TMT ANALYTICS

Elsight Limited

Breaking into the Autonomous Vehicle market

Elsight Limited (ASX:ELS) announced it has received its first purchase order (PO) in the Autonomous Vehicle segment of its addressable market. The customer name was not disclosed, but ELS indicated it is a major global Automotive OEM.

Despite the fact that the Autonomous Vehicle (AV) market is not expected to take off until 2020, we believe it is already an attractive market for investors and companies alike. Already, there are a significant number of AV's being road-tested today. Until the main market takes off, ELS is addressing the existing connectivity needs in autonomous test vehicles.

ELS' new customer will use ELS' Multichannel product in field testing, i.e. in autonomous test vehicles on the road today. The aim is to include ELS' technology in future commercial products, i.e. video and data transmission modules that car manufacturers can buy off-the-shelf from this Automotive OEM, similar to how car manufacturers procure standard modules today, such as steering systems and power electronics systems.

Multichannel used to transmit video and data in real-time

Autonomous and semi-autonomous vehicles, such as Tesla's, generate tremendous amounts of data from their sensors, including their Lidar scanners (Laser Imaging Detection And Ranging), video cameras, gyroscopes, accelerometers, GPS etc.

Intel estimates AV's on average generate up to 4 Terabytes (4,000 Gigabytes) of data per day. While not all this data will need to be wirelessly transmitted to the Cloud and can be discarded within seconds of having been generated, a substantial part of this data does need to be sent to car manufacturers' Clouds.
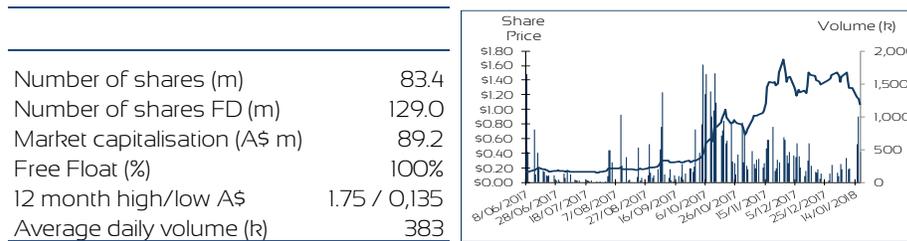
For instance, Tesla receives back data from cars it has sold to consumers, which is used to monitor, fine-tune and improve different aspects of its cars, their software, road conditions, maps etc.

ELS' new Automotive customer will use ELS' Multichannel system to transmit this video and data from a fleet of test vehicles to its Cloud of various leading car manufacturers.

We estimate more than 1,000 test vehicles on the road today

While ELS' product is ready to go out-of-the-box, we anticipate its new Automotive OEM customer will need time to integrate Multichannel with its existing systems for AV's, which we believe may take several months.

Number of shares (m)	83.4
Number of shares FD (m)	129.0
Market capitalisation (A$ m)	89.2
Free Float (%)	100%
12 month high/low A$	1.75 / 0.135
Average daily volume (k)	383

Elsight Limited

(ASX:ELS)

Information Technology

Australia

Risk: High

Elsight Limited (ASX:ELS) has developed algorithms that facilitate secure and highly reliable wireless video and data transmissions from remote cameras to control rooms and command centers. Application areas include Autonomous Vehicles, Home Land Security, drones, Military, armored vehicles, Telemedicine, live broadcasting and logistics.

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BUY

Current price: A$ 1.07

Price target: A$ 2.60

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Following this integration, road testing can commence and is likely to include some of the OEM's existing customers, i.e. car manufacturers working on AV's today. This test market for Multichannel modules is not the big price ELS is focused on. The real target is the millions of AV's that will be on the road in the future, all requiring secure and reliable video and data transmission.

Still, following successful testing by ELS' new Automotive customer we anticipate attractive revenue potential from Multichannel in test AV's in the short to medium term. In California alone, more than 180 AV's from companies such as Waymo (Google), BMW, Lyft, Uber, Mercedes, Tesla, Ford, Apple, Delphi Automotive, Nissan, GM, Bosch, Honda, Volkswagen and Nvidia are on the road today for testing purposes.

Including other US states, Europe and China, we estimate more than 1,000 AV's are currently being road tested. We expect this number to increase rapidly as more car manufacturers need to embrace AV's at the risk of becoming obsolete in due time.

Additionally, legislation around road testing of AV's is gradually being implemented around the world, in many cases driven by individual cities starting their infrastructure planning ahead of the inevitable arrival of commercially available AV's on their roads.

As we described in our initiating coverage report of ELS, which can be found here: https://www.tmt-analytics.com.au/research.html, we believe the AV market is likely to become ELS' largest market in the longer term. In the short to medium term, though, we anticipate the company will be able to generate attractive revenues during 2018-2019 from sales of test modules to Automotive OEM's.

FIGURE 1: AUTOMOTIVE OEM'S BY REVENUES (EUR M, 2016)
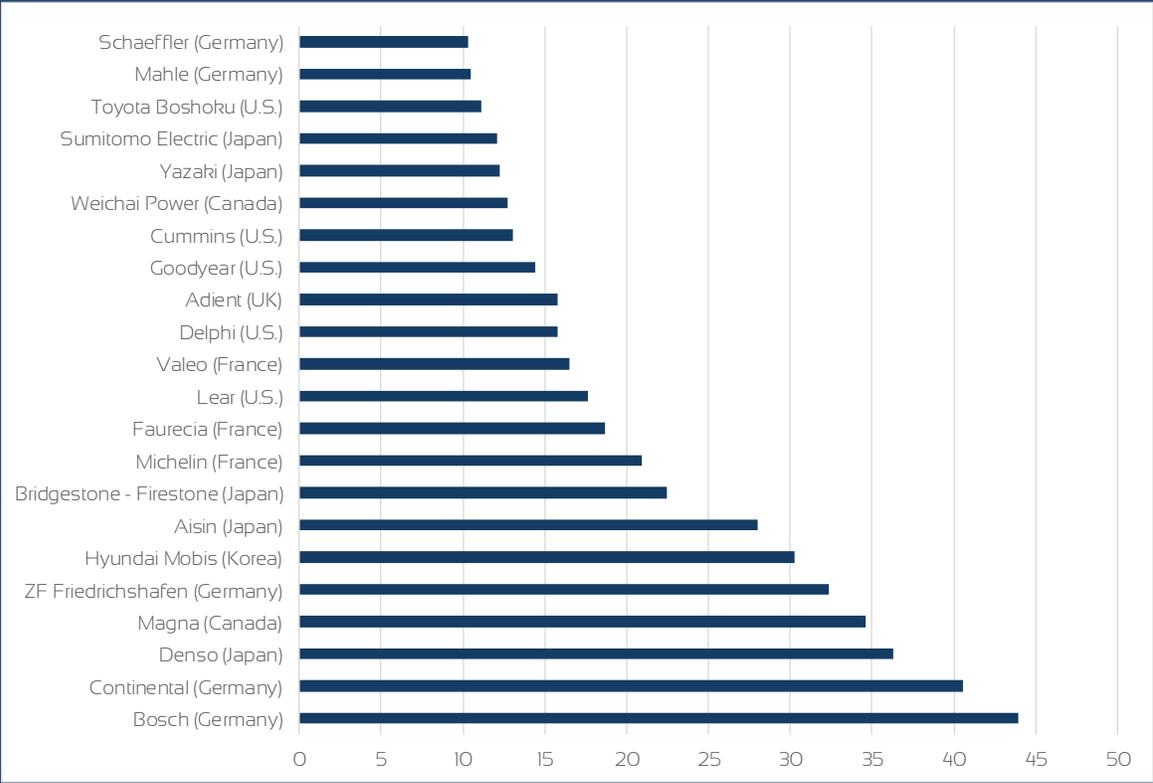
Source: Berylls Strategy Advisors, TMT Analytics

ELS' indicated that its new customer is a leading global Automotive OEM currently testing AV's on the road, likely putting it in the top 5 largest OEM's by revenues globally (Figure 1). In addition to this first Automotive OEM customer, we believe ELS should be able to secure other OEM customers on this list given that they are all facing the same challenge, namely how to securely and reliably transmit massive amounts of video and data from their AV's in the field.

For these reasons we reiterate our BUY rating for ELS and our price target of A\$ 2.60 per share.

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