BREWIN DOLPHIN
INVESTMENT BANKING

Intelek (B)(A)

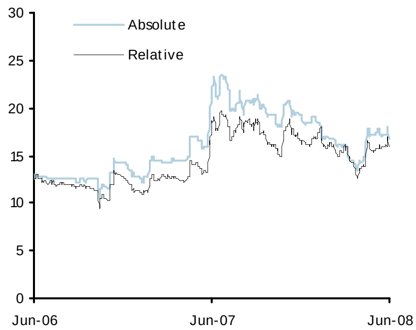
Technology Hardware & Equipment

BUY

Final Results – Profit Upgrade

Date 10th June 2008

Share Price:	16.75p
12m Price Target:	29p
Upside:	73%
Fundamental View:	Positive
Forecast Sensitivity:	3
Shares in Issue:	87.4m
Market Cap:	£14.6m
Forecast Cash/(Debt):	£-3.8m
Enterprise Value:	£18.4m



Source: Datastream

Reuters: **ITK.L**

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Intelek performed solidly across all three of the Group's divisions, beating our upgraded expectations and delivering PBT up 41% to £3.3m (2007: £2.3m). This was achieved despite the currency headwind which reduced profit by £0.3m. Underlying EPS increased 36% to 2.78p (2007: 2.05p), ahead of our forecast of 2.3p and net debt was reduced by 25% to £3.9m. On the back of these numbers and given the momentum within Intelek's niche markets, we have increased our PBT FY2009E forecast by 6% and introduced our forecasts for 2010 which continue to conservatively build upon the Group's progress. At the current level, the shares trade on 5.9x our FY2009E and we maintain our target price and recommendation.

The Groups sales dipped by 2% to £36m largely due to the currency impact which reduced revenue by £0.9m. Overall margins however did improve, by 2% to 30.9% at the gross level. The pension deficit was again reduced by £0.1m to £5.2m despite a more cautious approach to life expectancy and the discount rate used.

Paradise Datacom continued to improve profitability despite the weak dollar, which is its main reporting currency. The division continues to invest around 12% of sales in R&D permitting the launch of a range of new products several of which are specifically designed for the requirements of the military, security and defence markets where spending looks set to remain robust.

Sales of £15.3m (2007: £16.9m) generated an operating profit of £3.2m (2007: £3m) and we note that Return on Capital Employed (ROCE) also increased from 85% to 99%.

Paradise continues to engage an increasingly global customer base, having expanded operations into the Western USA and the Far East in addition to a continued push into emerging markets such as China, India and Russia.

Also recent consolidation amongst Paradise Datacom's competitors within the modem space may ease the competitive landscape going forward as Paradise becomes the number two supplier into this niche segment.

Labtech has successfully negotiated a return to profitability for the full year of £0.2m (2007: £(0.5)m) on sales of £7.9m (2008: £8.3m). This is largely due to a shift in focus away from telecommunications in favour of security and defence applications.

We expect the recovery to continue into 2009 and beyond although the phasing of current production is likely to subdue sales in H1 and will pick up during H2 and beyond as further defence production programmes commence. We forecast FY sales from the division of £8.3m delivering profits of £0.3m.

Year End March	Sales £m	PBT* £m	Tax %	EPS† p	PE Ratio x	EV/EBITDA x	FCF/Share p	DPS p	Yield %
2007(A)	36.8	2.3	25.9	2.0	8.2	4.6	1.5	0.4	2.3
2008(A)	36.0	3.3	28.8	2.8	6.0	3.6	2.1	0.5	2.7
2009(E)	39.2	3.5	31.0	2.9	5.9	3.0	2.1	0.5	3.0
2010(E)	43.1	4.1	31.9	3.3	5.1	2.7	2.5	0.6	3.4

**Figures pre-exceptionals and goodwill amortisation, † Fully diluted, Source: Company Accounts/BD Forecasts*

CML delivered record sales of £12.9m (2007: £11.7m) and record operating profit of £1.8m (2007: £1.6m) and continues to benefit from the increased build rates for its major programmes, such as Airbus A320 and the Hawker 800-series. Moreover, the division has received its maiden orders for F35 Joint Strike Fighter parts from BAe Systems and continues to supply parts into the Airbus A330 airframe used on the military tanker aircraft. A strong performance from the Composites Division delivered a 28% increase in sales within the division.

We note that the year end order book across CML was up by 22% to £10.5m, which underpins our forecasts for 2009 of £14.5m of turnover and £1.9m operating profit.

Forecasts and Valuation

A robust performance across all three of Intelek's divisions builds upon the momentum of the first half hence we have increased our 2009 forecast by 9.6% and introduced forecasts for 2010. We note managements caution regarding the current challenging economic conditions, especially the weakness within the US commercial market and have therefore tempered our estimates accordingly.

Year End Month	2009(E) Revised	2009(E) Old	2010(E) New
Sales £m	**36.0**	39.7	**43.1**
PBT £m	**3.5**	3.3	**4.1**
EPS fully diluted	**2.85p**	2.60p	**3.30p**
EPS change %	**9.6%**		
Source: BDS estimates			

Source: BD estimates

In our view, Intelek continues to navigate well though these challenges, not reflected by the current low valuation. At the current share price, the shares are rated on a FY2009E PER of 5.9x, or 3.0x EV/EBITDA and offer a worthwhile prospective dividend yield of 3.0%. We maintain our peer group derived target price of 29p, which values the stock on a P/E of 10.2x FY2009E and buy recommendation.

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FINANCIALS

Income Statement Year End March	2007(A) £m	2008(A) £m	2009(E) £m	2010(E) £m
Sales	**36.8**	**36.0**	**39.2**	**43.1**
EBITDA	4.3	5.1	6.1	6.6
Depreciation	1.4	1.3	1.7	1.7
Operating profit	**2.9**	**3.8**	**4.4**	**4.9**
Other Income	0.0	0.0	0.0	0.0
Interest	-0.6	-0.5	-0.9	-0.8
PBT (normalised)	**2.3**	**3.3**	**3.5**	**4.1**
Exceptionals	3.3	0.0	0.0	0.0
Goodwill				
PBT (reported)	**5.6**	**3.3**	**3.5**	**4.1**
Tax Rate (%)	25.9	28.8	31.0	31.9
Minority Int				
Pref Dividends				
Av. No. Shares	84.6	84.8	84.9	84.9
F. Dil. No. Shares	84.6	84.9	84.9	84.9
EPS(nm - F.Dil.) (p)	**2.0**	**2.8**	**2.8**	**3.3**
DPS (p)	**0.4**	**0.5**	**0.5**	**0.6**

Cash Flow Year End March	2007(A) £m	2008(A) £m	2009(E) £m	2010(E) £m
Operating profit	2.9	3.8	4.4	4.9
Depreciation/Amortisation	1.4	1.3	1.7	1.7
Working Capital	0.2	0.3	0.4	0.3
Interest	-0.4	-0.5	-0.6	-0.5
Tax	0.0	-1.0	-1.1	-1.3
Exceptionals	-2.8	-0.4	0.0	0.0
Other Operating Cashflows	-1.4	-0.9	-1.3	-1.3
Cash flow from Ops	**-0.1**	**2.7**	**3.5**	**3.8**
Net Capex	-1.5	-0.6	-2.0	-2.7
Acqs/Disposals	0.0	0.0	0.0	0.0
Other Investing Cashflows	0.0	0.0	0.0	0.0
Cash Flow from Investing	**-1.5**	**-0.6**	**-2.0**	**-2.7**
Ord Div	-0.3	-0.4	-0.4	-0.5
Share Issues	0.0	0.1	0.0	0.0
Other Financing Cashflows				
Cash Flow from Financing	**-0.3**	**-0.9**	**-1.3**	**-0.5**
Net Inc/Dec in Cash	**-1.7**	**1.2**	**0.2**	**0.7**
Y/E Cash/(Debt)	**-5.1**	**-3.9**	**-3.8**	**-3.1**
Enterprise Value	19.8	18.6	18.4	17.8

Ratios	2007(A)	2008(A)	2009(E)	2010(E)
Sales Growth (%)	4.6	-2.4	9.0	10.0
EBITDA Margin (%)	11.8	14.2	15.4	15.3
Op Margin (%)	7.9	10.6	11.2	11.4
Int Cover (x)	7.8	8.5	8.0	9.8
EPS Growth (%)	31.6	35.5	2.5	15.9
DPS Growth (%)	8.3	15.4	13.3	11.8
Div Cover (x)	5.3	6.2	5.6	5.8

Balance Sheet	2007(A)	2008(A)	2009(E)	2010(E)
Intangibles	13.7	13.8		
Tangibles	7.1	7.3		
Net Current Assets	-0.2	0.0		
LT Creditors	-6.1	0.0		
& Provisions				
Shareholders funds	**14.5**	**16.0**	**16.1**	**16.5**

Valuation	2007(A)	2008(A)	2009(E)	2010(E)
P/E (@current price)	8.2	6.0	5.9	5.1
P/E (@target price) (x)	14.2	10.5	10.2	8.8
EV/EBITDA (x)	4.6	3.6	3.0	2.7
EV/Sales (x)	0.5	0.5	0.5	0.4
FCF Yield (%)	8.9	12.0	12.4	14.3
Dividend Yield (%)	2.3	2.7	3.0	3.4

Ratios	2007(A)	2008(A)	2009(E)	2010(E)
NAV (p)	17.1	18.8	19.0	19.5
Gearing (%)	35.4	24.6	23.4	18.9
ROCE (%)	14.8	19.2	22.1	25.0
FCF/Share (p)	1.5	2.1	2.1	2.5
Cash Conversion (%)	107.8	117.3	115.9	114.3

Source: Company/BD Estimates

Company Description

Intelek currently has three divisions; Paradise Datacom and Labtech are involved in high tech communications based industries, whereas CML is involved in aerospace engineering.

Paradise Datacom - Paradise designs and manufactures complex satellite communication ('satcom') equipment for use in satellite earth stations. Facilities are in place in the UK and in the US. The Chief Exec of Paradise, John Restivo, is US based and has an excellent reputation in the industry, having previously worked for some of the market leaders. Paradise's main products are Satellite Modems and Solid State Power Amplifiers.

Labtech - Labtech designs and manufactures advanced microwave circuits and components. Labtech Circuits is the original business and works mainly in the telecoms, defence and space markets. Labtech Microwave was acquired from Filtronic in March 2005 and produces high end broadband microwave components mainly for the European Defence Industry.

CML - CML machines complex aerostructure components for major aerospace companies. Airbus is CML's main customer.

Future Newsflow

Sept-08 AGM

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RECOMMENDATION HISTORY - INTELEK (B)(A)

Source: Datastream/Brewin Dolphin

(B) Denotes Brewin Dolphin acts as broker to the company **(A) Denotes AIM listing**

Brewin Dolphin Research - Recommendation Definition (expects absolute performance over next 12 months).
Buy - 20%+ upside to BD 12m Price Target
Add - 10% - 20% upside to BD 12m Price Target
Hold - minus 10% to +10% to BD 12m Price Target
Reduce – minus 10% to 20% downside to BD 12m Price Target
Sell - minus 20% or more downside to BD 12m Price Target

Fundamental View:
Positive - quality company, strong management, strong fundamentals, focussed strategy.
Neutral - ambivalent over the company's strategy, market place, management.
Negative - BD believes company has fundamental flaws and is not a long term investment.

Forecast Sensitivity:
1 = highly likely downgrade 2 = likely downgrade 3 = neutral 4 = likely upgrade 5 = highly likely upgrade

Prices of other securities mentioned: None

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