

# INTELEK

**Data**

Price (p)	16.75
Market Cap (£m)	14.64
Index	AIM
Sector	Tech - Hardware
Epic	ITK

**Description**

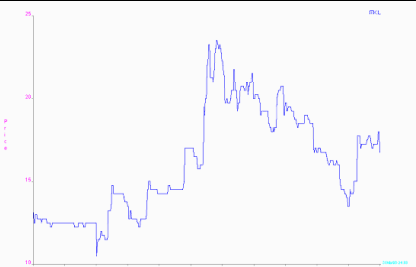
A leading supplier of communications equipment and a specialist manufacturer of aerostructures.

**Prospective p/e:** 5.8x

**Prospective net yield:** 2.9%

**Net debt:** £3.9m

**Next results:** November



**12 Month High/Low: 23.5p/13.5p**  
Source: Proquote

**KEY POINTS:**

- **All operating businesses ahead of last year**
- **Underlying operating profit up from 8% to 11% of sales**
- **Underlying PBT up 41%**
- **Sales and marketing team to expand network to Asia**

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Inteltek is a designer and manufacturer of electronic systems for satellite and microwave communications and is a specialist manufacturer for the aerospace market. The AIM listed company comprises three divisions within the UK and the USA and all three have experienced good progress in the last financial year, with an especially strong performance from the US arm of the company even after taking into account a significantly weaker dollar. The financial year to 31 March saw adjusted pre-tax profits and earnings per share increase by 41% and 36% respectively and further progress is expected in the current year even though trading conditions remain challenging. Despite the improved rate of profit growth, the share price languishes over 27% below last year's high and stands on a modest prospective p/e ratio of just 5.8x, thus providing scope for a re-rating.

**YEAR END RESULTS**

In the year to 31 March 2008, turnover fell to £36.0m (2007: £36.8m) with the decline largely due to the impact of the weakening dollar on the conversion of Paradise Datacom's revenue. An increase in gross margins of 2% to 30.9% helped underlying pre-tax profit increase by 41% to £3.3m (2007: £2.3m), and this follows a 30% rise in the previous financial year. Underlying earnings per share increased by 36% to 2.78p (2007: 2.05p) and the final dividend was increased by 15.4% to 0.30p (2007: 0.26p) per share, increasing the total dividend for the whole year by the same amount to 0.45p (2007: 0.39p).

Paradise Datacom reported operating profit for the year up 7% at £3.2m (2007: £3.0m) and this would have seen a further 10% rise had the US dollar not weakened against sterling. While dollar sales of solid state power amplifiers (SSPA's) increased, modem sales were down on the previous year which benefited from some large one-off contracts such as a \$1.5m project in China. The restructuring at Labtech Microwave has already produced significant results, although revenue fell as the business moved into higher margin products and this turned a £0.5m loss in 2006/07 into a profit of £0.2m in 2007/08. Sales at CML increased to £12.9m (2007: £11.7m) despite pricing pressures from both customers and suppliers. This again led to an increase in operating profits.

Net debt at the group was reduced by 25% to £3.9m and the pension scheme deficit was also reduced by £0.1m to £5.2m. This deficit would have been £1.0m lower if the company had used the normal AA corporate bond rate, but given the volatility in the corporate bond market the company chose to take a more cautious approach.

**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	8.2	0.39	2.3
2008A	36.0	3.3	2.78	6.0	0.45	2.7
2009E	38.0	3.6	2.90	5.8	0.48	2.9
2010E	40.0	3.9	3.12	5.4	0.51	3.0

\*underlying figures

## ACTIVITIES

Intelek operates through three separate divisions as follows:- **i) Satellite Communications Equipment** (42.4% of revenues; 62.2% 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. The single largest application for satellite modems is to link GSM/cellular networks together via satellite in geographic areas not well served by terrestrial services, such as remote oil/gas fields. 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** (21.9% of revenues; 3.0% 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** (35.7% of revenues; 34.8% 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 composite operations (sales up 28% in the latest financial year) 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

The group made excellent progress in its last financial year with all its businesses performing well and, despite the challenging market conditions, further progress is expected in the current financial year. Paradise Datacom continues to extend its technology-leading market position in SSPA's whilst it is also investing in other new products. The development of its sales and marketing network in China and the Far East and increased sales resources in the West Coast of America will also enable the company to attack the satellite communications equipment market on a much broader front. Labtech Microwave has taken a major step forward, moving back into profit, although there remains scope for further improvement in this business. Good progress is also being seen at CML, which continues to offer a first-class service to its major customers and intends to invest further in the development of composite materials to take advantage of the trend towards more fuel efficient and environmentally friendly aircraft.

Despite the prospects the shares languish on a very low p/e ratio and this provides scope for a re-rating of the shares.

## CONTACT DETAILS

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10 June 2008

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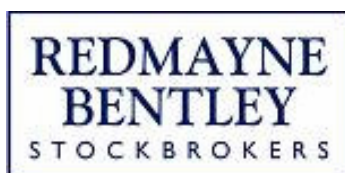
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### Significant Shareholdings:

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

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