

IndigoVision Group (IND LN)

Full Year Results

CORPORATE

IT Hardware

Current price*: 173p Mkt cap (£m): 13

02 March 2017

Strong H2 performance

N+1 Singer view

As indicated in December, H2 was profitable (\$0.63m) which generated a full year profit of \$0.4m. The Group has successfully countered falling prices in the market with strong unit growth in cameras, software and encoders, thereby maintaining margins. The balance sheet also remains very strong with net cash of c.\$6.2m at the year end. The outlook for the new product ranges is positive and management will now look to generate steady performance improvements in coming periods. We look forward to further updates as the year progresses.

Final results

As reported in the December trading update, H2 saw an improvement in terms of higher revenue and overall profitability which led to a profitable outcome for the year as a whole. Underlying operating profit was \$0.4m, which represents a substantial improvement over the 2015 full year operating loss of \$0.7m. Activity was below our start of year expectations but software licences, cameras and encoders all saw sales growth of more than 25%. These sales were at lower price points, but gross margins were broadly maintained (50.9% v 51.4%) thanks in part to the outsourced hardware strategy. Overheads have remained well controlled and at \$23.2m are 7% lower than in FY15. Adjusted EPS (pre-deferred tax adjustment mentioned below) was 9.0c (FY15: 0.0c). The final dividend of 3.0p was 20% higher than last year and in line with our forecast.

Net cash grew strongly from \$2.8m to \$6.2m thanks primarily to an excellent working capital performance, which generated an inflow of \$4.2m. We would expect some of that to reverse as anticipated activity increases throughout FY17, but still expect a healthy cash position at the end of FY17 (\$5.0m).

As we have discussed previously, the Group has re-evaluated the likelihood of fully utilising its tax losses over the medium term. Due to uncertainty as to the time horizon for realisation of these losses, the carrying value of the deferred tax asset has been reduced by \$3.19m to \$1.69m. This non cash reduction has been charged to the P&L in 2016 but the Board continues to expect that the Group will not pay cash tax in the foreseeable future. As part of this balance sheet review by the new FD, an exceptional bad debt provision of \$0.3m has also been recognised dating back to 2014.

Impact on earnings & valuation

We make no change to our FY17 PBT forecast, but we have increased EPS from 20.3c to 24.0c reflecting an expectation of further tax credits. We expect a similar trend in FY17 to that in FY16, i.e. performance building throughout the year to give an H2 weighting. With this in mind we assume a final dividend only in FY17 and FY18 (4.0p and 5.0p respectively) but clearly this will be dependent on the Board's view of trading at the time.

Our maiden FY18 forecasts show PBT growth of 47% to \$2.2m.

Financials and valuations**

Year end Dec	2014 [^]	2015	2016	2017E	2018E
Revenue (\$m)	82.5	47.1	45.9	50.0	52.0
EBITDA (adj.) (\$m)	5.6	0.4	1.3	2.5	3.2
PBT (adj.) (\$m)	4.3	-0.8	0.4	1.5	2.2
EPS (Adj., FD) (¢)	60.5	0.0	9.0	24.0	33.4
Consensus EPS (¢)	-	-	4.3	20.3	-
DPS (pence)	17.0	2.5	3.0	4.0	5.0
Net cash/(debt) (\$m)	2.6	2.8	6.2	5.0	5.8
EV/EBITDA (x)	-	35.6	8.0	4.5	3.2
P/E (x)	-	-	23.9	8.9	6.4
Dividend yield (%)	9.8	1.4	1.7	2.3	2.9

[^]17 month period

* Price as at COB 01/03/2017. ** Sources: N+1 Singer, Company accounts, FactSet

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Stock ratings

Recommendation / Shares outstanding (m) / Target price

IndigoVision Group (GBP)

Date	Rec	Shares	TP
As of 02-Mar-16	Corporate	8	

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