

artec technologies

Technology

11 October 2017

Anticipating a strong H2

The last 18 months has been a transitional period for artec, with the group repositioning itself as a provider of cloud-based data analysis systems. The new cloud platform is highly scalable and will enable artec to generate recurring revenues. While the group ran at a loss in H117, the cloud pipeline is growing and new cloud customers are expected to sign up in H2. The second stage of expansion is set to begin on a project in Qatar and the group has won a new MULTIEYE order with a betting company, which was driven by artec's ability to provide access control, face recognition and data protection. Consequently, management expects sales and earnings to rebound strongly in H2.

H1 results: Numbers academic as focus on busy H2

H117 revenues dipped by 64% to €0.6m and the loss expanded from €0.1m to €0.6m. This was because management focus has been on developing the new cloud product. The group finished the period with a neutral net debt position, down from €0.2m net cash at end-December, and the group's equity ratio was 88%.

Investment case: High-quality success stories

artec technologies specialises in the recording and analysis of real-time information from various signal sources such as TV, radio, video via networks and the internet. The group has a number of superb case studies, which provide a strong endorsement of its technological offering. Examples include: 1) A Qatar-based media group uses artec's technology to monitor global broadcast media in real time to ensure that its broadcasting rights have not been impinged; 2) one of the world's largest cruise lines uses the combined broadcast and surveillance offering to train its cabin crews in conjunction with Transas, a major maritime systems integrator; and 3) the interior ministry of an EU member state recently purchased the company's new range of MULTIEYE mobile video recorders for use by its special forces. The challenge for artec is to use the know-how created through these projects to scale the business and transition into a strong, profitable growth story.

Valuation: An option on a massive opportunity

The group's target markets are huge and we see artec's modest €9m market capitalisation as an option on management's ability to leverage the company's significant success stories into a more scalable and profitable business model.

Consensus estimates						
Year end	Revenue (€m)	EBITDA (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/15	3.5	1.0	0.22	0.0	17.5	N/A
12/16	2.5	0.1	(0.13)	0.0	N/A	N/A
12/17e	3.8	0.5	0.11	0.0	35.0	N/A
12/18e	5.1	1.0	0.29	0.0	13.3	N/A

Source: Thomson Reuters

Price **€3.85**
Market cap **€9m**

Share price graph



Share details

Code A6T
Listing Deutsche Börse Scale
Shares in issue 2.365m
Last reported net cash as at 30 June 2017 €0m

Business description

artec technologies develops and produces software and systems solutions for the transmission, recording and analysis of video, audio and metadata in networks or on the internet.

Bull

- Very strong customer list and some excellent case studies.
- Heavily invested in IP, through many years of experience, supported by a German patent.
- Shifting to a more scalable cloud business model.

Bear

- Small scale and limited staff resources for projects.
- Small balance sheet position, with limited cash resources.
- Volatile trading record.

Analyst

Richard Jeans +44 (0)20 3077 5700

tech@edisongroup.com

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Interim results: Anticipating a strong H2

During H117, management focus has been on completing the group's cloud transition, with additional functionality added to the platform. The new platform was demonstrated at the IBC2017 industry conference in Amsterdam in September. Due to the management focus on product development, H1 revenues dipped by 64% to €0.6m and the pre-tax loss expanded from €0.1m to €0.6m. The group finished the period with a zero net debt position, down from €0.2m net cash at end-December, and the group's equity ratio was 88%.

artec is seeing strong interest in the new cloud platform and new customers are expected to sign up in H2. The second stage of expansion is set to begin on a project in Qatar and the group has won a new MULTIEYE order with a betting company, which was driven by artec's ability to provide access control, face recognition and data protection. Consequently, management expects sales and earnings to rebound strongly in H2.

Valuation

We are not aware of any direct quoted peers. Nevertheless, we feel that any peer comparison is irrelevant for a company at this stage of development and we see artec's modest €9m market capitalisation as an option on management's ability to leverage the company's significant success stories into a more scalable and profitable business model. Clearly, the move to the cloud is a crucial component of this strategy. However, the company might require an additional fund-raising to finance its growth plans.

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Frankfurt +49 (0)69 78 8076 960

Schumannstrasse 34b

60325 Frankfurt

Germany

London +44 (0)20 3077 5700

280 High Holborn

London, WC1V 7EE

United Kingdom

New York +1 646 653 7026

295 Madison Avenue, 18th Floor

10017, New York

US

Sydney +61 (0)2 8249 8342

Level 12, Office 1205

95 Pitt Street, Sydney

NSW 2000, Australia