

## 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)

Trading Buy

Trading Sell

**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%) Mr. Bogdan Nowak (13.5%)
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
<b>Revenue</b>					
- 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
	<b>513.5</b>	<b>584.5</b>	<b>722.5</b>	<b>886.2</b>	<b>1,066.7</b>
COGS	(401.5)	(420.0)	(539.8)	(663.8)	(789.4)
<b>Gross profit</b>	<b>112.0</b>	<b>164.5</b>	<b>182.8</b>	<b>222.4</b>	<b>277.3</b>
SG&A	(89.8)	(109.3)	(129.4)	(153.3)	(184.5)
Other income	5.4	2.1	16.8	13.0	15.6
<b>Operating profit</b>	<b>27.7</b>	<b>57.3</b>	<b>70.2</b>	<b>82.1</b>	<b>108.5</b>
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)
<b>Net profit</b>	<b>16.5</b>	<b>43.3</b>	<b>47.5</b>	<b>62.9</b>	<b>78.4</b>

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
<b>Total assets</b>	<b>472.6</b>	<b>463.0</b>	<b>811.5</b>	<b>573.9</b>	<b>836.3</b>
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
<b>Total liabilities</b>	<b>293.1</b>	<b>259.1</b>	<b>411.6</b>	<b>329.7</b>	<b>419.4</b>
Shareholders' equity	179.8	204.5	400.7	245.5	417.0
Minorities	(0.3)	(0.6)	(0.8)	(1.3)	(0.1)
<b>Total equity</b>	<b>179.5</b>	<b>203.9</b>	<b>399.9</b>	<b>244.2</b>	<b>416.9</b>
<b>Net cash (debt)</b>	<b>(99.4)</b>	<b>(68.5)</b>	<b>(43.4)</b>	<b>(46.7)</b>	<b>(114.0)</b>

Source: The Company

**Exhibit 3: Peers comparison**

	Ticker	Mkt cap (HKD mn)	Price (HKD)	P/E(x)		P/B(x)		Dividend yield (%)	
				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
<b>Average</b>				<b>13.0</b>	<b>11.3</b>	<b>2.7</b>	<b>2.5</b>	<b>4.4</b>	<b>5.0</b>
<b>BESTWAY GLOBAL</b>	<b>3358 HK</b>	<b>3,535</b>	<b>3.34</b>	<b>7.2</b>	<b>5.8</b>	<b>1.0</b>	<b>0.9</b>	<b>4.2</b>	<b>5.2</b>

Source: Bloomberg, CIRC

## Rating Policy

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

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## Analyst Certification

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