FLASH NOTE

6 November 2018

Bestway Global | 3358.HK

Strong orders to support FY19E results

Fundamental

Strong peak season sales order to support FY19E performance

■ Bestway recently announced that the Company recorded 20-25% yoy total sales order growth during its 2019 Sales Year Q2 (Aug-Oct 2018), versus 15-20% for 2019 Sales Year Q1 (May-Jul 2018). Bestway has ~6 months of order lead time, hence Sales Year Q2 is generally the peak season of the Company (products to be delivered during spring-summer season of Europe and North America). Thus we expect Bestway to achieve or even beat FY19E sales forecast of Bloomberg consensus at US\$1.0bn.

Management is confident to maintain stable margin even if US government impose additional tariff

■ Regarding the US-China trade conflict, the tariff announced by US government so far only applicable to <2% of the Company's sales in North America. Management stated that given the top 2 players (Intex and Bestway) are both based in China, which together already accounted for ~75% market share in North America, while most other small brands also source their products from Chinese OEMs, it is expected that even if US government impose additional tariff, Bestway can pass through most, if not all, costs to retailers and end customers. Besides, North America market only accounted for 27-29% of total sales during FY16-18E.

✓ Vietnam plant to contribute one-third capacity in medium term

Bestway also commenced establishing a new production base in Vietnam, of which phase one would be completed in FY19E, with CAPEX of US\$10mn and design capacity of ~US\$50mn annual sales. The Company expect Vietnam base to contribute one-third of capacity within five years.

Catalyst

✓ FY18 results; easing of US-China trade conflict

Valuation

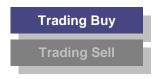
Brand value and growth outlook under-appreciated; Trading BUY

Management guided for US\$30-40mn CAPEX for FY19E, versus US\$75-80mn in FY18E. Since Bestway's medium term expansion plan would mainly focus in Vietnam, which would enjoy relatively low land costs, management reiterate that Bestway would consider raising payout ratio in FY19E (30% for FY18E). Trading at 7.2X / 5.8X FY18/19E PER according to our estimation, we view that Bestway's established position as a leading brand globally in a niche market is under-appreciated by the market.

| USD mn (YE Dec) | FY15A | FY16A | FY17A | FY18E | FY19E |
|--------------------------|-------|-------|-------|-------|-------|
| Revenue | 514 | 585 | 723 | 886 | 1.067 |
| Operating profit | 22 | 56 | 58 | 69 | 93 |
| Net profit | 16 | 43 | 47 | 63 | 78 |
| PE (x) | N/A | N/A | 9.5 | 7.2 | 5.8 |
| Sources: Bloomberg, CIRL | | | | | |



Short Term (6 Months)



Current Price: HK\$3.34 Target price: HK\$4.40

Upside: 32%

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Trading data

| 52-Week Range (HK\$) | 2.88/4.85 |
|-------------------------|----------------|
| 3 Mth Avg Daily Vol (m) | 0.9 |
| No of Shares (m) | 1.058 |
| Market Cap (HK\$m) | 3,535 |
| Major Shareholders (%) | Mr. Zhu Family |
| | (54.4%) |

(54.4%) Mr. Bogdan Nowak

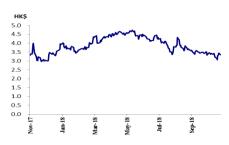
(13.5%) PWC

Auditors PWC Result Due FY18: Mar 19

Company description

Founded in Shanghai in 1994 and listed in Hong Kong in 2017, Bestway design, develop, manufacture and sell an extensive range of inflatable outdoor leisure products, (including above-ground pools and portable spas, recreation products, sporting goods and camping products) primarily under its self-owned brands. Bestway is the second largest player in the global inflatable outdoor leisure products market, with >30% market share in terms of retail sales in 2016.

Price chart



Source: Bloomberg



| Exhibit 1: Income statement | | | | | |
|-----------------------------|---------|---------|---------|---------|---------|
| Year to Dec (USD mn) | FY15A | FY16A | FY17A | FY18E | FY19E |
| Revenue | | | | | |
| - Europe | 259.4 | 310.4 | 346.4 | 427.8 | 512.3 |
| - North America | 124.3 | 161.2 | 205.4 | 251.6 | 298.7 |
| - The PRC | 7.7 | 9.4 | 19.7 | 34.5 | 56.9 |
| - Others | 122.2 | 103.5 | 151.1 | 172.3 | 198.8 |
| | 513.5 | 584.5 | 722.5 | 886.2 | 1,066.7 |
| COGS | (401.5) | (420.0) | (539.8) | (663.8) | (789.4) |
| Gross pofit | 112.0 | 164.5 | 182.8 | 222.4 | 277.3 |
| SG&A | (89.8) | (109.3) | (129.4) | (153.3) | (184.5) |
| Other income | 5.4 | 2.1 | 16.8 | 13.0 | 15.6 |
| Operating profit | 27.7 | 57.3 | 70.2 | 82.1 | 108.5 |
| Other gains and losses | 0.9 | 4.7 | (6.2) | 7.0 | 0.0 |
| Net finance costs | (6.7) | (4.9) | (3.7) | (7.0) | (6.0) |
| Income tax expenses | (6.7) | (14.0) | (12.7) | (17.2) | (21.5) |
| Non controlling interests | 1.3 | 0.3 | (0.1) | (2.0) | (2.5) |
| Net profit | 16.5 | 43.3 | 47.5 | 62.9 | 78.4 |

Source: The Company, CIRL

| Exhibit 2: Balance sheet | | | | | |
|-------------------------------|--------|--------|--------|--------|---------|
| Year to Dec (USD mn) | FY15A | FY16A | FY17A | 1H17A | 1H18A |
| Cash & equiv | 32.2 | 26.1 | 114.5 | 89.8 | 80.0 |
| Inventories | 189.3 | 162.4 | 251.0 | 141.0 | 214.2 |
| Trade receivables | 70.5 | 94.6 | 139.6 | 118.9 | 191.6 |
| Other current assets | 31.9 | 19.0 | 38.2 | 17.8 | 55.5 |
| Fixed assets | 126.7 | 139.4 | 223.8 | 180.0 | 247.5 |
| Land use rights | 14.9 | 15.7 | 25.3 | 21.8 | 37.9 |
| Other non current assets | 7.2 | 5.8 | 19.2 | 4.6 | 9.6 |
| Total assets | 472.6 | 463.0 | 811.5 | 573.9 | 836.3 |
| Short-term borrowings | 131.5 | 94.6 | 157.8 | 136.4 | 194.0 |
| Trade payables | 96.0 | 90.4 | 154.7 | 97.3 | 132.2 |
| Other payables | 44.3 | 52.4 | 71.3 | 73.3 | 56.0 |
| Other current liabilities | 16.6 | 19.5 | 16.4 | 17.7 | 25.3 |
| Long-term borrowings | 0.0 | 0.1 | 0.0 | 0.1 | 0.0 |
| Other non current liabilities | 4.6 | 2.1 | 11.4 | 4.9 | 11.9 |
| Total liabilities | 293.1 | 259.1 | 411.6 | 329.7 | 419.4 |
| Shareholders' equity | 179.8 | 204.5 | 400.7 | 245.5 | 417.0 |
| Minorities | (0.3) | (0.6) | (0.8) | (1.3) | (0.1) |
| Total equity | 179.5 | 203.9 | 399.9 | 244.2 | 416.9 |
| Net cash (debt) | (99.4) | (68.5) | (43.4) | (46.7) | (114.0) |

Source: The Company



| Exhibit 3: Peers comparison | | | | | | | | | |
|-----------------------------|---------|----------|-------|-------|-------|-------|-------|----------|-------------|
| | Ticker | Mkt cap | Price | P/E | E(x) | P/E | 3(x) | Dividend | l yield (%) |
| | | (HKD mn) | (HKD) | FY18E | FY19E | FY18E | FY19E | FY18E | FY19E |
| TECHTRONIC IND | 669 HK | 76,009 | 41.50 | 17.2 | 14.8 | 3.2 | 2.8 | 2.0 | 2.4 |
| MAN WAH HOLDINGS | 1999 HK | 14,873 | 3.88 | 9.6 | 7.9 | 2.5 | 2.2 | 6.4 | 7.4 |
| VTECH HLDGS LTD | 303 HK | 22,843 | 90.80 | 14.2 | 13.8 | 4.5 | 4.4 | 6.9 | 7.3 |
| GOODBABY INTERNA | 1086 HK | 4,487 | 2.69 | 11.1 | 8.6 | 0.8 | 0.8 | 2.4 | 3.0 |
| Average | | | | 13.0 | 11.3 | 2.7 | 2.5 | 4.4 | 5.0 |
| BESTWAY GLOBAL | 3358 HK | 3,535 | 3.34 | 7.2 | 5.8 | 1.0 | 0.9 | 4.2 | 5.2 |

Source: Bloomberg, CIRL



Rating Policy

| | Rating | Definition |
|---------------|------------|-------------------------------|
| | Buy | Outperform HSI by 15% |
| Stock Rating | Neutral | Between -15% ~ 15% of the HSI |
| | Sell | Underperform HSI by -15% |
| Sector Rating | Accumulate | Outperform HSI by 10% |
| | Neutral | Between -10% ~ 10% of the HSI |
| | Reduce | Underperform HSI by -10% |

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Analyst Certification

I, Lewis Pang hereby certify that all of the views expressed in this report accurately reflect my personal views about the subject company or companies and its or their securities. I also certify that no part of my compensation was / were, is / are or will be directly or indirectly, related to the specific recommendations or views expressed in this report / note.

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