

Corporate #
25 November 2008

INTELEK

| Data | |
|-----------------|-----------------|
| Price (p) | 12 |
| Market Cap (£m) | 10.49 |
| Index | AIM |
| Sector | Tech - Hardware |
| Epic | ITK |

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

Prospective p/e: 3.8x

Prospective net yield: 4.0%

Net debt: £3.8m

Next results: June



12 Month High/Low: 19.5p/11.0p
Source: Proquote

KEY POINTS:

- **Resilient performance despite current economic climate**
- **H1 earnings well ahead of last year**
- **Prospects look solid for the remainder of the current year and beyond**
- **Growing, well-covered dividend**

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Inteltek has now released results for the first half of 2008/9 and these demonstrate excellent progress despite the well documented problems in the broad economy. The AIM-listed company is a designer and manufacturer of electronic systems for satellite and microwave communications. Through CML it is also a specialist manufacturer for the aerospace market. All three divisions have performed well and look to have built momentum moving into the second half of the financial year. There is also good visibility, for example at CML 74% of projected sales for H2 are already in the order book. At this stage it is anticipated that all three divisions will record a year of improvement when final results are released next June. The market is not valuing Inteltek as a growth story, but solid progress continues to be made and the company looks set to achieve impressive results for the full year.

INTERIM RESULTS

In the six months to 30 September 2008, turnover increased by 8% to £18.8m (2007: £17.3m). Of this increase £0.3m was as a result of the strengthening US Dollar. The underlying operating margin rose from 10% to 13% and this saw underlying profit before tax jump by 39% to £2.05m (2007: £1.48m). Underlying earnings per share rose from 1.15p to 1.64p. The interim dividend was lifted by 0.015p to 0.165p, a year-on-year increase of 10%, with the shares due to go ex-dividend on 17 December.

All divisions saw increases in both sales and operating profit. Paradise Datacom, the satellite communications equipment division saw sales increase from £7.8m to £8.1m and an operating margin of 20% was achieved, meaning that operating profit came in at £1.65m (2007: £1.45m). Expansion in the Far East continued and an office was opened in Beijing in early October. Government funded projects provide the largest market in this area and Paradise Datacom has developed into a serious competitor in significant programmes. Labtech Microwave sales edged up from £3.5m to £3.7m and although operating profit was fairly minimal, it did show some progress, rising to £0.05m from £0.01m a year earlier. In aerostructures, CML saw a surge in operating profit to £1.2m (2007: £0.76m) on the back of sales which increased by 15%. Orders for the first six months exceeded sales by some 22%.

Net debt stood at £3.81m as at 30 September. This was a marginal reduction on the 31 March 2008 figure of £3.86m but a significant reduction on one year earlier (30 September 2007: £5.65m). Interest cover was 15.4 times, which is measured as underlying operating profit to net interest excluding pension finance costs. Net debt to EBITDA fell to 0.6 times on an annualised basis.

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 | 5.9 | 0.39 | 3.25 |
| 2008A | 36.0 | 3.3 | 2.78 | 4.3 | 0.45 | 3.75 |
| 2009E | 39.0 | 4.0 | 3.20 | 3.8 | 0.48 | 4.00 |
| 2010E | 41.0 | 4.2 | 3.36 | 3.6 | 0.51 | 4.25 |

*underlying figures

ACTIVITIES

Intelek operates through three separate divisions as follows:- **i) Satellite Communications Equipment** (42.8% of H1 revenues; 57.0% of operating profit) – this, the largest part of the group, comprises Paradise Datacom, which operates from facilities in Witham, Essex and Pennsylvania, USA. 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. During the year the company continued to implement several key initiatives to increase its market share. Sales personnel were recruited in the US and plans to establish permanent facilities in Asia were advanced, with a Bangkok office opening in April 2008; **ii) Labtech Microwave** (19.6% of H1 revenues; 1.6% of 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; **iii) CML Group** (37.6% of H1 revenues; 41.4% of 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 (sales up 25% in the first half) as metals diminish in importance for both environmental and fuel efficiency reasons. CML is also looking to diversify further into military programmes and has upgraded its facilities to meet the exacting standards of BAe Systems for the supply of composite components for the F35 Strike Fighter and initial orders have now been received.

PROSPECTS

All three divisions have reported a strong performance in the first half of the financial year and the combined effect is that the current year looks set to be one of excellent progress. With orders looking very healthy, the increase in sales and profit recorded in the first half should continue and confidence in the future has been underlined by a 10% increase in the interim dividend. Although net debt only edged down slightly over the six months to 30 September, it stood at a very manageable level of £3.81m at the interim stage. The pension deficit was reduced to £4.8m, or £3.5m after tax, which does not look to create a fundamental problem. In the current climate it is refreshing to see a company discussing growth rather than damage limitation and investment will continue in order to achieve organic growth. Intelek also has one eye on suitable acquisitions within its core activity and given the constraints many businesses are facing it would not be surprising if there was corporate activity at some stage. The shares continue to trade on a very undemanding rating in view of the company's seemingly bright future.

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Significant Shareholdings:

Rights & Issues Inv Trust - 20.0%
N Lewis - 6.5%
N L Mills - 6.4%
R Fletcher - 5.7%
Framlington Inv Management - 5.6%

Redmayne-Bentley, Ilkley**Date of Report:**

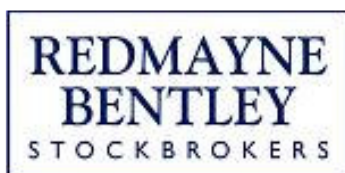
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