

## IndigoVision Group (IND LN)

### Company Update

### CORPORATE

#### IT Hardware

Current price\*: 195p      Mkt cap (£m): 15

06 January 2016

### Lower sales but returning to profitability

#### N+1 Singer view

The return to profitability is encouraging, albeit the delay in a Middle Eastern project has tempered the H2 performance as reflected in our forecasts below. Importantly, the balance sheet has strengthened markedly with net cash of over \$2.0m comfortably exceeding our expectation of \$0.5m net debt. We retain our expectations for FY16 at this stage, with the rate of improvement encouraging and the Middle Eastern contract still pending, and await more detail on trading with the finals in March.

#### Trading update

Last week's trading update stated that, as expected, H2 had seen an improvement in trading and a return to profitability, assisted by earlier management cost reduction initiatives. Sales were, however, lower than anticipated in H2, largely due to a delay in a Middle Eastern project, meaning that profitability will be lower than our expectations. Operating profits are expected to exceed \$0.5m in H2 following the H1 operating loss of \$1.3m. The H1 sales decline of 29% slowed to c.18% in H2.

Focused working capital management has meant that net cash is significantly better than expected; the year end balance of net cash was expected to exceed \$2.0m compared to our forecast of net debt of \$0.5m.

Full year results are expected to be announced on 3<sup>rd</sup> March.

#### Impact on earnings & valuation

We have assumed H2 profitability of \$0.6m and have therefore reduced FY15 forecasts from PBT of \$0.5m to \$(0.7)m (EPS from 6.2c to (9.3)c). In FY16, we retain our expectations at this stage, with the H1:H2 rate of improvement encouraging and the Middle Eastern contract still pending, and await more detail on trading with the finals in March.

We assume a strong improvement in cashflow and move from our previous expectation of year end net debt of \$0.5m to net cash of \$2.5m; and on the retained FY16 forecasts, we expect net cash to improve further in FY16 to \$3.8m. Given this balance sheet strength, we retain the FY15 final dividend expectation of 5.0p.

#### Financials and valuations\*\*

Year end Dec	2013	2014 <sup>^</sup>	2015E	2016E
Revenue (\$m)	50.1	82.5	47.0	52.0
EBITDA (adj.) (\$m)	3.8	5.6	0.2	4.1
PBT (adj.) (\$m)	3.3	4.3	-0.7	3.0
EPS (Adj., FD) (¢)	36.3	60.5	-9.3	37.9
Consensus EPS (¢)	-	-	6.4	37.7
DPS (pence)	11.0	17.0	5.0	12.0
Net cash/(debt) (\$m)	1.3	2.6	2.5	3.8
EV/EBITDA (x)			96.1	4.4
P/E (x)			n/m	7.5
Dividend yield (%)			2.5	6.2

<sup>^</sup> 17 month period

\* Price as at COB 05/01/2016. \*\* Sources: N+1 Singer, Company accounts, FactSet

#### For further details contact: Jon Lienard

+44 (0) 19 1500 8879,      Jon.Lienard@N1Singer.com

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### Stock ratings

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

##### IndigoVision Group (GBP)

Date	Rec	Shares	TP
26-Feb-15	Corporate	8	
As of 06-Jan-15	Corporate	8	

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Nplus1 Singer Capital Markets Limited, One Bartholomew Lane, London, EC2N 2AX

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