

Bestway Global (3358 HK)

The innovator in the outdoor and water leisure space

- ❖ **Bestway is a global leader in outdoor and water leisure products.** Bestway has 2.3% shares in the global water leisure market in terms of retail sales value in 2016, ranked No. 3 in the world, and over 30% shares in the inflatable outdoor leisure product category in 2016, according to Frost & Sullivan. Major products are 1) Above-ground Pools and Portable Spas, 2) Inflatable Recreation Products and Sporting Goods like water slides, floating island and stand-up paddles, lastly 3) Camping Products such as air beds and tents. The Company not only manufactures them in factories located in Shanghai, Nantong, and Yancheng, but also markets and sells those under a portfolio of brands (Bestway, Lay-Z-Spa, H2OGO!, CoolerZ, HYDRO FORCE, etc). Bestway has a long relationship with many sizable retailers in the world, says, Auchan, Carrefour, Tesco, Aldi, Metro, Target etc.
- ❖ **Key positives and growth drivers:** 1) penetrate into new industries, where inflatables to replace traditional products (such as Lay-Z-Spa, stand up paddle and airbed etc), 2) inflatables to benefit from the rising social media-driven, experienced-based outdoor activities demand, 3) strong R&D, innovative and reliable products to drive market shares gains, 4) vertically integrated business model with self-owned brand, 5) China story, ride on the rapid E-commerce growth, 6) capacity expansions thanks to the robust orders of new products.
- ❖ **Key risks and concerns:** 1) currency and commodity risks, 2) ramp up, expansion, high capex requirement risk, 3) rise in competition, potential new entrants, 4) over sell in, channel stuffing risk, 5) risk of counterfeit products, and 6) legal affairs.
- ❖ **We foresee an 18.5% sales CAGR and 24.4% net profit CAGR in FY17E-19E.** Growth is propelled by: 1) rapid North America expansion, 20.3% sales CAGR, as it is less developed, equated to only 52% of sales to EU in FY16, 2) 97.9% sales CAGR in China, mostly through the online channel, 3) 26.9%/ 22.5% sales CAGR from sporting goods/ camping products, supported by the hot-selling items (e.g. Stand-up Paddles), and new products (e.g. "AlwaysAire™" airbeds, and others to be launched, says, constant-air inflatable play centers in 2018), 4) about 0.3ppt per year GP margin expansions from better product mix (if no raw material/ currency headwind), plus 5) operating leverage from successful ramp-up of new capacity.
- ❖ **Initiate BUY with TP of HK\$4.65.** We initiate BUY on Bestway Global, with a TP of HK\$ 4.65, based on a 10x FY18E PE, implying a 38.3% upside. The Company currently trades at only 7x FY18E PE, highly undervalued comparing to other 5 leading Chinese exporters with self-owned brands (average at 15.5x), especially when we take into account of 24.4% net profit CAGR during FY17E-19E, deducting a 1.1x FY18E PB, and a 0.38x FY17E-19E PEG, Valuation cross checked with DCF model is at HK\$4.76, using a 12.5% WACC, and 1% of terminal growth.

Earning Table

(YE Dec 31)	FY15A	FY16A	FY17E	FY18E	FY19E
Revenue (US\$ mn)	513.5	584.5	721.5	845.6	972.3
Net income (US\$ mn)	15.2	43.0	49.5	63.8	82.8
EPS (US\$)	-	0.0406	0.0468	0.0603	0.0782
EPS CHG (%)	-	-	15.1	28.9	29.7
PE (x)	-	10.6	9.3	7.2	5.6
PB (x)	-	2.2	1.2	1.0	0.9
Yield (%)	-	0.1	3.2	4.1	5.4
ROE (%)	8.6	22.4	16.9	15.5	17.2
Net gearing (%)	57.6	36.8	2.0	Net Cash	Net Cash
Current ratio (x)	1.1	1.2	1.5	1.8	1.9

Source: Company data, CMBIS estimates

BUY (Initiation)

Target Price	HK\$4.65
Up/downside	+38.3%
Current Price	HK\$3.36

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China Export Industry

Mkt. Cap. (HK\$mnn)	3,556
Avg. 3mths t/o (HK\$mnn)	10.23
52W High/Low (HK\$)	4.23/2.88
Total Issued Shares (mn)	1,068.4

Source: Bloomberg

Shareholding Structure

Mr Zhu Qiang and family	54.97%
Mr. Bogdan Nowak	13.50%
Employee Scheme	5.40%
Mr. Patrizio	1.13%
Free Float	25.00%

Source: Bloomberg

Share performance

	Absolute	Relative
1-mth	1.9%	-3.0%
3-mth	-	-
6-mth	-	-

Source: Bloomberg

12-mth price performance



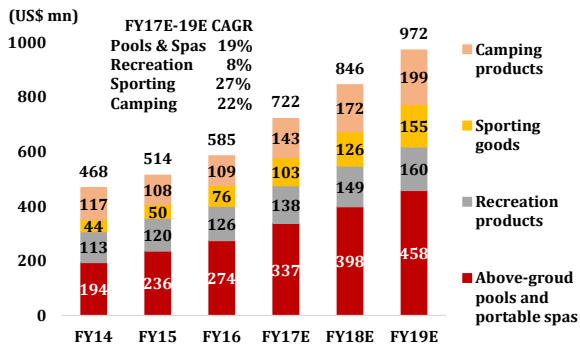
Source: Bloomberg

Auditor: PriceWaterHouseCoopers

Web-site: www.bestwaycorp.com

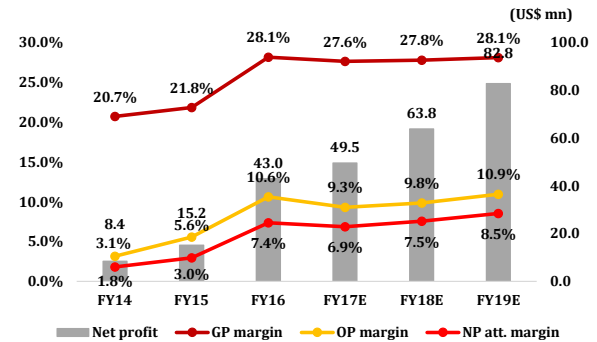
Focus charts and tables

Figure 1: Sales by product segment



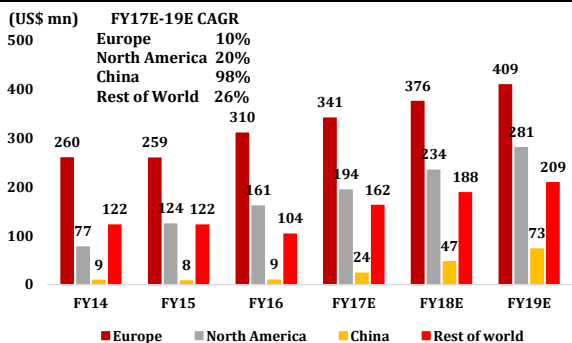
Source: Company data, CMBIS estimates

Figure 2: Net profits and margins







Source: Company data, CMBIS estimates

Figure 3: US sales will grow fast, catching up EU sales



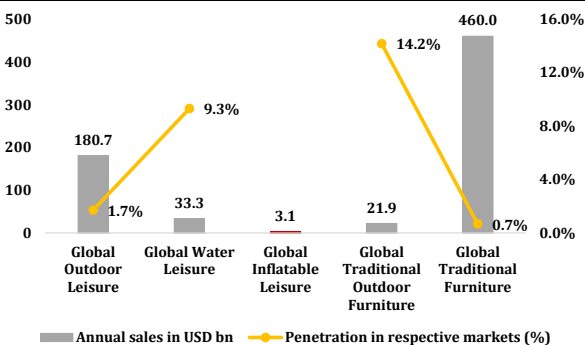
Source: Company data, CMBIS estimates

Figure 4: Categories, brands and hot selling products

Categories	Portable spas	Water slides	Rafting tubes and Floating island	Inflatable stand up paddle board
Full Names	SaluSpa Miami AirJet Inflatable Hot Tub	Go Triple Slider Kids Outdoor 3-Person Water Slide with Splash Lagoon for Big-Splash- Take-Off, Orange	CoolerZ Tropical Breeze Inflatable Floating Island	HydroForce White Cap Inflatable Stand Up Paddleboard SUP and Kayak 10'
Brands	Lay-Z-Spa	H2O go!	Cooler Z Tropical Breeze	HYDRO-FORCE
Images				
Number of users	4	3	7	1
Price (In USD)	369	59	183	329
Year Launched	2005	2013	2014	2013
Sales CAGR in FY14-16	86%	112%	302%	68%
As % of total sales	9.80%	1.80%	3.70%	1.40%

Source: Company data, Amazon, walmart.com, CMBIS estimates

Figure 5: Inflatables have huge room to penetrate



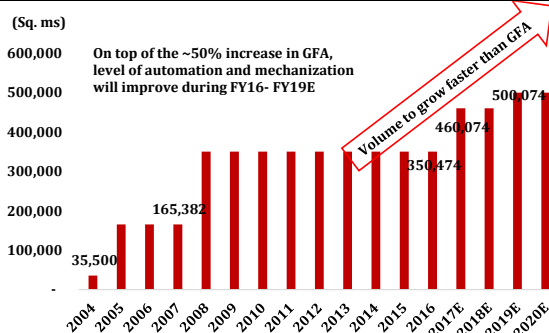
Source: Frost & Sullivan Report, CSIL, GIA, CMBIS estimates

Figure 6: Industry Awards and Recognitions

Awards and Recognitions	Year	Issuing Authority
High Standard & Quality Awards	2013	Metro Germany
Exceptional Performance for Price/Value Award	2015	A leading global retailer in US
One of the four nominees for its "Supplier of the Year" award	2016	A leading global retailer in US
Gold Award for Best Auchan Retail Supplier	2016	Groupe Auchan France
Best Supplier for Compliance	2016	Groupe Auchan France
LAY-Z-SPA brand was awarded the Gold Standard	2016	UK Pool & Spa Awards
LAY-Z-SPA Paris series was awarded the Product of the Year	2016	UK Pool & Spa Awards

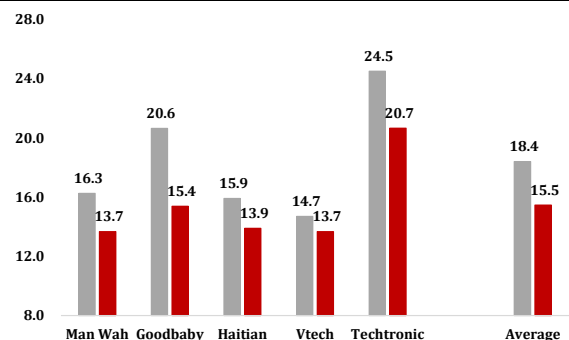
Source: Company data, CMBIS

Figure 7: Manufacturing facility GFA by fiscal years



Source: Company data, CMBIS estimates

Figure 8: PE by Peers, 1 and 2 years forward



Source: Company data, CMBIS estimates

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Executive summary

Industry overview

The global inflatable product industry is a relatively small segment, with an annual sales of about US\$ 3.1 bn, whereas the size of Outdoor leisure is at US\$ 180.7 bn (58x larger), Water Leisure is at US\$ 33.3 bn (11x larger), in 2016, according to Frost & Sullivan, with the advancement of technology, we expect inflatable products to gradually penetrate into and replace traditional markets and products. Referencing to the Centre for Industrial Studies (CSIL), and Global Industry Analysts (GIA), market size of global traditional furniture are also at about US\$ 460.0 bn (129x larger) and outdoor furniture at around US\$ 22.5 bn (7x larger), hence suggesting significant room for growth in the future. Inflatable product market is going to deliver a CAGR of 11.2% in 2016-2021E, thanks to 1) replacement and 2) entertainment-led demand.

Company background

Bestway is the third largest global player in the water leisure products market with 2.3% shares in 2016, as well as the second largest player in the world, in the inflatable outdoor product category, with over 30% of market shares, according to Frost & Sullivan. Major products it sells are 1) Above-Ground Pools and Portable Spas, 2) Inflatable water toys like Water slides, Rafting tubes and Stand-up paddles, as well as 3) Camping products such as Air furniture and Tents. Bestway not only manufactures the products in its factories in Shanghai, Yancheng, and Nantong, but also markets and sells those under a portfolio of brands (such as Bestway, Lay-Z-Spa, H2OGO!, CoolerZ, HYDRO FORCE etc), about 75% of sales is from self-owned brands, while the remaining are from private label and co-branded products. Bestway has a long relationship with at least 20 of the top 50 biggest retailers in the world, says, Auchan, Carrefour, Tesco, Metro, Target etc.

Key positives and growth drivers :

1) Penetrating into new industries, as inflatables replace traditional products (such as Lay-Z-Spa, stand up paddle and air bed etc), thanks to its cheaper price, greater mobility, and smaller space requirement, obvious markets for expansions are the global leisure (outdoor/water) sector, as well as the global furniture (indoor/outdoor) industry. Iconic products produced by the Company are (i) Lay-Z-Spa Portable Spa, (ii) Rafting tubes and floating islands used Inflata-Shield™ materials, (iii) Stand-up paddle boards, and (iv) Airbeds equipped with “AlwaysAire™” technology, etc,

2) Inflatables to benefit from the rising social media-driven, experienced-based outdoor activities demand, the inflatable toys, is certainly affordable for many, and due to the improvement in manufacturing capability, can now also be in more sophisticated and cuter shapes, together with its magnificent size, they are meant to become the popular props for social medias (Instagram, Twitter, and etc.), Hot tub Cinema set a very good example, and they are using Bestway’s products, we believe recreational products, and sporting goods the Company engaged in will inevitably benefit from the rising social media driven, experience-based, and outdoor activities demand,

3) Strong R&D, innovative and reliable products to drive market shares gains, we believe the Company’s products have exceptional differentiation from its competitors, by the virtue of (i) self-development of polymer films, which includes a “Tritech™” polymer-based composite materials, manufactured with a proprietary formula and mix of additives and imported PVC

resins, and plasticizers, as well as (ii) various originally structural and patented mechanical design of products (e.g. AlwayszAire™, HydroJet™, ClearSoft™, etc), which are proven by both industry recognition (Lay-Z-Spa brand been awarded the gold standard by the UK Pool and Spa in 2016, Bestway as a supplier, was named “Best supplier for Compliance for 2016” by Group Auchan and being one of the 4 nominees for “Supplier of the year for Omni Channel 2016” of Walmart), and rapid sales growth (hot selling items like the Lay-Z-Spa, H2OGO!, CoolerZ and HYDRO FORCE has been growing fast) and these have assisted Bestway significantly to gain more market shares, The Company have 84 registered patents as at Aug17, and also in the process of applying 106 more,

4) Vertically integrated business model with self-owned brand, Bestway engages in manufacturing, brand marketing and sales, as well as aftersales services in a global basis, this is effective in terms of maximizing growth, profitability and operation efficiency, therefore able to enjoy the rising value of brand equity, and greater bargaining power in ASP increases (vs typical ODM),

5) China story, ride on the rising sports participation and online channel penetration, as long as Bestway produce and sell product with a lower price, which fit the E-commerce channel, its growth should well be promising,

6) Capacity expansion, the Company is now expanding its production capacity in Nantong and Yancheng, with new factories, machineries, as well as conventional and automated warehouses coming, therefore the manufacturing GFA, in our view, is estimated to increase by roughly 50% by FY19E, from the level in FY16, and on top of that, and greater degrees of automation and mechanization may drive further improvements in efficiency, and hence delivering a faster growth in production volume.

Key risks and concerns :

1) Currency and commodity risk : Raw materials and consumables accounted for 76.9% of total COGS or 55.2% of total sales in FY16, while PVC resins and plasticizers are the major ones, if there is significant change in those prices, the Company may not be able to pass on fully the costs to customers, and may have to bare some margin losses. Most of the sales for the Company are denominated in US\$, while most of its operating costs are in Rmb, therefore, without considering any hedging activities, a depreciation in Rmb is favourable, vice versa. The Company had entered into some forward FX contracts to hedge its currency exposure, and generated US\$ 0.1/2.6/ 1.1 mn losses in FY14/15/16,

2) Ramp up, expansion, high capex requirement risk : If sales growth, and orders from customer do not meet the original expectation, newly created capacity may face a period of under-utilization and high depreciation, and will result in margins reduction,

3) Rise in competition, potential new entrants : Profitability has surged following the sharp drop in oil price in 2014, which may attract new competitors into the market, drive up competition, affecting the ASP and eventually hurt the margins,

4) Over sell in, channel stuffing risk : Selling into to the distributors but not selling through to the end consumers may result in inventory pile up in the channel, and may eventually trigger a large amount of provision for receivables,

5) Risk of counterfeit products : There are risks that the Company’s product are imitated by copy cats, any counterfeiting of its products or other breaches of its intellectual property rights could negatively affect its reputation and brand name, when those counterfeits are of poor

quality, and selling at a discounted price, could lead to loss of consumer confidence in the brands, and adversely affect the sales revenue,

6) Legal affairs : Bestway is involved in a few court case relating to their competitor INTEX, despite the fact that Company believe its potential impacts on sales and earnings are minimal, the actual implications will depend ultimately on the decree of the court.

Financial analysis

We foresee a 18.5% sales CAGR, and a 24.4% net profit CAGR in FY17E-19E for Bestway, largely driven by 1) rapid North America expansion, 20.3% sales CAGR, as it is less developed, equated to only 52% of sales to EU in FY16, 2) 97.9% sales CAGR in China, mostly through the online channel, 3) 26.9%/ 22.5% sales CAGR from sporting goods/ camping products, supported by the hot-selling items (e.g. Stand-up Paddles), and new products (e.g. "AlwaysAire™" airbeds, and others to be launch, says, constant-air inflatable play centers in 2018), 4) about 0.3ppt per year GP margin improvements from better product mix (assuming there exist no raw material costs/ currency headwind), as well as 5) operating leverage from successful ramp-up of new capacity.

Valuation

In our view, given Bestway's 1) rapid growth profile (18.5%/24.4% sales/net profit CAGR in the next 3 years, FY17E-19E, 2) market leading position (still gaining market shares in a growing sector), 3) brand + ODM model (has more say on passing on costs to customers), it should deserve a at least comparable PE in the Chinese exporters space, therefore, we initiate BUY on Bestway Global, with a TP of HK\$ 4.65, based on a 10x FY18E PE, implying an 38.3% upside (at about 35% discounts to peers' average). The Company currently trades at only 7x FY18E PE, highly undervalued comparing to other 5 leading Chinese exporters with self-owned brands (average at 15.5x), especially when we take into account of 24.4% net profit CAGR during FY17E-19E, deducing a 1.1x FY18E PB, and a 0.38x FY17E-19E PEG, Valuation cross checked with the DCF model is at HK\$ 4.76, using a 12.5% WACC, and 1% of terminal growth.

Industry overview

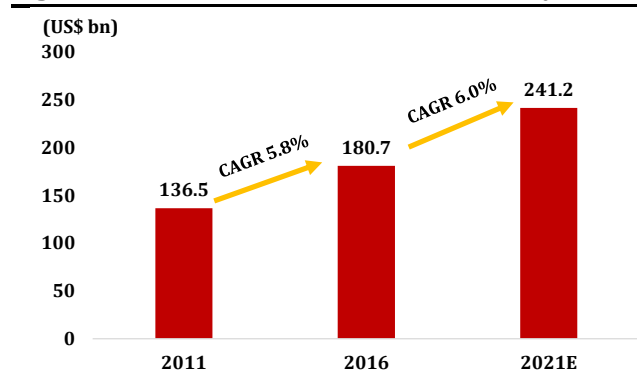
Global Outdoor (Water, Ground & Mountain, and Aerial activities) Leisure Product Industry

Outdoor product sales is expected to have a 6% CAGR in 2016-2021E. According to Frost & Sullivan, from 2011 to 2016, the global outdoor leisure products market expanded steadily at a CAGR of 5.8%, reaching US\$ 180 bn in terms of retail sales in 2016, and they are expecting the market size to grow at a similar CAGR of 6% in the next 5 years, from 2016 to 2021E, and reached US\$ 241 bn. We believe the demand on outdoor activities will continue to be driven by 1) rising lifestyle and living standard, 2) reduction of the costs of travelling (or become relatively more affordable), as well as 3) greater appetite to share on social medias platforms. We also think high end outdoor product brands to be immune to the rising competition from cheaper or non-branded products on the E-commerce websites, due to consumer needs on quality and reliance when it comes to products for outdoor activities.

Global Water Leisure Products Industry

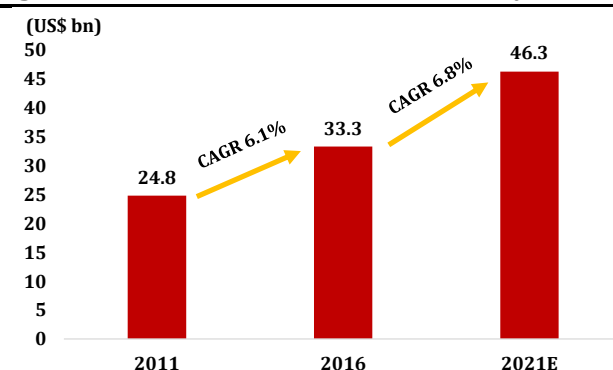
Water leisure product accounted for 18% of outdoor industry, and expect a 6.8% CAGR in 2016-2021E. The global water leisure product, including sports like boating, canoeing, swimming, kayaking, spas, surfing, etc. as a segment of the global outdoor industry, accounted for 18.4% of total market size in 2016, and generated US\$ 33 bn retail sales. Frost & Sullivan anticipates that this segment will experience a slightly faster CAGR, at 6.8% in the next 5 years, as its popularity grows, over other outdoor segments like ground or aerial, as a result of 1) rising accessibility (since the entry cost is relatively higher for water sports traditionally), 2) greater consumer desire of “to differ from the crowd”, and 3) technology advancement on water sports related equipment had brought more joy.

Figure 9: Size of the outdoor leisure industry



Source: Frost & Sullivan Report

Figure 10: Size of the water leisure industry

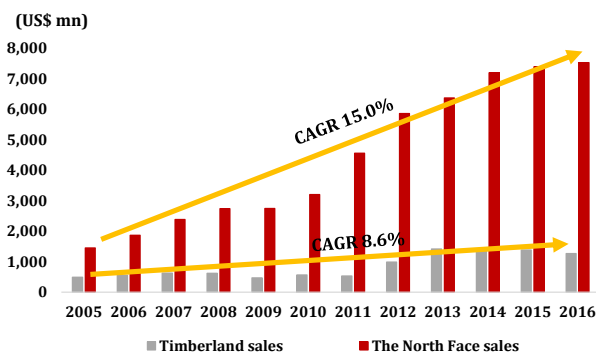


Source: Frost & Sullivan Report

Outdoor gears brands had delivered consistent growth in the past decades. Timberland and TheNorthFace, two global leading outdoor product brands, both owned by VF Corporation (VFC US), are producing outerwear, fleece, coats, shirts, footwear, and equipment such as backpacks, tents, and sleeping bags, to climbers, mountaineers, skiers, wakeboarders, hikers, and endurance athletes etc, had registered a 8.6% and 15.0% sales CAGR in the last years, from 2006 to 2016, suggesting the demand growth for quality outdoor products are relatively faster and consistent, in our view.

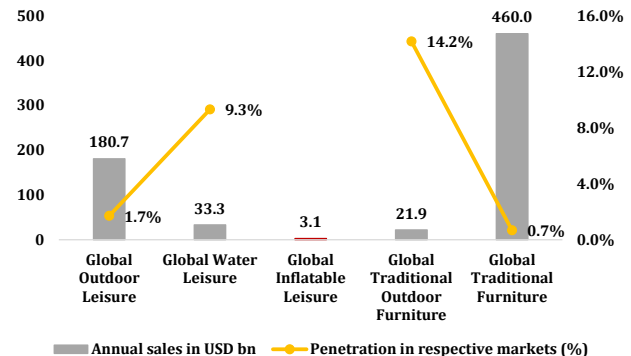
Ample room for inflatable products to grow or to penetrate, expansions into multiple industries. The global inflatable product industry is a relatively small segment, with an annual sales of about US\$ 3.1 bn, whereas the size of Outdoor leisure is at US\$ 180.7 bn (58x larger), Water Leisure is at USD 33.3 bn (11x larger), in 2016, according to Frost & Sullivan, with the advancement of technology, we expect inflatable products to gradually penetrate into and replace traditional markets and products. Referencing to the Centre for Industrial Studies (CSIL), and Global Industry Analysts (GIA), market size of global traditional furniture are also at about US\$ 460.0 bn (129x larger) and outdoor furniture at around US\$ 22.5 bn (7x larger), hence suggesting significant room for growth in the future. Inflatable product market is going to deliver a CAGR of 11.2% in 2016-2021E, thanks to 1) replacement and 2) entertainment-led demand.

Figure 11: The North Face/ Timberland see consistent sales growth in the past 10 years



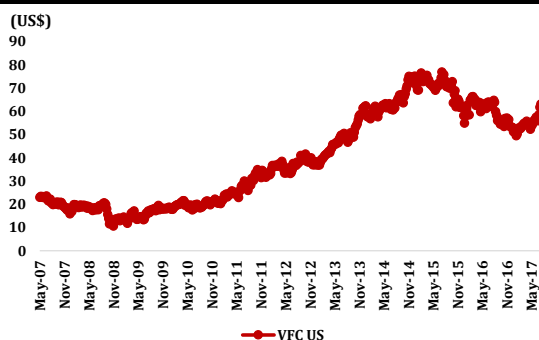
Source: Company data, CMBIS

Figure 12: Global Inflatables Outdoor is just a small fraction of the overall Outdoor and Furniture industry



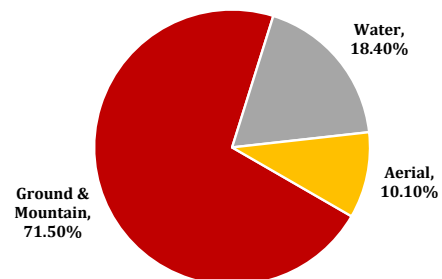
Source: Frost & Sullivan Report, Centre for Industrial Studies (CSIL), Global Industry Analysts (GIA), CMBIS estimates

Figure 13: Share prices of VF Corp for the last 10 years.



Source: Bloomberg, CMBIS

Figure 14: Outdoor market, by water, land, air, 2016

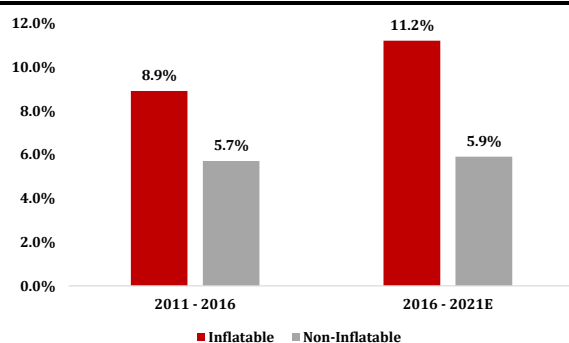


Source: Frost & Sullivan Report

Global Inflatable Products Industry

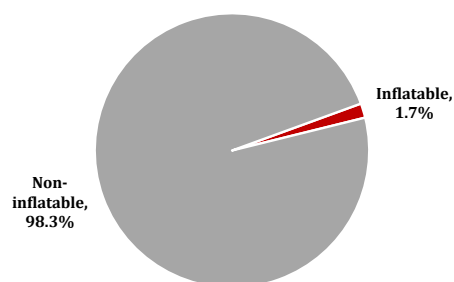
Inflatable products see a much more attractive CAGR of 11.2% in 2016-2021E, thanks to 1) replacement (replacing traditional outdoor leisure and furniture products) and 2) entertainment-led demand. The inflatable products, says airbeds, floatable products, bouncy castles, leisure boats, portable spas, play pools, as well as water slides, and more, are just a small fraction of the whole global outdoor leisure product industry, contributing merely 1.7% of total, producing a US\$ 3.1 bn retail sales in 2016, according to Frost & Sullivan. We agree with Frost & Sullivan's view that this kind of products is going to take more market shares from the non-inflatable products, hence generating a 11.2% sales CAGR growth in the next 5 years (speeding up from 8.9% in 2011 to 2016) while the drivers are 2 folds, **namely 1) replacement demands**, to replace the traditional items like outdoor and water gears and furniture, **2) entertainment-led demands**, more joy are being created out of the inflatable toys, due to its cheaper price, greater mobility and smaller space requirement, which allows more possibility to mix with other factors as well (e.g. technology, social media, existing sports, marketing).

Figure 15: CAGR by inflatable or Non – inflatable



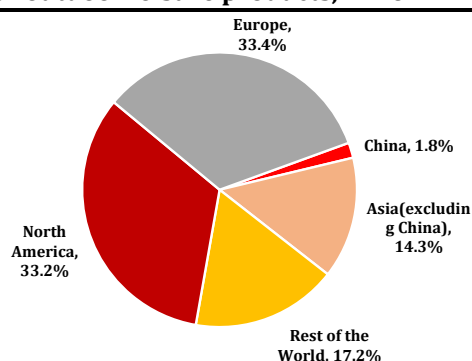
Source: Frost & Sullivan Report

Figure 16: Inflatable is only a small fraction of total



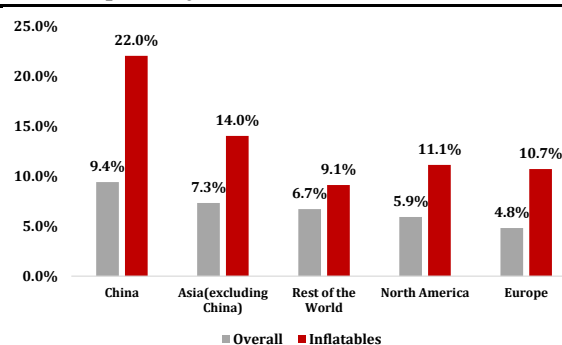
Source: Frost & Sullivan Report

Figure 17: North America and Europe are the primary market for outdoor leisure products, FY16



Source: Frost & Sullivan Report

Figure 18: Growth potential in China will soon to be realized, especially for the inflatables



Source: Frost & Sullivan Report












Company Background

Bestway is a global leader in water leisure and inflatable products, with a vertically integrated business model (Brands + Manufacturing). Bestway is the third largest global player in the water leisure market with a 2.3% market shares in 2016, as well as the second largest player in the inflatable outdoor product category, with over 30% of market shares, according to Frost & Sullivan. Major items it produce and sell are 1) Above-ground Pools and Portable Spas, 2) Inflatable Recreation Products and Sporting Goods like water slides, floating island and stand-up paddles, lastly 3) Camping Products such as air beds and tents. The Company not only manufactures them in factories located in Shanghai, Nantong, and Yancheng, but also market and sell those under a portfolio of brands, about 75% of sales are from self-owned brands, which the remaining are from private label and co-branded products. Bestway has a long relationship with at least 20% of the top biggest retailers in the world, says, Auchan, Carrefour, Tesco, Metro, Target, etc.

Bestway produces Above-Ground Pools, Portable Spas, Inflatables water toys and Camping related products. Bestway's products are separated into 4 major segments, namely 1) Above-Ground Pools and Portable Spas (47% of sales), 2) Recreational Products (21% of sales), 3) Sporting Goods (13% of sales), and lastly 4) Camping Goods (19% of sales). The best-selling brands and series in the **Above-Ground Pools and Portable Spas** space, includes "Fast Set", "Steel Pro", "Coleman", and "Lay-Z-Spa" **(47% of sales in FY16)**. While the ASP for this segment is the highest within the group, at about US\$ 24.8 (retail prices for pool/spa are at about US\$ 79-1,999/ 299-999), but since it requires a more sophisticated level of technology, like rust-resistant metal, more resilient, and tougher composite materials, as well as the water jets (generating bubbles for spas and massages), water filtration, and heating system, etc, the GP margin is lowest among all, at 25.1% in FY16, against 28.2% for the whole group.

The **Recreation Products** category includes product lines like "H2OGO!", "Bestway", product examples are play centres, play pools and water slides **(21% of sales in FY16)**, which all tend to be more child-oriented, and has the lowest ASP, at about US\$ 2.4 (retail prices are at about US\$ 5-60), this also includes many of the licensed collections, like the items painted with Disney's characters.

Figure 19: List of categories and products

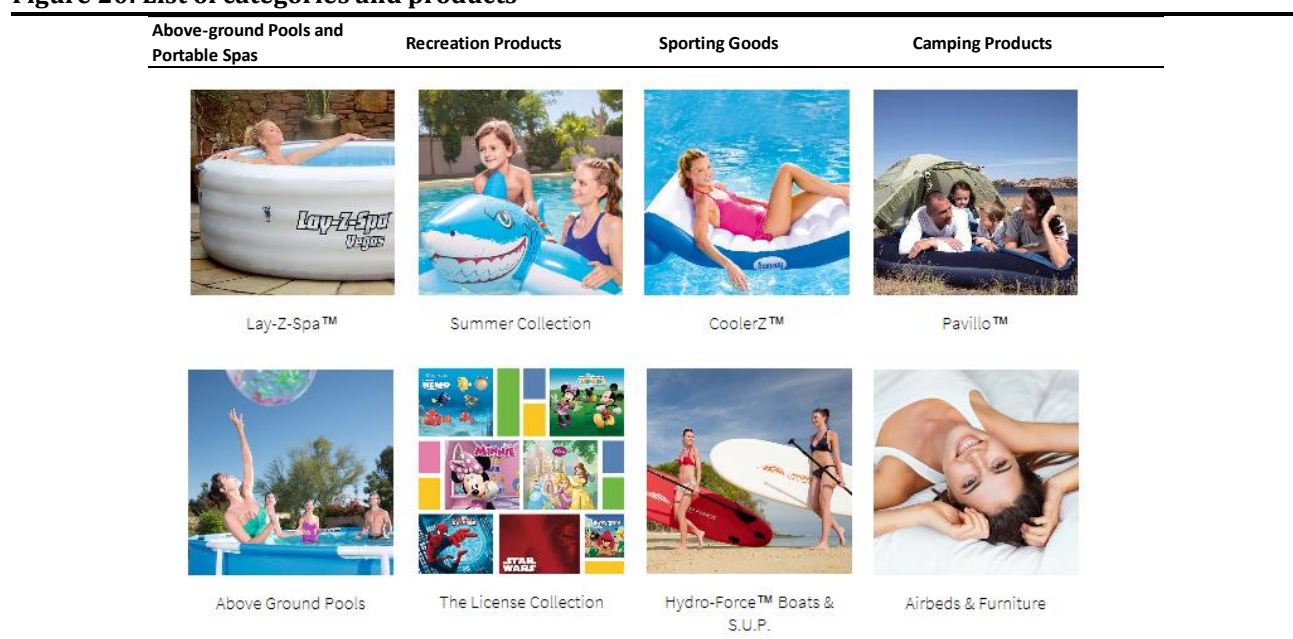
1 Above-ground Pools and Portable Spas	2 Recreation Products	3 Sporting Goods	4 Camping Products
  Power Steel™ Steel Pro™ MAX <hr/> Fast Set™ Steel Pro™ SoloSpa™ Hydrium™ HydroJet™ Lay-Z-Spa™	  	  <hr/> 	  <hr/> 
1. Above-ground metal pools 2. Above-ground inflatable ring pools 3. Accessories for above-ground pools 4. Portable spas and accessories	5. Recreation products	6. Rafting tubes and floating islands 7. Inflatable stand-up paddle boards 8. Sports and leisure boats and accessories 9. Water slides 10. Swim gear 11. Swim trainers 12. Snow tubes	13. Flocked airbeds 14. Fabric airbeds 15. Air furniture 16. Camping equipment and accessories

Source: Company data, CMBIS

The **Sporting Goods** segment consists of brands like “HYDRO FORCE”, “H2OGO!”, “Cooler Z” and many others **(13% of sales in FY16)**, with a focus on water toys like the rafting tubes, floating islands, as well as many rapid growing and hot selling items like inflatable stand up paddle boards, equipped with the proprietary “Tritech™” and “Drop-Stitch™” materials, and the Water slides, the ASP for this group is at about US\$ 2.6 (retail prices are at about US\$ 10 – 1,000). It has a very fast growth rate of 53% in FY16, it is and will continue to be the major growth engine, the GP margin for this segment is the highest among all, at 31.0%.

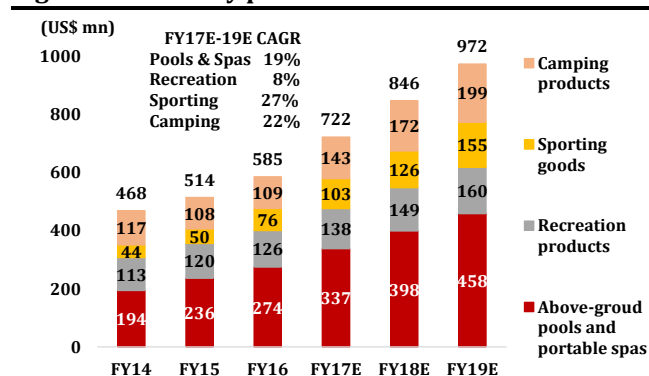
The **Camping products** produced by the Company consists of various airbeds, air furniture, and camping equipment and accessories under the brand “Bestway” and “PAVILLO” **(19% of sales in FY16)**, the ASP for this category is at about US\$ 7.7 (retail prices are at about US\$ 10-700). General growth rate is relatively slow in the past few years as the Company only started this segment by an acquisition back in 2013, but we expect its growth rate to pick up in the coming years, after a series of initial investments and the recent launch of a stellar product – airbeds equipped with self-developed “Fortech™” materials as well as the “AlwaysAire™” technology in Apr16.

Figure 20: List of categories and products



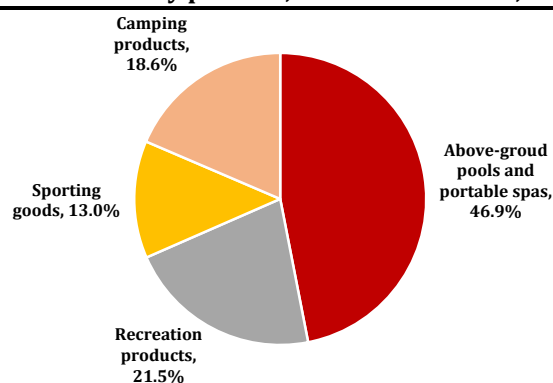
Source: Company website (<https://www.bestwaycorp.com>), CMBIS

Figure 21: Sales by product



Source: Company data, CMBIS estimates

Figure 22: Sales by product, as % of total sales, FY16



Source: Company data, CMBIS

Bestway's market shares may not be the top, but growth rate is the fastest. Top companies in the global water leisure products market includes Speedo, Johnson Outdoor, and INTEX, where Bestway is ranked No.3 with 2.3% of total industry sales, but it has the fastest growth among the top 5, at 13.4% in FY16, according to Frost & Sullivan.

Figure 10: Market shares in Water leisure products and Inflatable outdoor leisure products, 2016

Global Water leisure				Europe Inflatable outdoor leisure				North America Inflatable outdoor leisure			
Rank	Name	Market shares	Yoy growth	Rank	Name	Market shares	Yoy growth	Rank	Name	Market shares	Yoy growth
1	Company A	3.7%	5.7%	1	Bestway	38.9%	15.8%	1	Company A	43.6%	9.2%
2	Company B	2.4%	5.5%	2	Company B	34.1%	10.4%	2	Bestway	24.3%	23.3%
3	Bestway	2.3%	13.4%	3	Company C	7.6%	9.8%	3	Company C	13.9%	8.0%
4	Company D	1.8%	7.3%	4	Company D	2.7%	6.3%	4	Company D	6.7%	9.6%
5	Company E	1.2%	5.9%	5	Company E	1.3%	7.1%	5	Company E	2.8%	8.1%

Source: Frost & Sullivan Report, CMBIS

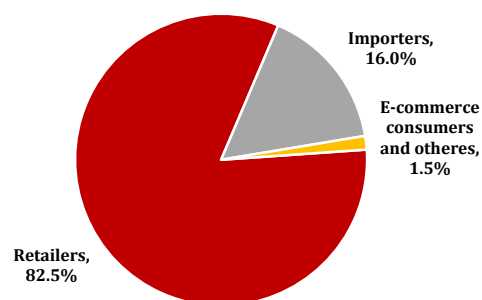
Bestway mainly sell its products to retailers in EU, US and others. Bestway's client are mostly retailers, for example, Auchan and Carrefour in France, Tesco and Argos in UK, as well as Metro in Germany, and others in US, made up about 82.5% of total sales in FY16, the remaining 16.0% of sales are from importers, and 1.5% of sales is generated through the online channel. Going forward, we believe 1) the E-commerce business to grow faster and develop into a meaningful driver, 2) sales to retailer to remain an important part, as the Company is still expanding its sales network into more vendors in US, EU (esp. the Eastern Europe), and also Latin America, 3) sales to importers, in terms of sales contribution, shall slowly diminish.

Figure 11: Examples of clients



Source: CMBIS

Figure 12: Sales by channel, FY16



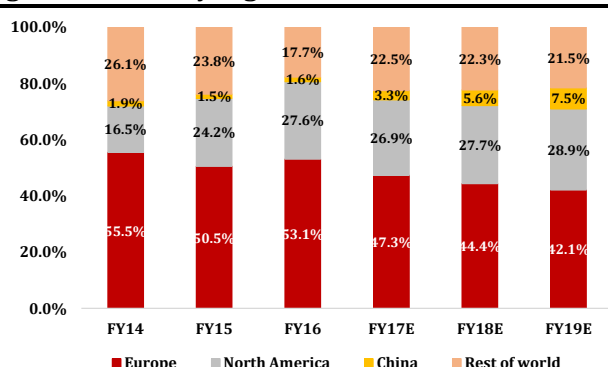
Source: Company data, CMBIS

We see meaningful potential and faster growth in US and China in the future, as the businesses in Europe is more well-established. Europe has been the major market for Bestway, contributing about 53% of total sales in FY16, where the Lay-Z-Spa brand has acquired a very valuable reputation among consumers, where its market shares for inflatable products reached 38.9%, the No.1 in the region (tremendous achievement in UK by winning the Gold standard in UK Pool & SPAs), we believe this success was partly attributed by Patrizio Fumagalli, the general manager of EU (1998 to 2012), and US (2013 to 2016), now being the global strategic officer (GSO), who supervise the research and development (R&D) of the products. After his move to US in 2013, the US sales has jumped by 95% in 3 years time, comparing to just 43% in the EU market during the same period. Patrizio has been awarded with 1.5% of the Company shares by the Founder Mr. Zhu in FY15, for his considerable contribution to the development of the group.

North America only accounted for 28% of sales while the market is as large as Europe, sales growth to US should accelerate as the Company steps up in advertising and promotion, and the partnership deepens with US retailers. Currently, the North America market only accounted for 28% of sales for Bestway, relatively lower than that to Europe, but in recent years, the Company had stepped up its marketing and promotional efforts, and had started to have a deeper relationship with major US retailers, says, Bestway has been awarded one of the 4 nominees for "Supplier of the year for Omni Channel 2016" of Walmart (the award eventually went to Dorel Industries). Air-bed, a product equipped with the Company's newest "AlwayzAire™" technology, launched in Apr2016, has received great recognition, and robust orders are coming back for it. As the outdoor leisure and furniture products in US is more or less of the same size as EU, a much faster growth rate in US for Bestway is expected going forward, at about 20% sales CAGR, comparing to about 10% in EU.

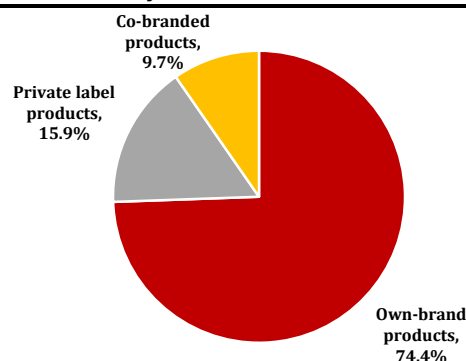
Minimal contribution from China now, but the market is there to be developed, and could become significant in 3 years time. China is a small part of the total sales, at merely 1.5%, but in recent years, from 2014, Company has been actively developing this region, as it see great potential in the future, as the Chinese consumer constantly upgrade their living standards, and trade up on consumer goods. Bestway has restructured and formed a more dedicated online sales and marketing team for China, hired various talents, some are from Alibaba, to drive the their sales in China, and therefore, thanks to further online penetration (we estimate that about 80% of sales in China are from the internet), we see a rapid growth onwards, at 50% of sales CAGR n FY17E-19E.

Figure 13: Sales by region



Source: Company data, CMBIS estimates

Figure 14: Sales by brand, FY16



Source: Company data, CMBIS





Key positives and growth drivers

1) Penetrating into new industries, as inflatables replace traditional products

Replacing the traditional market. We see significant room for growth for Bestway, as it is likely to penetrate further into many traditional markets, by selling its inflatable and portable products, which are proven by various hot selling star products, says inflatables spas, inflatable stand up paddles, as well as the air-beds. Just to note that, according to Frost & Sullivan, the market size of global outdoor leisure product is at US\$ 180 bn in 2016, about 58x greater than the inflatable outdoor leisure product size, while according to Centre for Industrial Studies (CFIS), the global traditional furniture market size is at US\$ 460 bn in 2016, about 129x greater than the inflatable outdoor leisure product market.

Bestway's product beat the traditional ones by 1) prices, 2) mobility, and 3) ease of set up. We have done a rough comparison between the traditional and Bestway's products on the Outdoor Spa/Hot tub and Pool category, and we can clearly tell that, the Bestway's inflatable Spa and Above-Ground Pools are 1) much more friendly in price (entry prices at about US\$ 300, comparing to about US\$ 2,500 for a traditional one), allowing more consumers with lower income to access to water based entertainment, with a much more affordable maintenance costs, 2) much more easy to carry, as those are lighter in weight, and consuming much less space, providing superb portability, 3) more handy to buy, to deliver, and to set up.

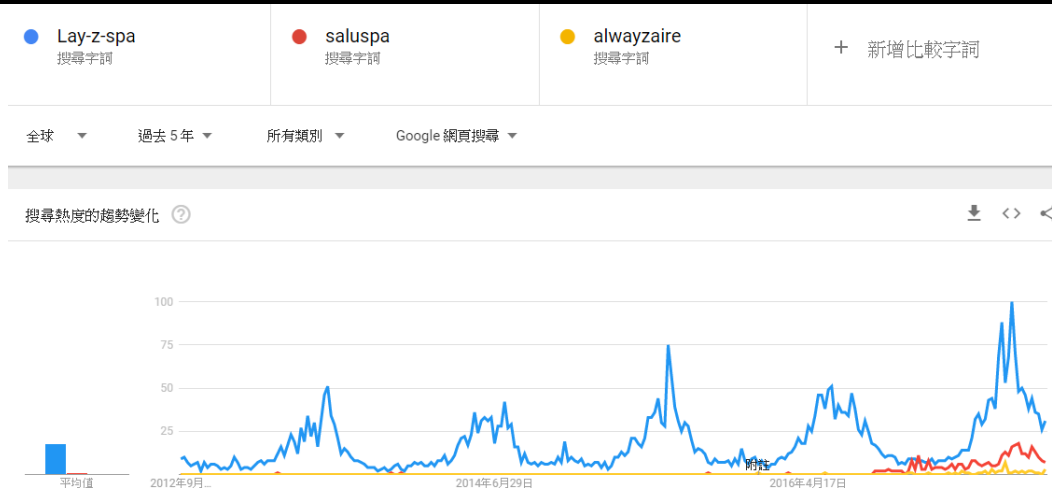
Figure 15: Product comparison : Traditional Outdoor spas vs Inflatables / In-Ground vs Above-Ground

Details	Outdoor Spa/ Hot tub		Pools	
	Traditional	Inflatable	In-Ground	Above-Ground Metal Frame
Image	 		 	
Pricing (In US\$)				
Entry level	~ US\$ 2,500	~ US\$ 300	~ US\$ 20,000	~ US\$ 400
High end	~ US\$ 5,500	~ US\$ 800	~ US\$ 80,000	~ US\$ 2,000
Maintenance costs (yearly)	~ US\$ 200	Minimal	~ US\$ 2,000	Minimal
Time for delivery / to build	1 month	3 days to 2 weeks	3 months to 6 months	1 to 2 weeks
Time to install/ set up	About 2 to 4 hours	About 30 mins to 60 mins	About 2 to 4 hours	About 1 hours to 2 hours
Major material	Steel, Wood, Laminate Fiber	PVC	Concrete, Vinyl Liner, Fiberglass	PVC, Steel, Polyester
Weight (In kg)	About 300 to 400 kg	About 30 to 50 kg	n/a	About 70 to 160 kg
Mobility	Close to not portable	Easy to move or carry	Not portable	Portable
For how many people	4 to 8	4 to 6	20 to 50	10 to 30
Water Capacity (In gal.)	About 350 gal.	About 320 gal.	About 17,000 gal.	About 5,500 gal.
Size before set up (In cm)	About 90 x 200 x 200 cm	About 50 x 80 x 60 cm	About 200 x 400 x 800 cm	About 60 x 120 x 50 cm
Size after set up	About 90 x 200 x 200 cm	About 70 x 180 x 180 cm	About 200 x 400 x 800 cm	About 120 x 500 x 500 cm
Space required for set up	Comes in only a few sizes	Comes in many sizes (flexible)	Have to tailor make	Comes in many sizes (flexible)
Space required for storage	Relatively large	Minimal	Very Large	Relatively large
Product useful life	4 to 8 years	1 to 3 years	10 to 15 years	2 to 4 years

Source: Amazon, Internet, CMBIS estimates

Inflatable Stand-up paddle (SUP) is another good example. Inflatable Stand-up paddle (SUP) is another good example for Bestway to penetrate into various markets, as this product is able to gain market shares from the traditional hardboard stand up paddles, by not only fulfilling 3 of the above advantages (a 1/3 cheaper price alternative, can be carried in just a single backpack, and easily be inflated and deflated), but also not trading off with its quality, where its hardness is comparable to traditional hard boards, thanks to the Bestway's self-developed "Tritech™" and Drop-Stitch™ materials.

Figure 16: Google trend data on Key Words like "Lay-Z-Spa", "Saluspa" and "Alwayzaire", Sep 2017



Source: Google Trend, CMBIS estimates

Figure 17: Inflatable Stand up Paddles (SUPs)



Source: CMBIS

Figure 18: Stand up Paddles (SUPs) before inflation



Source: Internet, CMBIS

2) Inflatables to benefit from the rising social media-driven, experienced-based outdoor activities demand,

The inflatables are meant to be popular props for social media. The inflatable toys, is certainly affordable for many, and due to the improvement in manufacturing capability, can now also be in more sophisticated and cuter shapes, together with its magnificent size, they are meant to become the popular props for social medias (Instagram, Twitter, and etc.). More forms and shapes are now available, ranging from mega sized Sea Swan, giant rubber duck, inflatable slices of watermelon and pizza and pineapple lilo, to floating islands, and Bouncy Castles.

On the other hand, the inflatables is able to mix with other elements to create a new form of entertainments, here are many examples :

1) **Bubble soccer** is a typical example that mix inflatables with a traditional sports like soccer, and become very popular.

2) Ever since Taylor Swift had shared her **inflatable swan** in 2015, many inflatable/ floating toys are becoming super stars in terms of social media props. Therefore sales volume had flew high, as teenagers are eager to show off with in order to present their likeable lifestyle.

Figure 19: Bubble soccer is an good example of mixing inflatables and traditional sports



Source: Internet, CMBIS

Figure 20: Taylor Swift and Calvin Harris ride on an inflatable swan in 2015



Source: Taylor Swift, CMBIS

Figure 21: Giant inflatable toys as social media props



Source: Taylor Swift, CMBIS

Figure 22: Giant inflatable toys as social media props



Source: Internet, CMBIS

3) A notable example would be the **Hot tub cinema**, which is an outdoor movie festival, where audiences will enjoy movies (or you may just social), with limited drinks and snacks, in many 4-6 seats portable spas (used Lay-Z-Spa's products). Due to the mobility of portable/ inflatable spa, pop up event is feasible, and also can be organised on demand, as a result, starting in UK since 2012, has expanded quick to US in 2014, and is now in Australia in 2017, and go on. Due to its coolness of this event, audiences are happy to share on social media, and the positive marketing effect on Bestway's brand and products is enormous, and we believe it has helped the sales growth in Europe Area (at least in the UK.)

Figure 23: Hot tub cinema 1



Source: Hot tub Cinema, CMBIS

Figure 24: Hot tub cinema 2



Source: Hot tub Cinema, CMBIS

Figure 25: Expanding from UK to US to AUS

NEW LOCATIONS ADDED!

SYDNEY, BRISBANE, PERTH, ADELAIDE, GOLD COAST, SUNSHINE COAST

WWW.HOTTUBCINEMA CLUB.COM

Bestway

Lay-Z-Spa

nova
96.9

**HOT TUB
CINEMA
CLUB**

Source: Hot tub Cinema, CMBIS

3) Strong R&D, innovative and reliable products to drive market shares gains,

Technology upgrades is a good way for marketing and raising product's selling price. Bestway has around 1,100 products to sell every year, and around 20-25% of those are new products. By upgrading the technology, consumer brand has its gimmick to market its products, and to catch attention from its potential customers, and more importantly, providing a legitimate reason to support a raise in ASP. Bestway has around 1,100 products belonging to four core product lines, including above ground pool and portable spa products, recreation products, sporting goods products and camping products. Each year new products account for 20-25% of its portfolio to freshen the product line up and keep its customers engaged.

Differentiation from its competitors, by 1) further developed composite materials such as "Tritech™" and "Drop-Stitch™" and 2) original structural and mechanical designs.

Bestway is particularly good at upgrading its technology, ranging from raw materials, to the structure of the spas, to air bumps, to water treatments, as well as the electronics, and lightings etc, the Company had further developed many proprietary composite materials using the imported PVC resins powder and combining those with plasticizers and other major additives, it also designed a lot of structural constructions for various products, to retain its shape no matter how many times it is inflated or deflated.

On top of the comfortability of an material, there are 3 major requirements to deliver durability and Strength, namely, 1) resistance to stretching / 耐磨, 2) elastic as it inflate and deflate / 拉深, 3) high temperature lamination / 熱合. 1) Bestway's has developed various state of the art materials, such as the "Tritech™" (used in Pools, Spas and Stand up Paddles), "Fortech™" (used in Air-beds), those are all, more resistance to stretching, be able to last after over multiple times of stretching. 2) On the other hand, elasticity is also important, to provide a great balance between a soft and comfortable feeling while maintaining its shape even after many times of inflation and deflations, as well as its strength under various conditions, "Drop-Stitch™" materials (used in Stand up Paddles), and I-beam Construction (used in Above Ground Pools), as well as the "AlwaysAire™" Technology (used in Air-beds) are invented, E.g. I-beam construction uses parallel PVC beams oriented vertically or horizontally to provide structural stability. Many structural designs are all tested under great pressures, as well as under extreme conditions (sunlight shining or being frozen for months) for a many times of inflations and deflations. 3) Lastly, the high temperature lamination is also critical as this the key technology that the Company used to stick together different pieces or layers of polymer-based composite materials, to ensure that the overall air losses, and the pressure at the right level.

Just to noted that, "Tritech™" polymer-based composite materials are made of a layer of polyester mesh core encased in two layers of polymer films, following by high temperature lamination, resulted in a much greater physical strength, and a finer appearance, this is used in the above-ground pools and portable spas, as well as in the inflatable stand up paddles. "Drop-Stitch™" has a reinforcement layer structure, in which vertical fibers of uniform length of polyester are used to connect the upper and lower layers of polymer-based composite materials, this is a structural of high stiffness, and have anti-bending load-bearing capacity.

About US\$ 11.5mn (2.0% of FY16 sales) was invested into R&D, 84 patents have so far registered, over 317 professionals hired, as at Aug17. As at Aug17, it has over 317 staff, in the research and development (R&D) department, accounted for about 3% of total workforce, consist of 5 projects directors, 25 project groups, with over 120 product engineers, 84 patents registered so far as at Aug17, and 106 more are in the process of application. R&D expenses in FY16 was roughly US\$ 11.5mn, about 2.0% of total revenue (excluding staff costs and equipment expenses, US\$7.3mn, 1.3% of sales was booked in the admin costs).

Figure 26: Bestway is the leader in industry


Source: Tmall, CMBIS

Figure 27: Laboratory Accreditation Certificate


Source: CMBIS

Key for Bestway to gain market shares is through their highly innovative and reliable products. For example, in the innovative front, LAY-Z-SPA brand was awarded the Gold Standard, and one of the portable spas in the “Paris” series was awarded the “Product of the Year” by the UK Pool & Spa Awards in 2016. Lay-Z-Spas Paris has equipped with Multi-colour LED lights, and top specification in the series, with an affordable price of just US\$ 499.

Figure 28: Lay-Z-Spa Paris, with 7 colours in 1 display


Source: Amazon, Argos, CMBIS

Figure 29: Lay-Z-Spa Paris, with 7 colours in 1 display



Source: Amazon, Argos, CMBIS

Figure 30: “Fortech™” materials and “Alwayzaire™” technology


Source: Walmart.com, CMBIS

Shanghai Bestway, one of the subsidiaries, had been granted the “New and High-tech Enterprise” status. Also, one of the subsidiaries, Shanghai Bestway, had just been qualified for the “New and High-tech Enterprise” status, and had started to enjoy the 15% tax rate in FY16, indicated the Company’s R&D capability.

Figure 31: List of categories and hot selling new products

Categories	Portable spas	Water slides	Rafting tubes and Floating island	Inflatable stand up paddle board
Full Names	Go Triple Slider Kids Outdoor SaluSpa Miami AirJet Inflatable Hot Tub	3-Person Water Slide with Splash Lagoon for Big-Splash- Take-Off, Orange	CoolerZ Tropical Breeze Inflatable Floating Island	HydroForce White Cap Inflatable Stand Up Paddleboard SUP and Kayak 10'
Brands	Lay-Z- Spa	H2O go !	Cooler Z Tropical Breeze	HYDRO-FORCE
Images				
Number of users	4	3	7	1
Price (In USD)	369	59	183	329
Year Launched	2005	2013	2014	2013
Sales CAGR in FY14 -16	86%	112%	302%	68%
As % of total sales	9.80%	1.80%	3.70%	1.40%
Sales growth in 1H17	90.1%	69.3%	34.5%	38.4%
GP margin	~ 35%	30% +	30% +	~ 35%

Source: Company data, Amazon, walmart.com, CMBIS estimates

Bestway has earned recognition from top retailers. In terms of reliability, Bestway has proven themselves as one of the best suppliers, by winning many awards, from various renowned retailers in the world, such as Auchan and Metro, and others.

Figure 32: R&D expenses per year



Source: Tmall, CMBIS

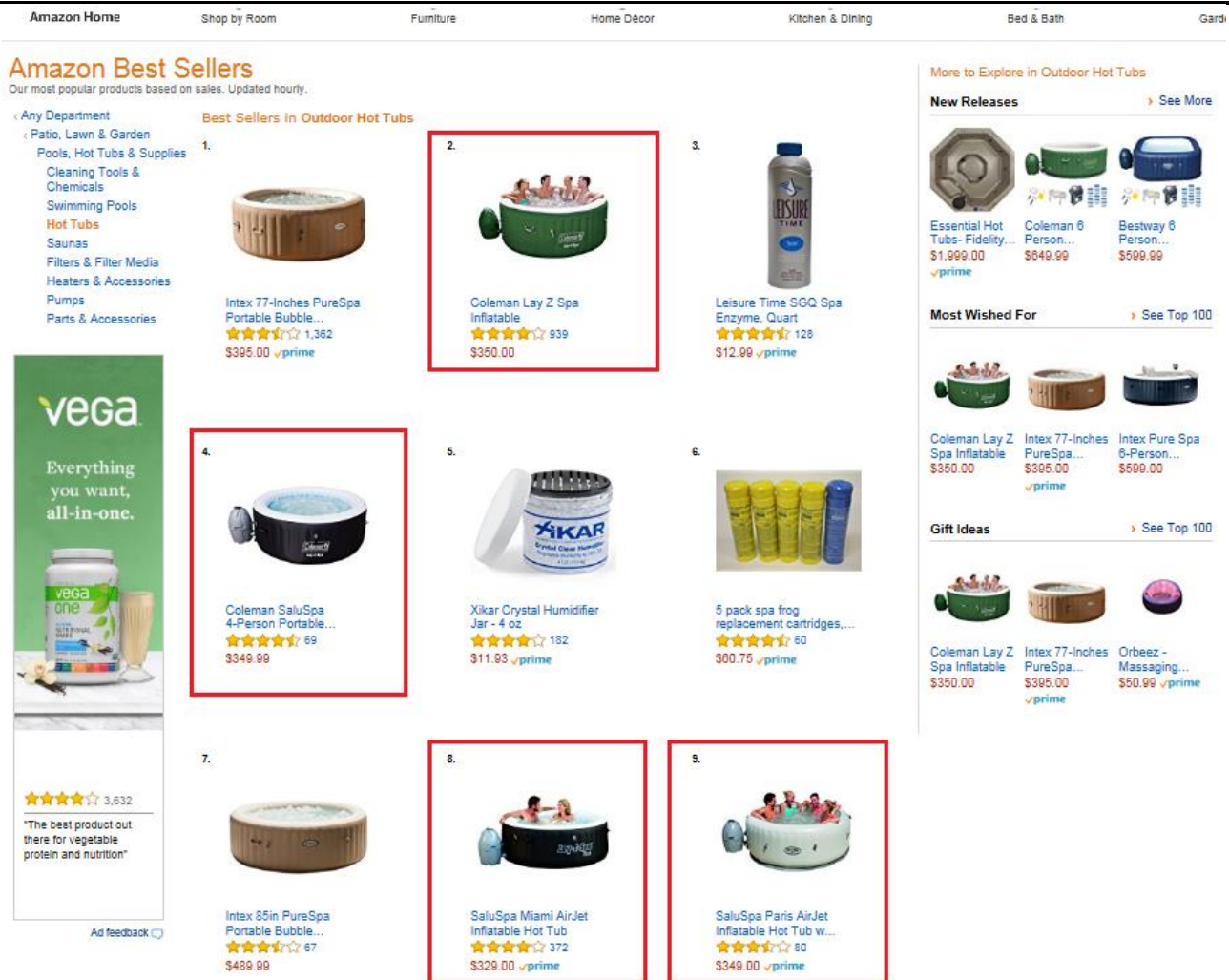
Figure 33: List of awards

Awards and Recognitions	Year	Issuing Authority
High Standard & Quality Awards	2013	Metro Germany
Exceptional Performance for Price/Value Award	2015	A leading global retailer in US
One of the four nominees for its "Supplier of the Year" award	2016	A leading global retailer in US
Gold Award for Best Auchan Retail Supplier	2016	Groupe Auchan France
Best Supplier for Compliance	2016	Groupe Auchan France
LAY-Z-SPA brand was awarded the Gold Standard	2016	UK Pool & Spa Awards
LAY-Z-SPA Paris series was awarded the Product of the Year	2016	UK Pool & Spa Awards
Best Climate Change Performance among Chinese Suppliers	2016	Carbon Disclosure Project (CDP) Global Environmental Information Research Center

Source: Company data, CMBIS

Bestway's portable spas is a star product. In the hot tub/ portable spas segment on Amazon, 4 out of 9 top selling items are Bestway's product, this has echoed with Frost & Sullivan's research on Bestway's market shares, over 30% of total.

Figure 34: 4 out of top 9 of Amazon Best Sellers in the hot tub category are Bestway's product, Aug 2017



Source: Amazon, CMBIS estimates

Figure 35: Bestway was one of the 4 nominees for "Supplier of the year for Omni-channel 2016" of Walmart



Source: Dorel Industries, Internet, CMBIS

4) Vertically integrated business model with self-owned brand,

Company with a vertically integrated businesses model plus self-owned brands will be able to better capture the consumer taste, and has greater bargaining power of the selling price. With a highly vertical integrated model, i.e. from product design and development, importing raw materials, to manufacturing, brand building and marketing, sales to retailers, as well as providing after sales services, we believe Bestway is able to enjoy

1) **more comprehensive understanding of customers' needs** and hence faster responses to any changes in market trend, and hopefully will drive faster growth by rolling out more competitive products,

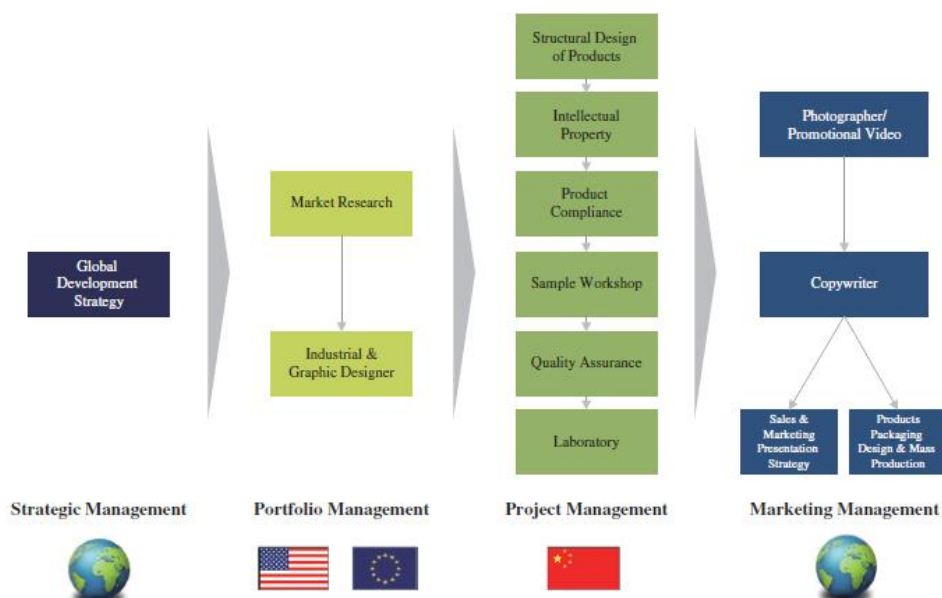
2) **costs advantages and wider margins** as it is engaging in more tasks in the value chain, as well as

3) **greater bargaining power** by providing a one-stop shops for retailers, also over its suppliers by ordering a larger volume of raw materials

Bestway has 552 retailers and 432 importers as customers around the world in FY16.

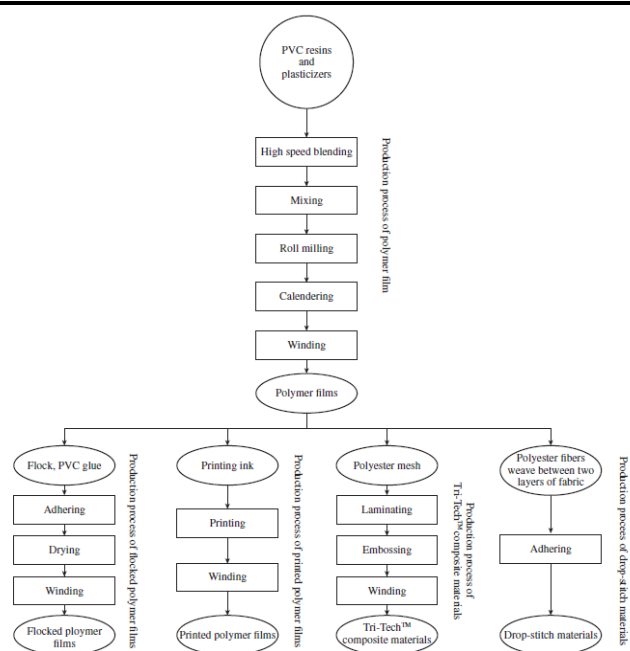
Bestway has an extensive sales network, covering many customers (552 retailers and 432 importers in FY16) from six continents and more than 110 countries worldwide. The fact that it had increased the ASP for the US market in FY16 (GP margin jumped from 13.3% in FY15 to 23.9% in FY16), but can also maintain a relatively fast growth rate of 29.8% gave a strong evidence that it has good bargaining power over its retailers and be able to pass on some costs to them if it is necessary.

Figure 36: Bestway's globally integrated product development platform



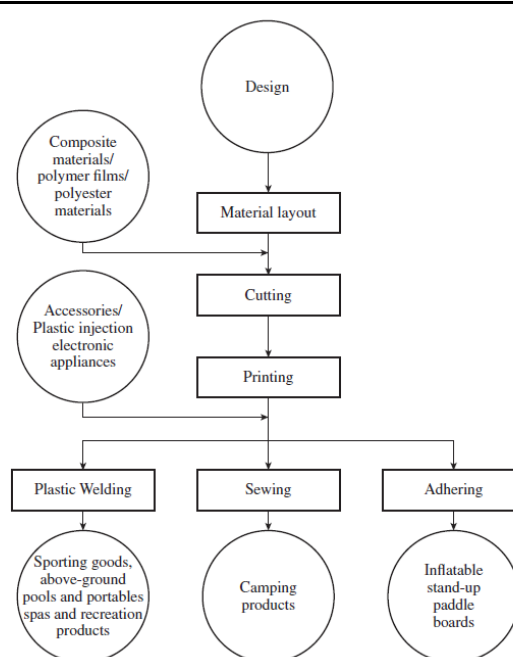
Source: Company data, CMBIS

Figure 37: Production process for materials



Source: Company data, CMBIS

Figure 38: Production process for end products



Source: Company data, CMBIS

Figure 39: Bestway's Global network : Sales office and production facilities



Source: Company data, CMBIS

5) China story, ride on the rising sports participation and online channel penetration,

China market is underdeveloped, comparing to US or EU, in 1) outdoor sports participation, 2) spending on outdoor sports. We believe the China market is underdeveloped in the space of outdoor and water sports as well as the inflatable products, therefore see significant potential going forward in the future,

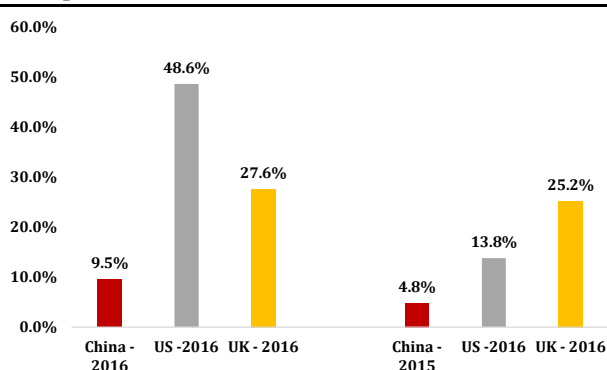
1) in terms of **sports participation, on both outdoor and water sports**, the current outdoor sports participation rate for China is only at 9.5% (by China Outdoor Association 2016), much lower than the 48.6% in US in 2016 (according to Physical Activity Council Report 2017), and 27.6% in UK (according to Sport England 2016, counted only active outdoor population.) and that for water sports should be very low, likely to below 5%, in our view, comparing to the 13.8% in US (according to Physical Activity Council Report 2017), and 25.2% in UK (according to Arkenford UK 2016, counted any water activities).

China has a target of Rmb 300 bn industry size of water sports by 2020 cited in a publication in Nov2016, by China NDRC, Sports Authority, and other 7 administrations, which accounted for about 10% of the 3 trillion sports industry size target, set by the State Council back in 2014.

2) not just the **inflatable product is underdeveloped** in the world (with only 1.7% penetration rate in the outdoor leisure products market), China is also very **underdeveloped regarding the outdoor sector** (it only contribute 1.8% of global retail sales), **and the per capita spending** for outdoor leisure products was just US\$ 2.4 for China, where that of US and EU are at US\$ 165.3 and US\$ 119.8, about 70x and 50x greater.

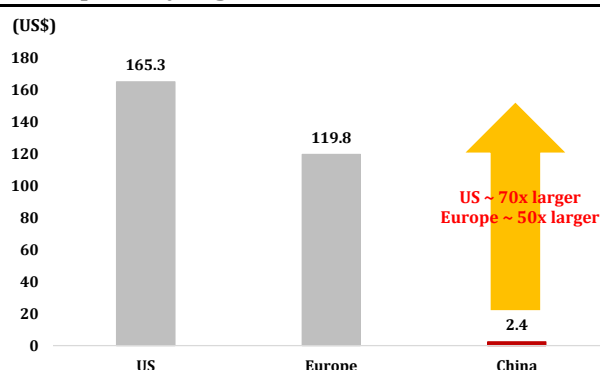
3) in terms of absolute amount, China has a GDP size of US\$ 10.9 trn, which is about 60% of the US, while the **Bestway's sales in China only made up 6% of its sales in US.**

Figure 40: China's potential, outdoor and water sports participation rate, vs US and UK

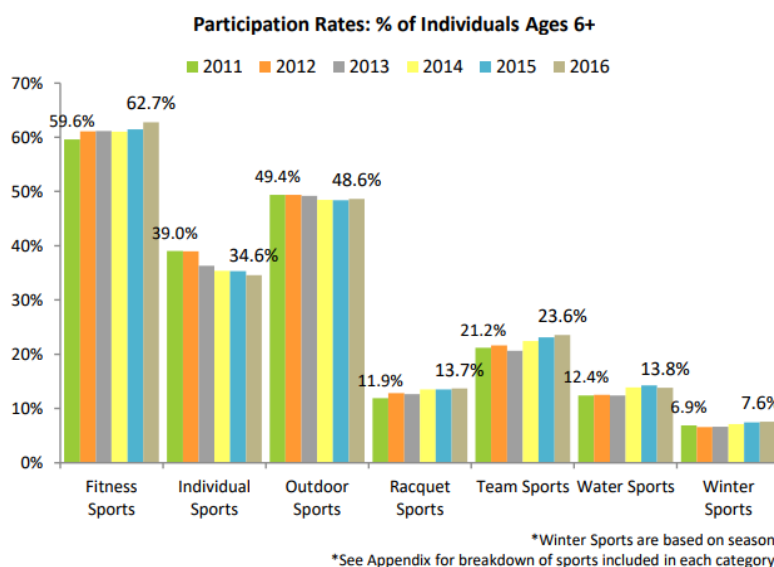


Source: China Outdoor Association, Physical Activity Council Report, Sport England, Arkenford UK, CMBIS estimates

Figure 41: Global Outdoor Leisure Products per Capita Consumption by region, 2016



Source: Company data, CMBIS

Figure 42: Sports participation rate in US, 2011-2016

Source: Sports Marketing Surveys USA and the Physical Activity Council, CMBIS

Figure 43: Bestway's Pool Party in Shanghai 1

Source: Tmall, CMBIS

Figure 44: Bestway's Pool Party in Shanghai 2

Source: Internet, CMBIS

We believe the Pool party, organized by Bestway fits well with the younger generation.

The Company has organized some pool parties in Shanghai, in order to promote the joy of it, by combining with music and festival, as well as its products in the function at the same time, we believe it engaged perfectly with the greater desire and pursuit of better lifestyle by the younger generation.

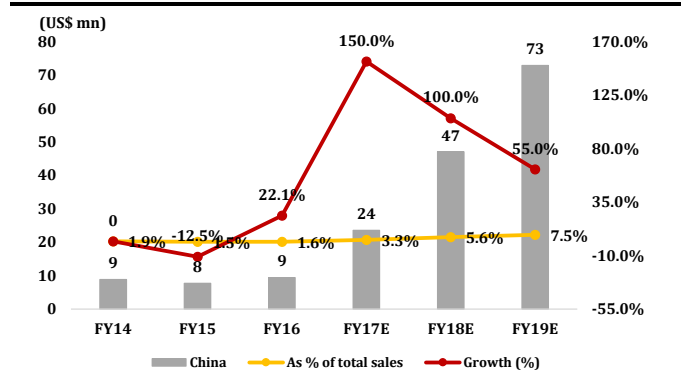
As long as the pricing does fit the purchasing power in China, Bestway's products, in our view, could sell well on E-commerce. Rather than simply migrating the product portfolio in US/EU to China, we are confident that Bestway to become successful in China, as long as it can introduce some localized products with the right prices (pricing adjusted for the purchasing power of Chinese), on the E-commerce platforms, since consumers who often shops online are more pricing sensitive, and being more costs- conscious. For examples, a simple but decent quality airbeds at a very affordable price range (Rmb 20-40) has been selling very well on Tmall, even those who work for Alibaba appreciated it!

Figure 45: Advertisement in China



Source: Tmall, CMBIS

Figure 46: China sales and growth



Source: Company data, CMBIS estimates

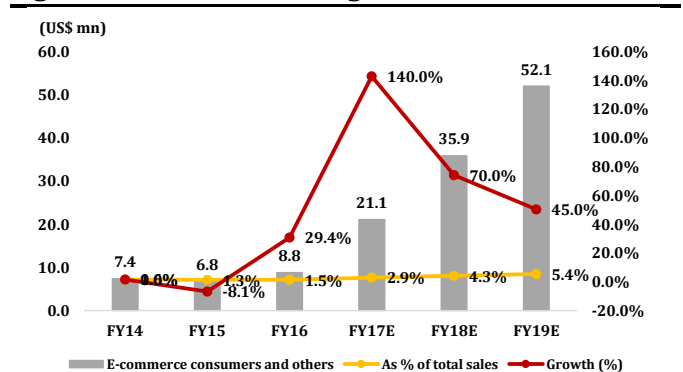
Rapid growth are anticipated. Bestway started its China and E-commerce businesses a few years ago, but has only begun to put significant focus and roll out seriously in FY16. Currently, we estimate that about 80% of the China businesses is from the online platform, it will continue to remain this way, therefore both segments could see about 97.9% and 80.9% sale CAGR in FY17E-19E, in our view.

Figure 47: Online promotion on Tmall



Source: Tmall, CMBIS

Figure 48: Online sales and growth



Source: Company data, CMBIS estimates

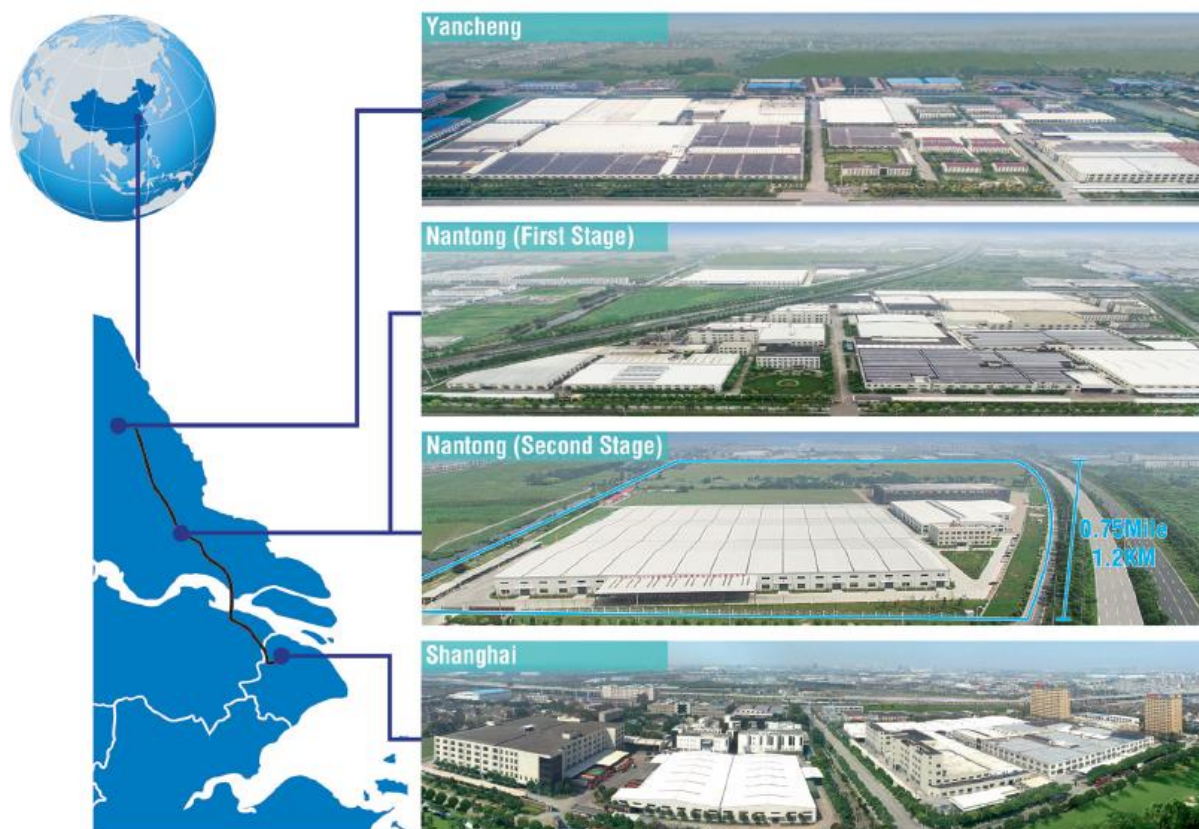
6) Capacity expansions,

Bestway's factories are in Shanghai, Nantong, and Yancheng. Currently Bestway has 3 production factories, they are located in Shanghai, Nantong, Yancheng, which has focusing in different products, the Company's technical center is based in its headquarters in Shanghai, consists of its research and development team, quality assurance team, compliance team and intellectual property team. In terms of production, factory in Shanghai produces Above-Ground pools and Portable Spas, while Nantong is specialising in mainly polymer films, composite materials, as well as producing pools, camping products, sporting goods, and recreational products, Yancheng is mainly focusing camping products, sporting goods, and also polymer films and recreation products.

We estimated that the expansion in Nantong and Yancheng, will cost about Rmb 800 mn as capex in total during FY17E to FY19E. Due to the robust growth in orders, the Company has planned to expand the production facilities (including production lines, material handing centers, staff's dormitories, as well as warehouse) and purchasing new machineries, both in Nantong and Yancheng, we estimated that to gradually be completed during the course of FY17E to FY19E, and these together has costed about Rmb 800 mn investment. Of the Rmb 800mn capex, in our view, about Rmb 200mn will be spent on purchasing the related production machineries, and on top of these, staff accommodation will also be built alongside, which will costs another Rmb 100 mn, and lastly, 4 more warehouses (2 conventional/semi-automated and 2 automated) will also be constructed, to assist the expansion of China and online business, the associated investment will be Rmb 300 mn.

Figure 49: Factories in Shanghai, Nantong, Yancheng

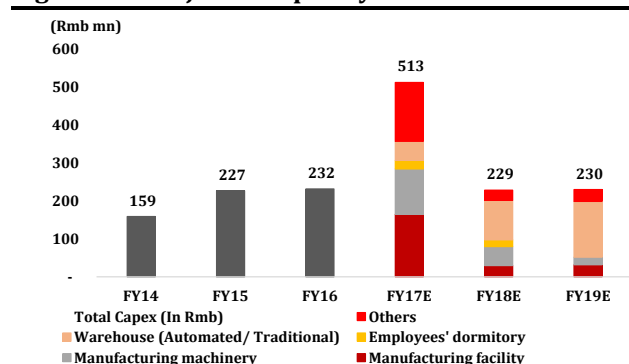
China's Yangtze River Delta Region



Source: Company data, CMBIS

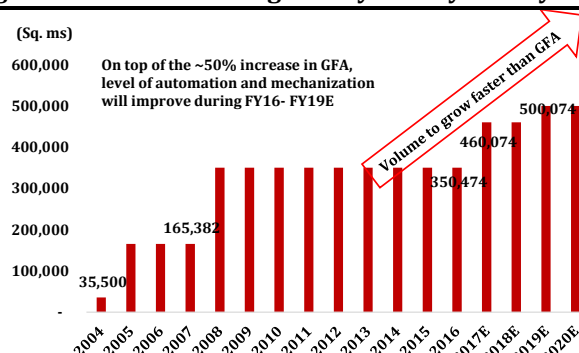
GFA for production will increase by roughly 50% from FY16 to FY19E, and the level of automation and mechanization will also be increased, hence driving a faster growth in production volume. By the end of FY19E, the overall GFA for production facilities shall reach about 500,074 sq.m, a roughly 50% increase comparing to the end of FY16, and thanks to consistent investment in operational efficiency enhancements, as well as upgrades in facilities and equipment to further promote automation and mechanization level, production volume from FY16 to FY19E shall enjoy a faster growth. For example, the Company is expect to complete construction of two automated warehousing facilities at existing facility in Nantong, the first by mid18 and 2H19, with an aggregated GFA of 43,000 sq.m and an expected storage capacity of 170,000 cubic meters. It plan to staff these new facilities with only around 30 employees. A conventional facility with similar capacity would have required GFA of 120,000 sq.m and staff by over 250 employees. As at FY16, the Company has 11,094 employees, and should stay at this level for the next few years, as the level of automation increases.

Figure 50: Projected capex by function



Source: Company data, CMBIS estimates

Figure 51: Manufacturing facility GFA by fiscal years



Source: Company data, CMBIS estimates

Figure 52: Up-coming expansion plans

Location	Land area (square meters)	Gross floor area of manufacturing facility (square meters)	Gross floor area of materials handling centers (square meters)	Time of initial production	Main products	Estimated development costs (Rmb million)	Development costs incurred as of Apr 2017 (Rmb million)
Shanghai	131,671	35,500	32,100	June 2000	Above-ground pools, portable spas Polymer films, composite materials, above-ground pools, camping products, sporting goods and recreation products		
Nantong	493,741	185,092	31,600	October 2008	Polymer films, camping products, sporting goods and recreation products		
Yancheng	327,685	148,500	22,100	October 2004			
Total	953,097	369,093	85,800				

Location	Gross floor area of manufacturing facility	Gross floor area of materials handling centers	Time of initial production	Main purposes	Estimated development costs	Development costs incurred as of Apr 2017
Nantong	91,000		Fourth quarter of 2017	Manufacturing facility	140.0	75.6
Nantong	40,000		September 2019	Materials handling center	62.0	0.0
Nantong	15,000		Fourth quarter of 2017	Employees' dormitories	22.5	12.4
Yancheng	12,000		January 2018	Employees' dormitories	17.5	7.9
Total	158,000				242.0	95.9

Location	Gross floor area	Estimated Storage Capacity	Time of initial production	Main purposes	Estimated development costs	Development costs incurred as of Apr 2017
Yancheng	15,000 with height of 10 meters	23,000	August 2017	Conventional warehouse	25.0	11.0
Nantong	23,000 with height of 24 meters	90,000	July 2018	Automated warehouse	130.0	3.3
Yancheng	17,000 with height of 10 meters	26,000	September 2018	Conventional warehouse	27.0	0.0
Nantong	20,000 with height of 24 meters	80,000	September 2019	Automated warehouse	120.0	0.0
Total		139,000			302.0	14.3
Yancheng & Nantong				Machinery	190.0	
Total					190.0	

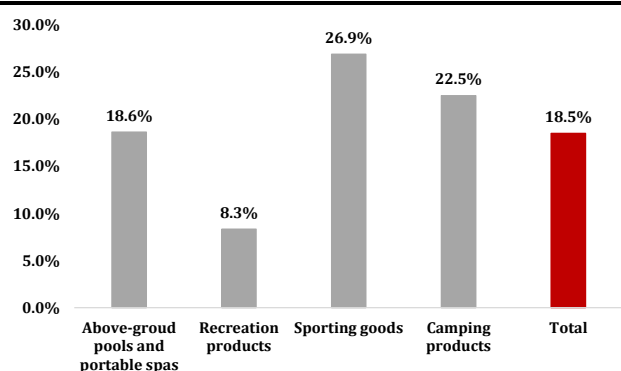
Source: Company data, CMBIS

Financial analysis

We forecast sales to grow by 23.4%/17.2%/15.0% in FY17E/18E/19E.

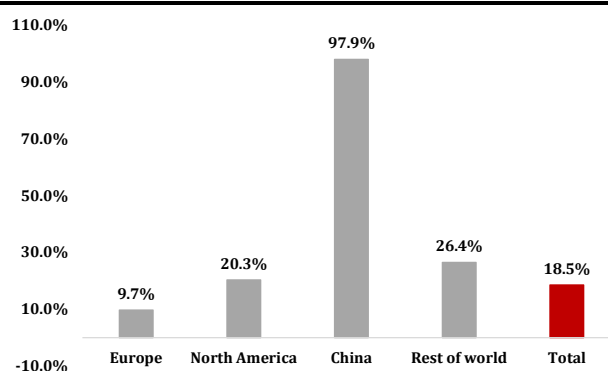
23% sales growth is achievable in FY17E. We project Bestway global's total revenue will reach US\$ 722 mn in FY17E, up 23.4% yoy, driven mainly by 1) 20.4% yoy growth in sales to North America, 2) 10% in sales to Europe, 3) 150% in sales to China (driven by 140% growth E-commerce sales), and 4) 57% up for the rest of world. The sales growth by products are: 23% growth in Above-ground pools and portable spas, 10% growth in Recreation products, 35% increase in Sporting goods, and 32% growth in Camping products,

Figure 53: Sales CAGR by product segment, FY17E-19E



Source: Company data, CMBIS estimates

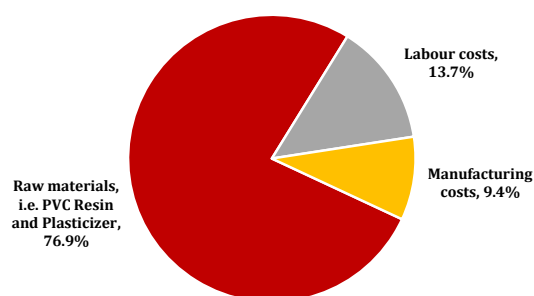
Figure 54: Sales CAGR by region, FY17E-19E



Source: Company data, CMBIS estimates

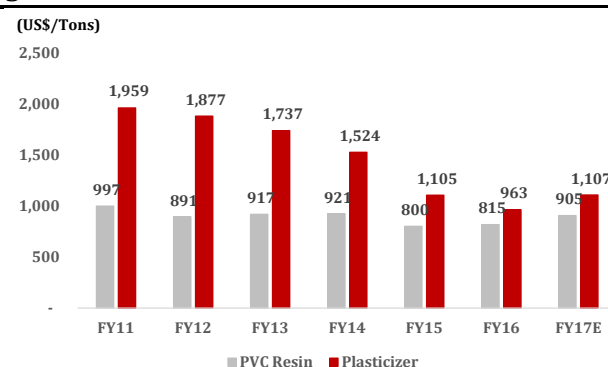
GP margin to remain largely stable in FY17E. We estimate GP margin to drop, by 0.5ppt to 27.6%, due to 1) rising costs of raw material (PVC resin and Plasticizer, both rose by over 10% in FY17E, and others like paper packaging, metals, etc, where prices had sky rocketed), 2) the RMBUSD appreciation in FY17E (already up 6.3% in FY17E, and particularly during Nov-Dec17) as well as, 3) boosting sales to the other regions, by promoting more recreation and camping products at a discounted price (e.g. South Africa, Australia), even though, at the same time, had been partially offset by other positives like 1) faster growth from higher margins new products (i.e. better product mix), 2) industrial automation improvements (productivity increases without hiring more labour), 3) arising ASP for sales to EU.

Figure 55: Breakdown of COGS in FY16



Source: Company data, CMBIS

Figure 56: Prices of PVC Resin, Plasticizer



Source: Frost & Sullivan, China Customs, Wind, CMBIS estimates

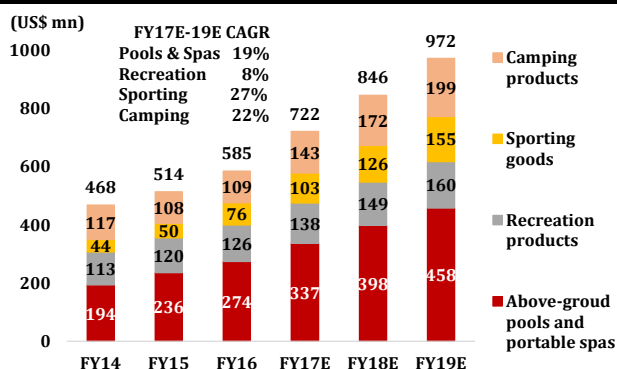
Overall S&D and admin expense, would still drop from 18.7% of sales in FY16 to 18.5% in FY17E, even after we factor in the rise in labour costs due to capacity expansion.

Labour cost would surge, as many more workers would be hired vs last year, for the up-coming ramp up of newly completed factory, and many of them are still in training, but many of the other opex (e.g. royalty expenses, depreciation and amortization, maintenance and repair, as well as travelling and entertainment expenses) would be relatively fixed, and be curbed.

OP margin would fall by 1.3ppt to 9.3% in FY17E, as it was dragged by the FX losses (Rmb appreciation against USD in FY17E). Despite the jump in other income (1.3% of sales in FY17E vs only 0.4% in FY16), as more government grants (e.g. tax returns or awards for technology achievements) was given, it is still not enough to cancel the drag from FX losses (counted in the other gains), which is about a negative 1.1% of sales in FY17E, comparing to a positive 0.8% in FY16, as a result, the OP margin would decline by 1.3ppt to 9.3% in FY17E.

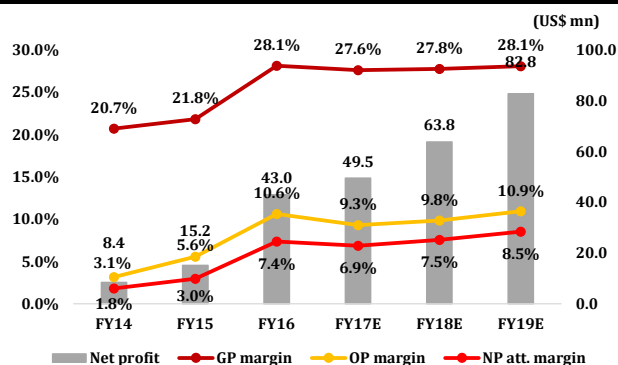
Boost by the tax holidays, effective tax to drop from 24.6% in FY16 to 22% in FY17E, and lift the net profit by 15.1%. Gladly, we expect the effective tax rate to be lower at 22% (from 24.6% in FY16), benefit from the grant of “High and New Technology Enterprises” status for one of its subsidiaries Bestway Shanghai, in 2016, this will help lifting the net profit growth back up to 15.1%, but still, the overall net profit margin will be lowered by 0.5ppt to 6.9% in FY17E.

Figure 57: Sales by product segment



Source: Company data, CMBIS estimates

Figure 58: Net profit and margins



Source: Company data, CMBIS estimates

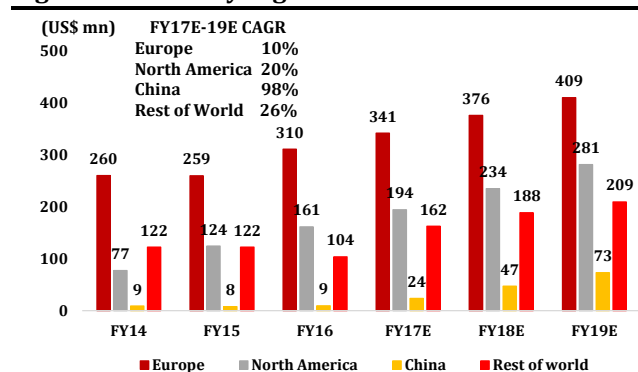
We project Bestway global's sales to rise at a 18.5% CAGR, and net profit to increase at a 24.4% CAGR in FY17E-19E. We project Bestway global's sales will rise at a 18.5% CAGR, and net profit to increase at a 28.2% CAGR in FY17E-19E, propelled by: 1) gaining more orders in relatively less developed regions (e.g. US), 2) rapid expansion in China, mainly through selling on E-commerce platform, 3) fast growth of hot selling products to continue (e.g. Portable Spas, Stand-up Paddles), 4) quick pick up of newly introduced products sales (e.g. "AlwaysAire™" airbeds, and many others to be launch, says, constant-air inflatable play centers in 2018), further penetration into more new industries, as well as 5) successful ramp-up of the newly added capacity.

We forecast net profit to grow by 15.1%/28.9%/29.7% in FY17E/18E/19E.

Mild GP margin improvements in FY18E-19E. We assume that GP margin to be 27.8%/28.1% in FY18E/19E, with the view that 1) no more RMBUSD appreciation, 2) oil price, and thus raw material prices, as well as paper packaging and metals to remain stable, and be able to pass on any costs pressure due to its industry leading position (there could be costs pressure for 2H18 trade fair orders, but the ASP had been raised for the 1H19E trade fair products), 2) higher margin new products continue to growth fast, 3) ASP raises and more sporting goods with better margins to be sold in EU, 4) further improvements in US margins, from greater economies of scale.

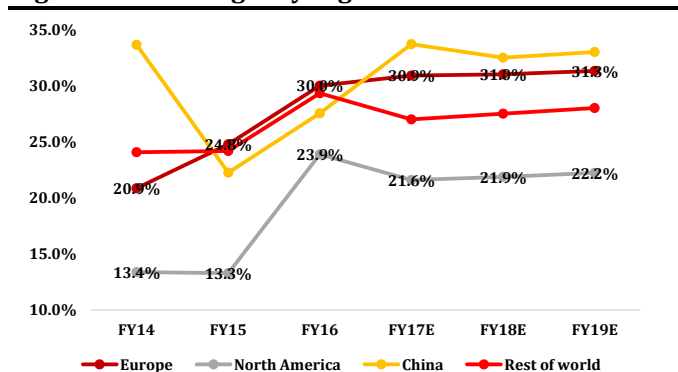
But OP margin will still rise, thanks to climb in utilization and efficiency, as well as less one-off costs in FY18E-19E. OP margin will be boosted from 10.6% in FY16 to 9.8%/10.9% in FY18E/19E, as a result of 1) smooth increase in capacity utilisation, as quite some costs are rather fixed, 2) slowdown in labour hiring, and continual efficiency gains, 3) absence of professional fees, about 0.6% of FY17E sales, 4) less one-off expenses (about US\$ 4.2mn legal payment and around US\$ 1mn spending on furniture for new buildings in FY17E), also, 5) plus some reduction in finance costs, these will all drive the net profit to grow by 15.1%/28.9%/29.7%, and reach US\$ 49.5/63.8/82.8 mn in FY17E/18E/19E.

Figure 59: Sales by region



Source: Company data, CMBIS estimates

Figure 60: GP margin by region



Source: Company data, CMBIS estimates

Balance sheet and Cash flow

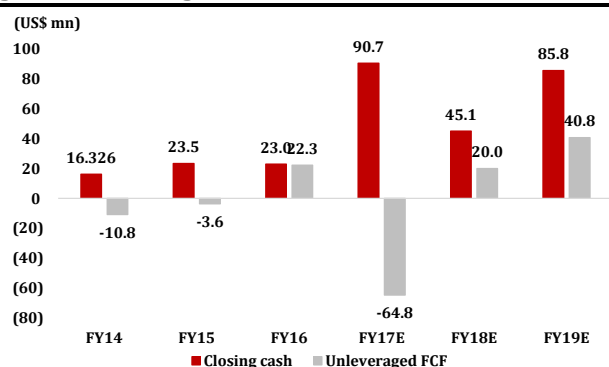
Company's balance sheet and Cash flow

Bestway's cash flow from operation has improved drastically, from US\$ 21.6mn outflow in FY14, to US\$ 27.3mn in FY15, and US\$ 65.4mn in FY16, very much inline with its businesses and margin expansions during the same period, and due to its heavy investments in capex, its free cash flow only turned to positive in FY16, with US\$ 29mn, from outflow of US\$ 17mn in FY15 and US\$ 56mn in FY14. Going forward, the free cash flow would also improve in FY18E-19E, as we believe its capital expenditure to peak in FY17E.

The overall interest coverage (EBIT/ interests expenses) improved from 3.5-4.2x in FY14-15, to 11.4x in FY16, which is a much healthier position. The net gearing was high in FY14-15, at 43.4%- 56.8%, has also trended down to 36.8% in FY16, a more reasonable level comparing to its peers. Interest costs and coverage could improve if more cash was earned and raised.

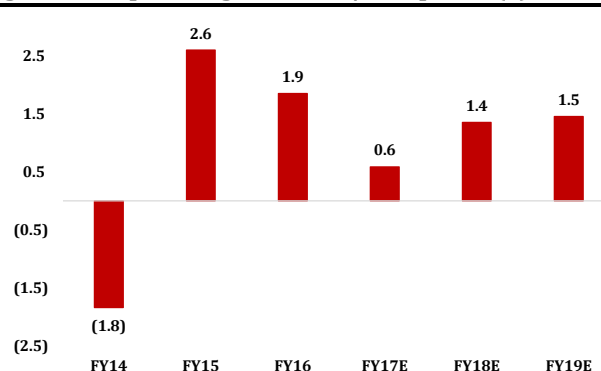
Bestway's cash-conversion cycle (account-receivable days + inventory days – account-payable days) has been rather stable, at 110, 126, and 123 days in FY14, FY15, and FY16 respectively. The relatively long inventory days (i.e. over 100 days) was mainly the result of its vertically integrated business model on a global basis, with operations spanning across manufacturing, to sales and marketing, as well as after-sales services. Gradual reduction of inventory days over FY14-FY16, was a result of improved businesses (i.e. sales growth), as well as, the decreases in raw material prices over the period.

Figure 61: Closing Cash Balance



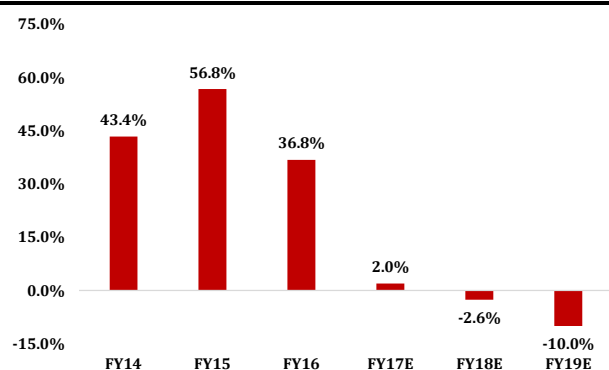
Source: Company data, CMBIS estimates

Figure 62: Operating cash flow/ net profit (x)



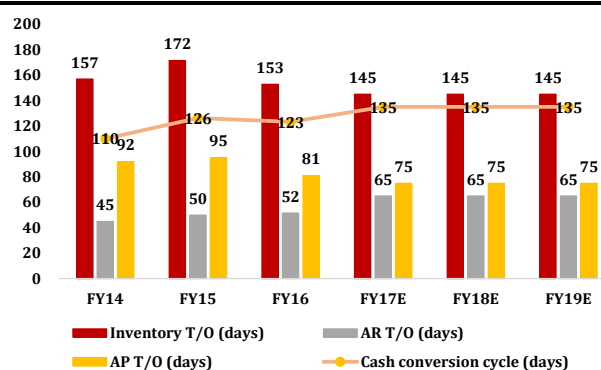
Source: Company data, CMBIS estimates

Figure 63: Net debt to equity (%)



Source: Company data, CMBIS estimates

Figure 64: Working Capital (days)



Source: Company data, CMBIS estimates

Sensitivity Analysis for raw material and currency

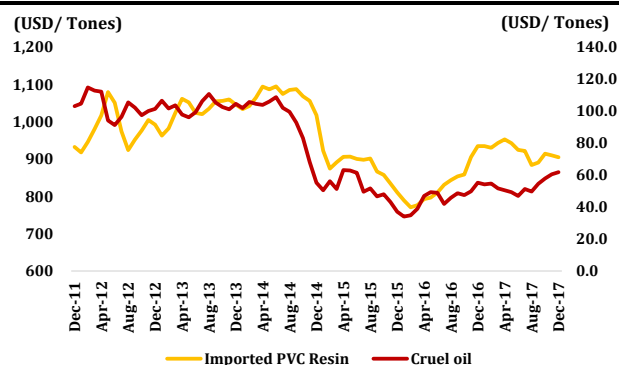
PVC resin and Plasticizer accounted for over 1/3 of total COGS. It is true that raw material, such as PVC resin and Plasticizer, are very important and crucial for the companies' GP margin, as about 40% of COGS were made up by those (PVC accounted for 26.4% and Plasticizer for 14.3% in FY16), according to our estimates, while the remaining raw materials are cardboard/linerboard papers, packings, pumps, small parts, fabrics, dying inks, etc.

Prices of PVC resin and Plasticizer are highly correlated to the oil price. Even though there are specific supply and demand dynamics for each of the oil's by-product, but historically speaking, prices of these two types of raw material are, clearly, highly correlated to oil price.

For FY17E and FY18E, 1% increase in PVC resin and Plasticizer prices will drive down 0.2-0.3% GP margin and reduce net profit by 4-5%. According to our sensitivity analysis, for FY17E, and FY18E, 1% increase (decrease) in both prices of PVC resin and Plasticizer will lead to 0.28% and 0.30% decrease (increase) in GP margin, as well as 4.7% and 5.2% decrease (increase) in net profit.

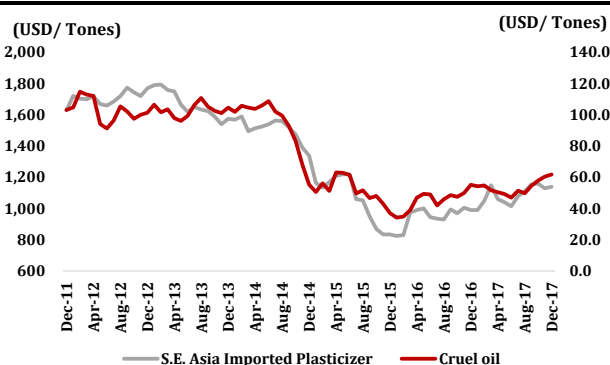
However, PVC resin and Plasticizer prices are not the only factors affecting GP margin. In FY15/ FY16, prices of PVC resin and Plasticizer dropped by 20.3%/ 5.5% (this should had brought 10.4%/ 2.4% margin gains), but GP margin expansions was only about 1.1% and 6.3%, this, effectively implied that there are other factors affecting the overall GP margin, like 1) currency (e.g. RMB), 2) product mix, 3) region mix, 4) labour costs, 5) efficiency gains, etc.

Figure 65: Imported PVC Resin price is correlated to oil



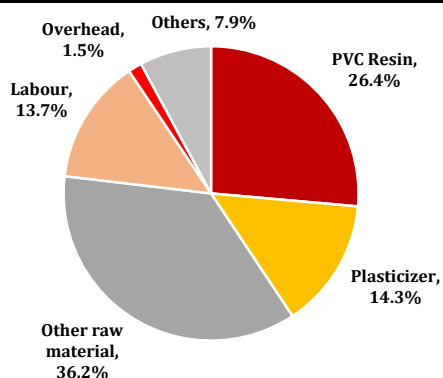
Source: China Customs, Bloomberg, Wind, CMBIS estimates

Figure 66: Imported Plasticizer price is correlated to oil



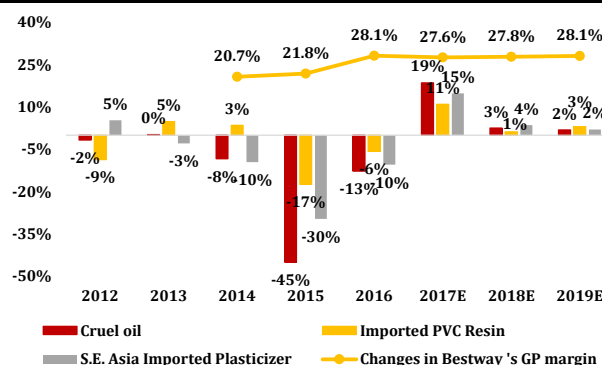
Source: China Customs, Bloomberg, Wind, CMBIS estimates

Figure 67: PVC resin and Plasticizer accounted for over 1/3 of COGS



Source: Company data, CMBIS estimates

Figure 68: GP margin and PVC resin and Plasticizer prices are only somewhat correlated



Source: China Customs, Bloomberg, Wind, CMBIS estimates

111% growth of raw material inventory in 1H17, to prepare for a potential surge. The company had in fact stocked a lot of inventory in 1H17, increased by 111%, from the level in FY16, to prepare for a potential sharp surge in prices, and help easing the cost pressure in 2H17E and FY18E, which may result in a less than expected GP margin erosion.

Figure 69: Raw material sensitivity test for 2017E projected GP margin

		2017E PVC Resin price growth (%)										
		6%	7%	8%	9%	10%	11.0%	12%	13%	14%	15%	16%
2017E Plasticizer price growth (%)	11%	28.9%	28.7%	28.6%	28.4%	28.2%	28.0%	27.8%	27.6%	27.5%	27.3%	27.1%
	12%	28.8%	28.6%	28.5%	28.3%	28.1%	27.9%	27.7%	27.5%	27.4%	27.2%	27.0%
	13%	28.7%	28.5%	28.4%	28.2%	28.0%	27.8%	27.6%	27.4%	27.3%	27.1%	26.9%
	14%	28.6%	28.4%	28.3%	28.1%	27.9%	27.7%	27.5%	27.3%	27.2%	27.0%	26.8%
	15.0%	28.5%	28.3%	28.2%	28.0%	27.8%	27.6%	27.4%	27.2%	27.1%	26.9%	26.7%
	16%	28.4%	28.2%	28.1%	27.9%	27.7%	27.5%	27.3%	27.1%	27.0%	26.8%	26.6%
	17%	28.3%	28.1%	28.0%	27.8%	27.6%	27.4%	27.2%	27.0%	26.9%	26.7%	26.5%
	18%	28.2%	28.0%	27.9%	27.7%	27.5%	27.3%	27.1%	26.9%	26.8%	26.6%	26.4%
	19%	28.1%	27.9%	27.8%	27.6%	27.4%	27.2%	27.0%	26.8%	26.7%	26.5%	26.3%
	20%	28.0%	27.8%	27.7%	27.5%	27.3%	27.1%	26.9%	26.7%	26.6%	26.4%	26.2%

Source: CMBIS estimates

Figure 70: Raw material sensitivity test for impacts on 2017E projected GP margin

		2017E PVC Resin price growth (%)										
		6%	7%	8%	9%	10%	11.0%	12%	13%	14%	15%	16%
2017E Plasticizer price growth (%)	11%	1.31%	1.13%	0.94%	0.76%	0.58%	0.40%	0.21%	0.03%	-0.15%	-0.34%	-0.52%
	12%	1.21%	1.03%	0.85%	0.66%	0.48%	0.30%	0.11%	-0.07%	-0.25%	-0.43%	-0.62%
	13%	1.11%	0.93%	0.75%	0.56%	0.38%	0.20%	0.01%	-0.17%	-0.35%	-0.53%	-0.72%
	14%	1.01%	0.83%	0.65%	0.46%	0.28%	0.10%	-0.08%	-0.27%	-0.45%	-0.63%	-0.82%
	15.0%	0.91%	0.73%	0.55%	0.37%	0.18%	0.00%	-0.18%	-0.37%	-0.55%	-0.73%	-0.91%
	16%	0.82%	0.63%	0.45%	0.27%	0.08%	-0.10%	-0.28%	-0.46%	-0.65%	-0.83%	-1.01%
	17%	0.72%	0.53%	0.35%	0.17%	-0.01%	-0.20%	-0.38%	-0.56%	-0.75%	-0.93%	-1.11%
	18%	0.62%	0.43%	0.25%	0.07%	-0.11%	-0.30%	-0.48%	-0.66%	-0.85%	-1.03%	-1.21%
	19%	0.52%	0.34%	0.15%	-0.03%	-0.21%	-0.40%	-0.58%	-0.76%	-0.94%	-1.13%	-1.31%
	20%	0.42%	0.24%	0.05%	-0.13%	-0.31%	-0.49%	-0.68%	-0.86%	-1.04%	-1.23%	-1.41%

Source: CMBIS estimates

Figure 71: Raw material sensitivity test for 2017E projected net profits

		2017E PVC Resin price growth (%)										
		6%	7%	8%	9%	10%	11.0%	12%	13%	14%	15%	16%
2017E Plasticizer price growth (%)	11%	59.0	57.7	56.3	55.0	53.7	52.4	51.1	49.7	48.4	47.1	45.8
	12%	58.3	56.9	55.6	54.3	53.0	51.7	50.3	49.0	47.7	46.4	45.1
	13%	57.6	56.2	54.9	53.6	52.3	51.0	49.6	48.3	47.0	45.7	44.4
	14%	56.8	55.5	54.2	52.9	51.6	50.2	48.9	47.6	46.3	45.0	43.6
	15.0%	56.1	54.8	53.5	52.2	50.8	49.5	48.2	46.9	45.6	44.2	42.9
	16%	55.4	54.1	52.8	51.5	50.1	48.8	47.5	46.2	44.9	43.5	42.2
	17%	54.7	53.4	52.1	50.7	49.4	48.1	46.8	45.5	44.1	42.8	41.5
	18%	54.0	52.7	51.3	50.0	48.7	47.4	46.1	44.7	43.4	42.1	40.8
	19%	53.3	51.9	50.6	49.3	48.0	46.7	45.3	44.0	42.7	41.4	40.1
	20%	52.6	51.2	49.9	48.6	47.3	46.0	44.6	43.3	42.0	40.7	39.4

Source: CMBIS estimates

Figure 72: Raw material sensitivity test for 2018E projected GP margin

		2018E PVC Resin price growth (%)										
		-2%	-1%	0%	1%	2%	3.0%	4%	5%	6%	7%	8%
2018E Plasticizer price growth (%)	-2%	29.2%	29.0%	28.8%	28.6%	28.4%	28.2%	28.0%	27.8%	27.6%	27.4%	27.2%
	-1%	29.1%	28.9%	28.7%	28.5%	28.3%	28.1%	27.9%	27.7%	27.5%	27.3%	27.1%
	0%	29.0%	28.8%	28.6%	28.4%	28.2%	28.0%	27.8%	27.6%	27.4%	27.2%	27.0%
	1%	28.9%	28.7%	28.5%	28.3%	28.1%	27.9%	27.7%	27.5%	27.3%	27.1%	26.9%
	2.0%	28.7%	28.5%	28.4%	28.2%	28.0%	27.8%	27.6%	27.4%	27.2%	27.0%	26.8%
	3%	28.6%	28.4%	28.2%	28.1%	27.9%	27.7%	27.5%	27.3%	27.1%	26.9%	26.7%
	4%	28.5%	28.3%	28.1%	27.9%	27.7%	27.6%	27.4%	27.2%	27.0%	26.8%	26.6%
	5%	28.4%	28.2%	28.0%	27.8%	27.6%	27.4%	27.3%	27.1%	26.9%	26.7%	26.5%
	6%	28.3%	28.1%	27.9%	27.7%	27.5%	27.3%	27.1%	26.9%	26.8%	26.6%	26.4%
	7%	28.2%	28.0%	27.8%	27.6%	27.4%	27.2%	27.0%	26.8%	26.6%	26.5%	26.3%

Source: CMBIS estimates

Figure 73: Raw material sensitivity test for impacts on 2018E projected GP margin

		2018E PVC Resin price growth (%)										
		-2%	-1%	0%	1%	2%	3.0%	4%	5%	6%	7%	8%
2018E Plasticizer price growth (%)	-2%	1.41%	1.21%	1.02%	0.82%	0.63%	0.43%	0.24%	0.05%	-0.15%	-0.34%	-0.54%
	-1%	1.30%	1.10%	0.91%	0.71%	0.52%	0.33%	0.13%	-0.06%	-0.26%	-0.45%	-0.64%
	0%	1.19%	0.99%	0.80%	0.61%	0.41%	0.22%	0.02%	-0.17%	-0.36%	-0.56%	-0.75%
	1%	1.08%	0.88%	0.69%	0.50%	0.30%	0.11%	-0.09%	-0.28%	-0.47%	-0.67%	-0.86%
	2.0%	0.97%	0.78%	0.58%	0.39%	0.19%	0.00%	-0.19%	-0.39%	-0.58%	-0.78%	-0.97%
	3%	0.86%	0.67%	0.47%	0.28%	0.09%	-0.11%	-0.30%	-0.50%	-0.69%	-0.88%	-1.08%
	4%	0.75%	0.56%	0.36%	0.17%	-0.02%	-0.22%	-0.41%	-0.61%	-0.80%	-0.99%	-1.19%
	5%	0.64%	0.45%	0.26%	0.06%	-0.13%	-0.33%	-0.52%	-0.71%	-0.91%	-1.10%	-1.30%
	6%	0.54%	0.34%	0.15%	-0.05%	-0.24%	-0.43%	-0.63%	-0.82%	-1.02%	-1.21%	-1.41%
	7%	0.43%	0.23%	0.04%	-0.16%	-0.35%	-0.54%	-0.74%	-0.93%	-1.13%	-1.32%	-1.51%

Source: CMBIS estimates

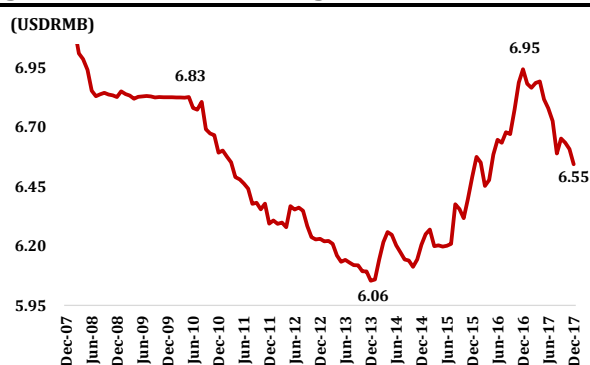
Figure 74: Raw material sensitivity test for 2018E projected net profits

		2018E PVC Resin price growth (%)										
		-2%	-1%	0%	1%	2%	3.0%	4%	5%	6%	7%	8%
2018E Plasticizer price growth (%)	-2%	75.7	74.1	72.4	70.8	69.1	67.5	65.9	64.2	62.6	60.9	59.3
	-1%	74.8	73.1	71.5	69.9	68.2	66.6	64.9	63.3	61.7	60.0	58.4
	0%	73.9	72.2	70.6	68.9	67.3	65.7	64.0	62.4	60.7	59.1	57.5
	1%	72.9	71.3	69.7	68.0	66.4	64.7	63.1	61.5	59.8	58.2	56.5
	2.0%	72.0	70.4	68.7	67.1	65.5	63.8	62.2	60.5	58.9	57.3	55.6
	3%	71.1	69.5	67.8	66.2	64.5	62.9	61.3	59.6	58.0	56.3	54.7
	4%	70.2	68.5	66.9	65.3	63.6	62.0	60.3	58.7	57.1	55.4	53.8
	5%	69.3	67.6	66.0	64.3	62.7	61.1	59.4	57.8	56.1	54.5	52.9
	6%	68.3	66.7	65.1	63.4	61.8	60.1	58.5	56.9	55.2	53.6	51.9
	7%	67.4	65.8	64.1	62.5	60.9	59.2	57.6	55.9	54.3	52.7	51.0

Source: CMBIS estimates

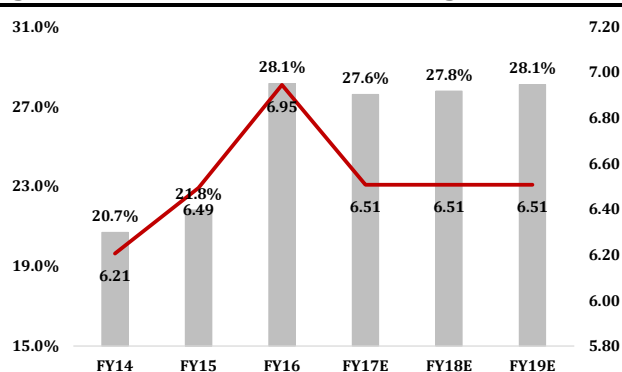
Most of the company's sales are denominated in USD, where the China sales only accounted for less than 5%, while most of its costs are in Rmb, therefore a strong USD should be favourable to net profit. Most of the overseas sales (outside of China) are denominated in USD, which includes sales going to Europe and South America, as well as Australia, where domestic sales in China is very limited, only accounted for 1.6% of FY16's sales, and expected to be 7.5% by FY19E, while, by our estimates, despite about 2/3 of the raw materials costs are in USD (especially the imported PVC resin and Plasticizer, that would be around 29.2% of FY16's sales), the overall costs are still mostly in Rmb, since the remaining costs, about 60.1%, are in domestic. As a result, a strong USDRMB would translate into a better GP margin, it has been the case during FY14-FY16.

Figure 75: USDRMB exchange rates



Source: Bloomberg, CMBIS estimates

Figure 76: USDRMB rates and GP margin



Source: Bloomberg, CMBIS estimates

For FY18E, 1% of USD appreciation against RMB will result in about 0.25% GP margin expansions and 4% of net profit increases. According to our sensitivity analysis, 1% of USD appreciation against RMB in FY18E, will result in roughly 0.25% GP margin expansions and 4% of net profit increases, vice versa.

Figure 77: Currency sensitivity test for 2018E projected GP margin and net profit

	2018E USDCNY changes											
	-5.0%	-4.0%	-3.0%	-2.0%	-1.0%	0.0%	1.0%	2.0%	3.0%	4.0%	5.0%	
USDRMB rate (year end)	6.18	6.25	6.31	6.38	6.44	6.51	6.57	6.64	6.70	6.77	6.67	
2018 GP margin	26.9%	27.1%	27.3%	27.4%	27.6%	27.8%	27.9%	28.1%	28.3%	28.4%	28.6%	
Changes on GPM	-0.87ppt	-0.69ppt	-0.52ppt	-0.34ppt	-0.17ppt	0.00ppt	0.17ppt	0.34ppt	0.50ppt	0.67ppt	0.38ppt	
Net profit	56.8	58.2	59.6	61.1	62.4	63.8	65.2	66.5	67.9	69.2	70.5	
NP growth (%)	14.7%	17.6%	20.4%	23.3%	26.1%	28.9%	31.6%	34.3%	37.0%	39.7%	42.3%	

Source: Bloomberg, CMBIS estimates

Major Assumptions

Figure 65: Major Assumptions for Bestway

Major assumptions	FY15	FY16	FY17E	FY18E	FY19E
Sales growth (%)					
Above-ground pools and portable spas	22.1%	16.1%	23.0%	18.0%	15.0%
Recreation products	5.6%	5.0%	10.0%	8.0%	7.0%
Sporting goods	13.7%	52.9%	35.0%	23.0%	23.0%
Camping products	-8.0%	0.6%	32.0%	20.0%	16.0%
Total	9.7%	13.8%	23.4%	17.2%	15.0%
Sales growth (%)					
Europe	-0.2%	19.7%	10.0%	10.0%	9.0%
North America	60.7%	29.8%	20.4%	20.8%	19.8%
China	-12.5%	22.1%	150.0%	100.0%	55.0%
Rest of world	0.2%	-15.3%	57.0%	16.0%	11.0%
Total	9.7%	13.8%	23.4%	17.2%	15.0%
GP margins	21.8%	28.1%	27.6%	27.8%	28.1%
GP margin by product					
Above-ground pools and portable spas	17.5%	25.1%	25.2%	25.4%	25.7%
Recreation products	24.9%	30.9%	28.4%	28.7%	29.0%
Sporting goods	27.1%	31.0%	33.2%	32.9%	33.2%
Camping products	25.3%	30.6%	28.5%	28.7%	28.9%
Total	21.8%	28.1%	27.6%	27.8%	28.1%
GP margin by region					
Europe	24.8%	30.0%	30.9%	31.0%	31.3%
North America	13.3%	23.9%	21.6%	21.9%	22.2%
China	22.2%	27.5%	33.7%	32.5%	33.0%
Rest of world	24.2%	29.3%	27.0%	27.5%	28.0%
Total	21.8%	28.2%	27.6%	27.8%	28.1%
Selling & distribution costs / sales	-9.3%	-10.4%	-10.2%	-9.7%	-9.5%
Admin expenses / sales	-8.1%	-8.3%	-8.3%	-8.2%	-8.1%
Effective tax rate	-30.5%	-24.6%	-22.0%	-22.0%	-22.0%

Source: Company data, CMBIS estimates

Financial statements

Income statement

YE Dec 31 (US\$ mn)	FY15A	FY16A	FY17E	FY18E	FY19E
Revenue	513.5	584.5	721.5	845.6	972.3
Above-ground pools and portable spas	236.3	274.3	337.4	398.2	457.9
Recreation products	119.7	125.7	138.3	149.3	159.8
Sporting goods	49.7	76.0	102.6	126.2	155.2
Camping products	107.8	108.5	143.2	171.9	199.4
Cost of sales	(401.5)	(420.0)	(522.3)	(610.7)	(699.1)
Gross profit	112.0	164.5	199.2	234.8	273.2
Other income and gains	6.3	6.8	1.4	-	3.4
Selling and marketing expenses	(48.0)	(60.7)	(73.3)	(82.3)	(92.0)
General and administrative expenses	(41.8)	(48.6)	(60.2)	(69.4)	(78.4)
Other operating expenses	-	-	-	-	-
EBIT	28.6	62.0	67.1	83.2	106.3
Finance costs, net	(6.7)	(4.9)	(3.6)	(1.4)	(0.2)
Pre-tax profit	21.9	57.0	63.5	81.8	106.1
Profits tax	(6.7)	(14.0)	(14.0)	(18.0)	(23.3)
Minority interests	-	-	-	-	-
Net profit	15.2	43.0	49.5	63.8	82.8
Adjusted profit	15.2	43.7	53.9	63.8	82.8

Source: Company data, CMBIS estimates

Balance statement

YE Dec 31 (US\$ mn)	FY15A	FY16A	FY17E	FY18E	FY19E
Non-current assets	148.8	160.9	225.2	239.3	250.4
Property, plant and equipment	126.7	139.4	200.8	214.9	225.9
Intangible assets & goodwill	0.1	0.4	0.4	0.4	0.5
Land use rights	14.9	15.7	18.6	18.6	18.7
Investment properties	0.0	0.0	0.0	0.0	0.0
Interest in associates	0.0	0.0	0.0	0.0	0.0
Interest in joint ventures	0.0	0.0	0.0	0.0	0.0
Other financial assets	1.0	1.0	1.0	1.0	1.0
Deferred tax assets	5.6	3.9	3.9	3.9	3.9
Others	0.5	0.5	0.5	0.5	0.5
Current assets	323.8	302.1	452.3	466.8	568.2
Other financial assets	23.7	14.2	17.5	20.5	23.5
Inventories	189.3	162.4	207.5	242.6	277.7
Trade and other receivables	70.5	94.6	128.5	150.6	173.1
Restricted bank balances	16.9	8.1	8.1	8.1	8.1
Cash and cash equivalents	23.5	23.0	90.7	45.1	85.8
Current liabilities	288.4	256.9	292.9	262.1	297.4
Bank loans	131.5	94.6	94.6	30.0	30.0
Receipts in advance	0.0	6.8	6.8	6.8	6.8
Trade and other payables	143.0	145.0	174.7	204.5	234.5
Current taxation	6.0	7.7	14.0	18.0	23.3
Others	7.8	2.8	2.8	2.8	2.8
Non-current liabilities	4.6	2.1	2.2	2.2	2.2
Interest-bearing borrowings	2.7	0.1	0.1	0.1	0.1
Post-employment benefits	0.1	0.2	0.2	0.2	0.2
Deferred tax liabilities	0.7	1.8	1.8	1.8	1.8
Provision for risk and charges	0.0	0.0	0.0	0.0	0.0
Others	1.2	0.1	0.2	0.2	0.2
Total net assets	179.5	203.9	382.3	441.9	519.0
Minority Interest	(0.3)	(0.6)	(0.6)	(0.6)	(0.6)
Shareholders' equity	179.8	204.5	382.9	442.5	519.6

Source: Company data, CMBIS estimates

Cash flow summary

YE Dec 31 (US\$ mn)	FY15A	FY16A	FY17E	FY18E	FY19E
EBIT	28.6	62.0	67.1	83.2	106.3
Depreciation and amortization	9.9	11.3	13.7	16.9	19.4
Change in working capital	5.3	0.9	(52.7)	(30.5)	(30.7)
Income tax paid	(6.0)	(9.5)	(14.0)	(18.0)	(23.3)
Others	(10.4)	0.7	1.8	17.7	26.4
Net cash from operating activities	27.3	65.4	16.0	69.3	98.1
Capex	(33.5)	(34.3)	(75.8)	(33.8)	(34.0)
Associated companies	0.0	0.0	0.0	0.0	0.0
Other	(11.1)	(2.1)	1.8	2.5	1.2
Net cash from investing activities	(44.6)	(36.4)	(74.0)	(31.4)	(32.8)
Equity raised	0.0	0.0	140.4	0.0	0.0
Change of Debts	23.7	(29.9)	0.0	(64.6)	0.0
Dividend paid	(0.0)	(3.2)	(14.7)	(19.0)	(24.6)
Others	0.0	2.8	0.0	0.0	0.0
Net cash from financing activities	23.7	(30.4)	125.7	(83.6)	(24.6)
Net change in cash	6.4	(1.4)	67.8	(45.6)	40.6
Cash at the beginning of the year	16.3	23.5	23.0	90.7	45.1
Exchange difference	0.7	0.9	0.0	0.0	0.0
Cash at the end of the year	23.5	23.0	90.7	45.1	85.8

Source: Company data, CMBIS estimates

Key ratios

YE Dec 31	FY15A	FY16A	FY17E	FY18E	FY19E
Sales mix (%)					
Above-ground pools and portable spas	46.0	46.9	46.8	47.1	47.1
Recreation products	23.3	21.5	19.2	17.7	16.4
Sporting goods	9.7	13.0	14.2	14.9	16.0
Camping products	21.0	18.6	19.8	20.3	20.5
Total	100.0	100.0	100.0	100.0	100.0
Profitability ratios (%)					
Gross margin	21.8	28.1	27.6	27.8	28.1
EBIT margin	5.6	10.6	9.3	9.8	10.9
Pre-tax margin	4.3	9.8	8.8	9.7	10.9
Net margin	3.0	7.4	6.9	7.5	8.5
Adjusted net margin	3.0	7.5	7.5	7.5	8.5
Effective tax rate	30.5	24.6	22.0	22.0	22.0
Growth (%)					
Revenue	9.7	13.8	23.4	17.2	15.0
Gross profit	15.7	46.8	21.1	17.9	16.3
EBIT	94.0	116.8	8.3	23.9	27.7
Net profit	80.2	183.2	15.1	28.9	29.7
Adjusted Net profit	80.2	187.6	23.3	18.5	29.7
Balance sheet ratios					
Current ratio (x)	1.1	1.2	1.5	1.8	1.9
Trade receivables turnover days	49.9	51.6	65.0	65.0	65.0
Trade payables turnover days	95.1	81.0	75.0	75.0	75.0
Inventory turnover days	171.5	152.8	145.0	145.0	145.0
Net debt to total equity ratio (%)	57.6	36.8	2.0	Net cash	Net cash
Returns (%)					
ROE	8.6	22.4	12.9	14.4	15.9
ROA	3.2	9.2	7.3	9.0	10.1
Per share data					
EPS (US\$)	-	-	0.046	0.060	0.077
Adjusted EPS (US\$)	-	-	0.050	0.060	0.077
DPS (US\$)	-	-	0.014	0.018	0.023
BVPS (US\$)	-	-	0.362	0.418	0.491

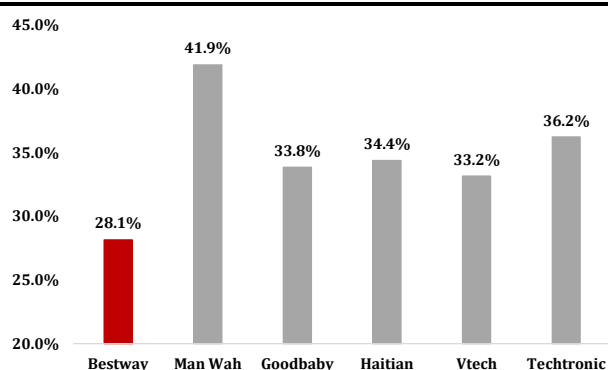
Source: Company data, CMBIS estimates

Peer comparison and valuation

Benchmarking with leading Chinese exporters with self-owned brands.

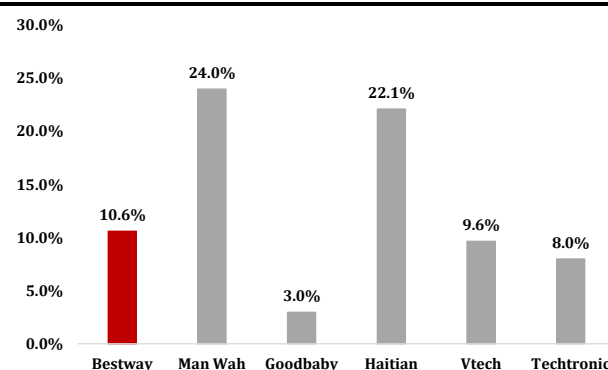
We benchmark Bestway with five leading peers, which are Man Wah (1999 HK), Goodbaby (1086 HK), Haitian (1882 HK), Vtech (303 HK), and Techtronic (669 HK), we believe the similarity they share with Bestway are : 1) Chinese exporters, 2) brand owners + ODM, 3) leaders in their industry.

Figure 79: GP margins by peer, FY16



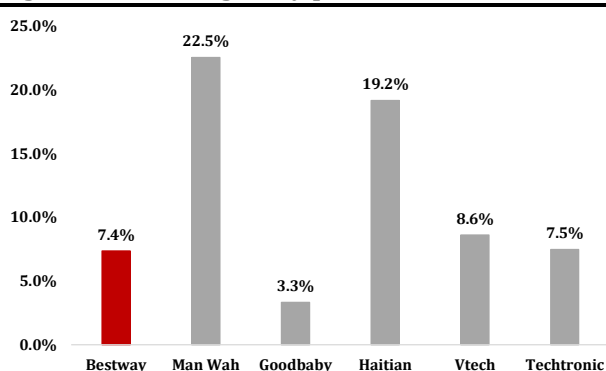
Source: Company data, CMBIS

Figure 80: OP margins by peer, FY16



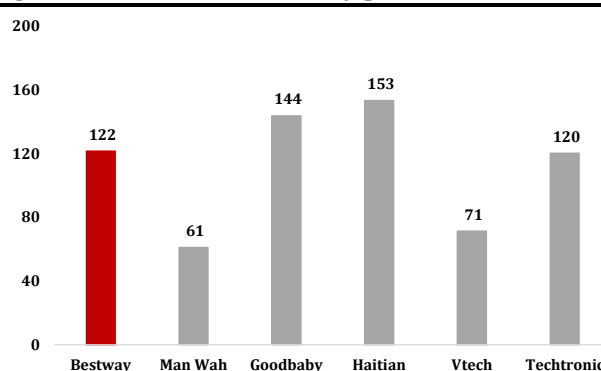
Source: Company data, CMBIS

Figure 81: NP margins by peer, FY16



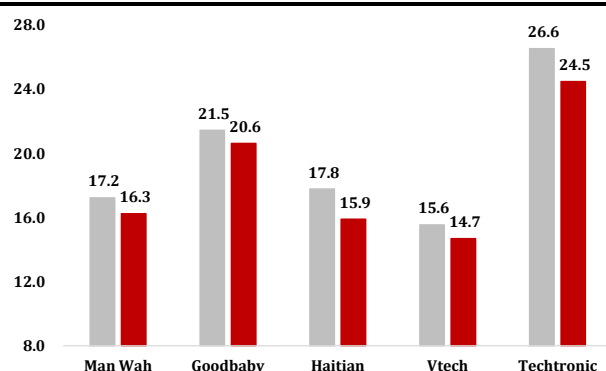
Source: Company data, CMBIS

Figure 82: Cash Conversion by peer, FY16



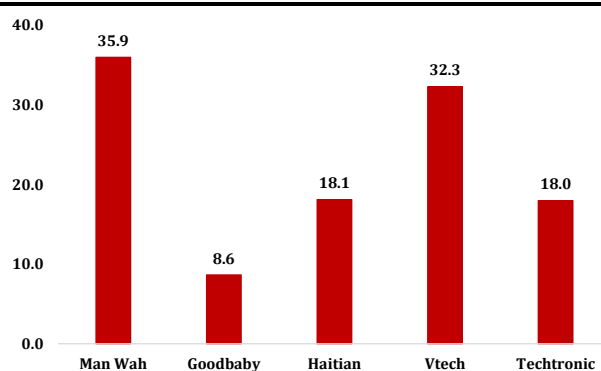
Source: Bloomberg, Company data, CMBIS

Figure 83: PE by peers, 1 and 2 years forward



Source: Bloomberg, Company data, CMBIS

Figure 84: ROE, FY16



Source: Bloomberg, Company data, CMBIS

Valuation

Initiate BUY with TP of HK\$4.65. We initiate BUY on Bestway Global, with a TP of HK\$ 4.65, based on a 10x FY18E PE, implying an 36.3% upside. The Company currently trades at only 7x FY18E PE, we believe it is highly undervalue comparing to other 5 leading Chinese exporters with self-owned brands (Peers average at 15.5x), especially when we take into account of 24.4% net profit CAGR during FY17E-19E (Peers average at only 17.0%), deducing a 1.1x FY18E PB, and a 0.38x FY17E-19E PEG, Valuation cross checked with the DCF model is at HK\$ 4.76, using a 12.5% WACC, and 1% of terminal growth. Also, we do believe the cash flow of the Company will improve significantly after the investment period by the virtue of robust orders and significant reduction in capex in FY17E-18E.

Figure 85: Peers Table

Price					PER (x)				EPS Growth(%)			PBR (x)				ROE (%)	3yrs PEG(x)	Yield (%)	YTD performance
Company	Ticker	HK\$	HK\$ mn	End	FY0	FY1	FY2	5yrs avg.	FY1	FY2	FY3	FY0	FY1	FY2	5yrs avg.	FY0	FY1	FY1	(%)
H-shares Brands and Exporters																			
Bestway Global Holding Inc	3358 HK	3.36	3,556	31/12/2016	10.6	9.3	7.2	n/a	14.0	28.9	29.7	n/a	1.1	1.0	n/a	22.6	0.4	n/a	(1.5)
Man Wah Holdings Ltd	1999 HK	7.40	28,209	31/3/2017	17.0	16.1	13.5	13.1	1.0	18.9	12.0	5.3	4.8	4.2	3.3	31.8	1.5	3.8	(0.4)
Goodbaby International Holdi	1086 HK	4.44	7,392	31/12/2016	22.2	21.3	15.9	26.0	9.5	34.1	26.2	1.9	1.7	1.6	1.6	9.0	0.9	1.2	3.5
Haitian International Hldgs	1882 HK	23.70	37,825	31/12/2016	17.5	15.5	13.5	14.2	34.6	14.9	11.2	3.2	3.0	2.6	2.6	19.8	0.8	2.2	0.9
Vtech Holdings Ltd	303 HK	101.60	25,539	31/3/2017	15.5	14.6	13.6	16.4	25.5	7.4	5.4	5.8	5.4	5.3	5.7	38.8	1.2	6.5	(0.8)
Techtronic Industries Co Ltd	669 HK	52.50	96,339	31/12/2016	28.2	26.0	21.9	18.7	16.4	18.6	17.3	4.9	4.5	3.9	2.9	18.3	1.5	1.2	3.0
Haier Electronics Group Co	1169 HK	22.15	62,070	31/12/2016	17.0	15.6	13.4	15.0	21.2	16.8	13.6	2.8	2.5	2.2	3.5	17.4	0.9	1.2	3.5
Johnson Electric Holdings	179 HK	31.65	27,815	31/3/2017	13.5	13.1	11.7	14.1	11.6	12.2	12.1	1.6	1.6	1.4	1.6	12.8	1.1	1.9	(3.4)
Yue Yuen Industrial Hldg	551 HK	30.85	50,856	31/12/2016	11.9	11.7	11.1	13.6	4.6	5.5	6.7	1.4	1.5	1.4	1.3	11.6	2.1	13.1	0.5
Stella International	1836 HK	11.72	9,310	31/12/2016	14.9	14.0	12.1	15.9	4.6	15.9	9.7	1.2	1.2	1.2	2.0	8.3	1.4	5.6	(0.7)
Shenzhen International Group	2313 HK	77.90	117,101	31/12/2016	27.7	25.9	21.7	17.1	22.0	19.3	18.1	5.0	4.9	4.4	3.2	20.9	1.3	2.1	4.7
Regina Miracle International	2199 HK	7.65	9,366	31/3/2017	55.1	30.4	16.1	n/a	215.0	88.1	35.4	3.5	3.3	2.9	n/a	6.5	0.3	1.1	(0.6)
Average					20.9	17.8	14.3	16.4	31.7	23.4	16.4	3.3	3.0	2.7	2.8	18.1	1.1	3.6	0.7
Median					17.0	15.6	13.5	15.5	15.2	17.7	12.9	3.2	2.7	2.4	2.7	17.9	1.1	2.1	0.0

Price					PER (x)				EPS Growth(%)			PBR (x)				ROE (%)	3yrs PEG(x)	Yield (%)	YTD performance
Company	Ticker	Rmb	HK\$ mn	End	FY0	FY1	FY2	5yrs avg.	FY1	FY2	FY3	FY0	FY1	FY2	5yrs avg.	FY0	FY1	FY1	(%)
International Outdoor brands and Manufacturers																			
Vf Corp	VFC US	74.42	229,892	31/12/2016	24.8	24.6	21.5	18.9	18.2	14.3	9.9	7.5	8.1	7.9	4.5	22.0	1.7	2.3	0.6
Deckers Outdoor Corp	DECK US	80.3	20,051	31/3/2017	17.9	18.7	16.3	n/a	2306.8	14.6	12.3	2.7	2.5	2.3	n/a	3.4	0.1	0.0	0.0
Newell Brands Inc	NWL US	31.64	121,226	31/12/2016	12.8	11.2	10.7	17.8	126.8	4.9	10.1	1.2	1.2	1.2	4.3	10.4	0.3	2.8	2.4
Hasbro Inc	HAS US	92.08	89,661	25/12/2016	19.3	18.4	17.6	17.3	14.3	5.1	7.0	5.9	5.0	4.3	4.5	32.2	2.1	2.5	1.3
Mattel Inc	MAT US	16.02	43,048	31/12/2016	n/a	n/a	37.3	20.1	(111.4)	(507.4)	109.1	3.8	3.3	2.8	4.0	(31.0)	0.0	5.1	4.2
Carter's Inc	CRI US	117.85	43,599	31/12/2016	22.3	20.9	19.0	20.3	10.4	10.2	10.2	7.2	6.5	6.1	5.0	32.6	2.0	1.3	0.3
Children's Place Inc/The	PLCE US	149.55	20,338	28/1/2017	20.5	19.9	18.5	16.8	37.7	7.3	4.2	5.1	4.5	4.1	2.3	25.6	1.3	1.1	2.9
Columbia Sportswear Co	COLM US	73.04	39,899	31/12/2016	25.7	26.2	23.8	21.8	2.2	9.8	10.9	3.1	2.9	2.6	2.2	12.6	3.4	1.0	1.6
Vista Outdoor Inc	VSTO US	15.10	6,767	31/3/2017	12.7	61.9	16.5	n/a	(105.3)	274.4	0.0	0.7	0.7	0.7	n/a	(33.0)	0.0	n/a	3.6
Johnson Outdoors Inc-A	JOUT US	62.07	4,852	29/9/2017	17.7	18.2	17.1	16.7	(3.8)	6.5	0.0	2.6	n/a	n/a	1.7	15.6	0.0	n/a	(0.0)
Dorel Industries-Cl B	DII/B CN	30.91	6,254	30/12/2016	14.0	12.6	11.3	12.9	(648.4)	11.6	14.3	0.7	n/a	n/a	0.8	2.6	(0.0)	4.9	(0.6)
Average					18.8	23.3	19.0	18.1	149.8	(13.5)	17.1	3.7	3.9	3.5	3.3	8.4	1.0	2.3	1.5
Median					18.6	19.3	17.6	17.8	10.4	9.8	10.1	3.1	3.3	2.8	4.0	12.6	0.3	2.3	1.3

Source: Bloomberg, CMBIS estimates

Sizes do not necessarily matter. Just to note, we see no differences in PE regarding the size (says, both Goodbaby (1086 HK) and Regina Miracle (2199 HK) all possess a rather high PE at 15x and 18x, despite that their sizes are relatively small at about 5bn to 9bn HK\$ market cap).

DCF method.

Our estimated valuation using the DCF method would be at HK\$4.76 per share OR market cap of HK\$ 5,083mn (US\$ 653mn), using a 12.5% WACC, and 1% terminal growth.

Figure 86: Valuation - DCF method

DCF	FY17E	FY18E	FY19E	FY20E	FY21E	FY22E	FY23E
EBITDA	81	103	129	157	184	208	234
Chg in working cap	(53)	(30)	(31)	(29)	(31)	(28)	(32)
Adjusted tax	(15)	(19)	(24)	(29)	(34)	(39)	(44)
Capex & product development	(79)	(34)	(34)	(38)	(43)	(47)	(52)
Unleveraged FCF	(65)	20	41	61	76	94	107
YoY%		-131%	104%	50%	25%	23%	13%
DCF 18E-22E		193					
PV (Terminal value)		458					
EV (End-17E)		651					
Cash from options/warrants conv		10					
Yer-end net cash/(debts)		(8)					
Fully diluted equity value (End-17E) in US\$		653					
Fully diluted no. of shares (m)		1,068					
Fully diluted equity value (End-17E) in HK\$		5,083					
Exchange rate		7.78					
Fully diluted equity value/share (HK\$)		4.76					
Risk-free rate		3.5%					
Risk premium		8.5%					
Beta		0.85					
Cost of equity		10.7%					
Cost of debt		4.6%					
Tax rate		22.0%					
After-tax cost of debt		3.6%					
Debt to total capital		-25.0%					
WACC		12.5%					
Terminal growth		1.0%					
Terminal value (US\$m)		936					
FCF multiple (x)		8.8					

Source: Bloomberg, CMBIS estimates

Figure 87: Sensitivity test for the target market capitalization, in US\$ mn

	Terminal growth (%)	WACC (%)				
		11.5%	12.0%	12.5%	13.0%	13.5%
	0.0%	676	643	613	585	559
	0.5%	700	664	632	603	575
	1.0%	726	688	653	622	593
	1.5%	755	714	677	643	612
	2.0%	787	742	702	665	632

Source: Bloomberg, CMBIS estimates

Key Risks and concerns

1) Currency and commodity risk

Raw materials and consumables accounted for 76.9% of total COGS or 55.2% of total sales in FY16, while PVC resins and plasticizers are the major ones, if there is significant change in those prices, the Company may not be able to pass on fully the costs to customers, and may have to bare some margin losses. Most of the sales for the Company are denominated in US\$, while the most of its operating costs are in Rmb, therefore, without considering any hedging activities, a depreciation in Rmb is favourable, vice versa. The Company had entered into some forward FX contracts to hedge its currency exposure, and generated US\$ 0.1/2.6/ 1.1 mn losses in FY14/15/16,

2) Ramp up, expansion, high capex requirement risk

If sales growth, and orders from customer do not meet the original expectation, newly created capacity may face period of under-utilization and high depreciation, and will result in margins reduction, and significant profit decline,

3) Rise in competition, potential new entrants

Since the sharp decline in oil price in late 2014, the prices of oil bi-products retreated as well, this had benefited companies like Bestway, and boosted its NP margins from 1.8% to 7.4% in FY16, given this level of profitability, would possibly attract new competitors into the market, and create certain level of competition, which may in turn affect the ASP and hurt the margins,

4) Over sell in, channel stuffing risk

If the Company sell its products to the retailers, but the sell through rate is not good (i.e. sales to consumer at the retail end is disappointing), then the inventory in the channel may pile up, and at one point, the receivables may not be reasonably realized, and may result in large amount of provision,

5) Risk of counterfeit products

There are risks that the Company's product are imitated by copy cats, any counterfeiting of its products or other breaches of its intellectual property rights could negatively affect our reputation and brand name, when those counterfeits are of poor quality, and selling at a discounted price, could lead to loss of consumer confidence in our brands, and adversely affect our sales revenue.

6) Legal affairs risk

Bestway is involved in a few court case relating to their competitor INTEX, however, we believe its potential impacts on sales and earnings are minimal.

Appendix 1: Milestones

Figure 88: Company's milestones

Year	Milestones
1994	Shanghai Bestway Plastic was established. Along with its establishment, manufacturing facilities, warehouses, office buildings were set up
1999	Bestway Shanghai, which was an important manufacturing site in Shanghai, covering manufacturing facilities, warehouses, office building and employee dormitories to facilitate the production lines, was established
2000	The Company cooperated with OBI Group in Germany and Carrefour Store in France to sell its products
2001	Bestway Europe and Bestway USA were established The Company cooperated with Kmart Australia Ltd. in Australia to sell its products
2002	Bestway Central & South America was established in Chile, which marked the Group's initial entry in Central and South America The Company cooperated with Argos Retail Group (Hong Kong) Limited in Hong Kong and Toys "R" Us France in France to sell its products
2003	Bestway Shanghai was first recognized as 上海工業銷售收入500強(Shanghai Top 500 Industrial Enterprise) by 上海現代統計產業發展中心(Shanghai Statistics Modern Industrial Development Center) The Company cooperated with SNC Organisation Intra-Goup Des Achats (Auchan) in France, Tesco International Sourcing Limited in Hong Kong, Sears Holdings Global Sourcing Ltd. in Hong Kong and Aldi Inc. in U.S. to sell its products
2004	The Company established its second manufacturing site in Yancheng, Jiangsu province, covering manufacturing facilities, warehouses, office building and employee dormitories, to accommodate the increase in the annual production capacity
2005	The Company's global revenue exceeded US\$100 million The Company cooperated with Aldi Einkanf GmbH & Co. in Germany and Walgreen Co. in U.S. to sell its products
2006	The Company cooperated with Fred Meyer Inc. and Dollar General Mds., Inc. in U.S. to sell its products
2007	The Company established our third manufacturing site in Nantong, Jiangsu province, covering manufacturing facilities, warehouses, office building and employee dormitories, to accommodate the continued increase in the annual production capacity

Source: Company data, CMBIS

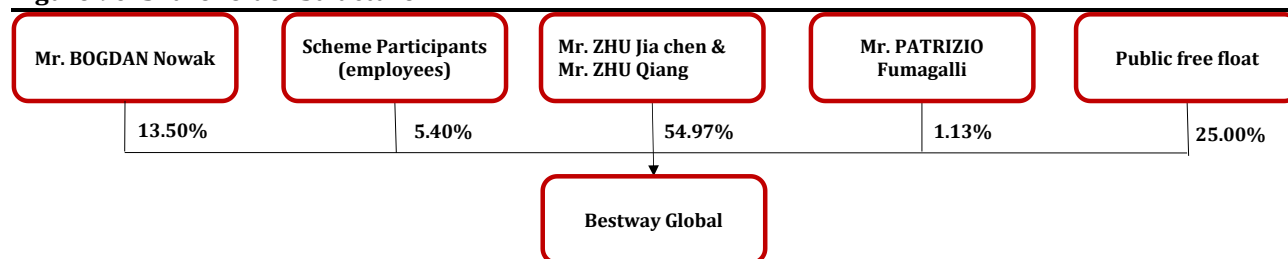
Figure 89: Company's milestones

Year	Milestones
2011	<p>The Company global revenue exceeded US\$300 million</p> <p>Bestway Italy, Bestway France and Bestway Germany were established</p> <p>The Company cooperated with one of the leading global retailers customers in the United States to sell its products</p>
2012	<p>The Company cooperated with Target in Australia to sell its products</p>
2013	<p>Bestway Australia was established</p> <p>The Company cooperated with one of the leading global retailer customers in United States to sell its products</p>
2014	<p>Bestway Russia was established</p> <p>We were recognized as 中國馳名商標(Well-known Chinese Trademark) by 國家工商行政管理總局商標評審委員會(Trademark Review and Adjudication Board of the State Administration for Industry and Commerce)</p>
2015	<p>The Company's global revenue exceeded US\$500 million</p> <p>The Company was recognized as Top 100 Enterprise of China Light Industry (中國輕工業百強企業) by 中國輕工業聯合會(China Light Industry Association)</p> <p>The Company was recognized as Shanghai Famous Brand (上海名牌) by 上海市名牌推薦委員會(Shanghai City Famous Brand Recommendation Committee) in relation to its above-ground pool products</p> <p>The Company was awarded as the "Exceptional Performance for Price/Value award" by one of the leading global retailer customers in the United States</p> <p>The Company was recognized as 中國輕工業體育用品行業十強企業(Top 10 Enterprises of Sports Goods Industry in China Light Industries) by 中國輕工業聯合會下的 中國文教體育用品協會(China Educational, Cultural and Sports Good Association under the China National Light Industry Council)</p> <p>The Company was one of the four nominees for "Supplier of the Year" award of one of the leading global retailer customers in the United States</p>
2016	<p>The Company was ranked as one of the top seven Chinese Suppliers and awarded the "Best Climate Change Performance among Chinese Suppliers" in 2016 by Carbon Disclosure Project (CDP) Global Environmental Information Research Center</p>
2017	<p>Bestway Shanghai was elected as the president unit for 戶外運動器材專業委員會(the Outdoor Sports Equipment Professional Committee) under 中國文教體育用品協會(the Chinese Sports Association of Culture and Education)</p> <p>The Company has successfully listed on the Main Board of The Stock Exchange of Hong Kong Limited ("HKEx"), and total proceeds raised from the Global Offering was approximately HK\$1.15 bn (US\$140 mn).</p>

Source: Company data, CMBIS

Appendix 2: Shareholder Structure

Figure 90: Shareholder Structure



Source: Company data, CMBIS

Appendix 3: Awards and Recognitions

Figure 91: Awards and Recognitions

Awards and Recognitions	Year	Issuing Authority
well-known Chinese trade mark (中國馳名商標)	Feb-2014	Trademark Review and Adjudication Board of the State Administration for Industry and Commerce (國家工商行政管理總局商標評審委員會)
Top 100 Enterprise of China Light Industry (中國輕工業100強企業)	Jun-2015	China Light Industry Association (中國輕工業協會)
Top 10 Enterprises of Sports Goods Industry in China Light Industries (中國輕工業體育用品行業10強企業)	Jun-2016	China Light Industry Association (中國輕工業協會) and China Education, Cultural and Sports Good Association under the China National Light Industry Council (中國輕工業委員會下的中國教育文化體育協會)
Advanced Enterprise of National Light Industry High Performance Excellence (全國輕工業卓越績效先進企業)	May-2016	China Light Industry Association (中國輕工業協會)
High Technology Enterprises (高新技術企業)	Nov-2016	Science and Technology Commission of Shanghai (上海科學技術委員會), Shanghai Finance Bureau (上海市財政局), Shanghai State Municipal Office (上海市國家稅務局) and Shanghai Municipal Bureau of Local Taxation (上海市地方稅務局)
Shanghai Famous Brand (上海名牌)	Dec-2015	Shanghai City Famous Brand Recommendation Committee (上海市名牌推薦委員會)
Shanghai Enterprise Technology Center (上海市認定企業技術中心)	Aug-2015	Shanghai Municipal Economic Commission (上海市經濟委員會), Shanghai State Tax Bureau (上海市國家稅務局), Shanghai Finance Bureau (上海市財政局), Shanghai Local Taxation Bureau and Shanghai Customs (上海市地方稅務局及上海海關)
Shanghai Municipal Industrial Design (上海市市級工業設計中心)	Jul-2015	Shanghai Municipal Commission of Economy and Information (上海市經濟與信息化委員會)
National Outstanding Foreign Enterprise (全國優秀外商企業)	1999 to 2012	Shanghai Foreign Investment Commission and Shanghai Municipal Commission of Commerce (上海市外商投資委員會和上海市商務委員會)
Bestway Shanghai elected as the vice chairman unit for the Chinese Sports Association of Culture and Education (中國文化教育體育用品協會)	Since 2013	Chinese Sports Association of Culture and Education (中國文化教育體育用品協會)
Bestway Shanghai elected as the vice president unit for the Outdoor Sports Equipment Professional Committee (會戶外運動器材專業委員會) under the Chinese Sports Association of Culture and Education (中國文化教育體育用品協會)	Mar-2017	Chinese Sports Association of Culture and Education (中國文化教育體育用品協會)
Best Climate Change Performance among Chinese Suppliers in 2016	Mar-2017	Carbon Disclosure Project (CDP) Global Environmental Information Research Center

Source: Company data, CMBIS

Appendix 4: Directors and Senior Management

Figure 92: Director and Senior Management

Name	Age	Joined the group since	Date of appointment	Position	Background
Mr. ZHU Qiang (朱強)	49 years old	1994	Jun-2012	Chairman/ CEO	Founder of the group, with over 23 years of experience in the water toy, inflatable toy and manufacturing industry. He is primarily responsible for the overall development, strategic planning, as well as corporate and operation management.
Mr. LIU Feng (劉峰)	48 years old	2002	Jun-2012	Executive Vice President / Executive Director	He is primarily responsible for relationship with the government, supervising human resources and general administration of the Group.
Mr. TAN Guo zheng (譚國政)	49 years old	2004	Mar-2014	Vice President / Executive Director	He is primarily responsible for the overall finance and internal control of the group.
Mr. DUAN Kai Feng (段開峰)	43 years old	2007	May-2017	CFO/ Executive Director	He is primarily responsible for accounting, budgeting and overall financial management of the group.
Mr. PATRIZIO Fumagalli	44 years old	1998	Jan-2017	Chief Strategic Officer	He is responsible for the strategic management of global market development, product portfolio management, supervision of R&D, design and operations, as well as marketing strategy.
Mr. HUANG Shui Yong (黃水勇)	46 years old	2003	Apr-2012	Vice President of R&D, and manufacturing department	He is responsible for technology, product, quality management, factory technology improvement and procurement supervision.
Mr. SIMONE Zesi	36 years old	2004	Jul-2012	General Manager of Bestway Europe	He is responsible for marketing, sales channels, customer service, finance, product compliance and testing, as well as the E-commerce operation in Bestway Europe. He also oversees the group's branch offices in Italy, France, and Germany.
Mr. YAN Yu (閻宇)	42 years old	2000	Jul-2014	General Manager of global sales division of the group	He is responsible for the overall management of the global sales division of the group.
Mr. HUANG Yao Guang (黃耀光)	35 years old	2010	Jul-2015	General Manager of technology centre of the group	He is responsible for new product's R&D, as well as project management, also in charge of product safety certification, intellectual property rights, quality assurance, and global after-sales service management.
Mr. Scott Schellhase	49 years old	2007	Jan-2017	General Manager of Bestway USA	He is responsible for marketing, sales channels management in the United State.
Mr. ZHANG Yong (張勇)	43 years old	1999	Feb-2009	Deputy General Manager of finished goods production of the group	He is responsible for technology management, factory production and quality management in the finished good production department of the group.
Mr. CRISTOBAL Achurra Staplefield	41 years old	2002	Sep-2014	General Manager of Bestway Central & South America	He is responsible for promotion, sales channels management and general management of sales and aftersales services in Latin America

Source: Company data, CMBIS

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