

IndigoVision Group (IND LN)

Technology

Current price* 126p

CORPORATE

Return to profitability expected in FY19

FY18 results were well flagged in the year end update, with sales increasing 9%, underlying operating losses narrowing by \$1.8m to \$0.6m (2017: \$2.4m) and a significant cash outperformance (net cash of \$2.0m at the y/e). A change of leadership in 2017 is having a positive effect, with a high pace of internal change and momentum building throughout the Group. IndigoVision's performance is expected to improve further in FY19 and beyond. We expect a return to profitability in FY19, maintaining our PBT forecast at \$2.0m.

Losses reduced in FY18

FY18 results were well flagged in the year end update. Revenue increased by 9% to \$46.0m (2017: \$42.1m), with the gross margin improving by 3.4% to 57.4%. This margin improvement was driven primarily by increased software sales. Geographically, three of the four sales regions achieved growth vs. FY17, with sales in APAC up 45%, North America up 8% (key US market up 20%), EMEA up 5% and Latin America down 9%. Overall, the underlying operating loss narrowed to \$0.6m (2017: \$2.4m). The Group outperformed on net cash, which stood at \$2.0m at the period end (N+1SE: net debt of \$2.6m).

Board changes

Max Thowless-Reeves (previously a NED) will become Chairman with immediate effect. George Elliott will remain with the Group as a NED. Martin Pengelley (SID) will retire from the Board at the AGM. The Board expects to announce Martin's replacement shortly.

FY19 earnings forecasts maintained

We estimate FY19 revenue to grow by 13% to \$52.0m, a small reduction to our previous forecast of \$54.0m. We expect the gross margin to remain at current levels, with continued growth in software sales, improved warranty cost management and a shift towards more profitable geographic markets. We therefore maintain our FY19 PBT forecast at \$2.0m. Two risks are US-China trade relations and Brexit, but the Group is managing these by broadening its supply chain in order to manage these risks. We expect net cash to remain at \$2.0m in the year, vs. our previous net debt forecast of \$1.1m.

FY19 valuation undemanding

The shares trade on an FY19 P/E of 5.6x. If management delivers on forecasts, this looks undemanding. Losses narrowed in FY18 and management has put a number of measures in place, including significant Board, leadership and strategic changes, in order to deliver improved profitability. Given the stronger cash position, bolt-on acquisitions are also a possible value driver.

Financials and valuations**

Year end Dec	2015	2016	2017	2018	2019E
Revenue (\$m)	47.1	45.9	42.1	46.0	52.0
EBITDA (adj.) (\$m)	0.4	1.3	-1.6	0.2	2.9
PBT (adj.) (\$m)	-0.8	0.4	-2.4	-0.6	2.0
EPS (Adj., FD) (¢)	0.0	9.0	-29.6	-4.1	29.3
Consensus EPS (¢)	-	-	27.8	3.0	29.6
DPS (¢)	2.5	3.0	0.0	0.0	0.0
Net cash/(debt) (\$m)	2.8	6.2	2.6	2.0	2.0
EV/EBITDA (x)	25.3	4.9	n/m	42.1	3.6
P/E (x)	n/m	18.4	n/m	n/m	5.6
Dividend yield (%)	1.5	1.8	0.0	0.0	0.0

* Price as at COB 06/03/2019. ** Sources: N+1 Singer, Company accounts, FactSet

07 March 2019

Key data

2019E dividend (%)	0.0
Forecast sensitivity	3
Fundamental view	Positive
Market cap (£m)	9
Enterprise value (£m)	8
Shares in issue (m)	8
Free float (%)	50
Avg. daily volume (000)	7

Next event:

AGM			
01/05/2019			
	1m	3m	12m
Absolute %	0.0	9.1	-4.2
Rel. market %	-0.5	1.1	-4.2
Rel. sector %	-	-	-

Share price chart



Contributing Analyst



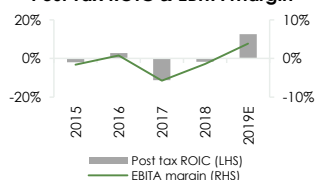
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Summary financials* & Key data											
Income statement**	2015	2016	2017	2018	2019E	Enterprise value**	2015	2016	2017	2018	2019E
Revenue	47.1	45.9	42.1	46.0	52.0	Market cap	12.4	12.4	12.4	12.4	12.4
EBITDA (adj.)	0.4	1.3	-1.6	0.2	2.9	Net debt/(cash)	-2.8	-6.2	-2.6	-2.0	-2.0
Dep. & amort. (ex acq'd intangibles)	-1.1	-0.9	-0.9	-0.9	-0.9	Pension deficit	0.0	0.0	0.0	0.0	0.0
EBITA (adj.)	-0.7	0.4	-2.4	-0.6	2.0	Minorities/investments/other	0.0	0.0	0.0	0.0	0.0
JVs, associates & other income	0.0	0.0	0.0	0.0	0.0	Enterprise value	9.6	6.2	9.8	10.4	10.4
Net interest	-0.0	0.0	0.0	0.0	0.0	Valuation (current price)**	2015	2016	2017	2018	2019E
IAS 19 pension	0.0	0.0	0.0	0.0	0.0	EV/sales (x)	0.2	0.1	0.2	0.2	0.2
PBT (adj.) *	-0.8	0.4	-2.4	-0.6	2.0	EV/EBITDA (x)	25.3	4.9	n/m	42.1	3.6
Amort. of acquired intangibles	0.0	0.0	0.0	0.0	0.0	EV/EBITA (x)	n/m	17.3	n/m	n/m	5.2
Exceptionals	0.0	0.0	0.0	0.0	0.0	EV/NOPAT (x)	n/m	9.2	n/m	n/m	4.7
PBT (IFRS)	-0.8	0.4	-2.4	-0.6	2.0	P/E (x)	n/m	18.4	n/m	n/m	5.6
Tax (adj.)	0.3	0.3	0.2	0.3	0.2	Dividend yield (%)	1.5	1.8	0.0	0.0	0.0
Tax rate (adj.) %	35.7	-87.3	8.5	52.7	-10.0	FCF yield (%)	627.3	4,480.0	-1,820.1	-535.2	0.0
Minorities & other	0.0	0.0	0.0	0.0	0.0	P/B (x)	0.0	0.0	0.0	0.0	0.0
Net income (adj.)	-0.5	0.7	-2.2	-0.3	2.2	Growth rates (adj.)**	2015	2016	2017	2018	2019E
EPS (adj., FD, ¢)	0.0	9.0	-29.6	-4.1	29.3	Revenue (%)	-42.9	-2.5	-8.3	9.2	13.1
EPS (reported, basic) (¢)	-6.5	-37.3	-34.9	-4.1	29.3	EBITDA (%)	-93.2	232.0	n/m	n/m	1,078.9
DPS (¢)	2.5	3.0	0.0	0.0	0.0	EBITA (%)	n/m	n/m	n/m	n/m	n/m
Avg no. of shares - basic (m)	7.5	7.5	7.4	7.4	7.5	PBT (%)	n/m	n/m	n/m	n/m	n/m
Avg no. of shares - diluted (m)	7.5	7.5	7.4	7.4	7.5	EPS (%)	-100.0	72,348.4	n/m	n/m	n/m
Cash flow**	2015	2016	2017	2018	2019E	DPS (%)	-85.3	20.0	n/m	-	-
EBITA (adj.)	-0.7	0.4	-2.4	-0.6	2.0	FCFPS (%)	-79.9	614.2	n/m	n/m	n/m
Depreciation & amortisation	1.1	0.9	0.9	0.9	0.9	NAV (%)	-6.3	-15.2	-14.4	-2.6	0.0
Change in working capital	1.0	4.2	0.6	-0.7	-2.4	Margins/returns**	2015	2016	2017	2018	2019E
Exceptional items	0.0	0.0	0.0	0.0	0.0	EBITDA margin (%)	0.8	2.8	-3.7	0.5	5.6
Other cash & non-cash movements	0.0	0.0	0.0	0.0	0.0	EBITA margin (%)	-1.6	0.8	-5.7	-1.4	3.8
Operating cash flow	1.4	5.5	-0.9	-0.5	0.5	PBT margin (%)	-1.6	0.8	-5.7	-1.4	3.8
Net interest	-0.0	0.0	0.0	0.0	0.0	ROE (%)	-2.1	3.4	-12.8	-1.8	13.3
Tax	0.2	0.7	0.2	0.2	0.2	ROCE (%)	-2.0	3.1	-12.0	-1.7	12.6
Cash flow from operations	1.6	6.2	-0.7	-0.2	0.7	Ratios**	2015	2016	2017	2018	2019E
Net capex	-0.8	-0.7	-1.5	-0.4	-0.7	Interest cover (x)	n/m	n/m	201.7	640.0	n/m
JV/minority dividends	0.0	0.0	0.0	0.0	0.0	Dividend cover (x)	0.0	3.0	n/m	n/m	n/m
Free cash flow	0.8	5.5	-2.2	-0.7	0.0	NWC/revenue (%)	30.6	23.6	25.8	25.9	27.5
Acquisitions/disposals	0.0	0.0	0.0	0.0	0.0	Cash conversion (%)	-159.9	823.1	101.4	215.9	0.0
Net share issues	0.0	0.0	-0.3	0.0	0.0	Net debt/EBITDA (x)	n/m	n/m	1.6	n/m	n/m
Dividends	-0.6	-0.3	-0.3	0.0	0.0	Gearing (%)	n/m	n/m	n/m	n/m	n/m
FX/other	-0.0	-1.8	-0.8	0.1	0.0	Company description	IndigoVision is a leading manufacturer of complete end-to-end IP video and alarm management solutions. IndigoVision is widely chosen for applications in airports, city centres, ports, mines, road and rail systems, education, banking, casinos, prisons, government and military.				
Change in net cash (debt)	0.2	3.4	-3.6	-0.5	0.0						
Net cash/(debt)	2.8	6.2	2.6	2.0	2.0						
FCFPS - FD (¢)	1,035.4	7,394.3	-3,004.0	-883.3	0.0						
Balance Sheet**	2015	2016	2017	2018	2019E						
Property, plant & equipment	1.4	1.2	1.5	1.0	0.8						
Intangible assets	0.1	0.0	0.4	0.4	0.4						
Inv., JVs & other non-curr. assets	4.9	1.7	1.8	1.7	2.0						
Net working capital	14.4	10.9	10.9	11.9	14.3						
Cash & cash equivalents	2.8	6.2	2.6	2.0	4.0						
Borrowings	0.0	0.0	0.0	0.0	0.0						
Other assets/liabilities	-0.2	-0.2	-0.2	-0.5	-5.0						
Net assets	23.3	19.8	16.9	16.5	16.5						
Minorities	0.0	0.0	0.0	1.0	1.0						
Shareholders' equity	23.3	19.8	17.2	17.5	17.5						
NAV per share (¢)	31,232.1	26,462.5	23,159.9	23,702.4	23,284.5						

Post Tax ROIC & EBITA Margin



Shareholders (%)

New Pistoia Income Ltd.	27.6	GYLLENHAMMAR PETER JAN PATRICK VALENTIN	3.0
FARMILOE RICHARD WINSTON	6.7	KNEEN MARCUS	2.9
Rathbone Investment Management Ltd.	5.7	Quilter Cheviot Ltd.	2.8
GROSSART HAMISH MCLEOD	5.6	Alliance Trust Savings Ltd. (Private Ban	2.1
Church House Investments Ltd.	3.8	Hargreaves Lansdown Stockbrokers Ltd.	2.0

*In certain instances PBT (adj.) excludes IAS-19 to avoid distortions. **Year end Dec. All 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 07-Mar-18	Corporate	8	

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