

Vianet Group Plc

Strong growth drivers

Vianet has reported earnings for H1/23, with trading in line with the update issued on 26 October. We examine the key features of the results on p5. In light of the company's continued progress, in this report we offer a detailed overview of Vianet's growth model, market positions, and financial outlook. We maintain a BUY rating with 110p fair value.

- **Established recurring income model:** Vianet is a specialty technology provider delivering internet-of-things (IoT) real data insight solutions for the hospitality and unattended retail and coffee vending industries. The company generates over 80% of its revenue from recurring income streams and realises gross margins of around 65%. In this report we examine the earnings drivers for Vianet, with a particular focus on recurring fee income.
- **Smart Machines:** The Smart Machines division provides the unattended retail and coffee vending machine industry with telemetry, management software, and contactless payment services, enabling rich data insight services which are at the core of Vianet's value proposition to customers. This business benefits from growth in demand for connected intelligent vending machines, as well as underlying growth trends for the unattended retail industry as a whole. Smart Machines has a well-established customer footprint, with opportunities to significantly expand market reach further in 2023-25.
- **Smart Zones:** The Smart Zones division delivers Vianet's connected device and data insight services technology for the hospitality industry, transforming customer profitability by reducing waste and POS shrinkage, whilst driving quality, consumer experience and sales. The business was sharply impacted by COVID-19 lockdowns but is now back at normalised activity level. In our view, Smart Zones is now positioned for growth, and we believe that the new SmartDraught product has the potential to open up new or under-addressed customer segments as well as further expansion into international markets including the North American market.
- **Conclusions and valuation:** Vianet is an exciting growth company which provides a unique end-to-end offering for its customers based on proprietary software and domain expertise. The company has a well-established blue chip client base, as well as huge opportunities to be unlocked with its market leading products and services in existing and new verticals. Financial performance benefits from multi-year contracted high margin recurring revenues and high cash conversion levels. Based on our forecasts the current share price represents a FY24E EV/EBITDA ratio of 4.2x. We compare this with a median multiple of 14.0x for our selected peer group (details p17), and we also examine M&A multiples as this remains an active market segment. We arrive at a fair value of 110p by applying an undemanding 7.5x target multiple for a growth technology business, and we maintain a BUY rating.

Forecast and Ratios

Y/E March (£m)	2020A	2021A	2022A	2023E	2024E
Revenue	16.3	8.4	13.2	15.7	17.8
Adj EBITDA	4.7	(0.1)	2.9	3.5	4.6
Adj EBITA	4.0	(0.7)	2.4	3.1	4.0
Adj EPS (p)	8.4	-6.9	0.6	1.7	5.2
EV/Adj EBITDA (x)	4.2	N/A	6.9	5.5	4.2
Net cash/(debt)	(1.8)	(2.7)	(3.0)	(2.6)	(0.8)

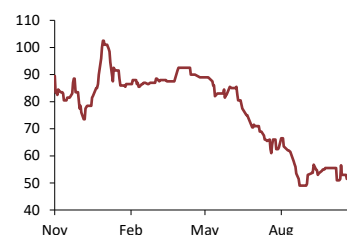
Source: Cenkos Securities estimates, Company data

Brokership Company

BUY

Price at COB 2 Dec 22 57.5p
52-week range 49-102.5p
Ticker VNET LN

Share Price Performance



Source: Morningstar

Stock Data

Market cap (£m) 16.6
Shares outstanding (m) 28.8

Activities

Vianet delivers actionable data, business insight and contactless payment solutions via its IoT platform to help customers in the drinks retailing and unattended retail markets transform their performance.

Directors

James Dickson Chairman/Interim CEO
Mark Foster CFO
Dave Coplin NED
Stella Panu NED

Significant Shareholders

James Dickson 17.8%
Gresham House 17.5%
Liontrust Asset Management 8.6%
AXA Investment Managers UK 6.0%
Interactive Investor Trading 5.3%

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Investment Summary

Vianet is a leading provider of telemetry systems to the hospitality, unattended retail vending and remote asset management sectors, together with associated data analytics systems. The company has two operating divisions: Smart Machines and Smart Zones.

Smart Machines

The Smart Machines business provides ERP, telemetry, contactless payment solutions and data analytics for the unattended retail and coffee vending machine industry. Vianet's systems facilitate asset maintenance, cash management, and predictive inventory management, and are applicable for example to hot beverage machines, spiral dispense snack machines, and other vending systems.

This business has been the higher growth division for Vianet in recent years and has now reached a scale where it becomes the main driver of growth for the group.

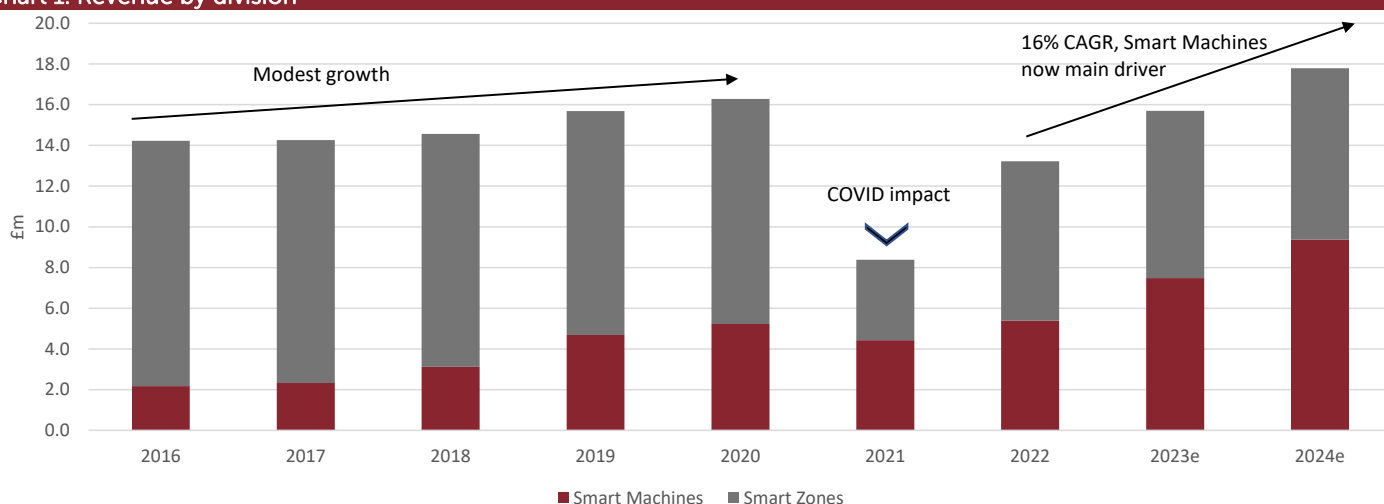
Smart Zones

The Smart Zones division supplies real-time telemetry, data gathering, and data reporting systems for the pubs, restaurants, and hospitality sector including beer flow, compliance and beer quality monitoring, and EPOS shrinkage. These are used for revenue protection, waste reduction, quality management and business intelligence. Vianet has demonstrated that this can generate a minimum 4% wastage savings plus 3% incremental sales for a typical operator, which implies a payback period as low as 2 months on the customer's initial investment (details p10).

Revenue outlook

The Smart Machines business has gone from 15% of group revenue in 2016 to 48% in 2023E (our forecast), and now becomes the bigger growth driver for Vianet. We forecast 32% annual growth for Smart Machines in the next two years and 16% annual growth for Vianet as a whole.

Chart 1: Revenue by division



Source: Cenkos Securities estimates, Company data

Our revenue forecasts are supported by favourable dynamics in the market environment and in Vianet's product life cycle, including structural industry trends, new product introductions, and a proven recurring revenue model.

Structural drivers

The Smart Machines division benefits from ongoing growth in unattended retail, which is driven by consumer preferences for the low cost and convenience of automated vending as well as desk top coffee vending. Vianet continues to benefit from the vending industry trend towards intelligent machines which provide the operator with remote monitoring functionality as well as features such as contactless payments. The intelligent vending market is growing significantly faster than the wider space, driven by the growing demand for quality unmanned retail and micro markets to replace manned operations including workplace, hospital, and university restaurants (see p6).

The Smart Zones customer base continues to face a challenging operating environment which offers potential incremental opportunities for Vianet. The company noted in its trading update on 26 October that given the unpredictability of supply, labour and trading, there has been an increase in demand for data services from operators seeking greater trading visibility and efficiencies, and we believe this trend will continue into next year.

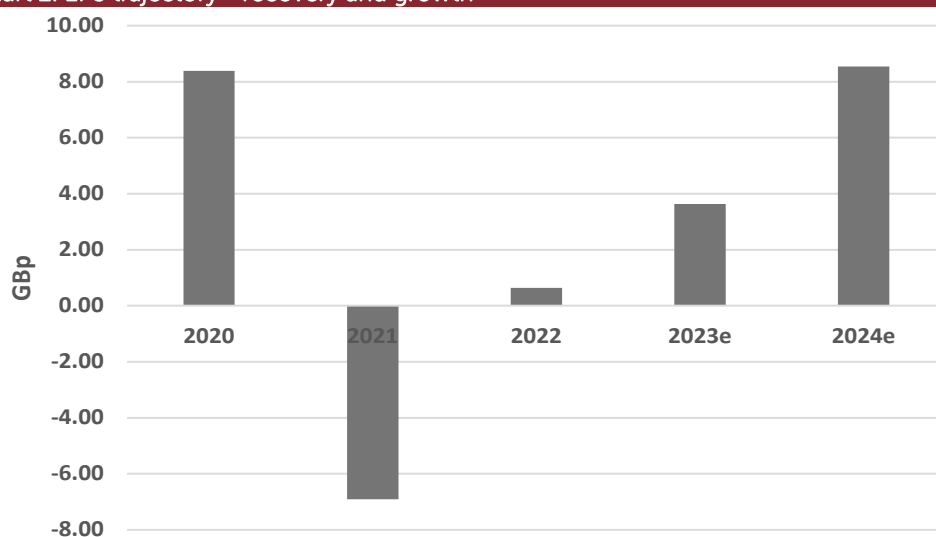
Recurring revenues

The company derives 85% of its revenues (2022 reported) from recurring fee income – customer subscriptions for the tech platform which supports the Smart Machines and Smart Zones capabilities. In this report we model the growth in equipment installed base and recurring subscription revenue for the next two years (p13-15).

Earnings growth

Our financial forecasts reflect double-digit revenue growth with gross margins remaining around 65%, and a strong drop-through to net income based on limited increases in operating expense. These dynamics support strong EPS growth in FY23E and FY24E, illustrated in the following diagram.

Chart 2: EPS trajectory - recovery and growth



Source: Cenkos Securities estimates, Company data

New products

The company has a roadmap for accelerating its market penetration in both business segments through the introduction of new product offerings which deliver additional capabilities to the existing customer base as well as opening up new or under-addressed customer markets. We outline the new product introductions within the Smart Machines and Smart Zones divisional analysis (p6-12).

H1 highlights

Vianet has released its unaudited interim results for the period ended 31 September 2022. The company previously released a trading update for the period, which was issued on 26 October. Today's statement shows progress which is in line with the earlier update.

The company report a strong recovery in the Smart Zones division reflecting the re-opening of the hospitality sector in the UK. The Smart Machines division reported ongoing growth in both new business and unit sales. Within both segments there was encouraging growth in recurring revenue as well as total revenue.

Financial highlights include:

- Revenue of £7.18m (H1/22: £6.34m).
- Recurring revenue representing 86% of total (H1/22: 83%).
- Adjusted operating profit of £1.21m (H1/22: £0.82m) – growth of +48%.
- Cash conversion ratio of 104% (operating cashflow before working capital, as % of EBITDA).

Smart Machines

The Smart Machines division achieved new unit sales of 6,306 in the six months, contributing to a 24% increase in the installed base YoY, which supports the continuing growth of the recurring revenue. The business signed 44 new contracts on 3-5 year terms. Vianet reports a strong pipeline of new business targeted for H2 supported by the launch of the SmartVend software platform which augments the existing suite of capabilities.

Smart Zones

The Smart Zones division reported a return to 100% billings on its long-term contracts, reflecting a full recovery following COVID lockdowns. The Smart Zones business is approaching the launch of its new SmartDraught product, and we believe this will extend the reach of the business into under-served customer segments and geographies (more details on p12).

Our forecasts

We revised our forecasts at the time of the trading update on 26 October 2022. We make no changes to our forecasts, with FY23E revenue growth at 20.3% and adjusted operating profit growth at 29.1%.

Valuation and conclusions

The shares are currently valued on an EV/EBITDA ratio of 4.2x for FY24E. This represents a significant discount to comparable stocks. We present a peer comparison on p17, and we derive at fair value of 110p, which represents 86% upside to the current share price. We maintain a BUY rating.

Smart Machines

The Smart Machines division provides real time monitoring for vending machines together with business intelligence, data insights, and contactless payment solutions. Vianet's solutions improve operational efficiency, stock control, sales, and cash flow, and reduce the customers' carbon footprint by optimising the logistics of restocking.

Industry trend

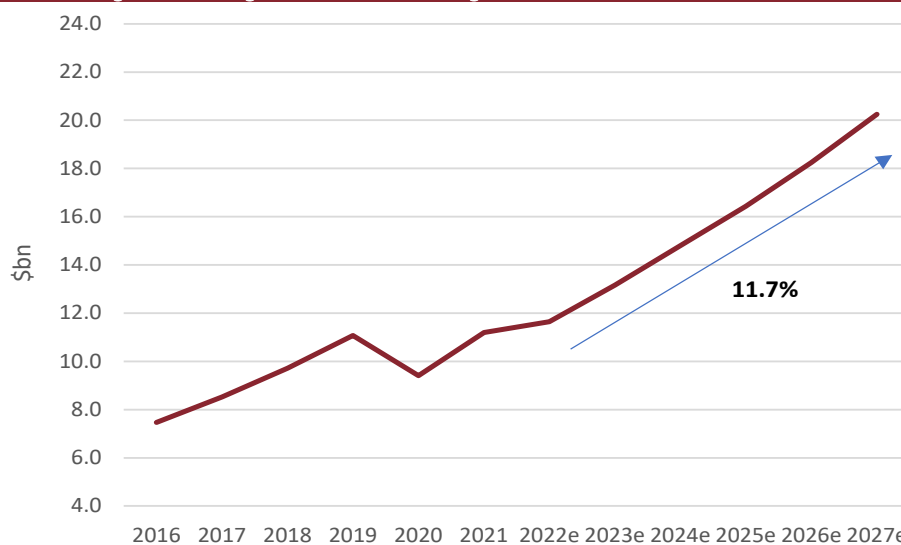
Intelligent vending machines

Intelligent vending machines, those providing real-time data feeds to their operator, represent a fast-growing trend within the vending industry. Some examples of actionable insight from these machines include:

- If a vending machine makes a large proportion of its sales during one particular period of the day, the operator can make sure that the machine is well stocked at the right time. Not dissimilar to a supermarket, the vending machine planogram's can be modified to address demand.
- For an operator of multiple vending machines at different sites, the data on real-time inventory levels allow the operator to plan optimal routes for a restocking crew.

Intelligent machines account for a growing portion of the unattended retail market. The following chart shows the industry growth trend for this type of equipment.

Chart 3: Intelligent vending machines market, global



Source: Cenkos Securities estimates, with reference to market sources (Technavio, GrandView Research, Future Market Insights)

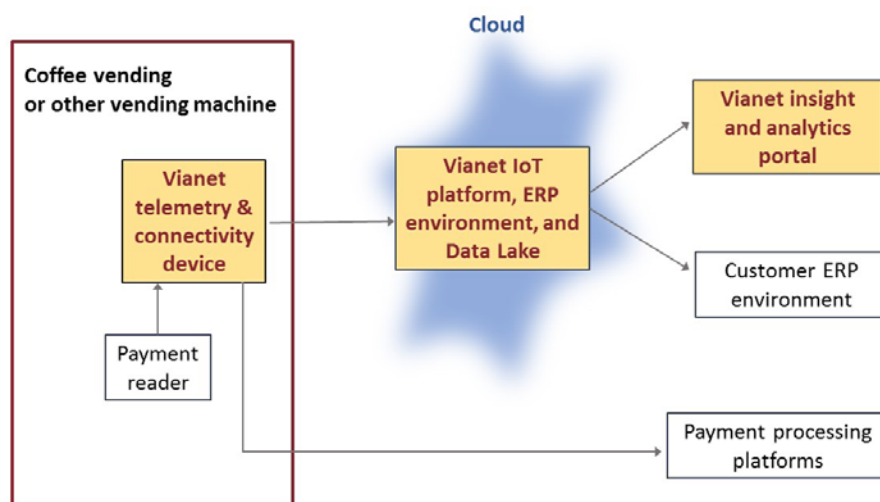
Trends which support growth in intelligent vending devices include:

- Underlying growth in unattended retail from consumers seeking convenience and cost benefits.
- Demand for intelligent machines growth at almost 3x the rate of the unattended retail market, as operators seek to maximise the productivity of their vending operations.
- A substantial fleet of 'dumb' machines still in use in Europe, to be eventually replaced or retrofitted.

Vianet's technology suite provides the company with a strong platform for leveraging the demand trends within this growing market space.

The following schematic illustrates the Vianet Smart Machines systems and hardware offering.

Figure 1: Smart Machines technology



Source: Cenkos Securities

Vianet hardware and systems are designed to be interoperable with third-party equipment meaning they can be applied to over 600 types of vending machine, which account for most vending units, as original equipment or as retrofit.

The Vianet firmware (device embedded software) makes use of a protocol called EVA Data Transfer Standard, which is a vending industry standard. Connectivity is achieved via modular 2G, 3G, and 4G LTE networks. Data management services are cloud based, allowing unlimited scalability for the operator.

Route to market

The use of Vianet Smart Machines technology is usually specified by the end purchaser of the equipment, with users including independent vending machine operators, facilities managers, and food & drink brands, which operate their own branded machines. Vianet, which is the leading provider to food service operators, is also targeting sales directly to machine manufacturers for use as standard equipment on their machines rather than as an addition specified by the buyer.

The following diagram outlines some of the main players in the customer markets and within the competitor base.

Figure 2: Smart Machines market landscape

Smart automation tech: Vianet peers	Customer market: Machine operators	Customer market: Machine suppliers	Customer market: Brands
     Including:  vendon	       	      SWISS MADE	      

Source: Cenkos Securities

Vianet competes within a small base of specialists who offer some vending machine telemetry software and devices. These include independent technology providers like Vianet itself, as well as the offerings of Crane Co which is also a machine manufacturer.

Vianet is able to offer a complete end-to-end solution for an intelligent vending machine including hardware, data transfer and back-end analytics software and data insight services, and we believe that no other provider, with the exception of Cantaloupe inc. in the USA, can offer the full end-to-end suite of services. The offering can be integrated with any ERP system, and any vending machine. The company has scope to grow revenues from within its existing customer base, which includes leading pan-European vending fleet operators, as well as adding incremental new customers.

The company has a development pipeline of new capabilities which could further enhance the growth profile going forward.

New product capabilities

Going forward, Vianet is working on additional capabilities including loyalty apps, predictive pick lists, and remote asset control. Continuous product development is a key plank in Vianet's strategy for maintaining leadership in the market for payment and data insight enabled vending technology.

Smart Zones

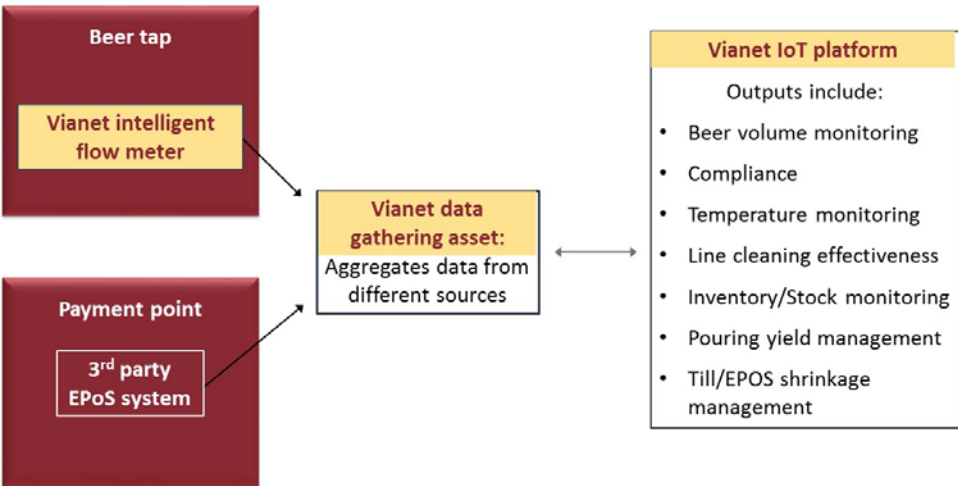
The Smart Zones division provides connected devices and systems for performance and compliance management, beer quality and stock management in the hospitality industry, with a focus on draught beverages. Hardware includes flow meters and temperature measuring, providing data feeds which are collated via Vianet’s proprietary data platform.

Key outputs include:

- Beer flow data on a per-pour basis, in near-to-real-time, with till/EPOS reconciliation.
- Beverage temperature and line cleaning monitoring.
- An analysis platform identifying quality or wastage issues and sales analysis.
- Beer compliance services.

The following diagram illustrates Vianet’s Smart Zones product offering.

Figure 3: Smart Zones technology



Source: Cenkos Securities

The system offers a number of measurable benefits for its hospitality industry users:

- Pouring yield data, measuring spillage and wastage.
- Till/EPOS shrinkage data identifying where drinks have not been charged through the till.
- Compliance management for pubs under a beer-tie agreement which is common in the UK. These pubs have an agreement to buy beer directly from the landlord but may sometimes breach this exclusivity. The compliance application was one of the major drivers of uptake of Vianet’s system in its early days.
- Quality assurance, as a means of brand protection for drinks companies and hospitality businesses.
- Analytics, addressing a growing demand for actionable business intelligence.

The following table shows the typical financial benefits for a user of Vianet’s iDraught system, implying a payback on investment of two months. The SmartDraught system is at an earlier stage of roll-out, and we believe this will represent an even more compelling offering.

Figure 4: Example: Payback for a pub customer – with £15,000 monthly beer sales

Upfront cost	£1500
Monthly pouring yield gain, 2%	£300
Monthly till yield gain, 2%	£300
Monthly gross profit on additional sales: 3% additional sales at 50% GM	£225
Monthly fee	-£50
Monthly net benefit	£775, implies less than 2 month payback

Source: Cenkos Securities estimates







Based on these baseline economic benefits for the customer, we believe that there is an increasingly wide range of users that can profitably deploy the system.

The biggest customer group for Smart Zones is currently the UK pub chains, both leased and tenanted, and managed, but with increasing visibility of independents and Brands. We estimate that 70% of Vianet Smart Zones' revenue for FY23E comes from five large pub chains.

Going forward we believe that incremental growth in systems installations is likely to come from a more diverse base of operators, in particular because of the introduction of the SmartDraught product which allows the system to be offered at a significantly lower set up cost while providing enhanced features and user experience.

The following diagram illustrates the different customer groups. The examples in this table include some companies which are current Vianet customers, and others which are not yet customers.

Figure 5: Smart Zones market landscape

Leased tenanted pubs/bars	Managed	Brands	Independents
	Pubs/bars:  Restaurants/hotels/other: 	Beverages:  Other: 	 <ul style="list-style-type: none"> Free house pubs Independent bars Independent restaurants Others <ul style="list-style-type: none"> Sports and social clubs Night clubs

Source: Cenkos Securities

The key features which add value for the different customers segments can be summarised as follows:

- **Leased pubs:** For the brewery and pubco – beer-tie compliance and quality monitoring. For the tenant publican – pouring yield and till yield management, and quality monitoring.
- **Managed chains, restaurants, independents:** Pouring yield and till/EPOS yield management, waste management and quality monitoring.
- **Brands:** Potential for sports TV pricing based on customer volume. Opportunity for beverage brands to benefit from quality monitoring and sales insight analytics.

We believe that all of the customer verticals offer growth potential for Vianet. In particular the company has been under-indexing in the managed and restaurant chain segment.

The USA is another major growth opportunity. Vianet has an established base of US customers, but with substantial headroom for further growth. The Smart Zones division had historically built out its business in the UK faster than other markets due to the application of the first generation Smart Zones product as a beer-tie enforcement tool. However, leading into the pandemic the iDraught offering had expanded the USA user base to c 300 sites and breakeven. We expect expansion of Vianet's US presence to accelerate with SmartDraught, which offers enhanced benefits and lower entry costs.

Current trading environment for Smart Zones

Vianet reported that revenues for Smart Zones grew by 12.4% in H1/23, with billings on existing installed equipment now returning to 100% with no more contracts being switched off for COVID-19. The company also reported an increase in demand for data and analytics solutions as operators seek outlet-level data on their beverage sales as they navigate a challenging trading environment.

For FY21 in the COVID-19 shutdown, Vianet granted contractual concessions to its customers, allowing the customers to retain their services for a significantly reduced fee at 30% of normal pricing of their recurring licence fee. We do not expect that these concessions would be repeated in a normal operating environment, even for customers who are experiencing difficulties. We regard the shutdowns as a unique circumstance. The situation has fully normalised, and the company reported in its October 2022 trading statement that it was back to 100% billing in Smart Zones.

The hospitality industry in the UK faces an ongoing challenging trading environment which serves as a catalyst for more operators to employ Vianet's solutions for driving efficiencies and generating business insights.

This also provides the company with an opportunity to increasingly access new customer segments or under addressed segments. The new SmartDraught product plays an important role in helping Vianet to drive this forward.

SmartDraught

SmartDraught is the latest iteration of Vianet's beverage monitoring offering. This follows on from the existing iDraught system, which in turn was introduced to offer enhancements to the company's original Brulines Beer Monitoring System.

Both iDraught and SmartDraught provide:

- Real time flow monitoring, and temperature monitoring.
- A cloud based analytics suite.
- Connectivity via 4GLTE.

In addition, SmartDraught offers:

- Integration with third-party off-the-shelf telemetry devices.
- A self-install option with Vianet remote assistance, reducing initial setup cost for the customer.
- The option of LoRa connectivity in addition to 4GLTE.
- Analytics and insight options tailored to new customer verticals.
- Enhanced draft beer inventory features.

We believe that the lower setup cost and enhanced functionality allow SmartDraught to open up new customer groups for Vianet, including more independent hospitality businesses, more restaurants, as well as more customers in the USA.

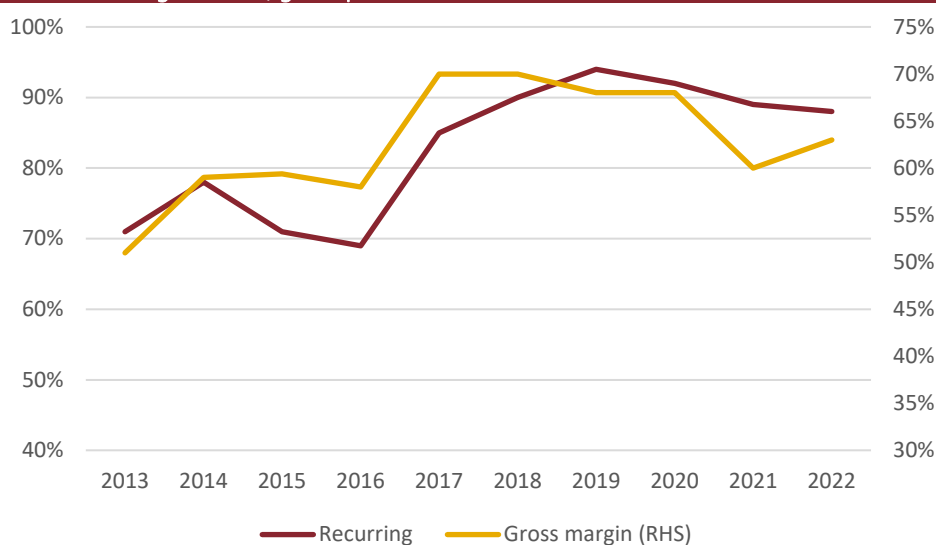
We forecast 4.9% growth for Smart Zones in FY23E and 2.5% in FY24E. We believe that steady growth is sustainable in the medium-term driven by expansion of the addressable customer market, and a customer base increasingly focussed on improving trading visibility and efficiency.

Financials

Over the past five years Vianet has achieved gross profit margins in the 60-70% range. We estimate that the company should achieve gross margins of 35-45% on original equipment, and 70-80% on recurring fee revenue.

The following chart illustrates the relationship between recurring fee income and gross margins for the company.

Chart 4: Recurring revenue, gross profit



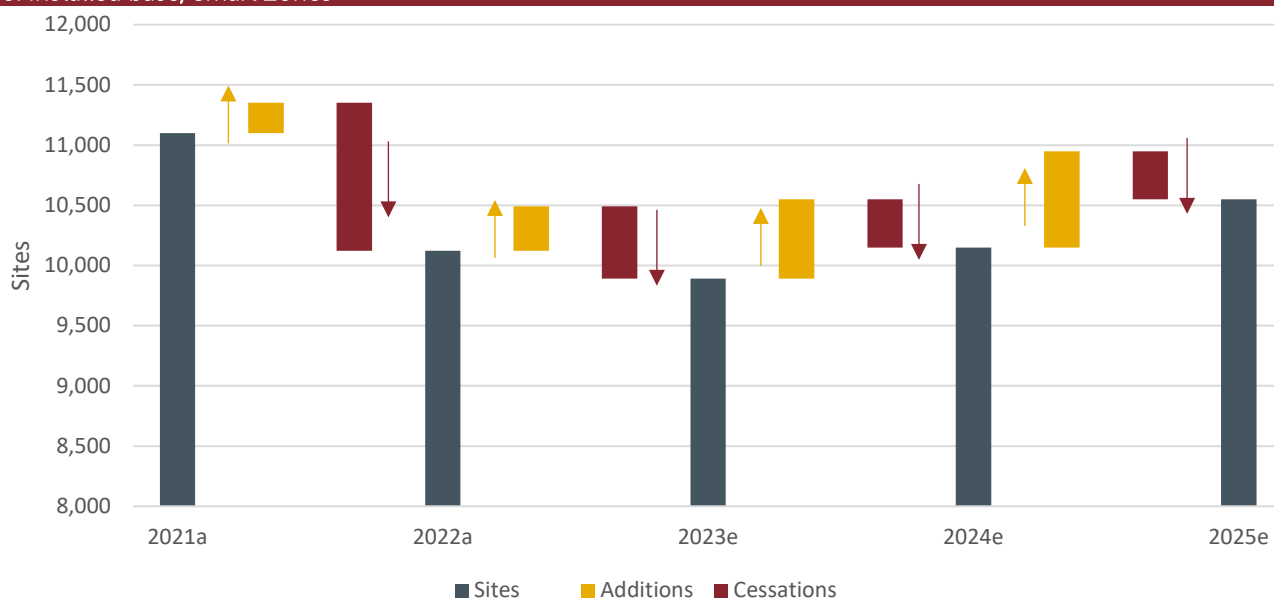
Source: Company data

We forecast that contracted recurring revenue trends back down towards 80% of group revenue as original equipment revenues accelerate in FY23E and FY24E. The absolute level of gross profits (and recurring revenue) continues to increase as both original equipment and recurring revenue carry a strong positive gross margin.

Forecasting the level of recurring revenue is the main driver of earnings and contributes to the overall level of visibility for the company, who enjoy 3-5 year contracts with the majority of their customers.

We derive our revenue model by forecasting equipment installs and retirements from service and using these figures to derive a forecast for installed base and therefore recurring revenue.

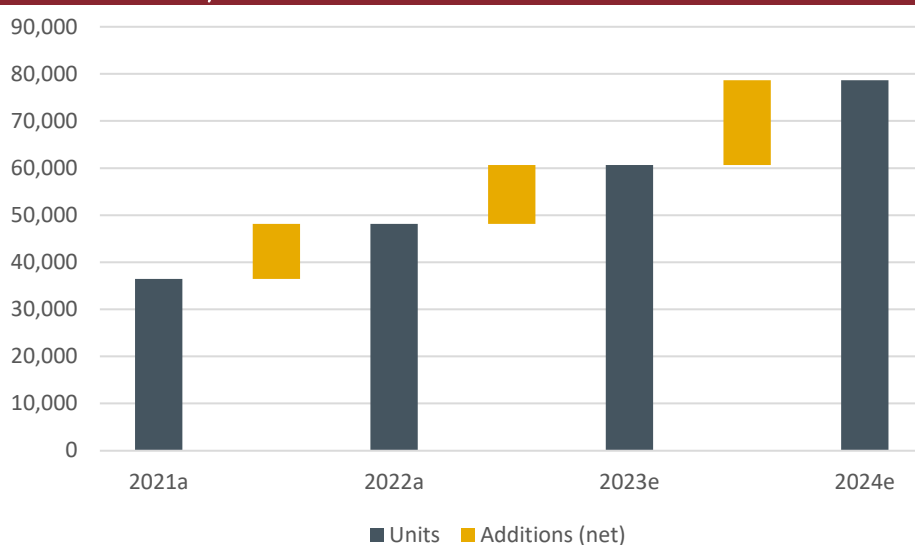
The following chart shows our forecast for the installed base of the Smart Zones division, in terms of number of sites equipped with Smart Zones beverage monitoring.

Chart 5: Installed base, Smart Zones

Source: Cenkos Securities estimates, Company data

Our forecasts assume that there will still be a significant ongoing level of pub closures in the UK overall, leading to some ongoing level of contract cessations, but noting Vianet is dominant in the leased and tenanted sector, and we believe that most cessations will be in the managed and independent sectors. However, we forecast that the number of new contracts commencing during FY24E and FY25E will exceed the number of cessations, leading to net growth in the number of connected sites, based on the current pipeline of opportunities.

The chart shows our forecast for growth in the installed base for Smart Machines.

Chart 6: Installed base, Smart Machines

Source: Cenkos Securities estimates, Company data

For Smart Machines, we assume a minimal level of attrition from existing machines exiting service. New installations broadly correlate with net fleet expansion. We forecast increasing levels of additions to the installed base based on the current pipeline of customer opportunities and reflecting new product features supporting demand.

Translating into revenues

Our revenue forecasts are driven by our assumptions on installed base expansion as detailed above. For Smart Zones, we estimate original equipment prices of £1,200-£2,500 per installation (dependent on system type, BMS or iDraught), and annual recurring revenue of £600-£800 for each system. For Smart Machines we estimate original equipment prices of £275-£400 and recurring fee of £70-£150.

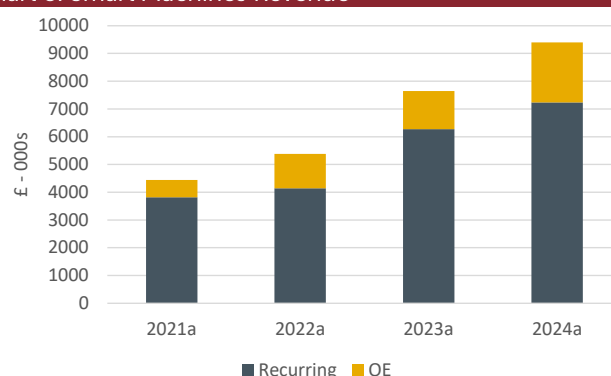
The following charts show our revenue forecasts for each division, broken down as original equipment and recurring revenue.

Chart 7: Smart Zones revenue



Source: Cenkos Securities estimates, Company data

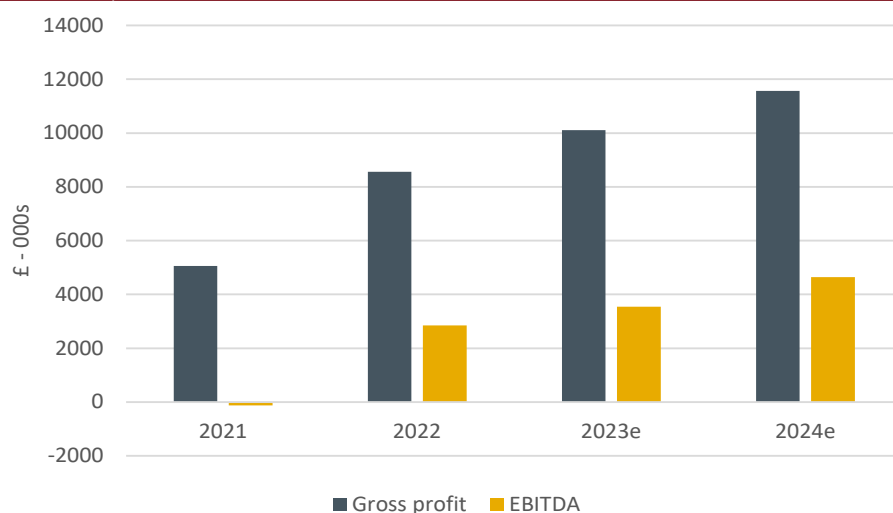
Chart 8: Smart Machines Revenue



Source: Cenkos Securities estimates, Company data

Based on our revenue forecasts, and taking account of the revenue mix, we forecast gross profit growing by 18.0% in FY23E and 20.4% in FY24E. The following graph illustrates our forecasts.

Chart 9: Gross profit and EBITDA



Source: Cenkos Securities estimates, Company data

We believe that Vianet can achieve gross profit growth with only limited increases in operating expense. We forecast OpEx increasing from £6.2m in FY22A to reach £6.6m in FY24E. These assumptions lead us to our forecast of 24.1% EBITDA growth in FY23E and 31.2% in FY24E. This gives EPS growth of 159% in FY23E and 214% in FY24E.

We believe Vianet's prospective earnings growth is not fully reflected in the current share price.

Valuation

We illustrate the valuation of Vianet by comparison with a selection of global peers. These include UK peers which have some characteristics in common with Vianet, as well as two non-UK names which have been included because they have more direct read-across to Vianet.

UK comparables

Our broad-based UK group of comparables includes:

- Companies with IoT business activities.
- Remote asset monitoring.
- Enterprise resource management.
- Electronic payments or sales execution.
- Business intelligence.

International comparables

Our international comparables are Azkoyen Group, and Cantaloupe inc. Both have direct overlap with Vianet intelligent vending machine enablement.

The following table summarises our valuation comparison.

Table 1: Peer valuation

				EV/Sales		EV/EBITDA		
		Business	Share price	Market Cap	FY1	FY2	FY1	FY2
1Spatial	AIM:SPA	Geospatial	49p	£54m	1.9	1.7	10.7	9.4
Bango	AIM:BGO	Marketing and payments	194p	£148m	5.2	3.3	40.5	12.9
Dotdigital	AIM:DOTD	Marketing automation	96p	£299m	3.6	3.3	11.0	10.2
Eagle Eye	AIM:EYE	Retail loyalty, SaaS	575p	£161m	4.6	4.1	23.4	19.7
IQGeo	AIM:IQG	Geospatial	174p	£109m	4.9	3.6	63.8	16.8
K3 Business Tech	AIM:K3C	Software for retail industry	293p	£215m	2.8	2.5	9.7	8.6
Microlise	AIM:SAAS	Fleet telematics	168p	£194m	2.7	2.5	22.1	18.8
Quartix	AIM:QTX	Fleet telematics	305p	£145m	5.1	4.6	24.4	21.7
Smart Metering	AIM:SMS	Metering	800p	£1065m	8.6	7.4	17.0	14.0
Tracsis	AIM:TRCS	Rail sector telemetry	860p	£255m	3.2	3.0	15.3	13.8
Azkoyen	MC:AZK	Vending tech	€ 6.06	€148m	1.0	N/A	5.9	N/A
Cantaloupe	NASDAQ:CTLP	Vending tech	\$3.47	\$247m	1.0	0.9	20.8	11.0
Median					3.6	3.3	18.8	14.0
Vianet		Telemetry for point-of-sale and other	59p	£17.0m	1.2	1.1	5.5	4.2

Source: Cenkos Securities estimates, FactSet

The only other company in the table which is valued at a similar level to Vianet on EV/EBITDA is Azkoyen. However, Azkoyen is also engaged in the production of vending and dispensing machines which is a less IP-driven business sector.

Overall, Vianet trades at a 70% discount to the peer group on EV/EBITDA multiples for FY2 (the next financial year beyond the current year). We believe it is reasonable to expect this valuation gap to narrow significantly if the company remains on track to deliver on our financial expectations. We target an EV/EBITDA multiple of 7.5x, to give us a fair value of 110p.

We note that M&A transaction multiples provide an additional point of reference. There have been a number of transactions in the past two years in Vianet's market spaces and also in the wider IoT space.

The following table provides some examples.

Table 2: M&A in Vianet's space and related

Target company	Acquirer	Date	Type of deal	Value	Rev. multiple	Profit multiple
Vending related:						
Vendon	Azkoyen	Jul-22	Acquisition	€13.3m	1.56x, 2y forward, assuming earnout paid	N/A
On Track Innovations	Nayax	Jul-21	Acquisition	\$10m	0.93x, trailing	Loss making
Nayax	N/A	May-21	IPO	\$856m	7.7x trailing	Loss making
Weissbeberger	Anheuser-Busch	Jan-18	Acquisition	\$80m	N/A	N/A
Other IOT:						
Sierra Wireless	Semtech	Aug-22	Acquisition	\$1.48bn	1.63x 1y forward	16.7x 1y forward
Thales Cellular IoT	Telit	Aug-22	Acquisition	€117m, based on Thales holding 25%	0.39x trailing	N/A
Telit	DBAY	May-21	Acquisition	£307m	1.15x	10.3x EBITDA,

Source: Cenkos Securities, FactSet, press releases

The transaction multiples vary significantly between different types of deal, and for some of these transactions there is insufficient data available to derive valuation multiples. We believe that M&A activity in the sector provides a supportive indicator for valuations in the space. In our view, Vianet could be perceived as an attractive target for a trade buyer at some point in the future. However, we believe that it would not make sense for Vianet to consider a business combination based on the company's current share price, as this represents a discount valuation.

Investment conclusion

We believe that Vianet offers a compelling proposition for investors. Some of the factors supporting this include:

- Market leading IoT technologies addressing attractive niche markets.
- A contracted recurring revenue base providing visibility based on long term contracts, and strong gross margins.
- Structural growth drivers including the intelligent vending machine market.
- A strong management team with significant experience of introducing Vianet products into new customer segments.
- A strong earnings growth outlook – EBITDA growth of 24.1% and 31.2% for FY23E and FY24E respectively, and EPS growth of 159% and 214%.

We maintain a Buy rating with 110p fair value.

Financials statements

Table 3: Income statement

Year end March, £ 000s	2020	2021	2022	2023 E	2024 E
Total revenue	16,283	8,369	13,215	15,896	17,790
Cost of sales	(5,165)	(3,307)	(4,654)	(5,786)	(6,226)
Gross profit	11,118	5,062	8,561	10,110	11,563
Gross Margin (% of sales)	68%	60%	65%	64%	65%
Operating expenses incl. depreciation	(7,088)	(5,749)	(6,198)	(7,060)	(7,521)
Add back depreciation	674	563	489	490	602
Adj. EBITDA	4,704	(124)	2,852	3,540	4,644
Depreciation	(674)	(563)	(489)	(490)	(602)
Adj. EBITA	4,030	(687)	2,363	3,050	4,042
Other non-recurring	-	(343)	(121)	(180)	-
Share based	(125.0)	(73)	(83.0)	(85.0)	(85.0)
Amortisation	(1,390)	(1,669)	(2,195)	(2,165)	(2,300)
EBIT	2,515	(2,772)	(36)	620	1,657
Net Finance	(113)	(50)	(138)	(135)	(135)
Earnings before Tax	2,402	(2,822)	(174)	485	1,522
Income tax expense	28	867	361	-	-
Net Income, ongoing	2,430	(1,955)	187	485	1,522
Adj. earnings	2,430	58	2,503	2,830	3,822
EPS (dil., continuing op.s) - GBp	8.4	(6.9)	0.6	1.7	5.2

Source: Cenkos Securities estimates, Company data

Table 4: Balance sheet

Year end March, £ 000s	2020	2021	2022	2023 E	2024 E
Cash and equivalents	1,728	1,894	1,583	765	1,524
Receivables	3,544	2,758	2,690	3,540	4,200
Inventories	1,491	1,431	1,573	1,620	1,620
Property, Plant and Equipment	3,795	3,391	3,262	3,272	3,470
Intangibles & goodwill	23,361	24,040	23,832	23,317	22,517
Other	-	26	386	386	386
Total Assets	33,919	33,540	33,326	32,900	33,717
Short-term debt / lease	2,011	1,265	2,310	360	360
Accounts payable	2,710	3,257	2,983	3,200	3,850
Other current liabilities	64	53	25	25	25
Long-term debt /lease	705	3,290	2,273	3,010	2,000
Deferred tax	841	-	-	-	-
Other non-current	117	86	-	-	-
Total Liabilities	6,448	7,951	7,591	6,595	6,235
Share capital	2,895	2,895	2,880	2,965	3,050
Premium	11,709	11,709	11,711	11,711	11,711
Reserves etc.	674	747	824	824	824
Retained earnings	12,193	10,238	10,320	10,805	11,897
Shareholders' equity	27,471	25,589	25,735	26,305	27,482
Liabilities and shareholders' equity	33,919	33,540	33,326	32,900	33,717

Source: Cenkos Securities estimates, Company data

Table 5: Cash Flow

Year end March, £ 000s	2020	2021	2022	2023 E	2024 E
PBT	2,402	(2,821)	(174)	485	1,522
Depreciation/amort	2,064	2,232	2,684	2,655	2,902
Other	(983)	126	14		
Movement in inventories	179	60	(142)	(47)	-
Receivables	125	786	68	(850)	(660)
Payables	191	547	(274)	217	650
Total WC	495	1,393	(348)	(680)	(10)
Share-based payments	125	73	83	85	85
Add back interest	113	50	138	135	135
Operating cash flow	4,216	1,053	2,397	2,680	4,634
Capital expenditure	(730)	(268)	(443)	(500)	(800)
Additions to intangibles	(2,020)	(2,348)	(1,987)	(1,650)	(1,500)
Acquisitions, cash elt	(552)	(30)	(16)	-	-
Cash flow from investing	(3,302)	(2,646)	(2,446)	(2,150)	(2,300)
Share issue	1,188		(124)		
Debt issue (repayment)	(802)	3,157	(1,317)	(1,213)	(1,010)
Dividends paid	(1,604)				(430)
Interest paid	(113)	(50)	(138)	(135)	(135)
Cash flow from financing	(1,331)	3,107	(1,579)	(1,348)	(1,575)

Source: Cenkos Securities estimates, Company data

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- HOLD is an expected return -10% - +10%; and
- SELL is an expected return less than -10%.
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Distribution of Investment Recommendations as per 06/12/2022

	Corporate No.	Corporate %	No.	%
Buy	71	92	85	91
Hold	5	6	7	7
Sell	0	0	0	0
Under review	1	1	1	1

Temporary movements by stocks across the boundaries of these categories due to share price volatility will not necessarily trigger a recommendation change. All recommendations are based on 12 month time horizon unless otherwise stated.

Recommendation History

Company	Disclosures	Date	Rec	Price
Vianet Group Plc	2,6,8,9,10,11	27 Oct 21	Buy	93p

Source: Cenkos Securities

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