

IndigoVision Group (IND LN)

Company Update

CORPORATE

IT Hardware

Current price*: 156p

Mkt cap (£m): 12

02 December 2016

H2 profitability; forecasts reduced

N+1 Singer view

The return to profitability in H2 and for the year as a whole is encouraging, albeit activity levels have been lower than our expectations. We have reduced FY16 PBT from \$2.0m to \$0.3m but would note that the balance sheet remains very strong with net cash of c.\$4.5m expected at the year end. We await more details of the outlook for the new product ranges and for FY17 in general with the final results in early 2017.

Trading update

A trading update from IND reports that H2 saw an improvement in terms of higher revenue and overall profitability which will lead to a profitable outcome for the year as a whole. Activity has been below our expectations but encouragingly camera unit sales remain strong (up 20%), although at lower price points, but gross margins have been maintained thanks to the outsourced hardware strategy. Overheads have remained well controlled and are materially lower than in FY15.

Thanks to this 'IndigoVision is trading profitably in the second half, after losses in the first half, and expects to report a profitable outcome for the year to 31 December 2016 as a whole. This would represent a substantial improvement over the 2015 full year operating loss of \$0.7m'. We take this to mean that a small profit will be generated for the year and reduce our forecasts accordingly (see below), but again, await more detail with the finals in 2017.

Net cash will be ahead of last year (\$2.8m) with the working capital benefits from H1 being maintained in H2.

It is also worth noting that, at the interims, management reported that the Group intends to re-evaluate the likelihood of fully utilising its tax losses over the medium term when preparing its 2016 annual financial statements. This could have a non cash impact on the tax charge, but the Board continues to expect that the Group will not pay cash tax in the foreseeable future. We expect more details with the finals.

Impact on earnings & valuation

We have reduced our forecast PBT for FY16 from \$2.0m to \$0.3m reflecting a better H2 but with less activity than anticipated. We also reduce FY17 PBT from \$3.0m to \$1.5m but will refine this further when we have more detail at the finals in early 2017. The retention of much of the working capital benefit obtained in H1 leads us to keep a strong net cash forecast of \$4.5m at the end of FY16.

Financials and valuations**

Year end Dec	2013	2014 [^]	2015	2016E	2017E
Revenue (\$m)	50.1	82.5	47.1	45.5	48.5
EBITDA (adj.) (\$m)	3.8	5.6	0.4	1.3	2.5
PBT (adj.) (\$m)	3.3	4.3	-0.8	0.3	1.5
EPS (Adj., FD) (¢)	36.3	60.5	-6.5	3.9	20.3
Consensus EPS (¢)	-	-	-9.9	28.6	40.2
DPS (pence)	11.0	17.0	2.5	3.0	6.0
Net cash/(debt) (\$m)	1.3	2.6	2.8	4.5	5.1
EV/EBITDA (x)			32.0	8.0	3.9
P/E (x)			n/m	50.1	9.7
Dividend yield (%)			1.9	1.9	3.8

[^] 17 month period

* Price as at COB 01/12/2016. ** 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-Dec-15	Corporate	8	

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