

IndigoVision (B)(A)

Software & Computer Services

BUY

Unchanged since 20/06/11

Positive Period End Update – Forecast Upgrades

IndigoVision has released a positive period end trading update which confirms that the business is recovering well and that management's focus on margins and efficiency is starting to bear fruit. The first half has seen a strong improvement in profitability over the previous 12 months and, albeit whilst taking note of the current economic backdrop, we are upgrading current year EPS by 23%. We also continue to see forecast risk on the upside and retain our forecast sensitivity of 4; we will revisit our forecasts at the time of the interim results in mid-March. With improving margins and having emerged from a period of significant disruption, the outlook is improving for IndigoVision; we increase our price target from 370p to 419p and retain our Buy recommendation.

Trading Update

Sales are expected to be slightly below last year's record H1 levels but some 5% ahead of H2 2011. The recovery in gross margins which was discussed at the time of the AGM has been sustained and margins are expected to be c.60% in H1 compared to our previous full year forecast of 58%.

Operating profits for H1 are expected to exceed £1.5m which compare favourably to our full year forecast of £2.0m. We are therefore upgrading our current year forecasts as outlined below, although we feel that it is sensible to be prudent at this juncture given the prevailing market conditions. We see potential to reconsider further upgrades at the time of the interims announcement in mid March. This improvement in the bottom line is particularly creditable given the recent corporate disruption and management change.

There will be approximately £0.3m of exceptional charges in the period relating to the board restructuring (£0.2m) and advisory costs (£0.1m) in connection with the possible offer which didn't proceed and the requisitioned general meeting which didn't take place. The interim results are expected to be released on 14 March 2012.

Forecast Changes

As mentioned above, we are taking a cautious view given current conditions and await further visibility later in the year. Nevertheless, we nudge sales up by 1% and increase full year gross margins from 58% to 59%. This equates to a 25% increase in PBT and 23% in EPS. We retain 2013 forecasts for now.

Year End July	2012(E) Revised	2012(E) Old	2013(E) Unchanged
Sales £m	29.2	28.9	30.0
PBT £m	2.5	2.0	3.0
EPS fully diluted	21.4	17.4	25.5
EPS change %	23%		-

Source: BD estimates

Valuation

We have updated our valuation for the upgraded numbers which takes our price target to 419p from 327.5p. We retain our Buy recommendation.

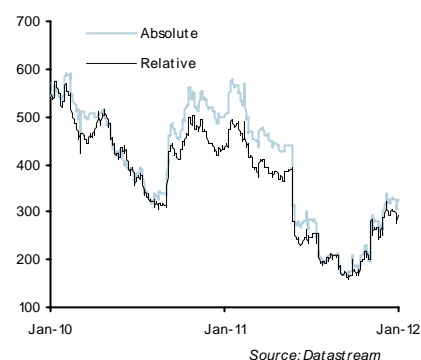
Year End July	Sales £m	PBT* £m	Tax %	EPS† p	PE Ratio x	EV/EBITDA x	FCF/Share p	DPS p	Yield %
2010(A)	28.0	3.1	35.7	25.6	12.2	5.0	16.3	7.5	2.4
2011(A)	28.9	1.2	48.5	8.1	38.6	11.2	21.3	7.5	2.4
2012(E)	29.2	2.5	34.0	21.4	14.6	6.0	31.1	9.0	2.9
2013(E)	30.0	3.0	34.0	25.5	12.3	4.5	34.9	10.0	3.2

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

Date

30th January 2012

Share Price:	312.5p
12m Price Target:	419p
Upside:	34%
Fundamental View:	Positive
Forecast Sensitivity:	4
Shares in Issue:	7.5m
Market Cap:	£23.4m
Forecast Cash/(Debt):	£6.7m
Enterprise Value:	£16.7m



Reuters: IND.L

Analysts:

Jon Lienard/James Tetley

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(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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