

IndigoVision Group: CORPORATE

Morning Comment, CP 333p, Market Cap £25m

Progressing Well

Interim Results

Sales in the six months to 31 January 2013 increased to £16.1m, 11% ahead of H1 2012 and the highest recorded by IndigoVision in any half year. There was an improving trend with sales up 6% in Q1 and 15% in Q2, building on the 5% growth achieved in FY12. Q3 is also said to have begun well, comfortably ahead of the prior year. As we discussed at the time of the AGM, the mix of business in H1 has led to a lower gross margin of 54.2% compared to the very strong 60.0% last year. Again, as highlighted previously, overheads rose in H1 by 10%, reflecting increased investment in terms of R&D, sales and engineering resource with the target of delivering market rates of growth. The lower gross margins and overhead investment led to a fall in operating profit to £0.93m (H1 2012: £1.30m). Diluted EPS was 10.5p (H1 2012: 12.7p). The interim dividend was proposed at 5.5p, an increase of 10% on last year. The £5.6m special dividend was paid in November 2012, therefore net cash at the half year fell to £0.9m in line with management's expectations.

Impact on Earnings & Valuation

We are retaining our forecasts for 2013 and 2014. 2013 forecasts assume a strong H2 profitability weighting (27:73). However, the recent progression in sales and continuing momentum in Q3 points to a much stronger H2 and whilst mix and timing of large contracts may have an effect, we are comfortable with our forecasts at this stage.

N+1 Singer View

A solid set of results, which confirms strong progress in both sales and business development since the time of the AGM. Q2 sales growth of 15% was significantly better than Q1 (6%), and Q3 has started well with sales comfortably ahead of last year. Indications are positive of the impact of new products (e.g. new cameras for lower price point projects and a new High Definition fixed dome camera range), with several already contributing. The product mix and extra investment in sales, R&D and engineering resource has reduced margins but momentum is positive and we expect sales growth to offset this and lead to a stronger H2. As ever, IndigoVision will be subject to some lumpy business, but the growth potential is clear; the investment appears to be having an impact and we continue to see value at these levels.

Year End Jul.	2011	2012	2013E	2014E
Revenue (£m)	28.9	30.3	32.4	33.7
EBITDA (Adj.) (£m)	1.5	3.0	3.7	4.1
PBT (Adj.) (£m)	1.2	2.7	3.4	3.7
EPS (Adj., FD) (p)	8.1	25.0	32.7	35.6
Consensus EPS (p)	-	-	32.7	35.6
DPS (p)	7.5	80.0	12.0	14.0
Net Cash/(Debt) (£m)	5.1	6.1	2.8	4.9
EV/EBITDA (x)	13.4	6.3	6.0	5.0
P/E (x)	40.9	13.3	10.2	9.3
Dividend Yield (%)	2.3	24.1	3.6	4.2
FCF Yield (%)	5.5	7.6	11.7	12.5

Source: N+1 Singer, Company Accounts and FactSet Estimates

**forecasts prior to any potential or indicated changes (see above text)*

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