

Bestway Global (3358 HK)

Margin expansion to drive accelerate in 2H19E

SUMMARY. Maintain BUY and lifted TP to HK\$ 4.20. Thanks to 1) faster growth in 2H19E, 2) limited impact from trade war and 3) excellent risk reward, we see chance of re-rating. It trades at 8.5x FY19E P/E but with a 28% 3 years NP CAGR.

- **1H19 net profit inline.** Bestway's net profit rose by 24% YoY to USD 44mn, accounting for 81%/70% of CMBI/ BBG's FY19E estimates (vs 2 years avg. of 78%), roughly inline. But we are glad that loss from FX hedging contacts was lower than expected. 15% sales growth was driven by 22%/ 8%/ -28%/ 11% for Europe/ North America/ China/ Rest of the world, or 25%/ 7%/ 7%/ 5% for Pools & Spas/ Recreation/ Sporting goods/ Camping products.
- **A better 2H19E ahead, thanks to less FX hedging losses and GP margin expansion.** Firstly, the Company guided a 15%+ sales growth in FY19E, implying a faster growth in 2H19E, aided by pickups in North America and China market (1H19E water sports sales was dragged by bad weather). Secondly, GP margin shall improve, due to RMB depreciation (-3% YoY in Aug 2019) and potential lower input prices from more localized raw material supply. Thirdly, thanks to a much lower FX hedging loss (~ USD 20mn one off drag in 2H18), we expect NP to jump by 96%/ 33% in 2H19E/ FY19E.
- **Impact from trade war is limited since retailers are well prepared.** Even though more tariffs will be charged when exporting to the US market, from only ~3% of US sales to ~50% starting from Sep 2019, but the impact should not be material, because 1) Bestway is not affected as prices were already set in the past trade fairs, and 2) retailers had already adapted by raising retail prices since late 2018, another round of price increase is also likely.
- **Vietnam expansion begins.** The Company began its Vietnam expansion. Total capex of the 1st phase is ~USD 15mn for next 3 years, and is targeted to generate ~USD 40mn revenue. Operation will commence in Feb 2020, with ~800 workers. Since Bestway is one of first key manufacturers in the sector to move out of China, we expect it to gain more market shares and enjoy a higher bargaining power over its customers in near future.
- **Maintain BUY and raise TP to HK\$ 4.20.** We maintain BUY and lift TP to HK\$ 4.20, based on 10x FY19E P/E (unchanged). The counter is trading at 8.5x/ 6.7x FY19E/ 20E P/E and we believe its risk reward is excellent, given 3-year NP/ adjusted NP CAGR of 28%/ 13%. We fine-tuned our FY19E/ 20E/ 21E EPS estimates by +5.8%/ -1.5%/ -1.6%.

Earnings Summary

(YE 31 Dec)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue (USD mn)	723	865	992	1,113	1,240
YoY growth (%)	23.6	19.8	14.6	12.2	11.4
Net income (USD mn)	47	43	57	73	90
EPS (USD)	0.063	0.041	0.054	0.069	0.084
YoY growth (%)	14.5	(36.0)	33.0	27.0	22.7
P/E (x)	8.0	11.3	8.5	6.7	5.4
P/B (x)	1.2	1.2	1.0	0.9	0.8
Yield (%)	2.4	3.0	3.5	4.5	5.5
ROE (%)	15.7	10.6	12.9	14.2	15.1
Net gearing (%)	10.8	48.1	29.4	22.3	12.3

Source: Company data, CMBIS estimates

BUY (Maintain)

Target Price	HK\$4.20
(Previous TP	HK\$3.97)
Up/Downside	+18.0%
Current Price	HK\$3.56

China Export Sector

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Stock Data

Mkt Cap (HK\$ mn)	3,768
Avg 3 mths t/o (HK\$ mn)	2.61
52w High/Low (HK\$)	4.49/3.03
Total Issued Shares (mn)	1,058.4

Source: Bloomberg

Shareholding Structure

Mr. Zhu Qiang & Family	54.40%
Mr. Bogdan Nowak	13.50%
Employee Incentive Scheme	6.07%
Mr. Patrizio	1.13%
Free Float	24.90%

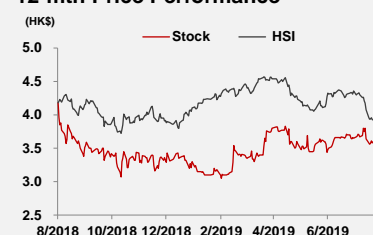
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-2.5%	6.7%
3-mth	-0.3%	6.0%
6-mth	14.8%	23.3%
12-mth	-17.8%	-14.9%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

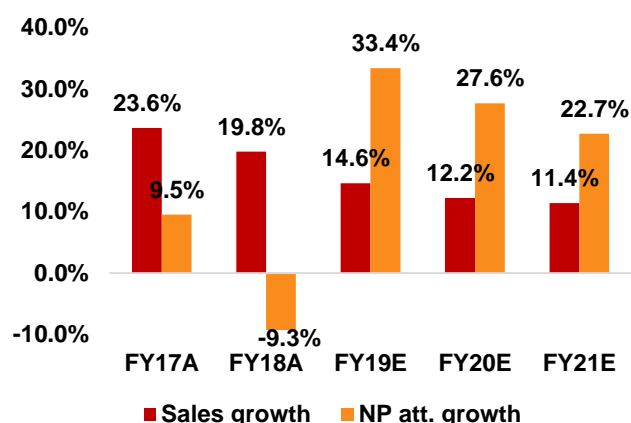
Auditor: PriceWaterHouseCoopers

Related Reports

1. Bestway Global (3358 HK) – Dragged by FX hedging, but expect improvement onward - 1 Apr 2019
2. Bestway Global (3358 HK) – Rising cost pressure, but still a value play - 18 Sep 2018

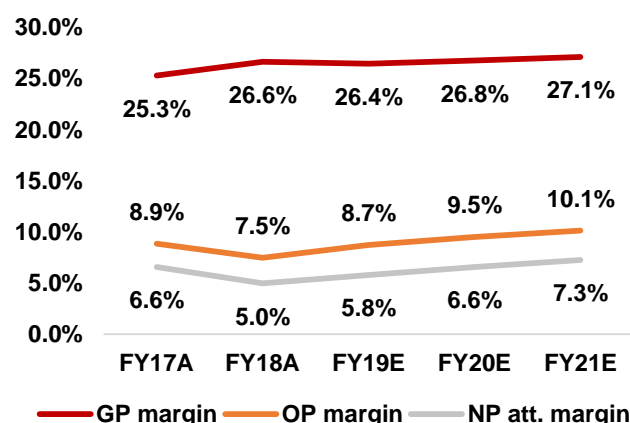
Focus Charts

Figure 1: Sales/ net profit growth



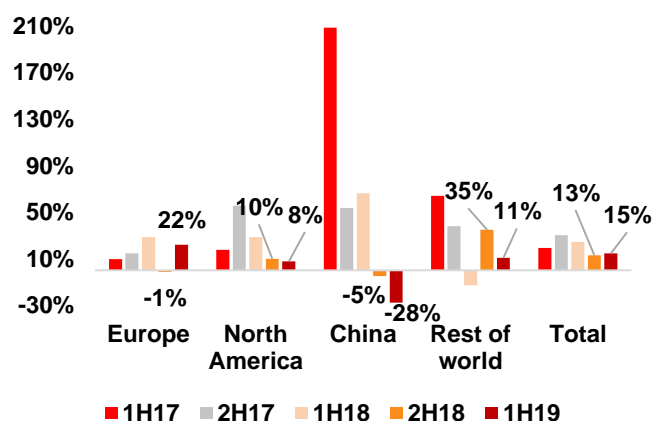
Source: Company data, CMBIS estimates

Figure 2: GP/ OP/ NP att. margin



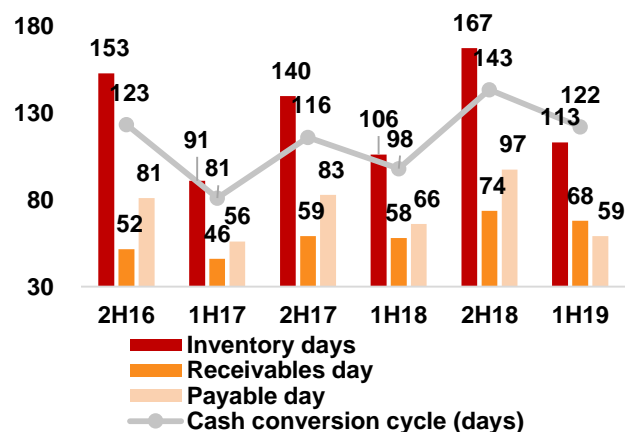
Source: Company data, CMBIS estimates

Figure 3: Sales growth by region



Source: Company data, CMBIS estimates

Figure 4: Working capital conditions



Source: Company data, CMBIS estimates

Result Summary

Figure 5: Results summary – Half Year

Half yearly (Rmb mn)	1H18	2H18	1H19	2H19E	1H18 yoy	2H18 yoy	1H19 yoy	2H19E yoy	1H19E CMBI	Actual vs CMBI
Revenue	525	340	602	390	25%	13%	15%	15%	606	-1%
COGS	(400)	(235)	(447)	(283)	32%	0%	12%	21%	(438)	
Gross profit	125	106	155	108	6%	62%	24%	2%	167	-7%
GP margins	23.8%	31.1%	25.7%	27.6%					27.6%	
Other income & gains	13	-23	7	-0	-4834%	-311%	-45%	-99%	-2	
S & D expenses	(54)	(30)	(60)	(38)	26%	18%	9%	28%	(61)	-2%
S & D exp / sales	-10.4%	-8.8%	-9.9%	-9.8%					-10.0%	
Admin expenses	(34)	(37)	(40)	(45)	23%	13%	16%	21%	(41)	-2%
Admin exp / sales	-6.5%	-10.9%	-6.6%	-11.6%					-6.7%	
Other opex	0	0	0	0					0	
Operating profit (EBIT)	49	15	63	24	7%	-13%	27%	55%	64	-2%
OP margins	9.4%	4.5%	10.4%	6.1%					10.6%	
Other items	0	0	0	0					0	
Net finance income	(3)	(6)	(6)	(4)	79%	241%	87%	-33%	-6	
Net finance income / sales	-0.6%	-1.8%	-1.0%	-1.1%					-1.0%	
Profit after financing costs	46	9	56	20	4%	-42%	22%	114%	58	
Associated coms	0	0	0	0					0	
Jointly controlled coms	0	0	0	0					0	
Pre-tax profit	46	9	56	20	4%	-42%	22%	114%	58	-3%
Tax	(9)	(2)	(11)	(6)					(13)	
Tax / sales	-1.8%	-0.7%	-1.8%	-1.5%					-2.1%	
Effective tax rate	-20.2%	-26.8%	-19.4%	-29.5%					-22.0%	
Minority interests	1.10	-0.61	1.28	0.70					1	
Net profit att.	36	7	44	13	2%	-41%	24%	79%	44	0%
NP margins	6.8%	2.2%	7.3%	3.4%					7.3%	
Unrealized gain or losses on derivative financial instruments	(1)	(19)	(15)	0					(5)	
Adjusted Core NP (ex one-off items)	37	26	59	13	4%	92%	62%	-50%	49	21%
Adjusted Core NP margins (ex one-off items)	7.0%	7.7%	9.9%	3.4%					8.1%	

Source: Company data, CMBIS estimates

Figure 6: Results summary - Full Year

Full yearly (Rmb mn)	FY17	FY18	FY19E	FY18 yoy	FY19E yoy
Revenue	723	865	992	20%	15%
COGS	(540)	(635)	(730)	18%	15%
Gross profit	183	231	262	26%	14%
GP margins	25.3%	26.6%	26.4%		
Other income & gains	11	-10	7	-193%	-170%
S & D expenses	(69)	(84)	(98)	23%	16%
S & D exp / sales	-9.5%	-9.8%	-9.9%		
Admin expenses	(61)	(71)	(85)	18%	19%
Admin exp / sales	-8.4%	-8.3%	-8.6%		
Other opex	0	0	0		
Operating profit (EBIT)	64	65	87	1%	33%
OP margins	8.9%	7.5%	8.7%		
Other items	0	0	0		
Net finance income	(4)	(10)	(10)	159%	9%
Net finance income / sales	-0.5%	-1.1%	-1.0%		
Profit after financing costs	60	55	76	-8%	38%
Associated coms	0	0	0		
Jointly controlled coms	0	0	0		
Pre-tax profit	60	55	76	-8%	38%
Tax	(13)	(12)	(17)	-7%	42%
Tax / sales	-1.8%	-1.4%	-1.7%		
Effective tax rate	-21.1%	-21.3%	-22.0%		
Minority interests	0	0	2		
Net profit att.	47.5	43.1	57.4	-9%	33%
NP margins	6.6%	5.0%	5.8%		
Unrealized gain or losses on derivative financial instruments	(2)	(20)	(15)		
Adjusted Core NP (ex one-off items)	49	63	73	28%	15%
Adjusted Core NP margins (ex one-off items)	6.8%	7.3%	7.3%		

Source: Company data, CMBIS estimates

Earnings revision

Figure 7: Earnings revision

USD mn	New			Old			Diff (%)		
	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Revenue	992	1,113	1,240	991	1,113	1,241	0.1%	0.0%	-0.1%
Gross profit	262	298	336	262	298	336	0.1%	0.1%	0.0%
EBIT	87	106	126	82	107	127	5.0%	-1.1%	-1.3%
Reported Net profit	57	73	90	54	74	91	5.8%	-1.5%	-1.6%
Diluted EPS (USD)	0.054	0.069	0.084	0.051	0.070	0.086	5.8%	-1.5%	-1.6%
Gross margin	26.4%	26.8%	27.1%	26.4%	26.8%	27.1%	0ppt	0ppt	0ppt
EBIT margin	8.7%	9.5%	10.1%	8.3%	9.6%	10.3%	0.4ppt	-0.1ppt	-0.1ppt
Net profit att. margin	5.8%	6.6%	7.3%	5.5%	6.7%	7.4%	0.3ppt	-0.1ppt	-0.1ppt

Source: Company data, CMBIS estimates

Figure 8: CMBI estimates vs consensus

USD mn	CMBI			Consensus			Diff (%)		
	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Revenue	992	1,113	1,240	996	1,139	1,288	-0.4%	-2.3%	-3.7%
Gross profit	262	298	336	265	305	346	-0.8%	-2.2%	-3.0%
EBIT	87	106	126	82	107	127	5.5%	-1.1%	-1.0%
Net profit att.	57	73	90	63	78	92	-8.4%	-6.5%	-1.9%
Diluted EPS (USD)	0.054	0.069	0.084	0.060	0.074	0.087	-10.5%	-7.7%	-3.2%
Gross margin	26.4%	26.8%	27.1%	26.6%	26.8%	26.9%	-0.1ppt	0ppt	0.2ppt
EBIT margin	8.7%	9.5%	10.1%	8.2%	9.4%	9.9%	0.5ppt	0.1ppt	0.3ppt
Net profit att. margin	5.8%	6.6%	7.3%	6.3%	6.9%	7.1%	-0.5ppt	-0.3ppt	0.1ppt

Source: Bloomberg, CMBIS estimates

Valuation

Figure 9: Peers' valuation

			12m TP	Price	Up/ Down-	Mkt. Cap	Year	P/E (x)		P/B (x)		ROE (%)	3yrs PEG (x)	Yield (%)
Company	Ticker	Rating	(LC)	(LC)	side	(HK\$mn)	End	FY1E	FY2E	FY1E	FY2E	FY1E	FY1E	FY1E
H-shares Brands and Exporters														
Bestway	3358 HK	BUY	4.20	3.56	18%	3,768	Dec-18	8.5	6.7	1.0	0.9	10.6	0.3	3.3
Man Wah	1999 HK	NR	n/a	3.55	n/a	13,573	Mar-19	8.9	7.7	1.9	1.6	22.4	0.7	3.7
Goodbaby	1086 HK	NR	n/a	1.39	n/a	2,319	Dec-18	10.5	7.7	0.5	0.4	3.3	0.3	3.2
Haitian	1882 HK	NR	n/a	14.78	n/a	23,589	Dec-18	11.1	9.8	1.6	1.4	17.1	1.2	3.1
Vtech Holdings	303 HK	NR	n/a	66.75	n/a	16,806	Mar-19	11.6	10.9	3.3	3.2	27.3	2.4	8.1
Techtronic	669 HK	NR	n/a	56.45	n/a	103,249	Dec-18	20.9	18.0	3.9	3.4	19.1	1.3	1.8
Haier Electronics	1169 HK	NR	n/a	18.78	n/a	52,715	Dec-18	10.3	10.1	1.7	1.5	17.0	1.3	2.3
Tcl Electronics	1070 HK	NR	n/a	3.43	n/a	8,098	Dec-18	7.7	6.8	0.8	0.7	10.8	0.7	5.6
Johnson Electric	179 HK	NR	n/a	13.74	n/a	12,160	Mar-19	6.2	5.6	0.6	0.5	11.8	(3.2)	3.3
Yue Yuen	551 HK	NR	n/a	22.05	n/a	35,549	Dec-18	13.1	11.3	1.1	1.1	7.9	0.9	6.7
Stella	1836 HK	NR	n/a	12.56	n/a	9,978	Dec-18	12.4	10.9	1.3	1.3	6.8	0.5	6.3
Shenzhou	2313 HK	NR	n/a	111.40	n/a	167,459	Dec-18	28.0	23.5	5.9	5.2	21.7	1.7	1.9
Regina Miracle	2199 HK	NR	n/a	5.00	n/a	6,121	Mar-19	15.9	11.8	1.9	1.7	9.7	0.5	2.1
Avg.								12.7	10.8	2.0	1.8	14.3	0.7	4.0
Med.								11.6	10.6	1.7	1.5	9.2	1.0	2.8
International Outdoor brands and Manufacturers														
Vf Corp	VFC US	NR	n/a	80.10	n/a	250,249	Mar-19	23.5	20.8	6.9	6.5	29.1	2.1	2.2
Deckers Outdoor	DECK US	NR	n/a	138.29	n/a	31,338	Mar-19	15.6	14.5	3.3	2.8	29.0	2.9	0.0
Newell Brands	NWL US	NR	n/a	15.89	n/a	52,772	Dec-18	10.2	10.5	1.3	1.3	(75.7)	(0.1)	5.8
Hasbro	HAS US	NR	n/a	115.08	n/a	113,953	Dec-18	24.5	21.9	7.7	7.1	18.0	0.5	2.4
Mattel	MAT US	NR	n/a	10.72	n/a	29,064	Dec-18	n/a	62.7	7.2	6.7	(49.9)	0.0	0.0
Carter'S	CRI US	NR	n/a	89.18	n/a	31,306	Dec-18	13.5	12.6	4.6	4.3	34.0	1.8	2.2
Children'S Place	PLCE US	NR	n/a	81.21	n/a	10,095	Feb-19	13.2	9.7	2.8	2.4	23.7	1.2	2.9
Columbia Sports	COLM US	NR	n/a	94.35	n/a	50,010	Dec-18	19.8	18.1	3.5	3.0	18.9	1.3	1.0
Vista Outdoor	VSTO US	NR	n/a	4.72	n/a	2,141	Mar-19	28.6	13.2	0.4	0.4	(69.3)	0.0	n/a
Johnson Outdoors	JOUT US	NR	n/a	58.32	n/a	4,599	Sep-18	12.9	13.3	n/a	n/a	14.1	5.0	n/a
Dorel Industries	DII/B CN	NR	n/a	9.53	n/a	1,833	Dec-18	7.5	5.8	n/a	n/a	(55.3)	(0.1)	11.3
Avg.								16.9	18.5	4.2	3.8	(7.6)	1.3	3.1
Med.								14.5	13.3	3.5	3.0	18.0	1.2	2.2

Source: Bloomberg, CMBIS estimates

Assumption

Figure 10: Bestway's major assumption

Major assumptions	FY18A	FY19A	FY20E	FY21E	FY22E
Sales growth (%)					
Above-ground pools and portable spas	19.4%	13.9%	22.0%	13.0%	11.0%
Recreation products	19.6%	24.7%	7.0%	6.0%	7.0%
Sporting goods	26.8%	23.8%	14.0%	22.0%	20.0%
Camping products	36.8%	25.0%	8.0%	10.0%	10.0%
Total	23.6%	19.8%	14.6%	12.2%	11.4%
Sales growth (%)					
Europe	11.6%	17.7%	19.0%	13.0%	10.0%
North America	27.4%	22.8%	11.3%	15.4%	16.3%
China	109.8%	33.1%	-10.0%	20.0%	30.0%
Rest of world	46.0%	18.7%	13.0%	5.0%	5.0%
Total	23.6%	19.8%	14.6%	12.2%	11.4%
GP margins	25.3%	26.6%	26.4%	26.8%	27.1%
GP margin by product					
Above-ground pools and portable spas	22.9%	24.5%	25.0%	25.2%	25.5%
Recreation products	26.0%	29.8%	27.4%	27.6%	27.9%
Sporting goods	31.9%	31.5%	33.2%	33.6%	33.6%
Camping products	25.6%	24.6%	24.2%	24.5%	24.8%
Total	25.3%	26.6%	26.4%	26.8%	27.1%
GP margin by region					
Europe	28.9%	29.0%	29.6%	30.1%	30.5%
North America	18.6%	23.5%	23.7%	23.5%	23.7%
China	33.7%	28.0%	28.0%	28.0%	28.5%
Rest of world	25.0%	25.5%	22.5%	23.0%	23.5%
Total	25.3%	26.6%	26.4%	26.8%	27.1%
Selling & distribution costs / sales	-9.5%	-9.8%	-9.9%	-9.3%	-9.1%
Admin expenses / sales	-8.4%	-8.3%	-8.6%	-8.4%	-8.3%
Effective tax rate	-21.1%	-21.3%	-22.0%	-22.0%	-22.0%
NP att. margin	6.6%	5.0%	5.8%	6.6%	7.3%
NP att. growth	9.5%	-9.3%	33.4%	27.6%	22.7%

Source: Company data, CMBIS estimates

Financial Summary

Income statement						Cash flow summary					
YE Dec 31 (USD mn)	FY17A	FY18A	FY19E	FY20E	FY21E	YE Dec 31 (USD mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue	723	865	992	1,113	1,240	EBIT	64	65	87	106	126
Pools & portable spas	327	373	455	514	571	D & A	6	10	13	16	19
Recreation products	150	187	201	213	228	Change in working capital	(53)	(83)	23	(34)	(35)
Sporting goods	96	119	136	166	199	Income tax paid	(12)	(12)	(17)	(21)	(26)
Camping products	148	186	200	220	242	Others	7	(39)	20	11	19
Cost of goods sold	(540)	(635)	(730)	(815)	(904)	Net cash from operating	12	(59)	127	78	102
Gross profit	183	231	262	298	336	Capex & investments	(82)	(95)	(79)	(67)	(62)
Other income	11	(10)	7	4	5	Associated companies	-	-	-	-	-
Operating expenses	(129)	(156)	(183)	(197)	(215)	Interest received	0	10	11	10	8
D & A	(6)	(10)	(13)	(16)	(19)	Others	(18)	-	-	-	-
Staff costs	(42)	(53)	(54)	(58)	(62)	Net cash from investing	(99)	(85)	(69)	(57)	(54)
S & D costs (ex-staff, D&A)	(51)	(60)	(69)	(71)	(76)	Equity raised	142	-	-	-	-
Admin exp. (ex-staff, D&A)	(30)	(34)	(46)	(52)	(58)	Net change in bank loans	52	80	-	-	-
Other operating	-	-	-	-	-	Dividend paid	(12)	(14)	(2)	(3)	(3)
EBIT	64	65	87	106	126	Others	(7)	(1)	-	-	-
Finance costs, net	(4)	(10)	(10)	(9)	(7)	Net cash from financing	175	65	(2)	(3)	(3)
JVs & associates	-	-	-	-	-	Net change in cash	88	(79)	56	18	45
Exceptional	-	-	-	-	-	Beginning cash balance	23	111	32	87	105
Pre-tax profit	60	55	76	97	118	Exchange difference	(0)	-	-	-	-
Income tax	(13)	(12)	(17)	(21)	(26)	Cash at the end of the year	111	32	87	105	150
Less: Minority interests	0	0	2	2	2						
Net profit	47	43	57	73	90						

Balance sheet						Key ratios					
YE Dec 31 (USD mn)	FY17A	FY18A	FY19E	FY20E	FY21E	YE Dec 31	FY17A	FY18A	FY19E	FY20E	FY21E
Non-current assets	268	347	395	423	439	Sales mix (%)					
Fixed asset	224	296	343	371	387	Pools & portable spas	45.3	43.1	45.9	46.2	46.0
Intangible assets & goodwill	26	44	44	44	44	Recreation products	20.8	21.7	20.2	19.1	18.4
Prepaid lease payments	14	3	3	3	3	Sporting goods	13.3	13.8	13.7	14.9	16.1
Interest in joint ventures	-	-	-	-	-	Camping products	20.5	21.4	20.2	19.8	19.6
Other non-current assets	5	5	5	5	5	Total	100.0	100.0	100.0	100.0	100.0
Current assets	543	644	701	788	906	P&L ratios (%)					
Cash and cash equivalents	111	32	87	105	150	Gross margin	25.3	26.6	26.4	26.8	27.1
Inventories	251	331	335	374	414	Operating margin	8.9	7.5	8.7	9.5	10.1
Trade and other	140	209	200	224	250	Pre-tax margin	8.3	6.4	7.7	8.7	9.6
Prepayments	35	45	51	57	64	Net margin	6.6	5.0	5.8	6.6	7.3
Other current assets	7	28	28	28	28	Effective tax rate	21.1	21.3	22.0	22.0	22.0
Current liabilities	400	538	570	611	653	Balance sheet ratios					
Bank loans	158	216	216	216	216	Current ratio (x)	1.4	1.2	1.2	1.3	1.4
Trade payables	155	184	195	218	241	Quick ratio (x)	0.7	0.6	0.6	0.7	0.8
Accruals & other payables	74	93	106	119	133	Cash ratio (x)	0.3	0.1	0.2	0.2	0.2
Tax payables	10	8	17	21	26	Inventory turnover days	140	167	167	167	167
others	4	36	36	36	36	Trade receivables days	59	74	74	74	74
Non-current liabilities	11	45	45	45	45	Trade payables days	83	97	97	97	97
Bank loans	-	21	21	21	21	Total debt / total equity	39	58	50	43	37
Deferred income	5	18	18	18	18	Net debt / equity ratio (%)	11	48	29	22	12
Deferred tax	1	1	1	1	1	Returns (%)					
Others	5	5	5	5	5	ROE	11.8	10.5	12.0	13.3	14.0
Minority Interest	-1	-0	2	4	6	ROA	5.8	4.3	5.2	6.1	6.7
Total net assets	401	409	479	552	641	Per share					
Shareholders' equity	401	409	479	552	641	EPS (USD)	0.06	0.04	0.05	0.07	0.08
						DPS (USD)	0.01	0.01	0.02	0.02	0.03
						BVPS (USD)	0.38	0.39	0.45	0.52	0.61

Source: Company data, CMBIS estimates

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