



21 March 2023

Technology

CYANCONNODE

Acceleration, and revenue uplift for FY24 and beyond

CyanConnode is currently involved in Indian tenders for more than 100m meter endpoints, and its partners have already secured L1 preferred bidder status for c.30m incremental meters. In addition to the 2.3m orders won in the fiscal year to date, CyanConnode has entered into a framework agreement with a partner to supply hardware and software for 3m endpoints for future contract awards under the Indian smart meter programme. Our revised forecasts represent an initial step towards reflecting the prospective upside in financial performance. Our updated DCF analysis suggests an implied fair equity value of £96.8m.

- **Phase 1 of the Indian programme is well-advanced:** Of the total smart meter rollout of 250m meters, 100m were identified as higher priority. CyanConnode's latest update confirms that tenders for c.100m meters are currently in process, compared with c.62m in November 2022.
- **Acceleration:** The win rate in FY23 to date has been 38%, including the order for c.1m nodes announced in January 2023. CyanConnode's partners have achieved L1 status for c.30m meter endpoints. Even a 20% overall win rate would imply revenue far beyond our revised estimates.
- **Silicon Labs highlights partnership:** Silicon Labs is a major US vendor in the semiconductor market, and it recently highlighted its partnership with CyanConnode, which is using the FG25 module and leading the market regarding meeting Indian technical requirements for RF, such as Wi-Sun.
- **Recent fundraise creates working capital cushion:** The January 2023 oversubscribed raise brought in £5.25m gross proceeds at £0.17 per share. The funds are largely for expansion of inventory and production capacity, necessitated by an accelerating pace of contract awards.
- **Investment summary:** From the outset, CyanConnode has positioned itself as a neutral technology vendor able to partner with any meter manufacturer or prime contractor. This approach has yielded an array of partnerships, which are now paying off in terms of breadth of exposure to current tenders across India. Our updated DCF-implied fair equity value for CyanConnode is £96.8m (£0.36 per share).

Source: Refinitiv

Market data

EPIC/TKR	CYAN
Price (p)	17.75
12m high (p)	29.9
12m low (p)	1.55
Shares (m)	267.2
Mkt. cap (£m)	47.4
EV (£m)	40.9
Free float*	100%
Country/Currency	UK/GBP
Market	AIM

*As defined by AIM Rule 26

Description

CyanConnode is a leading global vendor of intelligent communications solutions, bringing together narrowband RF mesh and cellular technologies, and the Internet of Things (IoT), to create a highly scalable platform for transmission, collection and analysis of data. The company is headquartered in Cambridge, UK, with offices in India and Sweden. To date, it has spent in excess of \$50m on developing its technology platform, on which more than 2.7m endpoints have been delivered globally. At the end of March 2022, total headcount stood at 60 employees, of which 11, or 18%, were women.

Company information

Executive Chairman John Cronin
CFO Heather Peacock

+44 (0)1223 865 750
www.cyanconnode.com

Hardman Research Team

+44 (0)20 3693 7075
info@hardmanandco.com

Financial summary and valuation

Year-end Mar (£m)	2021	2022	2023E	2024E
Revenue	6.44	9.56	12.23	17.18
Reported EBITDA	-2.18	-0.04	-0.49	0.52
EBITDA margin	-34%	0%	-4%	3%
Adjusted EBIT	-2.81	-0.29	-0.54	0.57
Adjusted pre-tax profit	-2.73	-0.45	-0.72	0.38
Net income	-2.06	-0.87	-0.44	0.38
EPS (p)	-1.18	-0.42	-0.18	0.14
EV/revenue (x)	6.4	4.3	3.3	2.4
EV/EBITDA (x)	-18.8	-1077.0	-83.0	78.8

Source: Company data, Hardman & Co Research

Investment highlights

The total budgeted outlay for the smart meter element of the Indian programme is INR1.5 lakh crores, i.e. INR1.5tr, or around £15.8bn. A similar amount has been allocated to enabling activities such as expansion of distribution capacity and training. These are immense sums, creating a highly compelling opportunity for CyanConnode. The company is executing strongly against this opportunity – the win rate from contracts tendered since April 2022 is cited to have been c.38% in volume, and the overall win rate, including installed meters, is c.25%. CyanConnode is currently bidding for contracts worth over £1bn in value. CyanConnode's partners have recently been named as Level 1 status for more than 25m modules.

The waiting period for Indian smart meter contracts is over, with announcements coming through at a regular pace. CyanConnode is maintaining strong market share, having formed relationships with several of the leading prime contractors that are bidding for contracts. The company's most recent update noted that, during the past 10 months, orders for 2.3m modules have been achieved. As at March 2023, the order book for India stood at 3.6m nodes, of which 1.3m have been shipped. Of these, 1.1m have been implemented and are under maintenance contracts. These recent order metrics compare with 1.3m of total endpoint orders over the previous decade.

This step change in performance is a function of the acceleration in progress in the smart meter programme in India, for which CyanConnode's management has spent many years preparing at a granular level. The flow of contracts and the framework agreement with a major prime contractor indicate that the company's efforts are starting to pay off. Most of the current order book of 2.3m meters is expected to be installed during the next two years. Assuming that the framework contract converts into orders, combined with high activity levels in a number of markets outside of India, we believe that our upgraded forecasts for FY24 (which see our revenue estimate up by 20% compared with our previous forecast, and the adjusted EBITDA estimate more than doubling) and beyond are very well underpinned.

New framework agreement

On 6 February 2023, CyanConnode announced a major strategic framework agreement with an undisclosed partner. Under this agreement, CyanConnode will supply, essentially, a full platform, comprising Omnimesh RF modules, Advanced Metering Infrastructure (AMI), standards-based hardware, Omnimesh head-end software and associated components, perpetual software licences, design, installation, implementation, integration, training, and support and maintenance contracts for 3m smart meters. A comprehensive supply agreement such as this implies an enhanced per meter contract value over the 10-year typical lifetime of the contracts.

The rationale for a framework agreement such as this is, presumably, being ready for anticipated contract awards. We know that several of CyanConnode's partners are in relatively advanced stages of negotiation for specific tenders amounting to several million units each. The framework agreement with one such partner, with key terms in place, will allow for a seamless progression, with CyanConnode able to commence placing orders for components, etc., knowing that it is a preferred supplier for a portion of the contract awards. Cumulative market shares are unknown, and the prime contractor will need to ensure that it maintains its own supply chain diversification, but the reality is that relatively few technology providers have proven deployments in India that tangibly meet the stringent service level

agreements (SLAs) of the Indian programme. This is, in our view, the driving factor of the strong market share that CyanConnnode has delivered to date.

Large order announced in January 2023

In January 2023, CyanConnnode announced one of the largest single orders in the company's history, and the first with a new partner, Montecarlo. The order is for 984,000 modules, together with Advanced Metering Infrastructure, standards-based hardware, Omnimesh head-end software, software licences, and a support and maintenance contract. This contract follows the order with Genus for 1m endpoints, which was announced in August 2022 and which is the company's largest order to date.

The profile of revenue from the latest contract is typical of the new generation of contracts under the Indian smart meter programme, combining upfront recognition of the hardware modules and subsequent recurring revenue. 60% of the contract will be recognised during the installation phase (the initial 24 to 27 months). The remaining 40% of the contract will be paid for in equal monthly instalments over the support and maintenance contract period of eight years.

Growing recognition from major suppliers

The flow of contract awards is creating an imperative to scale the business. Alongside the existing supply chain in India (Syrma), Genus will be producing modules on a third-party basis for its own meter requirements for the August 2022 order, and potentially beyond.

Notably, CyanConnnode's tangibly growing presence in the Indian smart meter market is attracting the attention of its major suppliers. Silicon Labs, a US-headquartered company, with over \$1bn in revenue and a market capitalisation of \$5.5bn, recently publicised its relationship with CyanConnnode. The extract below from the press release focuses on the use of the FG25 module, which notes Silicon Labs' excitement regarding CyanConnnode's traction in India and elsewhere.

Silicon Labs highlights CyanConnnode's use of FG25 module

CyanConnnode and the FG25 Sub-GHz SoC are Ready to Take on India's Smart Metering Challenge

In Silicon Labs' [FG25 sub-GHz wireless SoC](#), CyanConnnode has found a solution that meets its requirements for performance, cost, and supportability. And as metering solutions evolve, the meters themselves get more complex, and the expectations for what they are able to provide utility customers is increasing. The FG25 will scale with customer demand and expanding networks. Silicon Labs has worked closely with the Wi-SUN Alliance, became a member in 2016, and led the way in delivering Wi-SUN-certified solutions for the smart energy and smart city markets.

The FG25 integrates a sub-GHz radio transceiver, microcontroller, and memory, making it a compact and cost-effective solution with advanced security features including 128-bit AES encryption. These features, coupled with the development tools and software available with the certified Wi-SUN SDK, makes it an ideal choice for smart utility projects, where security and energy usage data have a direct impact on revenue. CyanConnnode's use of the FG25 module enables the company to offer its customers a highly reliable and secure solution, and with Silicon Labs' history of chip innovation and working with wireless standards, CyanConnnode can deliver high-quality products that meet the stringent requirements of its customers now and in the future.

Silicon Labs is excited to have the FG25 be part of CyanConnnode's commitment to providing innovative and secure smart metering solutions in India and around the world.

Source: Company data

CyanConnnode's adoption of Silicon Labs' flagship SoC and Wi-SUN will ensure that CyanConnnode is the first to meet the technical requirement set by the Government of India as defined by BIS LITD28 standards for Smart Meter RF Communication systems.

Strong progress beyond India

In addition to the surge in performance in India, activity levels in the MENA region remain strong. Partners based in the Middle East are also taking CyanConnnode into new markets in Africa and Costa Rica. Thailand has been a solid contributor to CyanConnnode's annual performance for a few years, and its installed base there continues to grow. When considered in conjunction with India, we believe our upgraded estimates are well-supported by activity levels across a number of markets, and, therefore, low-risk.

Evolving go-to-market models

CyanConnnode is considering approaches by third parties that are seeking to manufacture modules using CyanConnnode's technology designs, in return for royalty payments. These would represent particularly high-margin revenue streams for the company, additive to the current core business, and consistent with multiple opportunities available to scale the presence of the Omnimesh platform on an indirect basis. The decision to allow Genus to manufacture modules on behalf of CyanConnnode comprises a similar initiative in terms of being intended to scale the revenue base.

Adani news flow should not affect CyanConnnode

In early February 2023, the Uttar Pradesh power utility, Madhyanchal Vidyut Vitran Nigam (MVVNL), disclosed that it had cancelled Adani Group's bid to win a contract to supply c.7.5m smart meters. The reasons for the decision to cancel the Adani consortium bids were not disclosed. The decision may or may not be related to the wider documented controversy surrounding the Adani Group.

CyanConnnode will not be adversely affected by these developments, as it was not directly supplying Adani for integration into meters; rather, Adani was acting as a reseller of CyanConnnode products to the utilities. Other bidding parties for these Uttar Pradesh contracts include Larsen & Toubro (part of Schneider Electric) and Intellismart, which are also partners of CyanConnnode.

The broader point to be made here is that the performance or outcome of any individual partner should not exert any particular impact on CyanConnnode's progress in the Indian programme. CyanConnnode is working with a range of prime contractors, including meter manufacturers and large EPCs, and, quite often, it is a designated supplier for multiple partners in the same regional tenders. We believe this diversification and neutral stance will continue to leave the company well-positioned.

CyanConnnode has no banking arrangements involving Silicon Valley Bank

Given the very recent news flow on Silicon Valley Bank, as confirmed by the company's announcement on 13 March 2023, CyanConnnode does not have any banking arrangements involving the bank.

CyanConnnode's presence across India building nicely

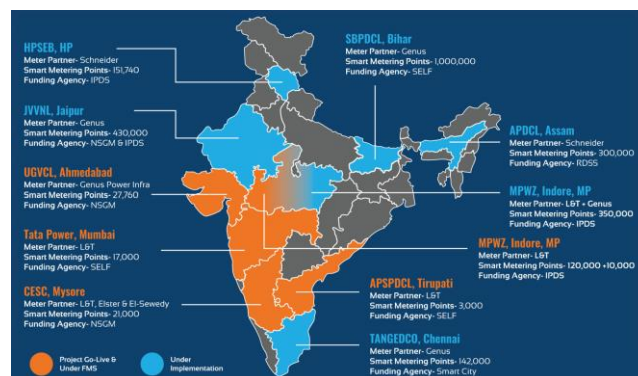
CyanConnnode's breadth of presence across India is demonstrable by reference to the regional implementation metrics. It is worth recapping on data that we have published previously. As at November 2022, the company had delivered all of the meters installed to date in the following states:

- ▶ Himachal Pradesh: 147,104
- ▶ Tamilnadu: 124,945
- ▶ Karnataka: 20,916
- ▶ Gujarat: 23,760

- ▶ Madhya Pradesh: 243,313
- ▶ Rajasthan: 555,958

In addition, CyanConnode received an order earlier this financial year for 300,000 meter endpoints in Assam, which are yet to be fully deployed. This order is via Intellisart, and represents the latter's first win under the RDSS for a total of 620,000 meters to be deployed for the Assam Power Distribution Company Limited. Today, over 1.1m meter endpoints have been installed across 10 states in India, while the Indian order book stands at 2.6m endpoints.

Current status of CyanConnode's smart meter deployments in India



Source: Company data

Updated estimates reflect underlying momentum

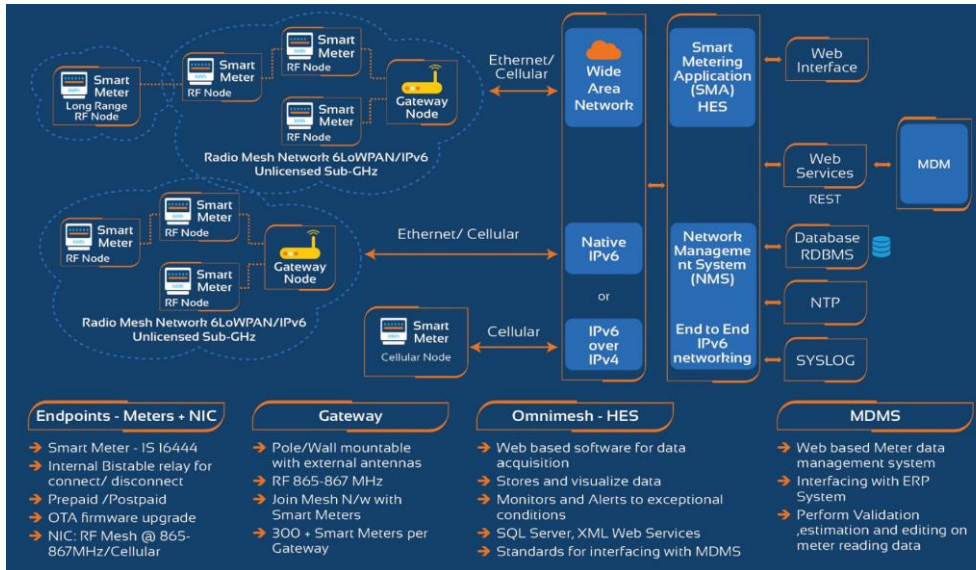
Even assuming a highly conservative per meter contract value, every one million in meter orders, on the basis of the revenue recognition model for the most recent contract, would equate to revenue over a two-year installation period of at least £7.2m.

Our previous revenue estimate for FY24, ending March, was £15.8m. Our understanding is that more the entirety of this revenue number is accounted for by contracts that have already been won by CyanConnode with an agreed delivery schedule. This revenue coverage has persuaded us that the revenue forecasts should be upgraded for FY24 and beyond. Accordingly, we have upgraded our FY24 revenue estimate by 20%, from £15.8m to £17.2m.

End-to-end technology platform

The stringent SLAs demanded by the Indian programme are well-served by CyanConnode's end-to-end platform, spanning meter endpoints, gateways and head-end software. The comms modules offer RF and cellular functionality on the same meter, significantly enhancing ease of deployment.

CyanConnode: end-to-end technology platform



Source: Company data

Profit and loss

CyanConnode: Hardman & Co profit and loss

Year-end March (£000)	12M Dec 2017	12M Dec 2018	15M Mar 2020	2021	2022	2023E	2024E
Revenue	1,171	4,465	2,451	6,437	9,562	12,227	17,183
Cost of sales	-674	-1,724	-1,081	-3,334	-4,554	-6,970	-10,138
Gross profit	497	2,741	1,370	3,103	5,008	5,258	7,045
Gross margin	42%	61%	56%	49%	45%	43%	41%
Operating expenses	-11,161	-8,589	-6,827	-5,284	-5,046	-5,751	-6,526
EBITDA	-10,664	-5,848	-5,457	-2,181	-38	-493	519
Share-based payments	-689	-445	-267	-80	-363	-320	-400
Stock impairment	-55	-578	-4	-108	0	0	0
Foreign exchange losses	-52	-16	-267	15	0	0	0
Adj. EBITDA	-9,868	-4,809	-4,919	-2,008	325	-173	919
EBITDA margin (%)	-911%	-131%	-223%	-34%	0%	-4%	3%
Depreciation & amortisation	-489	-472	-772	-627	-616	-370	-350
Adj. EBIT	-10,357	-5,281	-5,691	-2,808	-291	-543	569
EBIT	-11,153	-6,320	-6,229	-2,685	-1,017	-1,183	-231
Adj. EBIT margin (%)	-884%	-118%	-232%	-42%	-3%	-4%	3%
Investment income	16	13	17	1	0	2	3
Net finance income	-6	-2	-30	-50	-161	-177	-195
PBT	-10,347	-5,270	-5,704	-2,734	-452	-718	377
Taxation / tax credit	1,402	927	576	677	307	280	0
Effective tax rate (%)	-14%	-18%	-10%	-25%	-68%	-39%	0%
Net income	-8,945	-4,343	-5,128	-2,058	-871	-438	377
EPS (basic, p)	-10.18	-3.71	-2.96	-1.18	-0.42	-0.18	0.14
EPS (diluted, p)	-10.18	-3.71	-2.96	-1.18	-0.42	-0.18	0.14
Average shares in issue basic (m)	95.740	116.976	173.048	174.755	205.173	241.456	267.191
Average shares in issue dil. (m)	95.740	116.976	173.048	174.755	205.173	241.456	267.191

Source: Company data, Hardman & Co Research estimates

Valuation

Our approach to understanding the potential valuation of CyanConnode centres on a DCF analysis. Our assumptions are set out in their entirety in the table below, including a WACC of 10% and the medium-term revenue profile, which reflects the international pipeline of opportunities.

The analysis produces an implied fair enterprise value of £90.3m and an implied fair equity value of £96.8m (equating to £0.36 per share). These valuation outcomes are materially higher than the current enterprise value of £40.9m and market capitalisation of £47.4m.

CyanConnode: Hardman & Co DCF analysis

Key inputs										
Terminal FCF growth rate	3.0%									
Long-term sustainable EBIT margin	25.0%									
Long-term tax rate on EBIT	18.0%									
WACC	10.0%									
Y/end March, £m	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	Terminal value
Revenue	12.2	17.2	23.4	30.4	38.6	48.2	58.8	67.7	73.1	
yoy growth	27.9%	40.5%	36.0%	30.0%	27.0%	25.0%	22.0%	15.0%	8.0%	
EBIT margin	-4.4%	3.3%	10.0%	12.0%	15.0%	19.0%	22.0%	23.0%	25.0%	
EBIT	-0.5	0.6	2.3	3.6	5.8	9.2	12.9	15.6	18.3	
Depreciation & amortisation	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	
Adj. EBITDA	-0.2	0.9	2.7	4.0	6.2	9.6	13.3	16.0	18.7	
Tax rate	0.0%	0.0%	5.0%	10.0%	12.0%	14.0%	16.0%	18.0%	18.0%	
Tax on EBIT	0.0	0.0	-0.1	-0.4	-0.7	-1.3	-2.1	-2.8	-3.3	
Change in net working capital	-0.1	-0.1	-0.1	-0.2	-0.2	-0.2	-0.3	-0.4	-0.4	
Cashflow from operations	-0.3	0.8	2.4	3.5	5.3	8.0	11.0	12.8	15.0	
Capex	-0.3	-0.3	-0.4	-0.4	-0.4	-0.5	-0.5	-0.6	-0.4	
Unlevered free cashflow	-0.6	0.5	2.1	3.1	4.8	7.5	10.4	12.2	14.6	149.3
Year	1	2	3	4	5	6	7	8	9	10
Discount factor	1.10	1.21	1.33	1.46	1.61	1.77	1.95	2.14	2.36	2.36
Present value	-0.5	0.4	1.6	2.1	3.0	4.3	5.4	5.7	5.2	63.3

Note: based on medium-term assumptions from 2025E

Implied valuation metrics	£m
Sum of nine-year cashflow	27.0
Terminal value	63.3
Value of the firm	90.3
Net funds	6.5
Total equity value	96.8
No. of shares in issue (m)	267.2
Fair value share price (£)	0.36

Source: Hardman & Co Research estimates

Commented [JF1]: **£96.8m**, please

Disclaimer

Hardman & Co provides professional independent research services and all information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable. However, no guarantee, warranty or representation, express or implied, can be given by Hardman & Co as to the accuracy, adequacy or completeness of the information contained in this research and they are not responsible for any errors or omissions or results obtained from use of such information. Neither Hardman & Co, nor any affiliates, officers, directors or employees accept any liability or responsibility in respect of the information which is subject to change without notice and may only be correct at the stated date of their issue, except in the case of gross negligence, fraud or wilful misconduct. In no event will Hardman & Co, its affiliates or any such parties be liable to you for any direct, special, indirect, consequential, incidental damages or any other damages of any kind even if Hardman & Co has been advised of the possibility thereof.

This research has been prepared purely for information purposes, and nothing in this report should be construed as an offer, or the solicitation of an offer, to buy or sell any security, product, service or investment. The research reflects the objective views of the analyst(s) named on the front page and does not constitute investment advice. However, the companies or legal entities covered in this research may pay us a fixed fee in order for this research to be made available. A full list of companies or legal entities that have paid us for coverage within the past 12 months can be viewed at <http://www.hardmanandco.com/legals/research-disclosures>. Hardman may provide other investment banking services to the companies or legal entities mentioned in this report.

Hardman & Co has a personal dealing policy which restricts staff and consultants' dealing in shares, bonds or other related instruments of companies or legal entities which pay Hardman & Co for any services, including research. No Hardman & Co staff, consultants or officers are employed or engaged by the companies or legal entities covered by this document in any capacity other than through Hardman & Co.

Hardman & Co does not buy or sell shares, either for their own account or for other parties and neither do they undertake investment business. We may provide investment banking services to corporate clients. Hardman & Co does not make recommendations. Accordingly, they do not publish records of their past recommendations. Where a Fair Value price is given in a research note, such as a DCF or peer comparison, this is the theoretical result of a study of a range of possible outcomes, and not a forecast of a likely share price. Hardman & Co may publish further notes on these securities, companies and legal entities but has no scheduled commitment and may cease to follow these securities, companies and legal entities without notice.

The information provided in this document is not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to law or regulation or which would subject Hardman & Co or its affiliates to any registration requirement within such jurisdiction or country.

Some or all alternative investments may not be suitable for certain investors. Investments in small and mid-cap corporations and foreign entities are speculative and involve a high degree of risk. An investor could lose all or a substantial amount of his or her investment. Investments may be leveraged and performance may be volatile; they may have high fees and expenses that reduce returns. Securities or legal entities mentioned in this document may not be suitable or appropriate for all investors. Where this document refers to a particular tax treatment, the tax treatment will depend on each investor's particular circumstances and may be subject to future change. Each investor's particular needs, investment objectives and financial situation were not taken into account in the preparation of this document and the material contained herein. Each investor must make his or her own independent decisions and obtain their own independent advice regarding any information, projects, securities, tax treatment or financial instruments mentioned herein. The fact that Hardman & Co has made available through this document various information constitutes neither a recommendation to enter into a particular transaction nor a representation that any financial instrument is suitable or appropriate for you. Each investor should consider whether an investment strategy of the purchase or sale of any product or security is appropriate for them in the light of their investment needs, objectives and financial circumstances.

This document constitutes a 'financial promotion' for the purposes of section 21 Financial Services and Markets Act 2000 (United Kingdom) ('FSMA') and accordingly has been approved by Capital Markets Strategy Ltd which is authorised and regulated by the Financial Conduct Authority (FCA).

No part of this document may be reproduced, stored in a retrieval system or transmitted in any form or by any means, mechanical, photocopying, recording or otherwise, without prior permission from Hardman & Co. By accepting this document, the recipient agrees to be bound by the limitations set out in this notice. This notice shall be governed and construed in accordance with English law. Hardman Research Ltd, trading as Hardman & Co, is an appointed representative of Capital Markets Strategy Ltd and is authorised and regulated by the FCA under registration number 600843. Hardman Research Ltd is registered at Companies House with number 8256259.

(Disclaimer Version 8 – Effective from August 2018)

Status of Hardman & Co's research under MiFID II

Some professional investors, who are subject to the new MiFID II rules from 3rd January 2018, may be unclear about the status of Hardman & Co research and, specifically, whether it can be accepted without a commercial arrangement. Hardman & Co's research is paid for by the companies, legal entities and issuers about which we write and, as such, falls within the scope of 'minor non-monetary benefits', as defined in the Markets in Financial Instruments Directive II.

In particular, Article 12(3) of the Directive states: 'The following benefits shall qualify as acceptable minor non-monetary benefits only if they are: (b) 'written material from a third party that is commissioned and paid for by a corporate issuer or potential issuer to promote a new issuance by the company, or where the third party firm is contractually engaged and paid by the issuer to produce such material on an ongoing basis, provided that the relationship is clearly disclosed in the material and that the material is made available at the same time to any investment firms wishing to receive it or to the general public...'

The fact that Hardman & Co is commissioned to write the research is disclosed in the disclaimer, and the research is widely available.

The full detail is on page 26 of the full directive, which can be accessed here: <https://ec.europa.eu/transparency/regdoc/rep/3/2016/EN/3-2016-2031-EN-F1-1.PDF>.

In addition, it should be noted that MiFID II's main aim is to ensure transparency in the relationship between fund managers and brokers/suppliers, and eliminate what is termed 'inducement', whereby free research is provided to fund managers to encourage them to deal with the broker. Hardman & Co is not inducing the reader of our research to trade through us, since we do not deal in any security or legal entity.

research@hardmanandco.com

1 Frederick's Place
London
EC2R 8AE

www.hardmanandco.com

+44 (0)203 693 7075