

Corporate #
18 November 2009

INTELEK

Data

Price (p)	15.5
Market Cap (£m)	13.54
Index	AIM
Sector	Tech - Hardware
Epic	ITK

Description

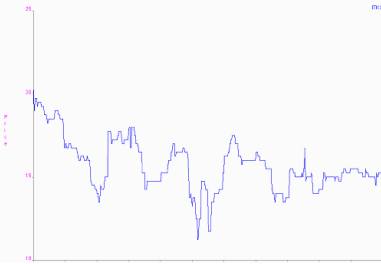
A leading supplier of communications equipment and a specialist manufacturer of aerostructures.

Prospective p/e: 4.7x

Prospective net yield: 3.0%

Net debt: £5.1m

Next results: June



12 Month High/Low: 17.75p/11.0p

KEY POINTS:

- **Resilient performance in tough trading conditions**
- **Improving prospects following a satisfactory Q2**
- **Sound financial structure with manageable debt**
- **Interim dividend held**
- **Long term strategy for growth remains intact**

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Interim results for the six months to 30 September have been released and although sales and underlying profit were both down year-on-year, the accompanying commentary and maintained interim dividend ensured that these were generally well received. Paradise Datacom, the Satellite Communications Equipment segment of the business, delivered a resilient performance on the back of government programmes. This partly made up for a tough time for CML as a result of reduced demand in the corporate jet market. Given its proven ability to cope with the current trading environment, Inteltek looks well positioned and has the comfort of a relatively strong balance sheet. It was pleasing to see that Q2 was much stronger than Q1 and all three divisions of the group showed improved performance in Q2. Hopes are high that this positive momentum can be maintained in the second half and the company looks to the future with justified confidence.

INTERIM RESULTS

In the six months ended 30 September 2009, group sales slipped to £16.9m (2008: £18.8m) and underlying profit before tax dropped from £2.0m a year earlier to £1.3m. Underlying earnings per share were 1.07p (2008:1.64p). The interim dividend was maintained at 0.165p and this will be paid on 20 January 2010, with the ex-dividend date due to be 16 December.

Paradise Datacom continued to benefit from regular orders on long term defence programmes with a reduced level of demand in the commercial market. However, some signs of recovery have been seen in the latter, with improvements in order volumes in Russia, South Asia and Latin America towards the end of H1. Further progress is anticipated in the second half and the order book has been maintained at \$4.6m.

At Labtech, sales and profit were broadly unchanged from 2008 levels. There is an ongoing shift away from the commodity telecoms sector towards specialist defence and communications companies, which should leave this segment of the business well positioned over the longer term and the order book is currently in good shape.

CML, the aerostructures division, saw sales slump from £7.1m to £5.1m and unsurprisingly operating profit fell sharply to just £0.35m (2008: £1.20m). Nevertheless, the military sector continues to offer opportunities and the order book stands at £6.9m.

Net debt at the period end was £5.1m (2008: £3.8m) although this position is expected to improve before the year end. It is also worth noting that interest cover has actually increased from 15 times in 2008 to 17 times. The net pension scheme deficit has held steady at £4.4m and net assets have remained broadly static at £17.4m (2008: £17.3m) although goodwill represents the bulk of this figure.

FOUR YEAR RESULTS AND FORECASTS

Year to 31 March	Turnover (£m)	Pre-tax Profit* (£m)	Earnings per share* (p)	P/E Ratio	Net Dividend (p)	Net Yield (%)
2007A	36.8	2.3	2.05	7.6	0.390	2.5
2008A	36.0	3.3	2.78	5.6	0.450	2.9
2009A	39.3	4.1	3.32	4.7	0.465	3.0
2010E	38.0	3.3	2.80	5.5	0.465	3.0

*underlying figures

ACTIVITIES

Intelek operates through three separate divisions as follows:- **i) Satellite Communications Equipment** (48.4% of H1 revenues; 81.0% of H1 operating profit) – this, the largest part of the group, comprises Paradise Datacom, which has historically operated from facilities in Witham, Essex and Pennsylvania, USA. Last year new engineering and sales offices were opened in Beijing, Bangkok and Phoenix, Arizona. The company produces a range of amplifier and modem products for use in the terrestrial segment of the satellite communications industry, such as those used in news trucks, on the back of satellite dishes and so on. One of the largest applications for satellite modems is to link GSM/cellular networks together via satellite in geographic areas not well served by terrestrial services. The business has recently expanded its range with the introduction of new products and initial deliveries of these have been made. **ii) Labtech Microwave** (21.4% of H1 revenues; 1.5% of H1 operating profit) - previously a commodity dominated microwave circuit board company, this is now a leading European-based designer and manufacturer of specialist microwave package products and solutions for the security, defence and communications markets worldwide. Its products are used in radar, warships and aircraft and defence is becoming increasingly important; **iii) CML Group** (30.2% of H1 revenues; 17.5% of H1 operating profit) - this supplies a range of components and parts to the aerospace industry in both metals and composite materials such as carbon fibre and Kevlar. These parts include nose and tail cone assemblies, interior panels and fittings, ducting and wing access panels and the largest customer of the business is Airbus, whilst it also supplies Hawker Beechcraft, GKN and BAE Systems. The company is expanding its strategically important composite operations as metals diminish in importance for both environmental and fuel efficiency reasons. The military sector continues to provide a good flow of orders on programmes such as the Joint Strike Fighter and C27J Spartan, while higher margin repair and overhaul business continues to be targeted.

PROSPECTS

With trading in Q2 being stronger than that in Q1, it is hoped that this positive momentum can be maintained for the rest of the current year. The group has performed resiliently in the recent past and a solid order book and the launch of new products suggest that H2 should demonstrate continuing progress. Looking at the three divisions, CML has the most ground to make up, but there are already sufficient orders in place to almost cover projected sales in H2. Paradise Datacom produced impressive figures in H1 and specific opportunities in the government sector should see growth in market share. At the end of the first half, Labtech had grown its order book by 70% from 12 months earlier and it is now addressing a more interesting space than when it addressed the commodity telecoms sector.

Over the longer term the company should be able to generate solid organic growth. The prospect of acquisitions also remains and the fact that this has again been mentioned suggests that the company genuinely believes that it can make further progress in the niche markets in which it operates.

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18 November 2009

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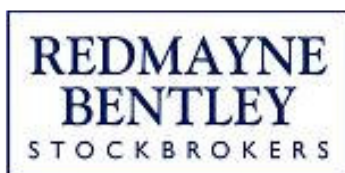
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Significant Shareholdings:

Rights & Issues Inv Trust - 20.0%
N Lewis - 6.5%
N L Mills - 5.7%
Framlington Inv Management - 5.6%
R Fletcher - 5.3%

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