

IndigoVision (B)(A)

Software & Computer Services

BUY

Update and Forecast Upgrade

IndigoVision has reported that with nearly 4 months of FY12 trading under its belt it remains in line with the very strong start experienced in FY11. It is therefore confident it will beat market forecasts of a 10% YoY sales dip. On this basis we have upgraded our sales forecast to £28.9m (£26.0m) and this has driven a material upgrade to our earnings forecast. We remain at BUY and increase our price target to 370p (323p).

When IND reported an encouraging start to FY12 at their recent AGM, we increased our forecast sensitivity to 4 and noted that IND looked well placed to beat our numbers, which had been reduced in September following a sales slump in 4Q11. After broadly tracking the FY11 performance through the first four months, the latest IND update sets a bullish tone, buoyed by a healthy new product pipeline and a "strong management focus on margins and costs" that has produced a record operating performance so far.

Forecast Changes – It is pertinent to note that whilst FY11 revenue growth was disappointing (+3% YoY), this was due to a very sluggish Q4; 1H11 was by some distance a record first half performance for IND. Additionally, FY11 was the first year in which IND delivered higher revenue in H1 than H2.

With four months of the fiscal year now almost complete and additional visibility further toward the half year end, IND appears confident that the slump suffered in June-August did not evidence a longer-term ongoing trend. If IND matches its strong 1H11 performance in 1H12, then sales would have to fall 27% in 2H12 to reach our erstwhile forecast of a -10% FY decline. Accordingly, we are upgrading our sales number and now expect a flat performance for FY12. Even if IND delivers 1H12 slightly down against 1H11, there is latitude in the revised numbers to match last year's revenue as 2H11 sales were particularly weak (£13.9m: -8% vs 1H11). Our upgraded FY12 forecast, therefore, both remains cognisant of the potential for macroeconomic turbulence and offers scope for further potential outperformance. This sentiment also applies to our cautious maiden FY13 forecasts.

IND highlights gross margins have sharply recovered from last year (FY11: 56%) and overheads have reduced YoY. We were expecting gross margin would recover to 58% and we leave this unchanged, though the YTD showing has been 59%. We had forecast overheads of £14.5m and we increase this slightly to £14.8m to account for the increased commissions which will be incurred as sales increase beyond our prior expectations. The net effect sees PBT increase markedly from £0.6m to £2.0m. Cash generation should be strong and we forecast a year end balance of £6.4m.

Forecast change table

Year End	2012E	2012E		2013E
July	New	Old	Δ%	New
Revenue £m	28.9	26.0	11.1%	30.0
PBT £m	2.0	0.6	238.5%	3.0
EPS fully diluted p^	17.4	6.0	190.4%	25.5

Source: BD Research

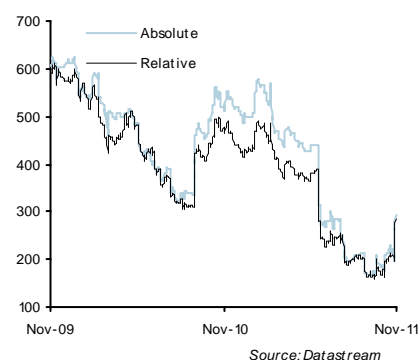
Valuation – Our 370p SOTP valuation comprises 83p/share in cash, 38p/share for the DCF valuation of IND's tax asset, and 250p/share from an 12x PE valuation of calendarised 2012e earnings.

Year End	Sales	PBT*	Tax	EPS†	PE Ratio	EV/EBITDA	FCF/Share	DPS	Yield
July	£m	£m	%	p	x	x	p	p	%
2010(A)	28.0	3.1	35.7	25.6	11.4	5.5	16.3	7.5	2.6
2011(A)	28.9	1.2	48.5	8.1	36.0	11.7	21.3	7.5	2.6
2012(E)	28.9	2.0	34.0	17.4	16.8	7.0	25.1	9.0	3.1
2013(E)	30.0	3.0	34.0	25.5	11.5	4.4	34.9	10.0	3.4

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

Date 29th November 2011

Share Price:	292.5p
12m Price Target:	370p
Upside:	26%
Fundamental View:	Positive
Forecast Sensitivity:	4
Shares in Issue:	7.7m
Market Cap:	£22.6m
Forecast Cash/(Debt):	£6.4m
Enterprise Value:	£16.3m



Reuters: IND.L

Analysts:

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FINANCIALS

Income Statement	2010(A)	2011(A)	2012(E)	2013(E)
Year End July	£m	£m	£m	£m
Sales	28.0	28.9	28.9	30.0
EBITDA	3.3	1.5	2.3	3.3
Depreciation	0.3	0.3	0.3	0.3
Operating profit	3.1	1.2	2.0	3.0
Other Income	0.0	0.0	0.0	0.0
Interest	0.0	0.0	0.0	0.0
PBT (normalised)	3.1	1.2	2.0	3.0
Exceptionals				
Goodwill				
PBT (reported)	3.1	1.2	2.0	3.0
Tax Rate (%)	35.7	48.5	34.0	34.0
Minority Int				
Pref Dividends				
Av. No. Shares	7.4	7.4	7.4	7.4
F. Dil. No. Shares	7.7	7.7	7.7	7.7
EPS(nm - F.Dil.) (p)	25.6	8.1	17.4	25.5
DPS (p)	7.5	7.5	9.0	10.0

Cash Flow	2010(A)	2011(A)	2012(E)	2013(E)
Year End July	£m	£m	£m	£m
Operating profit	3.1	1.2	2.0	3.0
Depreciation/Amortisation	0.3	0.3	0.3	0.3
Working Capital	-1.9	0.2	-0.3	-0.3
Interest	0.0	0.0	0.0	0.0
Tax	0.0	0.0	0.0	0.0
Exceptionals				
Other Operating Cashflows	0.1	0.2	0.2	0.0
Cash flow from Ops	1.5	1.9	2.2	3.0
Net Capex	-0.4	-0.5	-0.4	-0.5
Acqs/Disposals				
Other Investing Cashflows				
Cash Flow from Investing	-0.4	-0.5	-0.4	-0.5
Ord Div	-0.4	-0.9	-0.6	-0.7
Share Issues	0.1	0.1	0.0	0.0
Other Financing Cashflows	-0.1	0.0	0.0	0.0
Cash Flow from Financing	-0.3	-0.7	-0.6	-0.7
Net Inc/Dec in Cash	0.9	0.6	1.3	1.8
Y/E Cash/(Debt)	4.4	5.1	6.4	8.1
Enterprise Value	18.2	17.6	16.3	14.5

Ratios	2010(A)	2011(A)	2012(E)	2013(E)
Sales Growth (%)	6.2	3.1	0.0	3.9
EBITDA Margin (%)	11.9	5.2	8.0	10.9
Op Margin (%)	10.9	4.1	7.0	9.9
Int Cover (x)	-277.6	-56.8	-100.6	n/a
EPS Growth (%)	-21.0	-68.2	114.5	46.5
DPS Growth (%)	50.0	0.0	20.0	11.1
Div Cover (x)	3.6	1.1	2.0	2.6

Balance Sheet	2010(A)	2011(A)	2012(E)	2013(E)
Intangibles	4.9	4.4	3.7	2.7
Tangibles	0.5	0.6	0.6	0.8
Net Current Assets	8.0	7.8	8.1	8.4
LT Creditors	-0.3	-0.3	-0.3	-0.3
& Provisions				
Shareholders funds	17.5	17.5	18.5	19.7

Valuation	2010(A)	2011(A)	2012(E)	2013(E)
P/E (@current price)	11.4	36.0	16.8	11.5
P/E (@target price) (x)	14.5	45.5	21.2	14.5
EV/EBITDA (x)	5.5	11.7	7.0	4.4
EV/Sales (x)	0.6	0.6	0.6	0.5
FCF Yield (%)	5.5	7.2	8.5	11.9
Dividend Yield (%)	2.6	2.6	3.1	3.4

Ratios	2010(A)	2011(A)	2012(E)	2013(E)
NAV (p)	237.6	235.8	248.6	265.8
Gearing (%)	-25.3	-28.9	-34.4	-41.2
ROCE (%)	23.4	9.6	16.6	25.6
FCF/Share (p)	16.3	21.3	25.1	34.9
Cash Conversion (%)	50.0	161.2	109.9	99.6

Source: Company/BD Estimates

Company Description

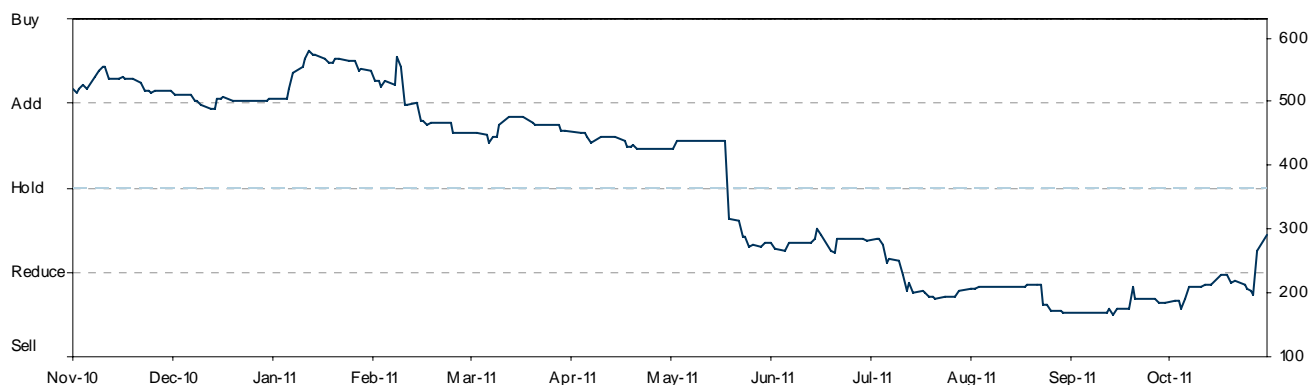
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Future Newsflow

Mar 12

Interim Results

RECOMMENDATION HISTORY - INDIGOVISION (B)(A)



Source: Datastream/Brewin Dolphin

— Recommendation — Price - - - Target Price

(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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