-	-
Ending cash & cash equivalent	56	61	69	79

Key Metrics

Year to 31 Dec (%)	2025	2026F	2027F	2028F
Profitability				
Gross margin	57.0	58.2	58.4	58.5
Pre-tax margin	40.0	41.8	42.3	42.8
Net margin	34.9	36.5	36.8	37.3
ROE	78.9	92.3	98.2	100.5
ROA	39.8	44.8	46.8	48.6
Growth				
Turnover	11.4	17.4	15.7	15.2
Gross profit	15.5	19.9	16.1	15.3
Pre-tax profit	19.9	22.7	16.7	16.6
Net profit	19.5	22.7	16.7	16.6
EPS	19.3	22.4	16.7	16.6
Leverage				
Debt to total capital	1.7	5.9	5.1	4.5
Debt to equity	3.3	12.4	10.7	9.2
Net debt/(cash) to equity	(92.1)	(85.3)	(87.5)	(88.6)
Interest cover	202.4	329.7	245.0	290.4