

**Stock Data**

Share Price:	32.05p
Market Cap:	£57.9m
Shares in issue:	180.5m
52 week high/low:	70.0p/7.0p

**Company Profile**

Sector:	Healthcare
Ticker:	DVRG
Exchange	AIM

**Activities**

DeepVerge plc ('Deepverge', 'DVRG', 'the Group'), (formerly Integumen plc) is an environmental and life science group of companies that develops and applies AI and IoT technology to analytical instruments for the analysis and identification of bacteria, viruses and toxins.

[www.deepverge.com](http://www.deepverge.com)

**Share price performance since 6 Oct. 2020**



Source: [LSE](https://www.lse.com)

Past performance is not an indication of future performance.

**Turner Pope contact details**

Tel: 0203 657 0050  
Email: [info@turnerpope.com](mailto:info@turnerpope.com)  
Web: [www.turnerpope.com](http://www.turnerpope.com)

Andrew Thacker  
Corporate Broking & Sales  
[andy.thacker@turnerpope.com](mailto:andy.thacker@turnerpope.com)

Zoe Alexander  
Corporate Broking & Sales  
[zoe.alexander@turnerpope.com](mailto:zoe.alexander@turnerpope.com)

Barry Gibb  
Research Analyst  
[barry.gibb@turnerpope.com](mailto:barry.gibb@turnerpope.com)

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## DeepVerge plc

Deepverge has announced it has signed a Memorandum of Understanding ('MoU') for a Joint Venture ('the JV', 'the Agreement') with China Resources Environmental Protection Development Limited ('China Resources Environmental'), a pollution monitoring subsidiary of one of the country's key state-owned enterprises. Under the terms of the Agreement, China Resources will own 51% and Deepverge will own 49% of the share capital. The JV will take responsibility for the manufacture, assembly and sale of Modern Water's environmental monitoring equipment, with a view to future development of smart environmental platforms, equipment/devices and network management software capability. As such, this Agreement potentially opens a major door for the Group's real-time water monitoring technologies to become installed throughout all of China's provinces, in the process helping Beijing resolve one of its most pressing environmental problems while becoming the first nation to successfully automate wastewater (including COVID-19) detection on a national scale. Although investors will need to await full details of the Agreement's commercial framework and prospective roll-out before being able to estimate future returns that could accrue to Deepverge, they should also recognise that other major international territories (including the UK and EU) urgently need to adopt similar solutions.

### China Resources (Holdings) Co. Limited – A key Chinese state enterprise

China Resources (Holdings) Co., Ltd. ('China Resources Group') is a diversified holding company registered in Hong Kong. In 2003, under the direct supervision of the State-owned Assets Supervision and Administration Commission of the State Council ('SASAC') is an institution directly under the management of the State Council of the People's Republic of China and, as such, is one of the key state-owned enterprises.

China Resources Environmental was formed by the reorganisation of China Resources Textile (Group) Co., Ltd. and China Resources Capital's National Environment Fund and New Economic Fund. In October 2019, China Resources Group approved the establishment of China Resources Environmental Protection, fully entering the field of environmental protection technology. The Company's current business includes the water sector, solid waste and hazardous waste, environmental protection technology, and textiles. The company has twenty-three wholly-owned or holding companies in Guangdong, Shandong, Jiangsu, Yunnan, Anhui, Hebei, Shanghai and other places.

### Scoping exercise now underway

The JV parties are currently undertaking a scoping exercise to assess the level of start-up costs and non-cash consideration to be introduced by each partner. The definitive agreements will address the following subject matters:

1. The parties will agree and execute a commercial framework agreement which will incorporate commercial terms negotiated and agreed between the parties.
2. Deepverge will negotiate, agree and execute a licence by Deepverge (or a subsidiary of Deepverge) of technology to the JV and a support agreement in respect of the technology.
3. JV will negotiate, agree and execute a reseller agreement with Deepverge (or a subsidiary of Deepverge) in respect of the manufactured products.

## Agreement highlights China's urgent need for improved water protection

According to its Ministry of Ecology and Environment, between 2016 and 2020 China experienced its greatest improvement in ecological and environmental protection as a result of completing the main objectives and tasks outlined in its 13th Five-Year Plan. Beijing had, however, chosen to focus primarily on improving air quality which, of course, is the most visible form of pollution for the urban population. While it clearly is a major environmental and health problem – with 750,000 annual deaths in China attributable to respiratory diseases associated with poor air quality – water and soil pollution now arguably pose a greater threat.

Up to 40 per cent of China's rivers are seriously polluted and 20% of them are so badly polluted that they are considered too toxic for physical contact. The Yellow River (which is one of the country's major water sources) is 10% sewage by volume. In April 2015, the State Council introduced the Action Plan for the Prevention and Control of Water Pollution, which aimed to increase the share of potable water in seven river basins to more than 70% by 2020. Chinese environmental inspectors admitted in January 2018 that, with the exception of four provinces, not enough was being done to address such problems. Compounding these concerns, analysis of 2014 government data that initially suggested regional improvements, were subsequently found to be based on inaccurate data. As such, it is widely believed that the authorities were unable to achieve their 2020 goals for water quality due to an inability to accurately monitor pollution/toxicity levels in water/wastewater which, along with lengthy reporting delays, make consistent evaluation almost impossible

Given that it became too complicated to identify and act upon those primarily responsible, pollution levels in across the country's major rivers remain high, hence the urgency with which Beijing has now chosen to act. In this respect, today's JV announcement represent a determined step by the Chinese authorities to use Modern Water's world leading scientific and technical knowhow to rapidly deliver real-time monitoring and alert systems throughout the 23 provinces of China. By partnering with a division of one of the world's largest natural resource groups, the JV will be able to develop the capacity necessary to meet anticipated demand for the manufacture and assembly of existing Microtox and Microtrace equipment. This would be not only to satisfy its domestic needs, but also to service international markets that recognise the importance of water monitoring for management of public health in both the current and post-Pandemic environments.

## Deepverge anticipates strong continuing growth in 2021

On 11 January 2021, Deepverge confirmed that Q4 2020 was its first ever profitable (at the EBITDA level) quarter, during which time order books built strongly with the signing of 12 new contracts for Labskin Services. At the same time, the Board also provided revenue guidance of £10m for 2021 (representing 127% annualised growth on the full year 2020 figures), while noting that several large projects, including two 'multi-million pound opportunities' due for decision in coming months offer potential to drive this figure substantially higher still. Indeed, today's Agreement offer scope to do exactly that in the relatively near-term and, while not yet contemplated in TPI's existing forecasts, prospectively resets all expectations. Recognising that the coming year will likely see the world transition from one that has struggled to contain the catastrophic effects of a global viral pandemic, to one that needs to urgently understand how to provide rapid, ongoing detection, containment and response in a post-Pandemic environment whose principal challenge must be to ensure such outbreaks cannot undermine humankind's future well-being, Deepverge's seemingly ideal range of core competences, technologies, innovative skillsets and global reach potentially positions it to enjoy years of exceptional, high margin growth. On 11 January 2021, TPI accordingly updated its valuation for Deepverge, which now indicates a revised figure of £140.6m, suggesting a new share price target of 84.8p.

**(Please note that TPI's valuation is based on financial modelling and there is no guarantee that such a valuation will ever be realised, therefore please do not base investment decisions on this valuation alone. Also please note that past performance is not a reliable indicator of future results.)**

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