

Opportunities and Uncertainties – Downgraded to Hold

Hold

Price: 1.25p

Target Price: 1.5p

Sector: Electronic & Electrical Equipment

Share Price Performance



Source: London Stock Exchange

Key Data

Market:	AIM
TIDM:	SEV.L
1 Year Hi/Lo:	1.01p – 5.95p
Existing Shares:	126.8m
Market Cap:	£1.58m
ISIN:	GB00B0586C20
SEDOL:	B0586C2
Co. Website:	servision.net

Barry Gibb

Research Analyst

barry.gibb@beaufortsecurities.com

+44 020 7382 8422

Full year results posted after close last Thursday left investors with a mixed picture. They understand the global market opportunity being addressed by SerVision's innovative technology and products is huge and growing. The evident loss of traction during 2015, however, has seen the shares severely punished, while the Group's ongoing funding issues clearly need to be addressed with some urgency. Assuming some resolution to the latter is found, and that the sales momentum evident in the opening months of 2016 continues to gather pace, investors could find themselves holding a bargain. Recognising the timing uncertainties that remain and the unpredictable nature of the Group's operations, Beaufort takes its recommendation down from 'Speculative Buy' to 'Hold' while awaiting such positive news.

- SerVision, the AIM-quoted developer and manufacturer of digital security systems, on Thursday's market close released its audited final results for the year ended 31 December 2015. The Group's annual revenue for this period was a modest US\$2,154,000, representing a 49% decrease on the comparable period; the operating loss was US\$2,416,000 (US\$665,000), with net losses of \$2,570,000 (\$794,000).
- Management attributed the low turnover and increased losses to the challenges it faced during its transition to a new business model in the UK and also the delayed release of its new High Definition mobile NVR, the IVG400-N. The Chairman and CEO, Gideon Tahan, went on to report that he considered these challenges were now consigned to history, suggesting the Group's new recurring revenue model in the UK was starting to generate a steady income stream while also receiving positive market feedback on some important IVG400-N trials that began in H2 of 2015 and continued into H1'2016.
- In February 2016, SerVision entered into an agreement with shareholder Gabriel Sassoon, to provide an unsecured working capital loan facility of US\$1.0m. This was put in place to provide additional working capital and, as of Thursday, the Group had drawn down a total of US\$900,000. SerVision also has an existing loan facility with YA Global Master SPV with some GBP55k currently outstanding.
- Although SerVision's 2015 sales performance was disappointing, the Group nevertheless achieved some notable contract wins for bus projects in Kazakhstan, Israel and Portugal, and received orders for new cash-in-transit and construction site monitoring projects in South Africa and the Netherlands. Cooperation with several telematics companies, Gatwick Airport and a new high-value transport project with DHL also UK gathered momentum in H2'2015, from which recurring monthly revenues are now starting to accrue in a meaningful way. Following on from the launch of the IVG400-N at the SEECAT show in Japan last November and the UK's Security Transport Show in December, IVG trials for a range of projects and market applications are currently underway in a good number of global territories.
- So far the new technology has been very well received, leading management to anticipate larger sales volumes in H2'2016 as successful pilots translate into firm orders. The Group's integration with Mobileye also enables it to enter a new vertical market for smart/safe driving applications. These successes, of course, remain counterbalanced by lacklustre sales in China that were held back by the late release of the IVG. While the new mobile NVR is now available, a number of significant commercial opportunities in China, including a large-scale bus project in ChongQing and an underground train project in Beijing, are still on hold as management work with partners to localise for the Chinese market.

Strengths and Weaknesses**Strengths**

- *Commercialization of the product offering proven*
- *Protected proprietary technology*
- *Global market appetite for high-res mobile surveillance growing rapidly*
- *Current order book visibility and worldwide penetration increasing*
- *Experienced management team*

Weaknesses

- *Still loss making with relatively high cash burn*
- *Addresses competitive, price sensitive markets*
- *Industry complicated by range of different technological standards*
- *Accessing new target customers and markets can be more difficult and take longer than expected, which could place continuing strain on balance sheet*
- *Macro-economic sensitivity*

Source: Beaufort

Recommendation Breakdown

During the three months to end-June 2016, the number of stocks on which Beaufort Securities has published recommendations was 319, and the recommendations were as follows: Buy - 123; Speculative Buy - 146; Hold - 50; Sell - 0.

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Company Disclosures for: SerVision

7

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