

# Vianet Group Plc

## Positive FY23 results

Vianet has announced a strong set of FY March 2023 results with building momentum, in-line with the update on 2 May 2023 and our forecasts, as well as an upbeat outlook statement. We raise our fair value from 110p to 135p and maintain a BUY rating.

- **FY23 Results:** The company reported revenues +6.7% at £14.11m and adj operating profit +31.8% at £3.11m, in-line with our forecasts. Growth was strongest as expected in the Smart Machines division (connected vending systems) with revenue +10.5% and adj operating profit +10.7%. The Smart Zones division (hospitality industry systems) delivered growth in revenue of +4.2% and adj operating profit +26.8%. Across the two divisions recurring revenue from technology subscription fees increased by 12% and accounted for 89% of group revenue (FY22A: 88%). We believe that the ongoing growth in this recurring revenue is a key driver of shareholder value for Vianet.
- **Growth outlook:** We forecast an acceleration in revenue growth in FY24E, driven by increased levels of system installations across both divisions. In particular in the Smart Machines division the company reported 11,062 new connections during FY23A versus 12,895 during FY22A, with the vending sector impacted by the distraction of issues including the UK switch-off of 3G mobile. Vianet expects to benefit from increased activity in the sector in FY24 as well as upgrade demand from 3G dependent machines. We note that the company announced two significant new partnerships in the Smart Machines division during FY23. We examine the drivers for Smart Machines on p2.
- **Financial modelling items:** Vianet has announced a final dividend of 0.5p, and we believe this reflects a balanced approach of rewarding shareholders while preserving balance sheet health as well as investment in growth. Vianet recently announced receipt of a payment of £0.9m from UK tax authorities. Finally, we are now factoring in costs relating to the acquisition of Beverage Metrics Inc (BMI) which was announced in May 2023. We include these in our FY24E forecasts and show the breakdown of our P&L on p3.
- **Conclusions:** We raise our fair value to 135p from 110p previously. Our fair value is based on our FY24E EV/EBITDA of 10x. We believe this is an undemanding multiple for a business which has strong revenue growth drivers, high levels of recurring technology fee income at a high gross margin, strong visibility from long term contracts, and strong cash generation characteristics. We maintain a BUY rating.

Forecast and Ratios					
Y/E March (£000s)	2021A	2022A	2023A	2024E	2025E
Revenue	8.4	13.2	15.7	17.8	20.3
Adj EBITDA	-0.1	2.8	3.6	3.9	5.6
Adj Op. Profit	-0.7	2.4	3.1	3.4	5.1
Adj EPS (p)	-7.0	0.6	0.6	2.4	6.6
EV/Adj EBITDA (x)	nm	8.7	6.9	6.4	4.5
Net cash/(debt)	-2.7	-3.0	-3.4	-0.8	1.8

Source: Cenkos Securities estimates, Company data

## Brokership Company

# BUY

Price at COB 12 Jun 23 85p  
 52-week range 49-86.5p  
 Ticker VNET LN

### Share Price Performance



Source: Morningstar

### Stock Data

Market cap (£m) 25  
 Shares outstanding (m) 30

### Activities

Vianet delivers actionable data, business insight and contactless payment solutions to the drinks retailing and unattended retail market via its Internet of Things Platform.

### Directors

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

### Significant Shareholders

James Dickson	17.4%
Gresham House	17.2%
Liontrust Asset Management	8.5%
AXA Investment Managers	5.8%

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# Drivers and forecasts

The FY23A results highlight a number of favourable dynamics for Vianet, including:

- A strong a growing base of recurring revenues.
- Strong and improving profitability in spite of a headwind of £0.45m stock premium, booked as above-the-line P&L cost, related to supply chain disruption.
- The launch of the SmartVend platform, and the announcement of two new partnerships for the Smart Machines division.

We examine in more detail some of the growth drivers for Smart Machines, and some line-item changes in our financial model.

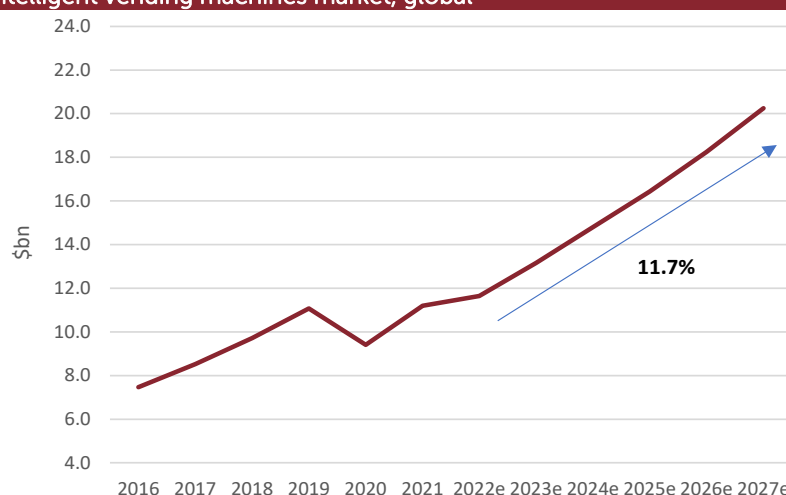
## Smart Machines – growth drivers

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.

The business benefits from a strong trendline in end market growth. The company estimates that there is an addressable market of some 3 million devices in Europe and 15 million worldwide of which only around 30% have any form of connectivity. Operators are switching to connected machines in order to achieve consistent stocking and maintenance, performance monitoring, electronic payments, and the ability to drive additional revenues using market insights.

The following chart shows our estimate for the market growth in intelligent vending technology.

**Chart 1: Intelligent vending machines market, global**



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

Vianet announced two new partnerships during FY23 which have the potential to increase the market reach of the Smart Machines division.

### Suresite Group

In November 2022 Vianet announced a partnership with Suresite Group which combines Vianet's innovative contactless payment solutions with Suresite's acquiring services. The partnership extends Vianet's reach in the forecourt unattended retail space, addressing applications including unmanned car washes, air and vacuum stations, and vehicle charging points.

We believe that the partnership is a step forward in enabling Smart Machines to expand its addressable customer verticals.

### Vendekin

In March 2023 Vianet announced a partnership with Vendekin to allow customers to make purchases from a vending machine by scanning a QR code. This will be achieved by integrating the Vendekin QR code system into Vianet's existing SmartVend platform.

This partnership highlights the ability to apply new payment technologies within the existing Vianet technology solution.

## Smart Machines – FY24E drivers

Our FY24E forecast reflects an increase in new device connections in the core UK market for coffee and drinks machines and snack machines. There has been some deferral of activity during FY23E due to the UK switch-off of 3G mobile, which is the connection medium for a significant number of connected vending machines. This distraction has led to some deferred decision making on new system installations, but we expect a catch-up in activity in FY24E as upgrade programmes accelerate.

Looking ahead, we see continued growth for Smart Machines, driven by end-market growth, continued increased penetration for Vianet in the core customer markets, and expansion of Vianet Smart Machines into new customer verticals including areas like forecourt vending which are already underway.

## Changes to our financial forecasts

In May 2023 Vianet announced the acquisition of Beverage Metrics Inc for an initial consideration of £0.58m satisfied through the issue of Vianet shares. The acquisition accelerates the expansion of the Smart Zones division into the US market as well as offering a wider service to the UK market, especially managed and independents. At the time of the announcement, we made no change to our financial forecasts. We have now reviewed our forecasts, and we believe that Vianet will book costs relating to BMI as above-the-line charges, including integration costs and ongoing staff costs. Both the BMI business and the existing Vianet Americas business have been loss making, prior to the acquisition, although the combined businesses are expected to approach breakeven by the end of FY24E. The following table shows the impact on our forecasts.

**Table 1: Changes to our forecasts**

	2023A	New 2024E	Old 2024E	New 2025E
Revenue	14.1	17.8	17.8	20.3
Gross Profit	9.4	11.5	11.5	13.2
Adj. Operating Profit excluding BMI	3.1	4	4	5.3
Adj. Operating Profit after BMI	3.1	3.4	N/A	5.1
Net Cash/(Debt)	-3.4	-0.8	-0.8	1.8

Source: Cenkos Securities estimates, Company data

## Financials

**Table 2: Income Statement**

Year end March, £ 000s	2021	2022	2023	2024 E	2025 E
<b>Total revenue</b>	<b>8,369</b>	<b>13,215</b>	<b>14,115</b>	<b>17,760</b>	<b>20,300</b>
Cost of sales	(3,307)	(4,654)	(4,737)	(6,226)	(7,100)
Gross profit	5,062	8,561	9,378	11,534	13,200
Operating expenses incl. depreciation	(5,749)	(6,198)	(6,273)	(7,521)	(7,900)
Costs related to BMI				(600)	(200)
Add back depreciation	563	489	519	500	500
<b>Adj. EBITDA</b>	<b>(124)</b>	<b>2,852</b>	<b>3,624</b>	<b>3,913</b>	<b>5,600</b>
Depreciation	(563)	(489)	(519)	(500)	(500)
<b>Adj. EBITA</b>	<b>(687)</b>	<b>2,363</b>	<b>3,105</b>	<b>3,413</b>	<b>5,100</b>
Other non-recurring	(343)	(121)	(122)	-	-
Share based	(73.0)	(83.0)	(71.0)	(85.0)	(85.0)
Amortisation	(1,669)	(2,195)	(2,254)	(2,100)	(2,100)
EBIT	(2,772)	(36)	658	1,228	2,915
Net Finance	(50)	(138)	(206)	(300)	(300)
Earnings before Tax	(2,822)	(174)	452	928	2,615
Income tax expense	867	361	(291)	(232)	(654)
Net Income, ongoing	(1,955)	187	161	696	1,961
<b>EPS (dil., continuing op.s) - GBp</b>	<b>(6.9)</b>	<b>0.6</b>	<b>0.56</b>	<b>2.4</b>	<b>6.6</b>

Source: Cenkos Securities estimates, Company data

**Table 3: Cash Flow**

Year end March, £ 000s	2021	2022	2023	2024 E	2025 E
PBT	(2,822)	(174)	452	928	2,615
Depreciation/amort	2,232	2,684	2,773	2,600	2,600
Other	126	14			
Movement in inventories	60	(142)	(702)	395	- 80
Receivables	786	68	(1,091)	531	100
Payables	547	(274)	(618)	632	220
Total WC	1,393	(348)	(2,411)	1,558	400
Taxes (paid)/received			946	(232)	(654)
Share-based payments	73	83	71	85	85
Add back interest	50	138	206	300	300
<b>Operating cash flow</b>	<b>1,052</b>	<b>2,397</b>	<b>2,037</b>	<b>5,239</b>	<b>5,346</b>
Capital expenditure	(268)	(443)	(651)	(600)	(600)
Additions to intangibles	(2,348)	(1,987)	(1,703)	(1,500)	(1,500)
Acquisitions, cash elt	(30)	(16)	-	-	-
<b>Cash flow from investing</b>	<b>(2,646)</b>	<b>(2,446)</b>	<b>(2,354)</b>	<b>(2,100)</b>	<b>(2,100)</b>
Share issue		(124)			
Debt issue (repayment)	3,157	(1,317)	(1,008)	(542)	(300)
Dividends paid				(220)	(440)
Interest paid	(50)	(138)	(206)	(300)	(300)
Lease finance	-	-	166		
<b>Cash flow from financing</b>	<b>3,107</b>	<b>(1,579)</b>	<b>(1,048)</b>	<b>(1,062)</b>	<b>(1,040)</b>

Source: Cenkos Securities estimates, Company data

<b>Table 4: Balance Sheet</b>					
<b>Year end March, £ 000s</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024 E</b>	<b>2025 E</b>
Cash and equivalents	1,894	1,583	69	2,146	4,352
Receivables	2,758	2,690	3,781	3,250	3,150
Inventories	1,431	1,573	2,275	1,880	1,800
Property, Plant and Equipment	3,391	3,262	3,370	3,470	3,570
Intangibles & goodwill	24,040	23,832	23,281	22,681	22,081
Other	26	386	-	-	-
<b>Total Assets</b>	<b>33,540</b>	<b>33,326</b>	<b>32,776</b>	<b>33,427</b>	<b>34,953</b>
Short-term debt	1,265	2,310	1,925	400	400
Accounts payable	3,257	2,983	2,348	2,980	3,200
Other current liabilities	53	25	70	70	70
Long-term debt	3,290	2,273	1,517	2,500	2,200
Deferred tax	-	-	827	827	827
Other non-current	86	-	122	122	122
<b>Total Liabilities</b>	<b>7,951</b>	<b>7,591</b>	<b>6,809</b>	<b>6,899</b>	<b>6,819</b>
Share capital	2,895	2,880	2,880	2,880	2,880
Premium	11,709	11,711	11,711	11,796	11,881
Reserves etc.	747	824	888	888	888
Retained earnings	10,238	10,320	10,488	10,964	12,485
<b>Shareholders' equity</b>	<b>25,589</b>	<b>25,735</b>	<b>25,967</b>	<b>26,528</b>	<b>28,134</b>
<b>Liabilities and shareholders' equity</b>	<b>33,540</b>	<b>33,326</b>	<b>32,776</b>	<b>33,427</b>	<b>34,953</b>

Source: Cenkos Securities estimates, Company data

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Hold	7	8	8	8
Sell	0	0	0	0
Under review	0	0	0	0

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Company	Disclosures	Date	Rec	Price
Vianet Group Plc	2,6,8,9,10,11	28 Apr 22	Buy	92.5p

Source: Cenkos Securities

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