

Vianet Group plc

FY23 results – gathering momentum

13 June 2023

Price
85p

Ticker
[VNET](#)

Market Cap.
£25m

Net Debt (Cash)
£3.4m (FY23)

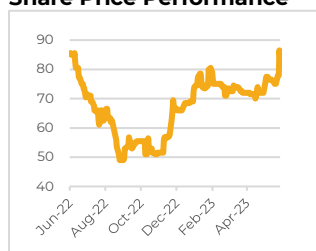
Free Float
80%

3mo Av. Daily Volume
29k

Brokers
Cenkos Securities

Index
FTSE AIM All-Share

Share Price Performance



Source: Bloomberg

Vianet is a leading B2B provider of remote services to operators of vending machines, pubs, and self-service/"unattended" retail locations around the UK, US, and Europe. Vianet, provides contactless payment services, vending management software, draught beer monitoring, and a broad suite of performance monitoring & analytics.

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International provider of actionable data and insight via connected devices

Vianet has published results for the year to March 2023, confirming the strong performance flagged in the trading statement issued in May. Revenue increased 6.8% YoY to £14.1m, earning a gross margin of 66.4% and generating adjusted operating profit of £3.1m, up 31.4% YoY. Cash conversion was strong at 102.8% of EBITDA, returning to pre-pandemic levels. Management characterised the performance as a year of gathering momentum with strong prospects which was underscored by the reinstatement of the dividend with a final dividend of 0.5p declared for the year. These results were delivered despite a number of challenges. We forecast earnings to step up sharply from here and on our new FY25 forecasts, Vianet should return to 2020 levels of pre-tax profit with the balance sheet deleveraged and trading on a very undemanding 13.1x PE.

Vianet's SmartVend platform provides a comprehensive end-to-end vending machine management system, including contactless payment solutions and business intelligence for unattended vending machines including remote access to maximise operational efficiency. The SmartVend solution was launched in 2022 and provides significantly enhanced capability over Vianet's previous systems with migration of existing customers to the new platform ongoing. The SmartDraught platform is a market leading beverage and bar management system which enables the drinks retailing industry to reduce waste and shrinkage, whilst driving quality, consumer experience and sales. This enhanced platform was launched in 2023. In March of this year, Vianet announced a partnership with Vendekin Technologies to incorporate Vendekin's QR code-based mobile payment solutions into Vianet's offering. In May, Vianet acquired the operations of BMI adding BMI's inventory platform to Vianet's SmartDraught draft beer management solution and adding BMI's US customer base.

On a reported basis, Vianet generated an operating profit of £0.7m (FY22 loss of £0.0m). and a pre-tax profit of £0.5m (FY22 loss of £0.2m). The company reported a net profit of £0.2m (FY22 profit £0.2m) after a negative swing in the tax charge of £0.7m associated with a pre year-end tax refund claim which was received May, affecting both brought forward losses and deferred tax. Reported diluted EPS were 0.56p, down 11.1% YoY as a result of the tax adjustment. Reported cash generation before working capital was £4.4m (FY22 £2.7m) which included the accrued tax rebate of £0.92m, received in May. Excluding the tax rebate, normalised cash generation was £3.5m, 113.8% of EBITA or 102.8% of reported EBITDA. Net debt, excluding leases, ended the period at £3.4m, higher than the £3.0m reported for YEFY22 but a reduction on the £3.6m reported at the interim stage. Prospectively, we forecast debt to continue to fall. Vianet is in the process of closing a more flexible bank facility with HSBC.

Having seen revenue halve from FY20 levels as a result of the impact of Covid on the hospitality sector, Vianet is now staging a strong recovery with a return to full billing and new customer wins for the SmartZones business which includes the SmartDraught platform. Once rollout of the SmartVend solution within the SmartMachines business is more advanced there should be scope to grow margin while the overall solution offers very significant scope for growth as the market for unattended vending services grows and new verticals are opened up.

At a Glance (Yr. to March)	Revenue, £'000	Gross Margin	EBITA, £'000	EPS (GBp)	P/E*	EV/EBITDA*
2021 a	8,369	60%	(687)	(6.75)	n/a	n/a
2022 a	13,215	65%	2,363	0.64	151.4x	13.2x
2023 a	14,115	66%	3,105	0.56	125.4x	7.6x
2024 e	17,785	61%	3,425	1.86	45.5x	7.7x
2025 e	20,275	65%	5,087	6.43	13.1x	4.6x

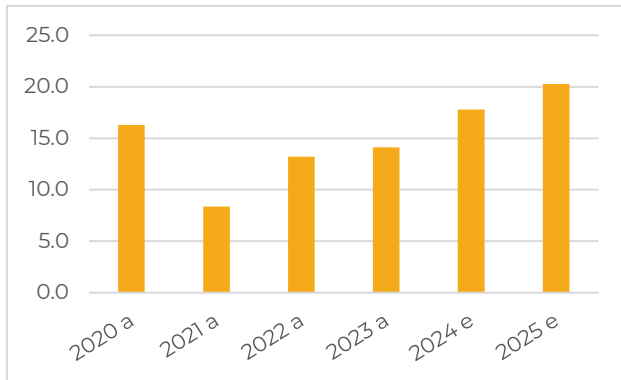
Source: Bloomberg, Vianet, CAG Research

* Uses average annual share price for historic periods, current price for forecasts

Results in perspective

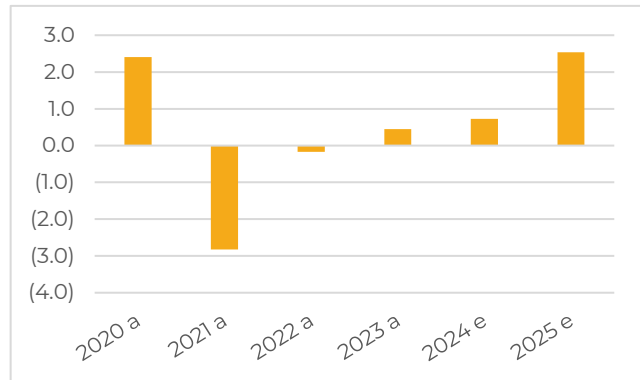
Vianet has been making surefooted progress back to profitability after the depredations of the pandemic which impacted the hospitality sector, and therefore the market for the company's Smart Zones solutions. Revenue has almost recovered to pre-pandemic levels and the business is again profitable on a pre-tax basis. We forecast revenue to exceed pre-pandemic levels this financial year with pre-tax profit above pre-pandemic levels in FY25 (Figures 1 and 2).

Figure 1: Revenue (£m)



Source: Vianet, CAG Research.

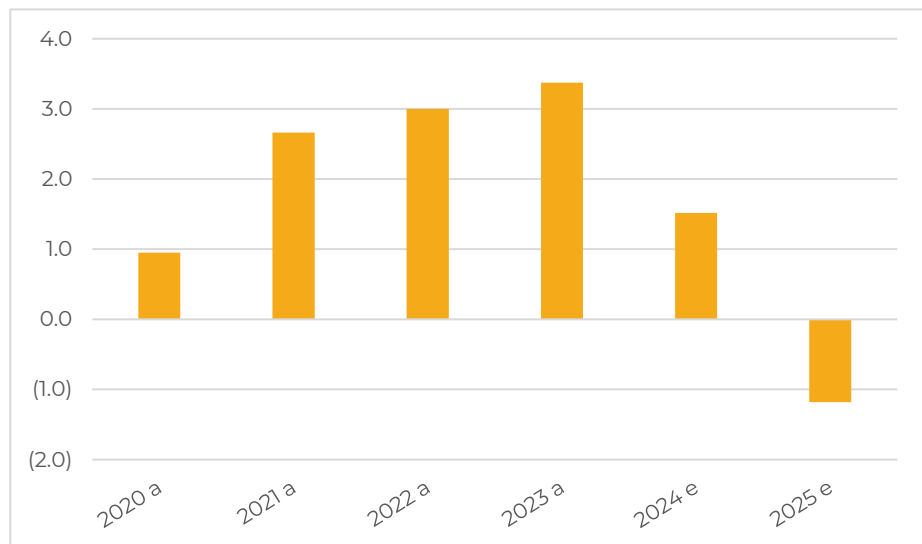
Figure 2: Profit before tax (£m)



Source: Vianet, CAG Research.

Through this period net debt has increased. However, we expect the recovery in profit to drive a recovery in cash generation with the potential for Vianet to be in net cash position by the end of FY25, subject to the pace of investment (Figure 3), and the tax refund of £0.9m in May is a significant step forward in this regard.

Figure 3: Net debt/(cash) (£m)



Source: Vianet, CAG Research.

While FY23 saw a significant improvement in financial performance the results were impacted by a number of challenges, most notably pressure on the global semiconductor supply chain, which Vianet estimates added £0.5m to its component costs and also slowed down the introduction of new vending machines by Vianet's customers, as vending machine manufacturers struggled with production.

Divisional performance

The Smart Machines business, which services the vending machine and unattended contactless payments sector, delivered solid business gains, including 75 new customer contract wins.

Turnover increased 10.6% YoY to £6.0m with operating profit up 10.4% to £2.0m. Smart Machines added 11.1k new connected devices with total connected devices up 11.6% YoY to 53.8k. Recurring revenue per device increased 3.3% YoY to £88.42 with adjusted operating profit per device holding steady at £37.75 (Figure 4) despite being impacted by stock premium costs.

Figure 4: Smart Machines key metrics

	2019 a	2020 a	2021 a	2022 a	2023 a
Revenue (£m)	4.68	5.22	4.42	5.38	5.95
Adj operating profit* (£m)	1.41	1.53	1.11	1.82	2.01
Profit before tax (£m)	0.98	2.09	0.69	1.59	1.65
New telemetry connections (#)	2,485	3,111	2,311	2,275	2,046
New contactless connections (#)	7,800	8,948	4,904	10,620	9,016
YE net estate (#)	27,000	38,000	38,000	48,179	53,758
Recurring revenue per device (£)	71.11	64.40	101.34	85.57	88.42
Adj op profit per device (£)	52.13	40.32	29.34	37.73	37.75

Source: Vianet, CAG Research. *Before amortisation.

The division made good progress despite challenges in the global semiconductor supply-chain, continuing uncertainty around the pace of office re-openings and changing working habits which have introduced uncertainty around determining new site economics while planning for the switch off of the 3G and upgrade to 4G LTE has also dampened short-term demand. Vianet has responded by developing the Vianet Assist hardware support package which it expects will result in upgrade activity and footprint expansion. We would also highlight the extensive effort required to implement the SmartVend platform where roll-out is expected to be completed in 4QFY23, enabling operators to realise the full benefit of the SmartVend offering.

Overall, the trend toward non-cash transactions is growing significantly, building demand for such services in the vending sector while Vianet is also opening up new verticals, most notably forecourt valeting including car wash, jet wash, car vacuums and air hoses in conjunction with its partner, Suresite.

The Smart Zones business which services the pubs and hospitality market and was most deeply damaged by the pandemic, continued to recover strongly with revenue up 4.2% YoY to £8.2m and a jump in adjusted operating profit to £3.8m, up 26.7% YoY. New site installations increased to 259 (FY22 252). After allowing for pub closures, net premises fell to 9.8k (YEFY22 10.1k) but Vianet believes this is now a sustainable level. Recurring revenue per device increased 12.2% YoY to £50.35 with adjusted operating profit per device jumping 37.0% to £24.57 (Figure 5).

Figure 5: Smart Zones key metrics

	2019 a	2020 a	2021 a	2022 a	2023 a
Revenue (£m)	11.00	11.06	3.95	7.83	8.16
Adj operating profit* (£m)	4.48	4.57	0.5	2.99	3.79
Profit before tax (£m)	4.06	3.75	-0.02	2.23	2.97
Connected devices (#)	202,513	186,554	173,580	166,804	154,216
New site installations (#)	88	151	61	252	259
YE net premises (k)	12.6	11.9	10.8	10.1	9.8
Recurring revenue per device (£)	52.99	58.00	21.06	44.89	50.35
Adj op profit per device (£)	18.03	19.39	2.9	17.93	24.57

Source: Vianet, CAG Research. *Before amortisation.

The acquisition of the operations of BMI brings BMI's inventory management capability to the SmartDraught platform which Vianet expects will accelerate its penetration of the UK hospitality sector beyond the current footprint. The transaction also added approximately 60 sites in the US. The US business lost £0.2m in FY23, an 18% deterioration YoY, in part reflecting the full-year impact of the loss of the 250 AMC Theatre units as a result of the pandemic. While Vianet expects the US business to be loss-making during FY24, it anticipates progress to monthly breakeven by financial year-end and remains committed to establishing a significant US profit centre in what is a large addressable market of c 382k licensed on-premise outlets.

Changes to estimates

We raise our FY24 estimates for revenue modestly but BMI integration costs, BMI related share issuance, higher finance charges, and revised tax provision results in a squeeze in our EPS forecast to 1.86p (previously 5.30p), still triple EPS generated for FY23. We introduce forecasts for FY25 which should see a further tripling in EPS and profit before tax ahead of pre-pandemic levels. Moreover, net debt should fall sharply with Vianet likely being in a net cash position by YEFY25 (Figure 3 and see Financial forecasts from page 6).

We were not forecasting a dividend until FY24, so have amended our forecasts to reflect resumption of dividends with a final dividend for FY23.

Valuation

Vianet's results for FY23 demonstrate that the business is recovering strongly from the pandemic. However, we believe they do not fully reflect the improvement in the Smart Machines and Smart Zones offerings that the company is now providing, having continued to invest in these systems, even when the business was under significant pressure because of the challenges its clients were facing, most notably in the hospitality sector. We believe the uplift in performance offered by Vianet's solutions should see growing traction in the sectors it serves, particularly as the company opens up new verticals in unattended service while the US remains a huge opportunity for the company.

On our forecasts, Vianet would be trading at a very undemanding 13.1x PE for FY25 given the pace at which earnings look set to grow and given the opportunity the company has. That should also see a rapid deleveraging of the balance sheet allowing a higher rate of reinvestment than we currently forecast as well as, potentially, a quicker rate in the recovery of the dividend.

Investment Case Summary

Investment Case Summary	Details
Recurring Revenue	This is generally around 80%-90% of revenue, all contracted, making visibility and planning capability extremely high.
High Cash Conversion	Usually around 90%+ of EBITA is converted to operating cashflow.
Sticky Customers	Very low turnover and high retention rates in both segments. Several large landlords have been SmartZone customers for more than 15 years, for example.
Tail winds from Market Trends	COVID has accelerated the rise of contactless payments, as well placing unfortunate strain (along with the cost-of-living crisis) on pubs and bars - this forces optimisation efforts. The payback period is short (sometimes only months), so Vianet is well positioned to benefit from helping pubs improve their draught beer handling.
Limited competition	There appears to be nobody else in the UK that offers an end-to-end service for vending machines, and nobody offers anything remotely like SmartZones. There are some small US competitors to Smart Zones, as well as some large payment processors like Cantaloupe, Inc (CTLP on NASDAQ) and Nayax (NYAX on the Tel Aviv Exchange).
US Expansion Opportunity	US total addressable market of 382,000 licensed on-premise bars. Elements of Vianet's comprehensive beverage management solution, such as inventory are applicable to all bars. . Where draught beer is present management estimates c.20% of each barrel is wasted/unaccounted for in the till. This is a significant opportunity if bar operators begin to understand it.
Pub Weakness Represents Opportunity	Pubs and bars are under higher cost pressure than ever before, combined with consumer spend weakness. It is therefore imperative that they optimise their operations to reduce waste and maximise sales. Vianet is a way to achieve this, with a sub-1-year payback period on its installations.
Telemetry Upside	Telemetry connectivity gives customers access to core data insights to help unlock efficiencies and profit, which is becoming ever more important – both in terms of customers' margins and improving green credentials.

Profit & loss highlights – 31st March year end

£'000	2020 a	2021 a	2022 a	2023 a	2024 e	2025 e
Revenue	16,282	8,369	13,215	14,115	17,785	20,275
Revenue growth YoY	N/A	-48.6%	57.9%	6.8%	26.0%	14.0%
Gross Profit	11,118	5,062	8,561	9,378	10,849	13,077
<i>Gross margin</i>	68.3%	60.5%	64.8%	66.4%	61.0%	64.5%
Reported EBIT	2,515	(2,772)	(36)	658	975	2,787
Adjustments	1	343	121	122	250	200
Adj. EBIT	2,516	(2,429)	85	780	1,225	2,987
Adj EBIT margin	15.5%	-29.0%	0.6%	5.5%	6.9%	14.7%
Adj EBITA	4,031	(687)	2,363	3,105	3,425	5,087
Adj EBITA margin	24.8%	-8.2%	17.9%	22.0%	19.3%	25.1%
Depr. & amortisation	2,064	2,232	2,684	2,773	2,619	2,519
Adj. net profit	2,431	(1,612)	308	283	794	2,103
<i>Margin</i>	14.9%	-19.3%	2.3%	2.0%	4.5%	10.4%
DPS (GBp)	1.70	0.00	0.00	0.50	0.75	1.25

£'000	2020 a	2021 a	2022 a	2023 a	2024 e	2025 e
Revenue	16,282	8,369	13,215	14,115	17,785	20,275
Cost of revenue	(5,164)	(3,307)	(4,654)	(4,737)	(6,936)	(7,198)
Gross profit	11,118	5,062	8,561	9,378	10,849	13,077
<i>Gross margin</i>	68.3%	60.5%	64.8%	66.4%	61.0%	64.5%
G&A Expenses	(7,088)	(6,092)	(6,319)	(6,395)	(7,674)	(8,190)
Intangible asset amortisation	(1,390)	(1,669)	(2,195)	(2,254)	(2,100)	(2,000)
Share-based payments	(125)	(73)	(83)	(71)	(100)	(100)
Reported EBIT	2,515	(2,772)	(36)	658	975	2,787
<i>Reported EBIT margin</i>	15.4%	-33.1%	-0.3%	4.7%	5.5%	13.7%
Reported EBITDA	4,579	(540)	2,648	3,431	3,594	5,306
<i>Interest expense</i>	(113)	(50)	(138)	(206)	(250)	(250)
Profit before tax	2,402	(2,822)	(174)	452	725	2,537
Income Tax	28	867	361	(291)	(181)	(634)
Reported net profit	2,430	(1,955)	187	161	544	1,903
<i>Reported net profit margin</i>	14.9%	-23.4%	1.4%	1.1%	3.1%	9.4%
Shares Out - Basic (k)	28,410	28,953	28,949	28,809	29,209	29,509
Shares Out- Diluted (k)	28,692	28,953	29,330	28,876	29,276	29,576
Reported EPS - Basic	8.55	(6.75)	0.65	0.56	1.86	6.45
Reported EPS – Diluted	8.47	(6.75)	0.64	0.56	1.86	6.43

Balance sheet – 31st March year end

£'000	2020 a	2021 a	2022 a	2023 a	2024 e	2025 e
Goodwill	17,856	17,856	17,856	17,856		
Other intangibles	5,505	6,184	5,976	5,425		
P, P, & E	3,795	3,391	3,262	3,370		
Deferred tax asset	0	26	386	0		
Total non-current assets	27,156	27,457	27,480	26,651		
Inventories	1,491	1,431	1,573	2,275		
Receivables	3,544	2,758	2,690	3,781		
Cash	1,728	1,894	1,583	69		
Total current assets	6,763	6,083	5,846	6,125		
Total assets	33,919	33,540	33,326	32,776		
Payables	2,710	3,257	2,983	2,348		
Leases	64	53	25	70		
Borrowings	2,011	1,265	2,310	1,925		
Total current liabilities	4,785	4,575	5,318	4,343		
Other payables	117	86	0	0		
Leases	35	0	0	122		
Borrowings	670	3,290	2,273	1,517		
Deferred tax liabilities	841	0	0	827		
Total non-current liabilities	1,663	3,376	2,273	2,466		
Total liabilities	6,448	7,951	7,591	6,809		
Share capital	2,895	2,895	2,880	2,880		
Share premium	11,709	11,709	11,711	11,711		
Capital redemption	0	0	15	15		
Share based payment reserve	364	437	499	563		
Merger reserve	310	310	310	310		
Retained profit	12,193	10,238	10,320	10,488		
Total equity	27,471	25,589	25,735	25,967	26,867	28,504
Net debt/(cash) - IAS 17	953	2,661	3,000	3,373	1,519	(1,182)
Net debt/(cash) - IFRS 16	1,052	2,714	3,025	3,565	1,636	(1,140)

Cash flow – 31st March year end

£'000	2020 a	2021 a	2022 a	2023 a	2024 e	2025 e
Net (loss) income	2,431	(1,955)	187	161	544	1,903
Net Interest Payable	113	50	138	206	250	250
Income Tax Credits	(28)	(867)	(361)	291	181	634
Amort of Intangibles	1,390	1,669	2,195	2,254	2,100	2,100
Depreciation	674	563	489	519	519	519
Contingent consideration Release	(1,088)	0	(76)	0	0	0
Impairment of P, P, E, & Businesses	3	126	83	24	0	0
Tax receivable	0	0	0	922	0	0
Share Based Payments, Goodwill, LTIP Tax	227	73	83	71	100	100
Operating cash flow before delta working capital	3,722	(341)	2,738	4,448	3,694	5,506
Inventories	178	60	(142)	(702)		
Accounts Receivable	125	786	68	(1,091)	922	
Accounts Payable	191	547	(267)	(618)		
Net Cash (Used in) Provided by Operating Activities	4,216	1,052	2,397	2,037	4,616	5,506
Cash Flows From Investing Activities						
Purchases of P, P, & E	(730)	(268)	(465)	(651)	(500)	(500)
Capitalised Dev. Costs	(1,941)	(2,312)	(1,975)	(1,699)	(1,700)	(1,700)
Purchase of Intangibles	(79)	(36)	(12)	(4)	(15)	(15)
Sale of P, P, & E	0	0	22	0	0	0
Net Cash used in Investing Activities	(2,750)	(2,616)	(2,430)	(2,354)	(2,215)	(2,215)
Net Interest	(113)	(50)	(138)	(206)	(250)	(250)
Lease Repayment	(141)	(64)	(28)	(65)	(75)	(75)
Borrowings Repaid	(661)	(319)	(1,289)	(992)		
Contingent Consideration Paid	(552)	(31)	(16)	(16)	0	0
New Borrowings	0	3,540	0	0		
Dividends Paid	(1,604)	0	0	0	(221)	(266)
Issue of Shares	200	0	2	0	0	0
New leases	0	0	0	231		
Cancellation/Disposal of Shares	988	0	(126)	0		
Net cash Provided by Financing Activities	(1,883)	3,076	(1,595)	(1,048)	(546)	(591)
(increase)/decrease in net debt IAS 17	244	(1,709)	(339)	(373)	1,854	2,701
(increase)/decrease in net debt - IFRS 16	385	(1,645)	(311)	(539)	1,929	2,776

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