

IndigoVision (B)(A)

Software & Computer Services

BUY

Encouraging Signs

IndigoVision's AGM statement reported an "encouraging start to the year" with revenue similar to the corresponding period last year. This is a creditable achievement against strong 1Q11 comparables, and a better result than expected, given the sharp and unexpected slowdown experienced in the previous quarter. In cognisance of the ominous macroeconomic backdrop, our forecasts remain unchanged at present, but we believe IndigoVision is currently well placed to beat our expectations therefore we have increased forecast sensitivity to 4. We remain at BUY, TP 323p.

Testing Comparables – Though 1Q11 numbers were never disclosed, IndigoVision did get off to a very strong start last year – 1Q11 YoY growth was c.33%. For the first time in IND's recent history H1 revenue (£15.0m) was higher than H2 (£13.9m), owing to an acute slowdown which occurred in the last few weeks of 4Q11 (traditionally IND's strongest period).

Improved Profitability – Gross margins are said to have improved sharply from 2H10 (54%). We estimate they are in line with 1H11 at 58%. With the company braced for a period of lower revenue growth it is managing costs accordingly; in prior periods costs have grown in anticipation of rapidly expanding sales. Overhead reduction (ex-product development) has been accomplished through various efficiencies, including greater use of sea freight (achieved through improved inventory forecasting and management at regional hubs) and better management of human resources (for example, not automatically replacing leavers in areas of low growth, or reallocating resources from low growth regions to fill voids in high growth areas). The maintenance of product development spend (FY11: £3.0m) is a notable feature which should help ensure that future revenue growth is not suffocated by the company's current austerity.

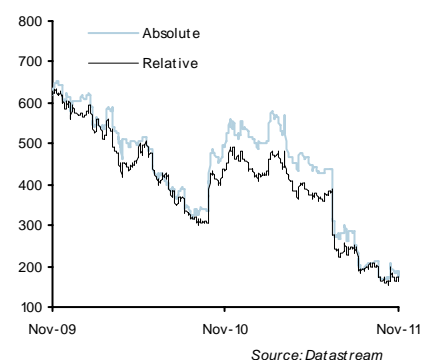
Forecasts – Earlier this year, the uncertainty generated by the unforeseen slowdown in 4Q11 prompted us to downgrade FY12 expectations: we are currently forecasting a 10% YoY revenue decline for FY12. The fact that IND has so far tracked performance with perhaps the strongest period of last year gives encouragement that the company can beat our revenue number. However, it should be noted that IndigoVision is well diversified across a number of market verticals and geographical territories, which is both a positive and negative for the company. Whilst IND is not hugely exposed to one particular risky industry or country, its spread is such that any incidence of slowing capital spending cycles will inevitably affect it to some degree. With Europe currently on a precipice, we are therefore leaving our forecasts unchanged at present.

BD View – The AGM statement suggests that, despite the woes of 4Q11, there remain reasons to be optimistic for IND. With high levels of operational gearing, any revenue outperformance would significantly boost earnings. Protecting against downside risk, IND has a strong balance sheet (FY12e £5.9m cash), pays a dividend, and should remain profitable and cash generative this year even if revenue does slow down. On that basis, we believe risks are currently weighted to the upside and remain buyers.

Date

4th November 2011

Share Price:	190p
12m Price Target:	323p
Upside:	70%
Fundamental View:	Positive
Forecast Sensitivity:	4
Shares in Issue:	7.7m
Market Cap:	£14.7m
Forecast Cash/(Debt):	£5.9m
Enterprise Value:	£8.8m



Reuters: IND.L

Analyst:

Greig Aitken

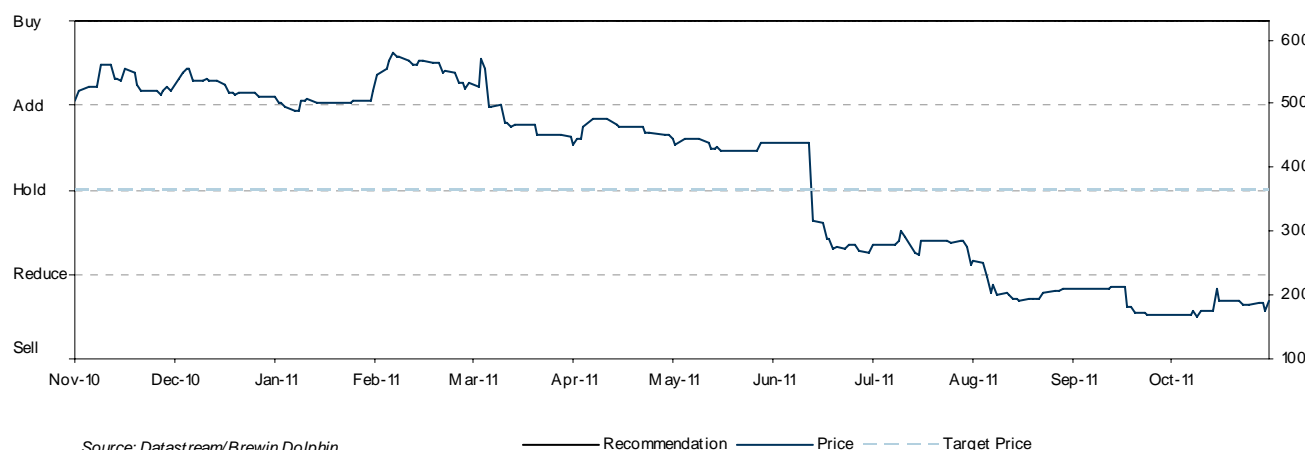
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Year End July	Sales £m	PBT* £m	Tax %	EPS† p	PE Ratio x	EV/EBITDA x	FCF/Share p	DPS p	Yield %
2009(A)	26.4	3.3	23.8	32.4	5.9	3.1	23.2	5.0	2.6
2010(A)	28.0	3.1	35.7	25.6	7.4	3.1	16.3	7.5	3.9
2011(A)	28.9	1.2	48.5	8.1	23.4	6.4	21.3	7.5	3.9
2012(E)	26.0	0.6	26.0	6.0	31.7	9.8	20.8	9.0	4.7

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

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

2 = likely downgrade

3 = neutral

4 = likely upgrade

5 = highly likely

upgrade

Prices of other securities mentioned: None

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