

IndigoVision (B)(A)

Software & Computer Services

BUY

Strong Recovery Delivers Record H1 Earnings

As indicated at the pre close update in January, the business has recovered well in recent months and management's focus on margins and efficiency is starting to deliver results. H1 saw a record performance in terms of profits and earnings and the Group ended the period with net cash of £7.2m. Having remained cautious following the pre-close in January, we now feel confident in raising our forecasts again (EPS +20% to 25.8p in FY12). The new Executive team is engaged on a full analysis of the business designed to drive IndigoVision into an industry leading position. We await more details later in the year with interest. We have increased our price target from 419p to 460p reflecting the improving forecasts and outlook. IndigoVision is a high quality business with strong long term growth prospects and an undemanding rating. Buy.

Interim Results

As suggested in the pre-close update, sales in the first half of the July 2012 financial year of £14.5m were 4% ahead of H2 2011 and only 4% behind the record sales recorded for the first half of 2011.

The recovery in gross margins which was first mentioned at the time of the AGM in November has continued, with 60% achieved in H1 up from the 58% we had originally expected for the year (58% in H1'11). Operating costs were 4% lower than last year, despite investment in product development, which was up 9%. These improvements reflect management's increased focus on margins and efficiency in recent months. As a result, operating profit increased from £1.4m to £1.6m with margins improving from 9.3% to 11.0%.

There are £0.3m of exceptional costs 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.

Net cash at the half year rose sharply to £7.2m from £5.1m at the July 2011 year end. We expect the strong working capital inflow partially to reverse in H2. The interim dividend has been increased by 25% to 5.0p. We are now forecasting 10p for the full year (previously 9.0p).

Forecasts

We upgraded earnings by 23% at the pre-close and said that this could prove conservative but that we would wait for more visibility given the economic environment. Since then, trading has remained positive and we now feel comfortable in upgrading once again. Our new forecasts are detailed below.

Year End	2012(E)	2012(E)	2013(E)	2013(E)
July	Revised	Old	Revised	Old
Sales £m	29.9	29.2	31.0	30.0
PBT £m	2.7	2.5	3.4	3.0
EPS fully diluted	25.8	21.4	32.4	25.5
EPS change %	20.5%		27.0%	
DPS fully diluted	10.0	9.0	12.0	10.0
DPS change %	11.1%		20.0%	

Source: N+1 Brewin estimates

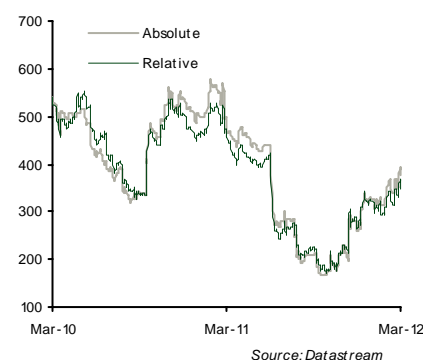
Year End	Sales	PBT*	Tax	EPS†	PE Ratio	EV/EBITDA	FCF/Share	DPS	Yield
July	£m	£m	%	p	x	x	p	p	%
2010(A)	28.0	3.1	35.7	25.6	14.8	7.2	16.3	7.5	2.0
2011(A)	28.9	1.2	48.5	8.1	46.5	15.6	21.3	7.5	2.0
2012(E)	29.9	2.7	27.0	25.8	14.6	7.1	41.5	10.0	2.6
2013(E)	31.0	3.4	27.0	32.4	11.7	5.2	44.1	12.0	3.2

*Figures pre-exceptionals and goodwill amortisation, † Fully diluted, Source: Company Accounts/N+1 Brewin Forecasts

Date

14th March 2012

Share Price:	377.5p
12m Price Target:	460p
Upside:	22%
Forecast Dividend Yield	3%
Total Shareholder Return	25%
Fundamental View:	Positive
Forecast Sensitivity:	4
Shares in Issue:	7.5m
Market Cap:	£28.5m
Forecast Cash/(Debt):	£7.1m
Enterprise Value:	£21.4m



Reuters: IND.L

Analysts:

Jon Lienard/James Tetley

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Interim Results

Sales in the six months to 31 January 2011 were £14.5m which represented a good recovery (+4%) from a disappointing period in H2 2011. This was only 4% behind the record sales reported for the first half of 2011.

The recovery in gross margins which was first mentioned at the time of the AGM in November has continued, with 60% achieved in H1, a strong improvement from the 58% of last year, which we had originally expected would just be maintained.

Operating costs were 4% lower than last year, despite investment in product development, which was up 9%. These improvements reflect management's increased focus on margins and efficiency in recent months. Overall, the results reflect a strong recovery in operating performance. Operating profit increased from £1.4m to £1.6m, with margins improving from 9.3% to 11.0%.

PBT increased by 14% to £1.6m. EPS increased by 19% to 15.6p. Both were half year records.

There are £0.3m of exceptional costs 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 dividend was proposed at 5.0p, an increase of 25% on last year. This has prompted us to increase our full year forecast from 9.0p to 10.0p, anticipating an even H1:H2 weighting, in line with the prior year.

Net cash at the half year rose sharply to £7.2m from £5.1m at the July 2011 year end. There was a reduction in stock levels of c.£1m; we expect some reversal by the year end as larger orders are fulfilled and therefore forecast year end net cash of £7.1m.

The rate of order intake since the half year end has started to improve and as a result the Group is expected to return to sales growth during H2. IndigoVision will be competing for some larger contracts in H2 and the first of these has been won, for 36 town centres in Colombia. This is IndigoVision's largest single order to date and highlights the Group's building presence in Latin America.

Following the executive changes at the end of 2011, the new management team is undertaking a thorough review and analysis of the business as they reassess the IndigoVision business model. The key areas of focus are product range, quality and customer service, areas where management believes IndigoVision should lead its industry. Whilst it is early days on all of these fronts, progress has already been made, and we look forward to more details when the full year results are reported.

Forecasts and Valuation

We upgraded earnings by 23% at the January pre-close. We said at the time that this could prove conservative but that we would wait for more visibility given the economic environment. Since then, trading has remained robust and the second half is said to have made an encouraging start.

We have updated our model to reflect the strong interims and the pointers on gross margins and costs within the statement (gross margins for the full year to be slightly below the strong H1'12 result, costs climbing slightly without matching the FY11 full year number).

Having tweaked our margin assumptions and in recognition of strengthening order patterns, we feel comfortable in upgrading our forecasts for FY12 and FY13 once again. We have increased our FY12 PBT forecast by 8% to £2.7m (EPS upgraded by a more significant 20.5% to 25.8p due to a lower than expected tax rate) and FY13 by 13% to £3.4m (EPS +27.0% to 32.4p). We see real momentum in the Group and, whilst mindful of IndigoVision's short order book (measured in weeks rather than months), on balance we believe that the risk to forecasts remains to the upside. We therefore retain our forecast sensitivity of 4.

We are increasing our price target by the same order of magnitude as our PBT upgrades. Our new 460p price target (+10% from 419p) represents a FY13 P/E rating of 14.2x, which falls to just 11x FY13 on a cash adjusted basis. The substantial deferred tax asset is worth a further c.35p per share on a discounted cashflow measure. We consider this an undemanding rating for a Group of IndigoVision's quality, growth characteristics and current upgrade cycle. We remain at Buy.

FINANCIALS

Income Statement	2010(A)	2011(A)	2012(E)	2013(E)
Year End July	£m	£m	£m	£m
Sales	28.0	28.9	29.9	31.0
EBITDA	3.3	1.5	3.0	3.7
Depreciation	0.3	0.3	0.3	0.3
Operating profit	3.1	1.2	2.7	3.4
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	2.7	3.4
Exceptionals			-0.3	
Goodwill				
PBT (reported)	3.1	1.2	2.4	3.4
Tax Rate (%)	35.7	48.5	27.0	27.0
Minority Int				
Pref Dividends				
Av. No. Shares	7.4	7.4	7.5	7.5
F. Dil. No. Shares	7.7	7.7	7.6	7.6
EPS(nm - F.Dil.) (p)	25.6	8.1	25.8	32.4
DPS (p)	7.5	7.5	10.0	12.0

Ratios	2010(A)	2011(A)	2012(E)	2013(E)
Sales Growth (%)	6.2	3.1	3.5	3.7
EBITDA Margin (%)	11.9	5.2	10.1	11.9
Op Margin (%)	10.9	4.1	8.9	10.8
Int Cover (x)	-277.6	-56.8	-266.7	-335.2
EPS Growth (%)	-21.0	-68.2	217.3	25.6
DPS Growth (%)	50.0	0.0	33.3	20.0
Div Cover (x)	3.6	1.1	2.6	2.7

Valuation	2010(A)	2011(A)	2012(E)	2013(E)
P/E (@current price)	14.8	46.5	14.6	11.7
P/E (@target price) (x)	18.0	56.6	17.8	14.2
EV/EBITDA (x)	7.2	15.6	7.1	5.2
EV/Sales (x)	0.9	0.8	0.7	0.6
FCF Yield (%)	4.4	5.8	11.1	11.7
Dividend Yield (%)	2.0	2.0	2.6	3.2

Cash Flow	2010(A)	2011(A)	2012(E)	2013(E)
Year End July	£m	£m	£m	£m
Operating profit	3.1	1.2	2.7	3.4
Depreciation/Amortisation	0.3	0.3	0.3	0.3
Working Capital	-1.9	0.2	0.3	-0.2
Interest	0.0	0.0	0.0	0.0
Tax	0.0	0.0	0.0	0.0
Exceptionals			-0.3	
Other Operating Cashflows	0.1	0.2	0.2	0.2
Cash flow from Ops	1.5	1.9	3.2	3.7
Net Capex	-0.4	-0.5	-0.5	-0.6
Acqs/Disposals				
Other Investing Cashflows				
Cash Flow from Investing	-0.4	-0.5	-0.5	-0.6
Ord Div	-0.4	-0.9	-0.7	-0.8
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	-0.7	-0.8
Net Inc/Dec in Cash	0.9	0.6	2.0	2.3
Y/E Cash/(Debt)	4.4	5.1	7.1	9.4
Enterprise Value	24.0	23.4	21.4	19.0

Balance Sheet	2010(A)	2011(A)	2012(E)	2013(E)
Intangibles	4.9	4.4	3.6	2.7
Tangibles	0.5	0.6	0.7	1.0
Net Current Assets	8.0	7.8	8.0	7.8
LT Creditors	-0.3	-0.3	-0.3	-0.3
& Provisions				
Shareholders funds	17.5	17.5	19.3	20.7

Ratios	2010(A)	2011(A)	2012(E)	2013(E)
NAV (p)	237.6	235.8	256.0	274.7
Gearing (%)	-25.3	-28.9	-36.9	-45.7
ROCE (%)	23.4	9.6	22.0	29.9
FCF/Share (p)	16.3	21.3	41.5	44.1
Cash Conversion (%)	50.0	161.2	129.9	109.2

Source: Company/N+1 Brewin Estimates

Company Description

IndigoVision is a leading manufacturer of complete end-to-end IP video and alarm management solutions. IndigoVision is widely chosen for applications in airports, city centers, ports, mines, road and rail systems, education, banking, casinos, prisons, government and the military. These enterprise-class systems improve organisations' operational efficiency, enhance public safety and enable timely emergency response. IndigoVision is headquartered in Edinburgh UK, with local sales and support offices across the world. IndigoVision partners with over 300 authorised system integrators and installers in 67 countries to provide local system design, installation and service to end users.

Future Newsflow

Jul 12 Year End

RECOMMENDATION HISTORY - INDIGOVISION (B)(A)



The chart above illustrates changes in recommendation and 12m Price Target over the past two years. Please note that prior to 1st February 2012 NPlus1 Brewin LLP ("N+1 Brewin") was formerly the Corporate Advisory and Broking division of Brewin Dolphin Ltd. As from 1st February N+1 Brewin has adopted a different recommendation structure which is detailed below. Please take this into account when interpreting the chart above. The recommendation structure used prior to 1st February 2012 was based on the upside to the 12m Price Target; Buy (>20% upside), Add (10% to 20% upside), Hold (-10% to 10% upside), Reduce (10% to 20% downside) and Sell (>20% downside).

(B) Denotes N+1 Brewin acts as broker to the company (A) Denotes AIM listing

N+1 Brewin Research – Current Recommendation Definition: Recommendations are a function of N+1 Brewin's expectation of total return (forecast price appreciation and dividend yield within the next 12 months)

Buy – Expected total return of 20% or more
 Add – Expected total return of between 10% and 20%
 Hold – Expected total return of between 0% and 10%
 Reduce – Expected negative total return of between 0% and 10%
 Sell – Expected negative total return of 10% or more

Fundamental View:

Positive - quality company, strong management, strong fundamentals, focused strategy.
 Neutral - ambivalent over the company's strategy, market place, management.
 Negative – N+1 Brewin 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

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