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## *AIM Investor Insight*



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### *Smart Metering Systems plc*

Founded in Glasgow in 1995 as an independent gas connections company, Smart Metering Systems plc (SMS) have grown into to a leading player in the installation and management of smart meters in the UK.

Having previously operated solely in the Industrial & Commercial meter space, in recent years, SMS began to focus their attention on the domestic smart meter rollout opportunity. The transition to domestic smart meters is backed by the Government, with energy suppliers being given a deadline of June 2025 to exchange existing meters to smart meters.

SMS install smart meters on behalf of independent energy suppliers and have a secured order book of 2 million domestic smart meters to install between now and June 2025, which gives a high level of visibility to their future growth.

There is also the opportunity for SMS to secure further orders on top of this from their existing customer base who have an additional 4 million meters still to be exchanged to smart meters.



One of the key attractions of the SMS business model is not only do they have a large pipeline of smart meters installations, but that they also then manage these meter and data assets through their own in-house technology and data analytics platform, receiving an annual index-linked recurring revenue (ILARR). At the end of June, SMS had 3.7m meter and data assets under management, generating an ILARR of £75.9m. This ILARR underpins a sustainable cash generative business model.

I recently spoke with the SMS management team when they updated investors on their interim results. Although Covid-19 and the associated lockdowns slowed down the rate of smart meter installations for a period of time, management had some positive recent developments to discuss with investors.

In April, SMS completed the disposal of a minority of their Industrial & Commercial smart meter assets for a gross gain of £195m, demonstrating the significant value the company built in their business and leaving the company with a strong balance sheet.

This has allowed SMS to enhance their dividend policy, which is to pay 25p per share in respect of the current financial year and to then increase the dividend by 10% p.a. in each of the next four financial years. The dividend is covered by the long-term index-linked cash flows generated from their existing meter base. In the current market environment of dividend cuts, suspensions and cancellations, this is clearly attractive to income seeking investors.



*“Enhancements SMS have made to their dividend policy will be attractive to income seeking investors”*

Ciaran Garvey, Investment Manager

The SMS management team also explained how they have been developing a pipeline of work on carbon reduction assets outside of smart meters. In March, SMS signed a partnership with the Columbia Threadneedle European Sustainable Infrastructure Fund and have already identified an opportunity in grid scale battery storage. The market for these battery assets is much larger than that of smart meters. In addition, these batteries have a long life and require maintenance every ten years. Management were clear that they wouldn't use the SMS balance sheet when pursuing opportunities within the carbon reduction asset space.

Given that all of their activities support energy efficiency and carbon reduction, we view SMS as having strong ESG credentials.

In addition, with the current macro-economic uncertainties that we face, the inherent resilience of the SMS business model gives us confidence in their future prospects.

Ciaran Garvey, Investment Manager  
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