

Duopolist in a niche and innovative market

Rating **Not Rated**
Current price **HK\$4.51**

■ Duopoly global inflatable outdoor leisure products market

In terms of inflatable outdoor leisure products retail sales in 2016, Bestway is the largest player in Europe and the second largest player in North America, with market share of 38.9% and 24.3% respectively, while Intex, Bestway's major competitor, has a market share of 34.1% and 43.6% respectively. In both areas, the third largest players only have <10% market share, hence we believe it is a duopoly market with limited threat of new entrants.

■ Gaining market share in North America in recent years

Bestway has been gaining share in recent years, particularly in North America market, in which sales surged from ~USD40mn in 2012 to >USD200mn in 2017. The Company used to offer heavier discounts (13-14% GPM in North America market during FY14-15) to establish relationship with retailers (such as Walmart, Costco and Amazon), and GPM has normalized to 23.9% in FY16.

■ Strong R&D capabilities to launch new products persistently

Bestway introduced new products persistently, including portable spas in 2005, stand-up paddle boards and water slides in 2013, as well as rafting tubes and floating islands in 2014. The Company is going to introduce three new product categories in 2018, namely constant blow air play center, snow tube and swimming machine (functions like treadmills to swimmers).

To apply inflatable techniques for above products, specific material and structure is needed to withstand puncture, tear, pressure and extreme temperature. We believe it demonstrated Bestway's capabilities in material development. Since inflatable products are more flexible, portable and affordable than traditional products, sales of inflatable outdoor leisure products is expected to grow at 11.4% CAGR during 2017-2021, versus 5.9% CAGR for the whole market, according to the Frost & Sullivan Report.

■ Orders on hand up by ~20% yoy, GPM to improve from FY17 level thanks to ASP hike and currency hedge

Bestway achieved 15.6% sales CAGR during FY14-17, and has >USD500mn orders on hand as of Mar 18, which was up by ~20% yoy. GPM declined by 2.8ppt yoy to 25.3% in FY17 due to appreciation of RMB and price hike in steel and packaging materials. By raising ASP and hedging exchange rate risk, management expect GPM to improve, particularly in 2H18E. Trading at 10.2X FY18E according to Bloomberg consensus, versus an average of 16.6X for listed exporters of consumer discretionary products, we believe Bestway would gradually attract more market awareness if the Company continue to deliver solid results.

USD mn (YE Dec)	FY15A	FY16A	FY17A	FY18E	FY19E
Revenue	514	585	723	862	992
Gross profit	112	165	183	228	267
Adjusted net profit	16	44	53	58	74
PE (x)	N/A	N/A	11.7	10.2	7.9
Dividend yield (%)	N/A	N/A	2.5	2.9	3.4

Sources: Bloomberg

Company Visit

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Trading data

52-Week Range (HK\$)	2.88/4.78
3 Mth Avg Daily Vol (m)	1.9
No of Shares (m)	1,151
Market Cap (HK\$m)	4,773
Major Shareholders (%)	Mr. Zhu Family (54.3%) Mr. Bogdan Nowak (13.5%)
Auditors	PWC
Result Due	1H18: Aug

Company description

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

Price chart

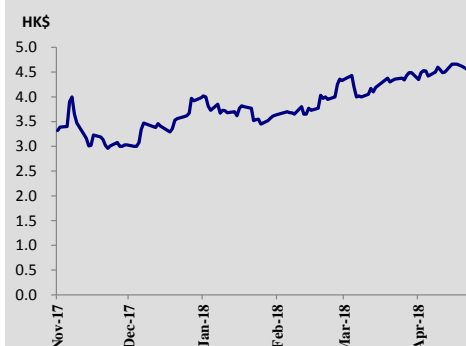


Exhibit 1: Bestway's global sales network supported by production facilities in China



Source: The Company

Exhibit 2: Above-ground pools and portable spas (45% of FY17 sales)



Source: The Company

Exhibit 3: Recreation products (21% of FY17 sales)



Source: The Company

Exhibit 4: Sporting goods (13% of FY17 sales)



Source: The Company

Exhibit 5: Camping products (21% of FY17 sales)

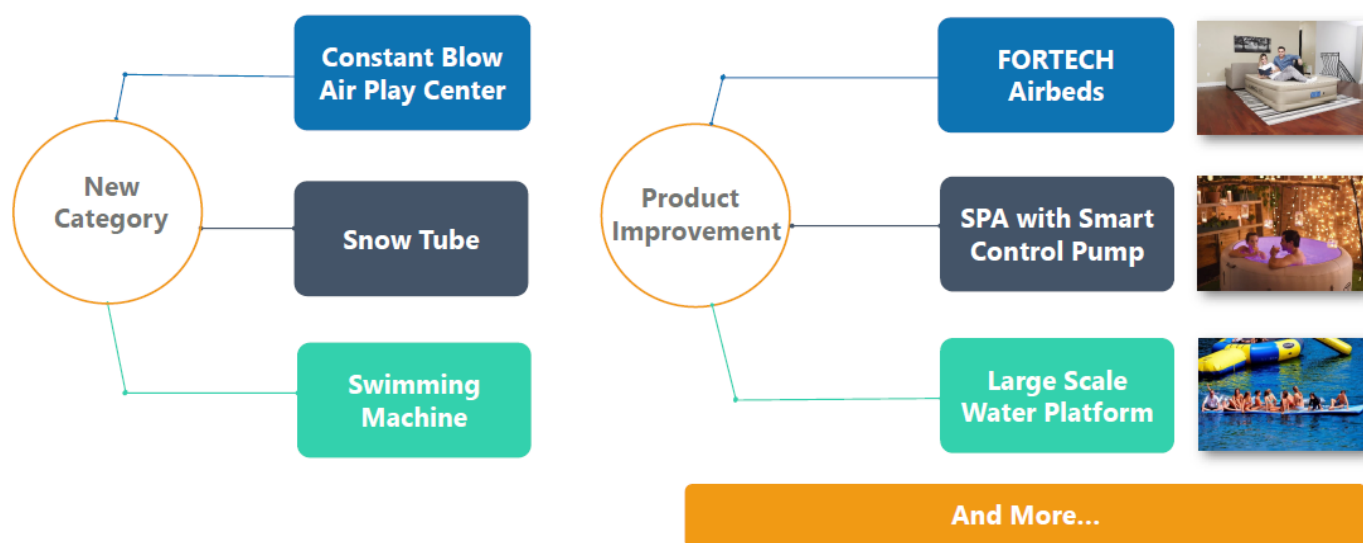


Source: The Company

Exhibit 6: Strong capabilities in material development to support various product innovation



Source: The Company

Exhibit 7: New products and products upgrade in 2018


Source: The Company

Exhibit 8: Income statement

Year to Dec (USD mn)	FY14A	FY15A	FY16A	FY17A
Revenue				
- Europe	259.8	259.4	310.4	346.4
- North America	77.3	124.3	161.2	205.4
- The PRC	8.8	7.7	9.4	19.7
- Others	122.0	122.2	103.5	151.1
	467.9	513.5	584.5	722.5
COGS	(371.1)	(401.5)	(420.0)	(539.8)
Gross profit	96.8	112.0	164.5	182.8
SG&A	(79.5)	(89.8)	(108.7)	(124.4)
Operating profit	17.3	22.2	55.9	58.4
Listing expenses	0.0	0.0	(0.7)	(5.0)
Other income	1.8	5.4	2.1	16.8
Other gains and losses	(4.4)	0.9	4.7	(6.2)
Net finance costs	(2.9)	(6.7)	(4.9)	(3.7)
Income tax expenses	(3.4)	(6.7)	(14.0)	(12.7)
Non controlling interests	(0.3)	1.3	0.3	(0.1)
Net profit	8.2	16.5	43.3	47.5

Source: The Company

Exhibit 9: Balance sheet

Year to Dec (USD mn)	FY14A	FY15A	FY16A	FY17A
Cash & equiv	41.7	32.2	26.1	114.5
Inventories	188.1	189.3	162.4	251.0
Trade receivables	69.9	70.5	94.6	139.6
Other current assets	40.6	31.9	19.0	38.2
Fixed assets	111.1	126.7	139.4	223.8
Land use rights	11.0	14.9	15.7	25.3
Other non current assets	6.4	7.2	5.8	19.2
Total assets	468.7	472.6	463.0	811.5
Short-term borrowings	110.4	131.5	94.6	157.8
Trade payables	113.3	96.0	90.4	154.7
Other payables	50.8	44.3	52.4	71.3
Other current liabilities	9.0	16.6	19.5	16.4
Long-term borrowings	3.8	0.0	0.1	0.0
Other non current liabilities	6.9	4.6	2.1	11.4
Total liabilities	294.2	293.1	259.1	411.6
Shareholders' equity	173.5	179.8	204.5	400.7
Minorities	1.1	(0.3)	(0.6)	(0.8)
Total equity	174.5	179.5	203.9	399.9
Net cash (debt)	(72.6)	(99.4)	(68.5)	(43.4)

Source: The Company

Exhibit 10: Peers comparison

	Ticker	Mkt cap	Price	P/E(x)		P/B(x)		Dividend yield (%)	
		(HKD mn)	(HKD)	FY17A	FY18E	FY17A	FY18E	FY17A	FY18E
TECHTRONIC IND	669 HK	86,030	46.90	23.5	19.6	4.0	3.6	1.4	1.8
MAN WAH HOLDINGS	1999 HK	24,719	6.45	14.1	15.0	4.9	4.2	4.3	3.9
VTECH HLDGS LTD	303 HK	24,823	98.75	17.9	14.4	5.5	5.2	5.5	6.7
GOODBABY INTERNA	1086 HK	8,707	5.22	34.8	17.3	1.7	1.6	1.0	1.5
Average				22.6	16.6	4.0	3.7	3.1	3.5
BESTWAY GLOBAL	3358 HK	4,773	4.51	11.7	10.2	1.5	1.3	2.5	2.9

Source: Bloomberg

Rating Policy

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

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Analyst Certification

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