

13 June 2023

Buy

Ticker VNET:AIM

Software & Computer Services

Shares in issue (m) 29.5

Next results H1 Dec

Price 84.5p

Target price 210.0p

Upside 149%

Market cap £24.9m

Net debt/(cash) £3.4m

Other EV adjustments £0.0m

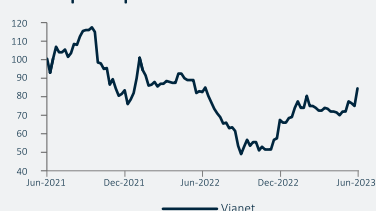
Enterprise value £28.3m

What's changed? From To

Adjusted EPS 5.1 2.4

Target price 210.0 n/c

Share price performance



%	1M	3M	12M
Actual	17.4	16.6	2.4

Company description

Vianet's integrated platform enables hospitality and vending customers to optimise their operations

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Strong FY23 results, robust momentum in FY24

In today's FY23 results, Vianet has reported revenue and EBITA in line with the trading update, reintroduction of the dividend at 0.5p, and strong momentum into FY24, with a breakthrough expected in new verticals in H1. FY23 revenue growth of +7% to £14.1m reflects a near return to pre-pandemic levels in H2, with Smart Zones and Smart Machines delivering FY23 growth of +4% and +11%. Numerous product launches and upgrades are continuing to resonate with customers, including wins at vending industry awards, and combined with several new partnerships and the BMI acquisition in May, the FY24 pipeline is robust. Proactive management of the cost base delivered +31% yoy growth in adjusted EBITA to £3.1m, including an increase in gross margin to 66% from 65%, despite £450k of stock premium costs vs £230k in FY22. Net debt is expected to peak at £3.4m in FY23 as working capital normalises, and £1.1m of EFCF in FY24 supports FY23 DPS returning at 0.5p. As Vianet capitalises upon the robust pipeline, we reiterate our FY24 revenue growth of +26% to £17.8m, while the inclusion of the BMI cost base leads us to revise our FY24 EBITA. As the transaction then accelerates Vianet's progress in the US and UK, we introduce FY25 revenue of £20.3m, adjusted EBITA of £5.1m, and 6.5p of adjusted EPS. We look forward to new customer wins and strong operating momentum continuing through FY24, and we reiterate our 210p price target based on 11x FY25 EV/EBITDA. At 85p, shares are trading on 12-month forward multiples of only 1.5x EV/Sales, 7x EV/EBITDA and 5% EFCF yield, vs finnCap Tech 40 and Next 50 peers on 3x EV/Sales, 12x EV/EBITDA, and 4% EFCF yield.

- **Changes to forecasts** – As we show on p3, we reiterate our FY24 revenue, while including the cost base from the [acquisition of Beverage Metrics in May](#), through the issue of 700k new Vianet shares. Integrating the acquisition with SmartDraught creates a comprehensive drinks management solution, and is expected to drive the US towards monthly breakeven by the end of FY24, while accelerating SmartDraught's penetration of UK hospitality. As the transaction combines with new and upgraded solutions across the platforms, we introduce FY25 revenue growth of +14% to £20.3m, adjusted EBITA growth of +50% to £5.1m, and EFCF of £2.5m.

- **Capitalising on untapped potential** – As we explain in our [initiation](#), the Vianet investment case is focused upon scaling its proprietary platforms. In Smart Zones, the Q4 23 launch of the SmartDraught platform and Q1 24 BMI acquisition, create value in Vianet's 90% share of the UK leased & tenanted market, expand the UK addressable market by c4x, and accelerate expansion in the US. In Smart Machines, evolution of SmartVend and the award-winning solutions will further differentiate the platform, and enable expansion from the current vending connected device footprint of c54k machine connections into 15m worldwide. Proprietary hardware creates very low levels of churn, and 3-5 year contracts deliver recurring revenue of over 80%. Following development of the cloud-based platform, we expect SaaS solutions scaling will drive gross margin to over 70%, create strategically valuable data, and deliver platform economies of scale.

Key estimates		2021A	2022A	2023A	2024E	2025E
Year end:		Mar	Mar	Mar	Mar	Mar
Revenue	£m	8.4	13.2	14.1	17.8	20.3
Adj EBITDA	£m	-0.1	2.9	3.6	3.8	5.5
Adj EBIT	£m	-2.4	0.2	0.8	1.0	2.7
Adj PBT	£m	-2.4	0.0	0.6	0.7	2.4
Adj EPS	p	-5.3	1.3	2.2	2.4	6.5
DPS	p	0.0	0.0	0.5	0.6	0.7

Key valuation metrics		2021A	2022A	2023A	2024E	2025E
EV/sales	x	3.4	2.1	2.0	1.6	1.4
EV/EBIT (adj)	x	-12.0	168.5	33.4	28.4	10.6
P/E (adj)	x	-15.9	63.4	38.1	34.8	12.9
Dividend yield	%	0.0%	0.0%	0.6%	0.7%	0.8%
Free cash yield	%	-6.7%	-0.9%	-2.4%	4.5%	9.8%

Strong FY23 results, robust momentum in FY24

Income statement		2022A	2023A	2024E	2025E
Year end:		Mar	Mar	Mar	Mar
Sales	£m	13.2	14.1	17.8	20.3
Gross profit	£m	8.6	9.4	11.6	13.9
EBITDA (adjusted)	£m	2.9	3.6	3.8	5.5
EBIT (adjusted)	£m	0.2	0.8	1.0	2.7
Associates/other	£m	0.0	0.0	0.0	0.0
Net interest	£m	-0.1	-0.2	-0.3	-0.3
PBT (adjusted)	£m	0.0	0.6	0.7	2.4
Total adjustments	£m	-0.2	-0.2	-0.3	-0.2
PBT (stated)	£m	-0.2	0.5	0.4	2.2
Tax charge	£m	0.4	-0.3	0.0	-0.5
Minorities/Disc ops	£m	0.0	0.0	0.0	0.0
Reported earnings	£m	0.2	0.2	0.4	1.7
Adjusted earnings	£m	0.4	0.6	0.7	1.9
Shares in issue (year end)	m	28.8	28.8	29.6	29.7
EPS (stated)	p	0.6	0.6	1.4	5.9
EPS (adjusted, fully diluted)	p	1.3	2.2	2.4	6.5
DPS	p	0.0	0.5	0.6	0.7

Cash flow		2022A	2023A	2024E	2025E
Year end:		Mar	Mar	Mar	Mar
EBITDA	£m	2.9	3.6	3.8	5.5
Net change in working capital	£m	-0.3	-2.4	0.0	0.0
Other operating items	£m	-0.1	-0.1	-0.2	-0.1
Cash flow from op. activities	£m	2.4	1.1	3.6	5.4
Cash interest	£m	-0.1	-0.2	-0.3	-0.3
Cash tax	£m	0.0	0.9	0.0	-0.5
Capex	£m	-2.5	-2.4	-2.2	-2.2
Other items	£m	-0.0	-0.1	-0.0	-0.0
Free cash flow	£m	-0.2	-0.6	1.1	2.5
Acquisitions / disposals	£m	0.0	0.0	-0.6	-0.2
Dividends	£m	0.0	0.0	-0.1	-0.2
Shares issued	£m	-0.1	0.0	0.6	0.0
Other	£m	-0.0	0.2	0.0	0.0
Net change in cash flow	£m	-0.3	-0.4	1.0	2.1
Opening net cash (debt)	£m	-2.7	-3.0	-3.4	-2.4
Closing net cash (debt)	£m	-3.0	-3.4	-2.4	-0.3

Balance sheet		2022A	2023A	2024E	2025E
Year end:		Mar	Mar	Mar	Mar
Tangible fixed assets	£m	3.3	3.4	3.6	4.0
Goodwill & other intangibles	£m	23.8	23.3	23.0	22.0
Other non current assets	£m	0.4	0.0	0.0	0.0
Net working capital	£m	1.3	3.7	3.7	3.7
Other assets	£m	0.0	0.0	0.0	0.0
Other liabilities	£m	0.0	-0.8	-0.8	-0.6
Gross cash & cash equivs	£m	1.6	0.1	0.8	2.7
Capital employed	£m	30.3	29.6	30.3	31.8
Gross debt	£m	4.6	3.6	3.4	3.2
Net pension liability	£m	0.0	0.0	0.0	0.0
Shareholders equity	£m	25.7	26.0	26.9	28.6
Minorities	£m	0.0	0.0	0.0	0.0
Capital employed	£m	30.3	29.6	30.3	31.8

Growth analysis		2022A	2023A	2024E	2025E
Year end:		Mar	Mar	Mar	Mar
Sales growth	%	57.9%	6.8%	26.4%	13.6%
EBITDA growth	%	n/m	26.9%	5.9%	44.3%
EBIT growth	%	107.1%	404.2%	17.6%	168.4%
PBT growth	%	101.2%	n/m	11.4%	236.9%
EPS growth	%	125.1%	66.5%	9.3%	169.4%
DPS growth	%	n/m	n/m	20.0%	16.7%

Profitability analysis		2022A	2023A	2024E	2025E
Year end:		Mar	Mar	Mar	Mar
Gross margin	%	64.8%	66.4%	65.2%	68.6%
EBITDA margin	%	21.6%	25.6%	21.5%	27.3%
EBIT margin	%	1.3%	6.0%	5.6%	13.2%
PBT margin	%	0.2%	4.5%	4.0%	11.9%
Net margin	%	3.0%	4.5%	4.0%	9.6%

Valuation analysis		2022A	2023A	2024E	2025E
Year end:		Mar	Mar	Mar	Mar
EV/EBITDA	x	9.9	7.8	7.4	5.1
EV/EBIT	x	168.5	33.4	28.4	10.6
P/E	x	63.4	38.1	34.8	12.9

Cash flow analysis		2022A	2023A	2024E	2025E
Year end:		Mar	Mar	Mar	Mar
Cash conv'n (op cash / EBITDA)	%	84.0%	30.8%	94.8%	98.2%
Cash conv'n (FCF / EBITDA)	%	-7.7%	-16.2%	29.0%	44.3%
U/lying FCF (capex = depn)	£m	-0.5	-1.0	0.5	1.8
Cash quality (u/l FCF / adj earn)	%	-115.9%	-157.1%	69.2%	93.8%
Investment rate (capex / depn)	x	5.0	4.5	5.1	5.0
Interest cash cover	x	17.4	5.4	12.9	20.2
Dividend cash cover	x	n/a	n/a	7.7	13.8

Working capital analysis		2022A	2023A	2024E	2025E
Year end:		Mar	Mar	Mar	Mar
Net working capital / sales	%	9.7%	26.3%	20.8%	18.3%
Net working capital / sales	days	35	96	76	67
Inventory (days)	days	43	59	50	50
Receivables (days)	days	74	98	90	90
Payables (days)	days	82	61	64	73

Leverage analysis		2022A	2023A	2024E	2025E
Year end:		Mar	Mar	Mar	Mar
Net debt / equity	%	11.8%	13.7%	9.5%	1.6%
Net debt / EBITDA	x	1.1	1.0	0.7	0.1
Liabilities / capital employed	%	15.2%	12.3%	11.3%	10.0%

Capital efficiency & intrinsic value		2022A	2023A	2024E	2025E
Year end:		Mar	Mar	Mar	Mar
Adjusted return on equity	%	1.5%	2.5%	2.7%	6.8%
RoCE (EBIT basis, pre-tax)	%	0.6%	2.9%	3.3%	8.4%
RoCE (u/lying FCF basis)	%	-1.5%	-3.4%	1.6%	5.7%
NAV per share	p	89.3	90.1	90.9	96.4
NTA per share	p	6.6	9.3	13.4	22.3

Strong FY23 results, robust momentum in FY24

Following the BMI acquisition and FY23 results, we adjust our FY24 EBITA while reiterating our FY24 revenue, include the FY23 dividend of 0.5p, and introduce FY25 forecasts for +14% revenue growth and +50% adjusted EBITA growth

We note that we have removed the FY23 P&L tax charge of £0.3m from our adjusted EPS.

Figure 1: Changes to our Vianet forecasts (EC = Estimate Changes; NE = New Estimates; PE = Previous Estimates)

		EC			NE			PE		
		2023	2024E	2025E	2023	2024E	2025E	2023	2024E	2025E
Smart Zones	£m	1.4%	1.0%		8.2	9.0	9.5	8.0	8.9	
Smart Machines	£m	-1.4%	-0.9%		6.0	8.9	10.8	6.0	9.0	
Group revenue	£m	0.2%	0.0%		14.1	17.8	20.3	14.1	17.8	
Group revenue growth	%				7%	26%	14%	7%	27%	
Gross profit	£m	-2.6%	0.1%		9.4	11.6	13.9	9.6	11.6	
Gross profit growth	%				10%	24%	20%	12%	21%	
Gross margin	%				66%	65%	69%	68%	65%	
Adj opex	£m	-5.4%	11.1%		-5.8	-7.8	-8.4	-6.1	-7.0	
Adj EBITDA (pre SBP)	£m	2.1%	-16.6%		3.6	3.8	5.5	3.5	4.6	
Adj EBITDA growth	%				27%	6%	44%	24%	30%	
Adj EBITDA margin	%				26%	21%	27%	25%	26%	
Adjusted EBITA	£m	0.3%	-16.7%		3.1	3.4	5.1	3.1	4.1	
Reported EPS (diluted)	p	-56.3%	-66.7%		0.6	1.4	5.9	1.3	4.3	
Adjusted EPS (diluted)	p	19.7%	-52.4%		2.2	2.4	6.5	1.9	5.1	
DPS	p				0.5	0.6	0.7	0.0	0.0	
EFCF (unadjusted cash)	£m	nm	-28.9%		-0.6	1.1	2.5	0.2	1.6	
Net cash/(debt)	£m	18.6%	88.2%		-3.4	-2.4	-0.3	-2.8	-1.3	

Source: finnCap

We value Vianet at 210p based on 11x FY25 EV/EBITDA, and it currently trades on 12-month forward multiples of 1.5x EV/Sales, 7x EV/EBITDA, and an EFCF yield of 5%

Figure 2: Vianet multiples at the current and target price

		NTM	At current: 85p			At target: 210p		
		Growth	12m fwd	2024	2025	12m fwd	2024	2025
Diluted Shares outstanding	m		29.7	29.7		29.7	29.7	
Market cap (diluted)	£m		25.2	25.3		62.3	62.5	
Net debt/(cash) inc leases	£m		2.6	0.5		2.6	0.5	
Other EV adjustments	£m		0.0	0.0		0.0	0.0	
Rolling Group EV	£m		27.8	25.7		64.9	62.9	
Adj net cash/(debt) /share	p		-8.1	-1.1		-8.1	-1.1	
EV/Sales	x	23.4%	1.5	1.6	1.3	3.5	3.6	3.1
EV/EBITDA	x	13.9%	6.6	7.2	4.7	15.5	16.9	11.4
EV/EBIT	x	51.4%	20.6	27.9	9.6	48.6	65.1	23.5
EV/OpFCF (unadj cash)	x	-423.8%	14.1	17.2	7.8	33.1	40.2	19.0
P/E (adjusted, diluted)	x	43.2%	26.2	35.0	13.0	64.9	86.5	32.1
P/E (reported, diluted)	x	215.2%	36.7	58.9	14.5	90.7	145.4	35.8
EFCF yield (unadj cash)	%	-643.5%	5.4%	4.4%	9.7%	2.2%	1.8%	3.9%
Dividend yield	%	19.2%	0.7%	0.7%	0.8%	0.3%	0.3%	0.3%
Adj ND/EBITDA exc leases	x	13.9%	0.5	0.6	0.1	0.5	0.6	0.1

Source: finnCap

Income statement		2021A	2022A	2023A	2024E	2025E
Year end:		Mar	Mar	Mar	Mar	Mar
Sales	£m	8.4	13.2	14.1	17.8	20.3
Cost of sales	£m	-3.3	-4.7	-4.7	-6.2	-6.4
Gross profit	£m	5.1	8.6	9.4	11.6	13.9
Operating expenses	£m	-5.2	-5.7	-5.8	-7.8	-8.4
EBITDA (adjusted)	£m	-0.1	2.9	3.6	3.8	5.5
Depreciation	£m	-0.6	-0.5	-0.5	-0.4	-0.4
Amortisation	£m	-1.7	-2.2	-2.3	-2.4	-2.4
EBIT (adjusted)	£m	-2.4	0.2	0.8	1.0	2.7
Associates/other	£m	0.0	0.0	0.0	0.0	0.0
Net interest	£m	-0.1	-0.1	-0.2	-0.3	-0.3
PBT (adjusted)	£m	-2.4	0.0	0.6	0.7	2.4
<i>restructuring costs</i>	£m	-0.1	-0.1	-0.1	-0.2	-0.1
<i>share based payments</i>	£m	-0.1	-0.1	-0.1	-0.1	-0.1
<i>other adjustments</i>	£m	-0.2	-0.0	-0.0	0.0	0.0
Total adjustments	£m	-0.4	-0.2	-0.2	-0.3	-0.2
PBT (stated)	£m	-2.8	-0.2	0.5	0.4	2.2
Tax charge	£m	0.9	0.4	-0.3	0.0	-0.5
<i>tax rate</i>	%	<i>n/a</i>	<i>n/a</i>	64.4	0.0	21.0
Minorities	£m	0.0	0.0	0.0	0.0	0.0
Reported earnings	£m	-2.0	0.2	0.2	0.4	1.7
Tax effect of adjustments / other	£m	0.0	0.0	0.3	0.0	0.0
Adjusted earnings	£m	-1.5	0.4	0.6	0.7	1.9
<i>shares in issue (year end)</i>	<i>m</i>	<i>29.0</i>	<i>28.8</i>	<i>28.8</i>	<i>29.6</i>	<i>29.7</i>
<i>shares in issue (weighted average)</i>	<i>m</i>	<i>29.0</i>	<i>28.9</i>	<i>28.8</i>	<i>29.4</i>	<i>29.6</i>
<i>shares in issue (fully diluted)</i>	<i>m</i>	<i>29.0</i>	<i>29.3</i>	<i>28.9</i>	<i>29.4</i>	<i>29.7</i>
EPS (adjusted, fully diluted)	p	-5.3	1.3	2.2	2.4	6.5
EPS (stated)	p	-6.8	0.6	0.6	1.4	5.9
DPS	p	0.0	0.0	0.5	0.6	0.7

Growth analysis (adjusted basis where applicable)						
Sales growth	%	-48.6%	57.9%	6.8%	26.4%	13.6%
EBITDA growth	%	-102.6%	n/m	26.9%	5.9%	44.3%
EBIT growth	%	-189.2%	107.1%	404.2%	17.6%	168.4%
PBT growth	%	-195.2%	101.2%	n/m	11.4%	236.9%
EPS growth	%	-159.7%	125.1%	66.5%	9.3%	169.4%
DPS growth	%	n/m	n/m	n/m	20.0%	16.7%

Profitability analysis (adjusted basis where applicable)						
Gross margin	%	60.5%	64.8%	66.4%	65.2%	68.6%
EBITDA margin	%	-1.5%	21.6%	25.6%	21.5%	27.3%
EBIT margin	%	-28.2%	1.3%	6.0%	5.6%	13.2%
PBT margin	%	-28.7%	0.2%	4.5%	4.0%	11.9%
Net margin	%	-18.4%	3.0%	4.5%	4.0%	9.6%

Strong FY23 results, robust momentum in FY24

Cash flow		2021A	2022A	2023A	2024E	2025E
Year end:		Mar	Mar	Mar	Mar	Mar
EBITDA	£m	-0.1	2.9	3.6	3.8	5.5
Net change in working capital	£m	1.4	-0.3	-2.4	0.0	0.0
Share based payments	£m	0.0	0.0	0.0	0.0	0.0
Profit/(loss) on sale of assets	£m	0.0	0.0	0.0	0.0	0.0
Net pensions charge	£m	0.0	0.0	0.0	0.0	0.0
Change in provision	£m	0.0	0.0	0.0	0.0	0.0
Other items	£m	-0.2	-0.1	-0.1	-0.2	-0.1
Cash flow from operating activities	£m	1.1	2.4	1.1	3.6	5.4
Cash interest	£m	-0.1	-0.1	-0.2	-0.3	-0.3
Tax paid	£m	0.0	0.0	0.9	0.0	-0.5
Capex	£m	-2.6	-2.5	-2.4	-2.2	-2.2
Other items	£m	-0.1	-0.0	-0.1	-0.0	-0.0
Free cash flow	£m	-1.7	-0.2	-0.6	1.1	2.5
Disposals	£m	0.0	0.0	0.0	0.0	0.0
Acquisitions	£m	0.0	0.0	0.0	-0.6	-0.2
Dividends on ord shares	£m	0.0	0.0	0.0	-0.1	-0.2
Other cashflow items	£m	-0.0	-0.0	0.2	0.0	0.0
Issue of share capital	£m	0.0	-0.1	0.0	0.6	0.0
Net change in cash flow	£m	-1.7	-0.3	-0.4	1.0	2.1
Opening net cash (debt)	£m	-1.0	-2.7	-3.0	-3.4	-2.4
Closing net cash (debt)	£m	-2.7	-3.0	-3.4	-2.4	-0.3

Cash flow analysis						
Cash conversion (op cash flow / EBITDA)	%	n/m	84.0%	30.8%	94.8%	98.2%
Cash conversion (free cash flow / EBITDA)	%	n/m	-7.7%	-16.2%	29.0%	44.3%
Underlying free cash flow (capex = depreciation)	£m	-1.3	-0.5	-1.0	0.5	1.8
Cash quality (underlying FCF / adjusted earnings)	%	84.1%	-115.9%	-157.1%	69.2%	93.8%
Investment rate (capex / depn)	x	4.6	5.0	4.5	5.1	5.0
Interest cash cover	x	21.0	17.4	5.4	12.9	20.2
Dividend cash cover	x	n/a	n/a	n/a	7.7	13.8

Balance sheet		2021A	2022A	2023A	2024E	2025E
Year end:		Mar	Mar	Mar	Mar	Mar
Tangible fixed assets	£m	3.4	3.3	3.4	3.6	4.0
Goodwill	£m	17.9	17.9	17.9	17.9	17.9
Other intangibles	£m	6.2	6.0	5.4	5.1	4.1
Other non current assets	£m	0.2	0.4	0.0	0.0	0.0
<i>inventories</i>	£m	1.4	1.6	2.3	2.4	2.8
<i>trade receivables</i>	£m	2.8	2.7	3.8	4.4	5.0
<i>trade payables</i>	£m	-3.3	-3.0	-2.3	-3.1	-4.0
Net working capital	£m	0.9	1.3	3.7	3.7	3.7
Other assets	£m	0.0	0.0	0.0	0.0	0.0
Other liabilities	£m	-0.1	0.0	-0.8	-0.8	-0.6
Gross cash & cash equivalents	£m	1.9	1.6	0.1	0.8	2.7
Capital employed	£m	30.4	30.3	29.6	30.3	31.8
Gross debt	£m	4.6	4.6	3.6	3.4	3.2
Net pension liability	£m	0.0	0.0	0.0	0.0	0.0
Shareholders equity	£m	25.8	25.7	26.0	26.9	28.6
Minorities	£m	0.0	0.0	0.0	0.0	0.0
Capital employed	£m	30.4	30.3	29.6	30.3	31.8

Leverage analysis						
Net debt / equity	%	10.5%	11.8%	13.7%	9.5%	1.6%
Net debt / EBITDA	x	n/a	1.1	1.0	0.7	0.1
Liabilities / capital employed	%	15.2%	15.2%	12.3%	11.3%	10.0%

Working capital analysis						
Net working capital / sales	%	11.1%	9.7%	26.3%	20.8%	18.3%
Net working capital / sales	days	41	35	96	76	67
Inventory (days)	days	62	43	59	50	50
Receivables (days)	days	120	74	98	90	90
Payables (days)	days	142	82	61	64	73

Capital efficiency & intrinsic value						
Adjusted return on equity	%	-6.0%	1.5%	2.5%	2.7%	6.8%
RoCE (EBIT basis, pre-tax)	%	-7.7%	0.6%	2.9%	3.3%	8.4%
RoCE (underlying free cash flow basis)	%	-4.3%	-1.5%	-3.4%	1.6%	5.7%
NAV per share	p	89.1	89.3	90.1	90.9	96.4
NTA per share	p	6.1	6.6	9.3	13.4	22.3

Strong FY23 results, robust momentum in FY24

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