

## IndigoVision Group (IND LN)

### Interim Results

### CORPORATE

#### IT Hardware

Current price\*: 248p Mkt cap (£m): 19

6 October 2015

### Challenging H1; H2 improvement expected

#### N+1 Singer view

As indicated in April, IndigoVision has experienced a challenging first half which has led to an operating loss; we have reduced our forecasts to reflect the downturn in activity. Management reacted quickly with cost reductions, and H2 profit is expected to exceed the H1 loss thanks to this and a good order pipeline. Management is aiming to reduce lumpiness but this will take time and big projects remain a key element which, dependent upon timing, could yet drive a better result in H2 than is currently expected. Reduced activity has led to a net debt position (\$0.46m) at the half year and the interim dividend has been passed; a final dividend is expected to be paid given management's expectation of H2 improvement, and we expect a return to net cash in FY16.

#### Interim results

Sales of \$22.6m were down 29% with Asia Pacific and Latin America the main contributors to the poor performance. The gross margin fell to 52.8% from 55.6% reflecting product mix. Management reacted quickly to reduce overheads although R&D spend will be maintained at c.10% of sales. This resulted in an operating loss of \$1.26m of which \$0.23m was due to exchange. R&D tax credits/losses led to an income tax credit of \$0.34m and diluted loss per share of 12.3c.

The reduced activity and a stock build led to a net debt position at the half year of \$0.46m. As mentioned elsewhere, we expect an improved operational performance in H2, but with much of that activity to come in Q4, we expect year end net debt levels to be similar, before improving back to net cash in 2016 as working capital unwinds and performance improves. Given this position, the interim dividend has been passed; a final dividend is expected to be paid given management's expectation that H2 profitability will wipe out the H1 loss; the level of dividend is likely to depend on the level of earnings. We are forecasting a 5p final dividend.

During the period, major projects included Colombian safe cities, an Egyptian bank and a US casino.

#### Impact on earnings & valuation

We have reduced FY15 PBT by \$1.8m from \$2.3m to \$0.5m reflecting a much improved H2 result as indicated by management in the outlook statement. This improvement means that we retain our FY16 PBT forecast at \$3.0m; it will be refined as 2015 progresses and more clarity on the outlook is received.

#### Financials and valuations\*\*

Year end Dec	2013	2014▲	2015E	2016E
Revenue (\$m)	50.1	82.5	48.0	52.0
EBITDA (adj.) (\$m)	3.8	5.6	1.4	4.1
PBT (adj.) (\$m)	3.3	4.3	0.5	3.0
EPS (Adj., FD) (¢)	36.3	60.6	6.2	37.9
Consensus EPS (¢)	-	-	-	-
DPS (pence)	11.0	17.0	5.0	12.0
Net cash/(debt) (\$m)	1.3	2.6	-0.5	2.1
EV/EBITDA (x)			20.5	7.0
P/E (x)			39.3	6.4
Dividend yield (%)			2.1	4.9

*\* Price as at COB 15/09/2015. \*\* Sources: N+1 Singer, Company accounts, FactSet, ▲ 17 month period*

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