

CyanConnode Holdings PLC

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CyanConnode's expansion plans get Indian election boost

If all goes as planned, this year will mark a sea change in the fortunes and perception of CyanConnode PLC (LON:CYAN), according to executive chairman John Cronin.

For the first time, the smart metering technology company will not have to go back to shareholders to ask for cash. That might not sound like much, but for a small tech company to make such an assertion suggests things clearly are on the up.

Watch: CyanConnode focused on cost control and converting new orders into revenue

Cronin, CyanConnode's long-standing boss, is confident he can make good on his prediction and that many years of toil trying to break into the lucrative Indian smart meter market has now begun to pay off after reporting impressive full-year 2018 sales into the market.

Sales are rising, orders growing and the company is increasingly recognised for its technological prowess, he told Proactive.

The launch of the group's Ominmesh narrowband radio frequency product for smart metering last year has been the catalyst, the executive chairman added.

Orders from India jumped to £15m and for the first time CyanConnode has visibility on revenues going forward. Some £3m of revenue from those orders came through in 2018, which helped the group total rise to £4.5m.

Sales progress

Brokers forecast the group's revenues will climb to £7m in the current year to December. That would be impressive progress from revenues of £1.2m in the 2017 financial year, but the prize for CyanConnode has always been mass adoption and that, too, might be within its grasp.

Currently, there are 220m 'dumb' meters in India says Cronin, but the country is desperately short of power and a switch to smart meters is one of a suite of measures that can solve this.

Losses from non-collection of power in the country are around US\$32bn annually, the equivalent of 1.9% of GDP. It is a huge sum and unsurprisingly the government wants it reduced.

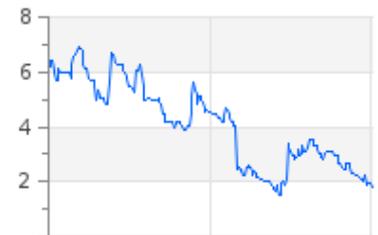
Utilities now can get generous loan forgiveness packages from the Indian government if they switch to smart meters, with additional grants of up to 50% of the cost of installation.

Another big difference recently has been a new local management team taken on from technology giant Tech Machindra, a near \$5bn company.

Price: 1.7

Market Cap: £3.11 m

1 Year Share Price Graph



April 2019 October 2019 March 2020

Share Information

Code: CYAN

Listing: AIM

52 week	High	Low
	7.2	1.4

Sector: Hardware & electrical equipment

Website: www.cyantechology.com

Company Synopsis:

CyanConnode is a world leader in the design and development of Narrowband RF mesh networks that enable Omni Internet of Things (IoT) communications. With a wealth of expertise and experience in smart technology, the Group provides customers with long-range, low-power, end-to-end networking solutions and high-performance applications that help them enhance service delivery, improve business efficiency and save energy.

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Instead of trying to get sales from the bottom up, CyanConnode is now talking to ministers, heads of utilities and so on to get them to understand the product.

As a result, it's technology for meters is already being used in case studies to show the benefits of smart meters.

Studies highlight benefits

Cronin says the results speak for themselves.

"Currently, [bill] collection efficiency is around 66%, but with one of our meters this rises to 88%.

"It takes the personality out of it. Utilities can instantly see how much energy is being used every fifteen minutes and spot outages and theft."

Using radio also has advantages over wi-fi broadband and cellular as coverage is better, it can penetrate buildings and the network is self-configuring.

Revenues can come from one-off perpetual licences for modules, gateways and data collection points with recurring revenue from sales and maintenance contracts.

So far, about 150,000 smart meters using CyanConnode's technology have been installed in India, but capacity is in place to ramp that up substantially.

CyanConnode sells to meter companies, not the utilities themselves and has re-sell deals with the three largest groups - Genus, HPL and Larsen & Turbo - that control 50% of the market.

Currently, six projects are in the bidding phase and there are plenty more in the pipeline, especially as between 250-300m people in India are not even connected to the grid.

Momentum elsewhere

But it is not only in India where momentum is building.

In China, the model is slightly different with Beijing Power licensing CyanConnode's software and other potential licensors monitoring to see how that works out.

Sweden, another leading adopter of smart technology, is also starting to see good traction for the new Omnimesh technology.

Britain, too, has a smart meter programme underway where CyanConnode has partnered with Toshiba to use RF technology to fill in gaps in the mobile network (known in the industry as 'not spots'). The smart meter network is being rolled out by Telefonica as part of the government's SMETs2 programme.

CyanConnode has a contract to provide software which will roll out over the next few years with strong growth expected from support over 15 years once the roll-out is complete.

Rating out of kilter

India, though, is the key driver and now that the elections are over City broker Arden sees revenues starting to pick up from the middle of this year as the government's three-year timeline for the introduction of smart meters really starts to kick in.

The broker sees CyanConnode's sales rising from £7m this year to £12m in 2020 when it expects the company to be at break-even.

That compares to the group's current stock market value of £10.4m - at 5.7p a share - and a valuation that is looking increasingly out of step with the growing commercial story.

True, there have been false dawns at CyanConnode before but this time the company can point to a solid and growing order book as well as other good signs.

"We are controlling costs, can see where we are getting revenues from, have different customers and have a next generation product that customers want."

It might need another set of numbers to convince the market, but at that point a re-rating might be rapid.

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