

IndigoVision Group (IND LN)

Full Year Results

CORPORATE

IT Hardware

Current price*: 170p

Mkt cap (£m): 13

03 March 2016

H2 return to profitability; management actions continue

N+1 Singer view

The return to profitability in H2 was encouraging, albeit tempered by some contract delays. As we said in January, importantly, the balance sheet has strengthened markedly with net cash of \$2.8m comfortably exceeding our then expectation of \$0.5m net debt. Given the investment and restructuring in the US, we expect an H2 weighting and have reduced our expectations for FY16 PBT from \$3.0m to \$2.0m. We look forward to further updates on the management improvement plans as the year progresses.

Final Results

Results are in line with expectations which were rebased upon the December trading update with sales of \$47.1m and an operating loss of \$0.74m, implying an H2 profit of \$0.5m. Gross margins were 51.4% reflecting some pricing pressure and a decline in sales of encoder and mid market camera ranges. Overheads were reduced to \$25.0m (2014 proforma: \$30.3m) in line with the reduced activity. The H2 improvement came after management implemented a number of initiatives to restore growth and profitability. More actions are being implemented in H1, particularly in the US which are expected to benefit H2 and beyond. Net cash at the year end was \$2.8m, thanks to strong working capital management. A final dividend of 2.5p has been proposed.

Regionally, EMEA is the Group's largest region (Sales \$19.5m; 2014 proforma: \$20.2m); the UK did well thanks to police and utilities end markets but this was offset by Middle Eastern project delays and subdued mainland Europe activity.

North America saw sales of \$13.9m (2014 proforma: \$16.8m) affected by reduced oil shale related activity in Canada and subdued US activity. The US will be a key focus in FY16, management has been changed and strengthened, warehousing has been outsourced and the base has been relocated.

Sales in Latin America were \$8.8m (2014 proforma: \$11.1m) and showed some signs of recovery after a tough period with a number of new surveillance project wins in Colombia. Asia Pacific had a particularly tough year; sales of \$5.0m (2014 proforma: \$10.5m) reflected larger projects from the prior period not being replicated and mining related declines in Australia. Again, management has been changed and strengthened.

Pricing across the product range was reduced during the year due to market conditions and the Group also launched a low cost camera range. The Group's video management software, Control Center, was upgraded to integrate with FrontLine, IndigoVision's body worn camera offering. Storage continues to grow as a percentage of the total system sale, and the Group's storage range was also expanded to include Linux devices, alongside existing Windows models.

The start to 2016 has seen slightly better sales performance and a better order book, with an expectation of further improvement as the year progresses.

Impact on earnings & valuation

We have reduced our FY16 PBT forecast from \$3.0m to \$2.0m reflecting the restructuring investment being made, particularly in the US.

Our maiden FY17 forecasts show PBT growth of 50% to \$3.0m but we will receive more clarity on this as FY16 progresses.

Financials and valuations**

Year end Dec	2013	2014 [^]	2015	2016E	2017E
Revenue (\$m)	50.1	82.5	47.1	50.0	53.0
EBITDA (adj.) (\$m)	3.8	5.6	0.4	3.2	4.2
PBT (adj.) (\$m)	3.3	4.3	-0.8	2.0	3.0
EPS (Adj., FD) (¢)	36.3	60.5	-6.5	26.5	40.2
DPS (pence)	11.0	17.0	2.5	5.0	7.5
Net cash/(debt) (\$m)	1.3	2.6	2.8	4.0	5.6
EV/EBITDA (x)			39.5	4.4	2.9
P/E (x)			-	9.0	5.9
Dividend yield (%)			1.5	2.9	4.4

[^] 17 month period

* Price as at COB 02/03/2016. ** 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 03-Mar-15	Corporate	8	

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