

IndigoVision (B)(A)

Software & Computer Services

BUY

Interim Results

Interim results show sharply higher growth levels as we move past the worst of the global recession. Revenue increased 25% YoY – ahead of our forecast – with double-digit growth reported in every region. Gross margins are lower than we expected at 58% (BD FY11e: 62%) due to pricing pressures and product mix, but we do not expect further deterioration. With sales slightly ahead and gross margin slightly behind, we are leaving our earnings forecasts unchanged. We increase our TP to 692p, to reflect increasing valuation ratings across IND's peer group. We reinforce our BUY recommendation.

Results Highlights

Revenues increased 25% YoY to £15.0m (1H10: £12.0m). This covers 47.6% of our existing full year forecast (£31.5m), which is highly encouraging given that IND usually displays a significant H2 weighting. Gross margin was lower than expected at 58% (1H10: 62%) due to a combination of business mix and pricing pressure in certain markets. Total operating costs increased 18%: selling and distribution costs increased 25% largely due to performance bonuses and commissions, and R&D spend increased 16%. Overall, PBT climbed 15% to £1.4m (1H10: £1.2m), which covers 39% of our full year forecasts and is in line with our expectations. Cash was strong at £5.4m (July 10: £4.4m), prompting IND to declare its first interim dividend (4.0p/share).

Forecasts

Sales figures look positive at this point and despite the fact that comparables get tougher in H2, we have increased our full year revenue forecast by 4.1% to £32.8m, equivalent to 17.1% YoY growth. Historically IND has been strongly H2 weighted, and our revised forecast sees a 46%/54% split, against 41%/59% in FY09 and 43%/57% in FY10. We counter this sales growth, however, by reducing our gross margin forecast. We do not expect further margin deterioration as we understand some of the pricing pressure was faced when gaining footholds in new markets; however business mix and continued macro headwinds are likely to prevent significant short-term recovery. We believe there remains scope for upside surprises in FY11 and particularly FY12 forecasts.

Forecast change table

	New 2011(E)	Old 2011(E)	Δ%	New 2012(E)	Old 2012(E)	Δ%
Revenue £m	32.8	31.5	4.1%	35.5	35.5	0.0%
PBT £m	3.6	3.6	0.0%	4.2	4.2	0.0%
EPS fully diluted p^	34.5	34.5	0.0%	40.0	40.0	0.0%

Source: BD Research

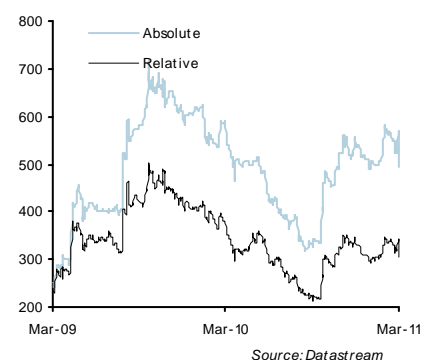
Valuation

Peer group ratings have expanded in recent months and we believe IndigoVision should expand in tandem. As a premium brand offering pure-play exposure to the high growth IP CCTV market, an in-line rating is undemanding. Applying the peer average 17.2x rating to (calenderised) 2011 earnings gives a 660p/share valuation, to which we add 32p for the DCF value of IND's tax shield, giving a 692p/share valuation

Date

11th March 2011

Share Price:	495p
12m Price Target:	692p
Upside:	40%
Fundamental View:	Positive
Forecast Sensitivity:	3
Shares in Issue:	7.7m
Market Cap:	£38.3m
Forecast Cash/(Debt):	£5.8m
Enterprise Value:	£32.5m



Reuters: IND.L

Analyst:

Greig Aitken

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Year End July	Sales £m	PBT* £m	Tax %	EPS† p	PE Ratio x	EV/EBITDA x	FCF/Share p	DPS p	Yield %
2009(A)	26.4	3.3	23.8	32.4	15.3	9.8	23.2	5.0	1.0
2010(A)	28.0	3.1	35.7	25.6	19.4	10.2	16.4	7.5	1.5
2011(E)	32.8	3.6	27.0	34.5	14.3	8.3	30.8	10.0	2.0
2012(E)	35.5	4.2	26.0	40.0	12.4	6.7	45.6	12.0	2.4

*Figures pre-exceptionals and goodwill amortisation, † Fully diluted, Source: Company Accounts/BD Forecasts



Operational Highlights

Revenue Growth

Revenue progression was commendable, particularly given lingering macroeconomic headwinds, with double-digit growth reported in every territory. Latin America (66%) and Asia-Pacific (38%) were stand-outs, with North America (23%) and EMEA (13%) following. Again rail and government were strong, and whilst US casinos remained sluggish there are some signs that the market is starting to move again in the region, whilst further opportunities in this vertical have emerged internationally. The current Middle East unrest may see certain contracts delayed but equally it may lead to certain contracts in the region being brought forward. Overall the unrest is seen more as an opportunity than a threat.

Open Architecture

IND has now developed support for the ONVIF standard, which means its end-to-end solutions are now open to be integrated with third-party equipment. Accordingly, IndigoVision can now straddle the full market, offering the reliability of full end-to-end systems along with the flexibility of an open system.

Technology

Initial teething problems with camera ranges have now largely been overcome. IndigoVision has a range of new products lined up for the forthcoming year. Although gross margins are lower on camera equipment, it opens the company up to a much larger addressable market.

Recurring Revenue

The company is launching a chargeable Software Upgrade Plan for new customers from May 1st 2011. IND has previously offered software upgrades free to customers. We will wait until we see how this revenue stream beds in before we account for it in our forecasts, but the prospect of recurring revenues is encouraging and will be well received by the market.

FINANCIALS

Income Statement	2009(A)	2010(A)	2011(E)	2012(E)
Year End July	£m	£m	£m	£m
Sales	26.4	28.0	32.8	35.5
EBITDA	3.5	3.3	3.9	4.5
Depreciation	0.3	0.3	0.3	0.3
Operating profit	3.3	3.1	3.6	4.2
Other Income	0.0	0.0	0.0	0.0
Interest	0.0	0.0	0.0	0.0
PBT (normalised)	3.3	3.1	3.6	4.2
Exceptionals				
Goodwill				
PBT (reported)	3.3	3.1	3.6	4.2
Tax Rate (%)	23.8	35.7	27.0	26.0
Minority Int				
Pref Dividends				
Av. No. Shares	7.3	7.4	7.4	7.4
F. Dil. No. Shares	7.7	7.7	7.7	7.7
EPS(nm - F.Dil.) (p)	32.4	25.6	34.5	40.0
DPS (p)	5.0	7.5	10.0	12.0

Cash Flow	2009(A)	2010(A)	2011(E)	2012(E)
Year End July	£m	£m	£m	£m
Operating profit	3.3	3.1	3.6	4.2
Depreciation/Amortisation	0.3	0.3	0.3	0.3
Working Capital	-1.6	-1.9	-1.4	-0.8
Interest	0.0	0.0	0.0	0.0
Tax	0.0	0.0	0.0	0.0
Exceptionals				
Other Operating Cashflows	0.1	0.1	0.2	0.1
Cash flow from Ops	2.1	1.5	2.7	3.8
Net Capex	-0.2	-0.4	-0.4	-0.5
Acqs/Disposals				
Other Investing Cashflows				
Cash Flow from Investing	-0.2	-0.4	-0.4	-0.5
Ord Div	0.0	-0.4	-0.8	-0.8
Share Issues	0.1	0.1	0.0	0.0
Other Financing Cashflows	0.0	-0.1	0.0	0.0
Cash Flow from Financing	0.1	-0.3	-0.8	-0.8
Net Inc/Dec in Cash	2.2	0.9	1.4	2.5
Y/E Cash/(Debt)	3.6	4.4	5.8	8.4
Enterprise Value	34.7	33.9	32.5	29.9

Ratios	2009(A)	2010(A)	2011(E)	2012(E)
Sales Growth (%)	43.3	6.2	17.1	8.2
EBITDA Margin (%)	13.4	11.9	11.9	12.6
Op Margin (%)	12.4	10.9	11.1	11.7
Int Cover (x)	-1,086.7	-277.6	-362.6	n/a
EPS Growth (%)	25.9	-21.0	34.9	16.0
DPS Growth (%)	n/a	50.0	33.3	20.0
Div Cover (x)	6.8	3.6	3.6	3.5

Balance Sheet	2009(A)	2010(A)	2011(E)	2012(E)
Intangibles	5.9	4.9	3.9	2.8
Tangibles	0.3	0.5	0.6	0.8
Net Current Assets	6.0	8.0	9.4	10.2
LT Creditors	-0.2	-0.3	-0.3	-0.4
& Provisions				
Shareholders funds	15.6	17.5	19.4	21.7

Valuation	2009(A)	2010(A)	2011(E)	2012(E)
P/E (@current price)	15.3	19.4	14.3	12.4
P/E (@target price) (x)	21.4	27.1	20.1	17.3
EV/EBITDA (x)	9.8	10.2	8.3	6.7
EV/Sales (x)	1.3	1.2	1.0	0.8
FCF Yield (%)	4.6	3.3	6.2	9.2
Dividend Yield (%)	1.0	1.5	2.0	2.4

Ratios	2009(A)	2010(A)	2011(E)	2012(E)
NAV (p)	214.8	237.6	261.3	292.3
Gearing (%)	-22.7	-25.4	-30.1	-38.6
ROCE (%)	27.0	23.4	26.7	31.2
FCF/Share (p)	23.2	16.4	30.8	45.6
Cash Conversion (%)	63.2	50.0	73.3	91.5

Source: Company/BD Estimates

Company Description

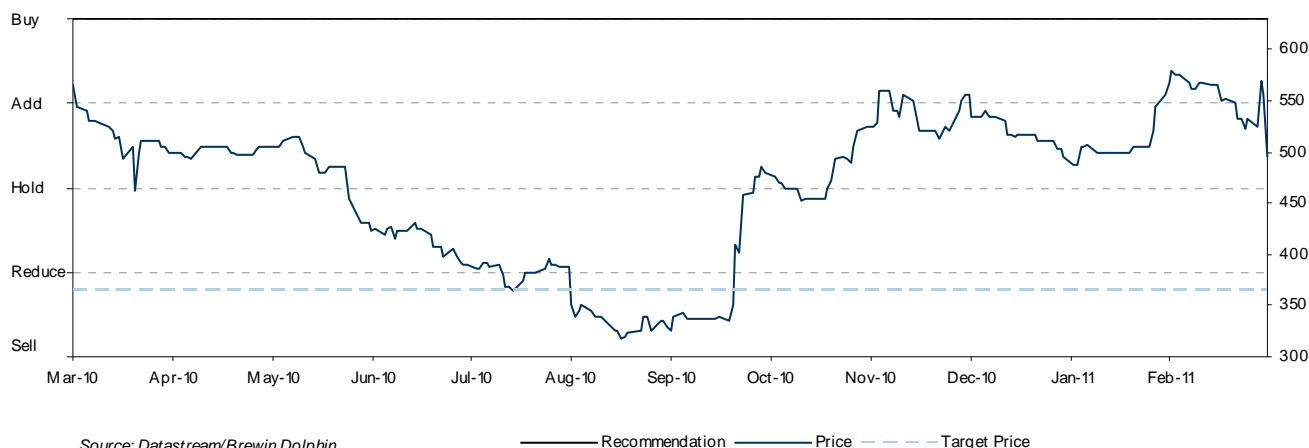
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Future Newsflow

September 2011

Final Results

RECOMMENDATION HISTORY - INDIGOVISION (B)(A)



(B) Denotes Brewin Dolphin acts as broker to the company

(A) Denotes AIM listing

Brewin Dolphin Research - Recommendation Definition (expects absolute performance over next 12 months).

Buy - 20%+ upside to BD 12m Price Target

Add - 10% - 20% upside to BD 12m Price Target

Hold - minus 10% to +10% to BD 12m Price Target

Reduce - minus 10% to 20% downside to BD 12m Price Target

Sell - minus 20% or more downside to BD 12m Price Target

Fundamental View:

Positive - quality company, strong management, strong fundamentals, focussed strategy.

Neutral - ambivalent over the company's strategy, market place, management.

Negative - BD believes company has fundamental flaws and is not a long term investment.

Forecast Sensitivity:1 = highly likely downgrade
upgrade

2 = likely downgrade

3 = neutral

4 = likely upgrade

5 = highly likely

Prices of other securities mentioned: None

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