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Vianet Disappointing Results

1.65p 9.7.2008



These results are very disappointing, although the company has not undershot our estimates by very much. The disappointment comes in the management's discussion of operations. GSK, the company's major customer, has reduced its order uptake for the remainder of 2008, and although a contract with a major telco is now being signed, product launch will not be till later this year. Business from tobacco brands, which was expected to be a major contributor to profits, has also been slow to accrue.

- Despite the slowdown, GSK has now signed a three year contract and taken another 2,000 systems.
- We have introduced 2008 and 2009 forecasts that are lower than what we had originally expected. Having earlier expected breakeven this year, we now do not see the company likely to achieve this within the next two financial years.
- Again, major customers have been delaying uptake. While we understand Vianet may be experiencing a squeeze on its margins as larger customers take advantage of the company's financial weakness, tight management has improved margins in the year.
- Volumes and takeup on M2M have been encouraging, but have not been able to make up for the shortfall on the FCMG vending side,
- Vianet states that it has received corporate approaches from a number of companies. The company has had a number of disappointing trading statements, and with the credit crunch likely to impact smaller companies, we believe Vianet's options are limited.

Share Price: 1.65p

12m High: 4.735p

12m Low: 1.65p

Market Cap: £4m

Shares in Issue: 222m

NAV/Share: 0.17p

Gearing: cash

Interest Cover: -

EPIC Code: VIA

Sector: Support Services

Market: AIM

PR: College Hill

Nominated Advisor and Broker:
Brewin Dolphin

Website: www.vianet.co.uk

Previous Research Note:
'Vending Still To Take Off But
M2M Powers Ahead', 4p, 5.10.2007

Analyst: Andrea Kirkby

Y/E	Sales £m	Declared Profit £m	Adjusted Profit £m	Adjusted Eps p.	P/e ratio	Divi p.	Yield %
2005	0.7	-2.3	-2.3	-1.4	-	0	0
2006	0.6	-1.7	-1.7	-0.7	-	0	0
2007	1.0	-1.7	-1.7	-0.8	-	0	0
2008e	1.1	-1.7	-1.7	-0.6	-	0	0
2009e	3.6	-1.1	-1.1	-0.2	-	0	0

The Results

Revenues in 2007 almost doubled, with good sales of the traditional vending product to GSK and M2M sales beginning to have some impact.

However, GSK now appears to have stalled at 7,000 units installed. We had earlier expected the remainder of GSK's vending parc to be converted to the Vianet product in 2008; it now appears that only 2,000 total units will be installed this year. This removes one of the key elements of our 2008 sales forecast. The sales will now be delayed into 2009.

We had also expected sales to have started flowing through from the tobacco sector, particularly in Germany and Spain. The need for age verification has created an opportunity for Vianet, since vending machines will need to be equipped to take credit or debit cards. However, the global brand companies involved in the sector have been slow to order, and two have recently been involved in significant takeover activity that will make them even less likely to take decisions in the short term.

M2M, on the other hand, has continued well with a significant expansion of market reach. In particular, we believe that Vianet's agreement to pool resources with Kore Telematics in the US, and in the near future with other M2M companies in other time zones, will be crucial in enabling it to offer a complete global service to major corporates.

2008 Forecast

We believe breakeven is now likely to be delayed beyond the 2008 financial year, owing to lower revenue levels and continuing delays in implementing contracts. The remainder of 2008 will see only low revenues from existing vending contracts with some further growth in M2M. The impact of the new large telco deal – which launches later this year – will not be seen till 2009. Nor are we expecting to see any further major developments in GSK or the tobacco bands till 2009 – when a wide range of revenue and profit outturns are possible. We have adopted the lower end of the range as our forecast.

Cash

The existing working capital arrangement with Barkley has been continued. However, we do not believe this is enough to support the business in the long term.

The company states that it has received a number of corporate approaches. Obviously it has not escaped notice that the company's financial position is precarious, and the scavengers are out. Vianet has developed some attractive IP assets, but has so far been unable to turn a profit from its operations, which require major corporations to make long term commitments. While we had hoped that the company would be able gradually to build its network and turn the corner to profitability, the latest set of delays put that development in doubt. Vianet should therefore explore these approaches with its advisers.

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