

## IndigoVision Group (IND LN)

Technology

Current price\* 178p

**CORPORATE**

### Interim results confirm H1 profitability

14 August 2019

**H1'19 results confirm the positive top-line momentum highlighted in the recent trading update. A fourth consecutive period of top-line growth saw revenues reach \$24.1m (+8% y/y), with the seasonally weaker H1 profitable for the first time since 2014. A diversified supply chain has enabled partial tariff-free access to the key US market, supporting 15% top-line growth in North America. Net cash rose \$0.8m to \$2.8m supported by the return to profitability, with liquidity further improved by a new 3-year \$10.0m debt facility providing additional working capital capacity and M&A optionality. Valuation at 7.3x P/E looks attractive, with significant potential medium-term growth opportunities available.**

#### Revenue growth driven by core markets

Total revenues for H1 19 reached \$24.1m (H1 18: \$22.2m), rising 8% y/y, driven by strong performance in core markets. APAC and North American sales increased by 31% and 15% y/y respectively, whilst EMEA region sales were in-line with the same period last year. North American growth looks strong against the backdrop of the US enactment of the National Defence Authorisation Act (NDAA) placing restrictions on certain manufacturers' hardware. This reflects work to improve supply chain partnerships and flexibility.

#### Profitability returns in H1

The group delivered positive operating profit of \$0.4m (H1 18: \$1.1m loss) in the seasonally weaker first half for the first time since 2014. This milestone was achieved through a mix of improved top-line and lower overheads, which fell by 4% (pre-FX) to \$13.3m in the period. Net cash of \$2.8m represents a \$0.8m increase from the end of 2018, and reflects both the return to profitability and the receipt of UK tax credits.

#### New credit facility strengthens balance sheet

The group has announced a new three-year asset based debt facility of \$10.0m with FGI Worldwide LLC. The new facility strengthens the group's balance sheet, providing it with additional working capital capacity, as well as improving the group's ability to acquire complimentary technology should the opportunity arise. At the end of H1 19 the group had no debt on its balance sheet.

#### Valuation looks attractive, buy-backs to recommence

We make no adjustments to our forecasts, with trading to date in-line with expectations and an H2 weighting expected as in previous years. A valuation of below 0.3x EV/2019E sales or 7.3x P/2019E EPS looks compelling given the high operational leverage inherent within the business and continued positive top-line momentum. Given the attractive valuation level, the board has signalled its intention to deploy a proportion of existing and future cash resources in retiring equity through a buy-back scheme.

#### Financials and valuations\*\*

Year end Dec	2015	2016	2017	2018	2019E
Revenue (\$m)	47.1	45.9	42.1	46.0	52.0
EBITDA (adj.) (\$m)	0.4	1.3	-1.6	0.2	2.9
PBT (adj.) (\$m)	-0.8	0.4	-2.4	-0.6	2.0
EPS (Adj., FD) (¢)	0.0	9.0	-29.6	-4.1	29.3
Consensus EPS (¢)	-	-	27.8	-4.2	31.1
DPS (¢)	2.5	3.0	0.0	0.0	0.0
Net cash/(debt) (\$m)	2.8	6.2	2.6	2.0	2.0
EV/EBITDA (x)	35.0	7.8	n/m	57.1	4.8
P/E (x)	n/m	23.9	n/m	n/m	7.3
Dividend yield (%)	1.2	1.4	0.0	0.0	0.0

\* Price as at COB 13/08/2019. \*\* Sources: N+1 Singer, Company accounts, FactSet

#### Key data

2019E dividend (%)	0.0
Forecast sensitivity	3
Fundamental view	Positive
Market cap (£m)	13
Enterprise value (£m)	12
Shares in issue (m)	8
Free float (%)	50
Avg. daily volume (000)	2

**Next event:** Trading Update (est)  
Jan 2020

	1m	3m	12m
Absolute %	2.9	-0.8	72.3
Rel. market %	6.4	-1.5	83.0
Rel. sector %	-	-	-

#### Share price chart



#### Contributing Analyst



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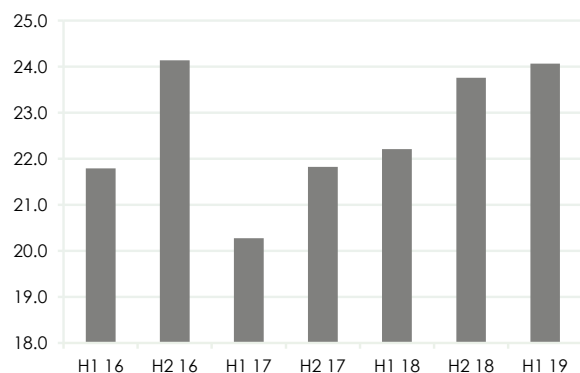
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### Interim results

Management successfully delivered a fourth consecutive half year period of top-line sequential growth, underpinned by strong performance in the APAC and North American regions in particular. Positive top-line momentum and strong cost control efforts saw operating profit swing to positive for the first time in four years:

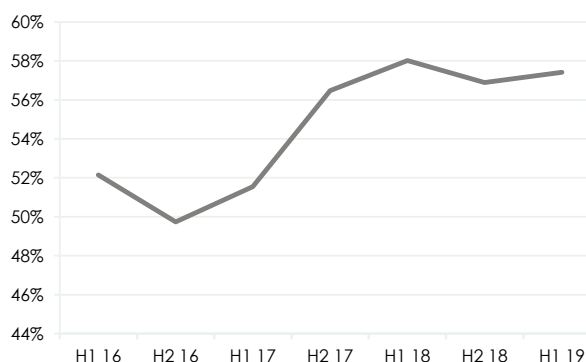
- Revenues increased +8% y/y to \$24.1m (\$22.2m) supported by APAC (+31%) and North American (+15%) sales growth. EMEA revenues were broadly in-line with last year. LATAM sales were impacted by timing of certain city surveillance projects as well as pricing pressure in the region.
- Gross margins fell by 60bps y/y, however were in-line with FY'18 margins at 57.4% and were 50bps up sequentially versus H2'18. Overheads (pre-FX) were \$13.3m for the period, down 4% y/y on cost rationalisation efforts undertaken by management including a headcount reduction and restructure.

**Figure 1: Revenue (\$'m)**



Sources: Company data, N+1 Singer estimates

**Figure 2: Gross profit margins (%)**



Sources: Company data, N+1 Singer estimates

- Operating profit of \$0.4m was reported for H1'19, representing the first profitable H1 period since 2014. H1 profits were reported after \$0.1m of SBP relating to the 2018 management LTIP not present in the corresponding period last year, and a \$0.1m FX loss (H1'18: \$nil).
- Net cash of \$2.8m at 30 June 2019 represented an improvement from the \$2.0m present at 31 December 2018, and reflected the return to H1 profitability and UK R&D tax credit receipts.

**Figure 3: Financial performance (\$'m)**

	H1 17	H2 17	H1 18	H2 18	H1 19	Comments
<b>Revenues</b>	<b>20.3</b>	<b>21.8</b>	<b>22.2</b>	<b>23.8</b>	<b>24.1</b>	<b>4<sup>th</sup> sequential period of growth</b>
Gross profit	10.5	12.3	12.9	13.5	13.8	
Margin	51.5%	56.5%	58.0%	56.9%	57.4%	
<b>EBITDA (pre-IFRS 16)</b>	<b>-0.3</b>	<b>-1.2</b>	<b>-0.6</b>	<b>0.9</b>	<b>0.9</b>	<b>Strong cost control supporting y/y growth</b>
Margin	-1.5%	-5.6%	-2.8%	3.8%	3.9%	
Operating profit (pre-IFRS 16)	-0.7	-1.7	-1.1	0.4	0.4	H1 profit for first time since 2014
<b>Reported EPS (pence)</b>	<b>-9.2</b>	<b>-20.3</b>	<b>-14.3</b>	<b>10.2</b>	<b>6.2</b>	<b>Earnings momentum building</b>

Sources: Company data, N+1 Singer estimates

### **Supply chain restructuring and Ultra X camera launch**

The group completed the majority of its planned supply chain restructuring in H1, increasing the amount of products sourced from Mexico and currently enabling tariff-free access to the key US market for certain camera models. The US-China tariff situation remains dynamic, however the group has taken various steps in order to diversify its supply chain and reduce reliance on specific hardware providers. Management also launched the NDAA 2019 compliant Ultra X Camera series in H1 19. Continued strong top-line growth from the North American region (+15% y/y) suggests near-term disruption has been minimised although we note the tariff regulatory environment remains unpredictable.

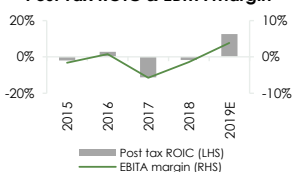
### **Outlook and impact to forecasts**

We are leaving our forecasts unchanged. Current trading is in-line with expectations for FY'19E, with H2 seasonally stronger than H1, albeit the precise timing of customer orders remains difficult to predict. Operational gearing is high, and if management are able to continue to execute successfully in driving sales growth in core markets, the potential for strong earnings growth is clear. The targets laid out under management incentivisation schemes for EPS give investors an indication of the growth potential in the business, with maximum management FY'21 pay-out set at c.3x our FY'19E EPS forecast. Our explicit forecasts do not extend out this far, however if management are able to deliver even 50% of this growth, upside potential to investors is significant from current levels.

### Summary financials\* & Key data

Income statement**	2015	2016	2017	2018	2019E	Enterprise value**	2015	2016	2017	2018	2019E
<b>Revenue</b>	<b>47.1</b>	<b>45.9</b>	<b>42.1</b>	<b>46.0</b>	<b>52.0</b>	Market cap	16.1	16.1	16.1	16.1	16.1
<b>EBITDA (adj.)</b>	<b>0.4</b>	<b>1.3</b>	<b>-1.6</b>	<b>0.2</b>	<b>2.9</b>	Net debt/(cash)	-2.8	-6.2	-2.6	-2.0	-2.0
Dep. & amort. (ex acq'd intangibles)	-1.1	-0.9	-0.9	-0.9	-0.9	Pension deficit	0.0	0.0	0.0	0.0	0.0
<b>EBITA (adj.)</b>	<b>-0.7</b>	<b>0.4</b>	<b>-2.4</b>	<b>-0.6</b>	<b>2.0</b>	Minorities/investments/other	0.0	0.0	0.0	0.0	0.0
JVs, associates & other income	0.0	0.0	0.0	0.0	0.0	<b>Enterprise value</b>	<b>13.3</b>	<b>9.9</b>	<b>13.5</b>	<b>14.0</b>	<b>14.0</b>
Net interest	-0.0	0.0	0.0	0.0	0.0	<b>Valuation (current price)**</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019E</b>
IAS 19 pension	0.0	0.0	0.0	0.0	0.0	EV/sales (x)	0.3	0.2	0.3	0.3	0.3
<b>PBT (adj.) *</b>	<b>-0.8</b>	<b>0.4</b>	<b>-2.4</b>	<b>-0.6</b>	<b>2.0</b>	EV/EBITDA (x)	35.0	7.8	n/m	57.1	4.8
Amort. of acquired intangibles	0.0	0.0	0.0	0.0	0.0	EV/EBITA (x)	n/m	27.6	n/m	n/m	7.0
Exceptionals	0.0	0.0	0.0	0.0	0.0	EV/NOPAT (x)	n/m	14.7	n/m	n/m	6.4
<b>PBT (IFRS)</b>	<b>-0.8</b>	<b>0.4</b>	<b>-2.4</b>	<b>-0.6</b>	<b>2.0</b>	P/E (x)	n/m	23.9	n/m	n/m	7.3
Tax (adj.)	0.3	0.3	0.2	0.3	0.2	Dividend yield (%)	1.2	1.4	0.0	0.0	0.0
Tax rate (adj.) %	35.7	-87.3	8.5	52.7	-10.0	FCF yield (%)	483.2	3,450.9	-1,402.0	-412.2	0.0
Minorities & other	0.0	0.0	0.0	0.0	0.0	P/B (x)	0.0	0.0	0.0	0.0	0.0
<b>Net income (adj.)</b>	<b>-0.5</b>	<b>0.7</b>	<b>-2.2</b>	<b>-0.3</b>	<b>2.2</b>	<b>Growth rates (adj.)**</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019E</b>
<b>EPS (adj., FD, €)</b>	<b>0.0</b>	<b>9.0</b>	<b>-29.6</b>	<b>-4.1</b>	<b>29.3</b>	Revenue (%)	-42.9	-2.5	-8.3	9.2	13.1
EPS (reported, basic) (€)	-6.5	-37.3	-34.9	-4.1	29.3	EBITDA (%)	-93.2	232.0	n/m	n/m	1,078.9
<b>DPS (€)</b>	<b>2.5</b>	<b>3.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	EBITA (%)	n/m	n/m	n/m	n/m	n/m
Avg no. of shares - basic (m)	7.5	7.5	7.4	7.4	7.5	PBT (%)	n/m	n/m	n/m	n/m	n/m
Avg no. of shares - diluted (m)	7.5	7.5	7.4	7.4	7.5	EPS (%)	-100.0	72,348.4	n/m	n/m	n/m
<b>Cash flow**</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019E</b>	DPS (%)	-85.3	20.0	n/m	-	-
EBITA (adj.)	-0.7	0.4	-2.4	-0.6	2.0	FCFPS (%)	-79.9	614.2	n/m	n/m	n/m
Depreciation & amortisation	1.1	0.9	0.9	0.9	0.9	NAV (%)	-6.3	-15.2	-14.4	-2.6	0.0
Change in working capital	1.0	4.2	0.6	-0.7	-2.4	<b>Margins/returns**</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019E</b>
Exceptional items	0.0	0.0	0.0	0.0	0.0	EBITDA margin (%)	0.8	2.8	-3.7	0.5	5.6
Other cash & non-cash movements	0.0	0.0	0.0	0.0	0.0	EBITA margin (%)	-1.6	0.8	-5.7	-1.4	3.8
<b>Operating cash flow</b>	<b>1.4</b>	<b>5.5</b>	<b>-0.9</b>	<b>-0.5</b>	<b>0.5</b>	PBT margin (%)	-1.6	0.8	-5.7	-1.4	3.8
Net interest	-0.0	0.0	0.0	0.0	0.0	ROE (%)	-2.1	3.4	-12.8	-1.8	13.3
Tax	0.2	0.7	0.2	0.2	0.2	ROCE (%)	-2.0	3.1	-12.0	-1.7	12.6
<b>Cash flow from operations</b>	<b>1.6</b>	<b>6.2</b>	<b>-0.7</b>	<b>-0.2</b>	<b>0.7</b>	<b>Ratios**</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019E</b>
Net capex	-0.8	-0.7	-1.5	-0.4	-0.7	Interest cover (x)	n/m	n/m	201.7	640.0	n/m
JV/minority dividends	0.0	0.0	0.0	0.0	0.0	Dividend cover (x)	0.0	3.0	n/m	n/m	n/m
<b>Free cash flow</b>	<b>0.8</b>	<b>5.5</b>	<b>-2.2</b>	<b>-0.7</b>	<b>0.0</b>	NWC/revenue (%)	30.6	23.6	25.8	25.9	27.5
Acquisitions/disposals	0.0	0.0	0.0	0.0	0.0	Cash conversion (%)	-159.9	823.1	101.4	215.9	0.0
Net share issues	0.0	0.0	-0.3	0.0	0.0	Net debt/EBITDA (x)	n/m	n/m	1.6	n/m	n/m
Dividends	-0.6	-0.3	-0.3	0.0	0.0	Gearing (%)	n/m	n/m	n/m	n/m	n/m
FX/other	-0.6	-1.8	-0.8	0.1	0.0	<b>Company description</b>	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 centres, ports, mines, road and rail systems, education, banking, casinos, prisons, government and military.				
<b>Change in net cash (debt)</b>	<b>0.2</b>	<b>3.4</b>	<b>-3.6</b>	<b>-0.5</b>	<b>0.0</b>						
<b>Net cash/(debt)</b>	<b>2.8</b>	<b>6.2</b>	<b>2.6</b>	<b>2.0</b>	<b>2.0</b>						
FCFPS - FD (€)	1,035.4	7,394.3	-3,004.0	-883.3	0.0						
<b>Balance Sheet**</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019E</b>						
Property, plant & equipment	1.4	1.2	1.5	1.0	0.8						
Intangible assets	0.1	0.0	0.4	0.4	0.4						
Inv., JVs & other non-curr. assets	4.9	1.7	1.8	1.7	2.0						
Net working capital	14.4	10.9	10.9	11.9	14.3						
Cash & cash equivalents	2.8	6.2	2.6	2.0	4.0						
Borrowings	0.0	0.0	0.0	0.0	0.0						
Other assets/liabilities	-0.2	-0.2	-0.2	-0.5	-0.5						
<b>Net assets</b>	<b>23.3</b>	<b>19.8</b>	<b>16.9</b>	<b>16.5</b>	<b>16.5</b>						
Minorities	0.0	0.0	0.0	1.0	1.0						
<b>Shareholders' equity</b>	<b>23.3</b>	<b>19.8</b>	<b>17.2</b>	<b>17.5</b>	<b>17.5</b>						
NAV per share (€)	31,232.1	26,462.5	23,159.9	23,702.4	23,284.5						

### Post Tax ROIC & EBITA Margin



### Shareholders (%)

New Pistoia Income Ltd.	27.6	GYLLENHAMMAR PETER JAN PATRICK VALENTIN	3.0
FARMILOE RICHARD WINSTON	6.7	KNEEN MARCUS	2.9
Rathbone Investment Management Ltd.	5.7	Quilter Cheviot Ltd.	2.8
GROSSART HAMISH MCLEOD	5.6	Alliance Trust Savings Ltd. (Private Ban	2.1
Church House Investments Ltd.	3.8	Hargreaves Lansdown Stockbrokers Ltd.	2.0

\*In certain instances PBT (adj.) excludes IAS-19 to avoid distortions. \*\*Year end Dec. All sources: N+1 Singer, Company accounts, FactSet

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#### Recommendation / Shares outstanding (m) / Target price

##### IndigoVision Group (GBP)

Date	Rec	Shares	TP
As of 14-Aug-18	Corporate	8	

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