ALTIUM SECURITIES

Flash Note

17 November 2009 Company Note > Technology

Core Recommendation

Intelek (ITK)*

BUY

Interims confirm encouraging progress after slow start

Intelek's H1 results to 30 September were broadly in line with expectations. They reveal underlying YoY revenue declines in each of the group's division as anticipated but encouraging progress towards the end of the half compared with a slow start to the year. The sequential improvement towards the end of the first half should give rise to better prospects for H2 and beyond. Furthermore, a solid order book and new product introductions in H2 bode well for the rest of the year. We reiterate our 20p price target and BUY recommendation.

- **Divisional details** Paradise Datacom, the group's leading satellite communications business and largest division, was once again the best performer although it was helped by currency movements in the period. Paradise has continued to benefit from regular orders on long term defence programmes and has also maintained its record of market share gains against some of its larger competitors. Labtech, the microwave components division, saw order book growth of 70% YoY and continued its transition away from the commodity telecoms sector. Finally, as previously signalled, the aerostructures division CML suffered from tough market conditions but a combination of early cost cuts and indications that the wider market is levelling off should ensure an improvement in H2.

- **No major change to estimates** We are leaving our full year estimates unchanged, with the exception of net debt, which increases from £3.0m to £3.5m as a result of an exceptional restructuring charge and a slightly higher than expected working capital outflow.

- **Still undervalued** We remain of the view that the satellite communication division Paradise Datacom is worth more than the current enterprise value of the group in its own right. Given the increased confidence in the outlook, we regard the valuation of less than 6x FY 2010E earnings and c.4x EV/EBITDA for the same year as too low. We remain BUYers.

Year to Mar	T/o £m	Adj PBT £m	Tax %	Adjusted EPS	PER x	Div p	Yield %	Net Cash	EV/ EBITDA
2008A	36.0	3.3	28.8	2.8	5.4	0.5	3.0	-3.9	4.3
2009A	39.3	4.1	31.1	3.3	4.5	0.5	3.1	-3.8	3.8
2010E	38.0	3.4	33.0	2.7	5.6	0.5	3.4	-3.5	4.2
2011E	39.8	4.0	33.0	3.1	4.8	0.6	3.8	-1.5	3.9
2012E	42.5	4.5	33.0	3.6	4.2	0.6	4.1	0.7	3.6

*Altium Capital acts as broker and advisor to this company.
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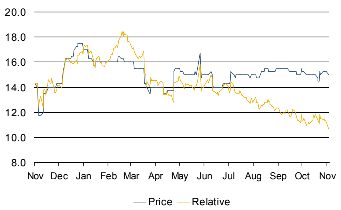
Key Data

Index	FTSE AIM
Price	15p
Market Cap	£12.7m
Target Price	20p
12 mth Price Range	12p - 18p
Avg Daily Volume	70,791
Free Float	100.0%
Next Newsflow	Update, March 2010
Website	www.intelek.plc.uk
Last Different Core Rec,	n/a

Price and Price Relative to FTSE All Share



%	1M	3M	12M
Actual	-1.6	+0.0	+5.3
Relative	-4.1	-12.1	-20.3

Source: Datastream

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Altium Securities Research - Recommendation Definition

With effect from 1 April 2009 Altium has adopted the recommendation structure summarised below. All views are predicated on a market neutral basis and the valuation approach(es) adopted in arriving at the recommendation are detailed within the research report.

Recommendation (12 months)	
BUY	10% or greater upside
HOLD	+10%/-10% variation
SELL	10% or greater downside