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ANALYSIS-Eye-in-the-sky no more a commercial pie-in-the-sky

By A.Ananthalakshmi

BANGALORE, Aug 24 (Reuters) - Looking to set up oil rigs around Perm, at the heart of a 160,000 sq km swathe of Russia's Ural Mountains, energy giant LUKOIL had a problem. All it had were decades-old maps of the terrain.

For accurate, up-to-date mapping the group's regional operations center turned to images beamed down by DigitalGlobe's satellites -- a sign both of how business is embracing new [technology](#) and how the satellite imagery industry is going commercial.

Oil and gas exploration is just one of the new areas ripe for the satellite imagery that has traditionally been used only by governments for defense and surveillance.

Satellite operators such as DigitalGlobe and rival GeoEye, the only two listed players, have driven growth almost exclusively through defense agencies.

Shares of both companies recently hit life highs after they won a combined \$7.5 billion 10-year contract to supply images to U.S. military and spy agencies.

But with little prospect of any near-term repeat of that bumper deal, growth in the commercial market will be key.

Many industries are just beginning to experiment with high-resolution images taken by satellites, which now boast cameras powerful enough to count the number of cars in a parking lot from 770 kms above the earth's surface.

DigitalGlobe said commercial prospects included an international tax authority that boosted revenue by using satellites to count swimming pools. Others could include tracking the undersea course of the Sakhalin-Vladivostok gas pipeline or preventing rosewood trafficking in Madagascar.

Commercial [business](#) -- such as telecoms, energy, insurance and construction -- brings in less than a quarter of the two firms' average annual revenue of \$275 million.

NOVELTY PRODUCT

The biggest hurdle to growth may be the novelty of the product. The market for non-government provided satellite imagery is only 15 years old.

"Satellite imagery is absolutely a niche product. It's a niche (even) within the satellite industry," said Chris Quilty, satellite and space analyst with Raymond James.

Other users of satellite images include location-based products such as Google Earth, Microsoft Virtual Earth, and navigation device makers Garmin and Nokia -- but patience will be needed before the rewards roll in.

"Any time a new technology is brought on board, it takes a period of adjustment and learning for it to become more broadly used," said Quilty.

In 2009, Euroconsult estimated the aggregate market for satellite-based earth observation was worth over \$800 million, and predicted compound growth of 16 percent through 2018.

Longmont, Colorado-based DigitalGlobe, which has more than 1 billion sq kms of earth imagery and imagery products, said commercial markets were opening up in the past couple of years as traditional [enterprise applications](#) integrate geospatial imagery into their workflow.

"The question is can we be convinced to use imagery more in our daily lives," said Marco Caceres, space analyst with aerospace and defense research firm Teal Group.

"That's still an open question."

MARKET POTENTIAL

GeoEye spokesperson Mark Brender said the technology has potential in markets from energy, mining and transportation to environmental monitoring and infrastructure.

Russia's energy industry uses satellite imagery to manage information on pipelines, oil fields and processing facilities, while, in India, remote sensing satellite images help keep track of crops, estimating acreage and yield.

Satellite imagery is also increasingly called on in crisis situations such as the flooding in Pakistan, the Gulf of Mexico oil spill and Haiti earthquake.

"The integration of satellite imagery into workflows has been evolutionary rather than revolutionary," said GeoEye's Brender.

Though optimistic about commercial growth and opportunity, DigitalGlobe and GeoEye still expect most of the near-term demand to come from the U.S. government.

"The strong demand for high resolution imagery will continue to be driven by the needs of our largest [customer](#), the NGA," a GeoEye executive said on a recent conference call.

DigitalGlobe said its commercial segment could rise to 25-30 percent of total revenue in 3-5 years, up from 22 percent now.

"If you have companies that can do what Apple computers have done in that market, then the imaging market could explode, but that really just depends on innovation," said Teal's Caceres. (Additional reporting by Saumyadeb Chakrabarty in Bangalore, Editing by Ian Geoghegan)

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