ALTIUM SECURITIES

Flash Note

11 September 2009

Company Note > Technology

Intelek (ITK)*

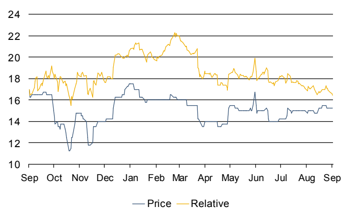
Core Recommendation

BUY

Key Data

Index	FTSE AIM
Price	15p
Market Cap	£13.0m
Target Price	20p
12 mth Price Range	11p - 18p
Avg Daily Volume	76,050
Free Float	100.0%
Next Newsflow	Interims, Nov 2009
Website	www.intelek.plc.uk
Last Different Core Rec,	n/a

Price and Price Relative to FTSE All Share



%	1M	3M	12M
Actual	+3.4	-1.6	-10.3
Relative	-2.8	-14.0	-3.1

Source: Datastream

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Swings and roundabouts

Intelek's AGM statement contains some grounds for encouragement, with a higher degree of confidence regarding the outlook for H2, but is tempered by a note of caution following a relatively slow start to the year. Overall, management's underlying expectations regarding the outturn for the current year have not changed since the last trading update at the time of its prelims in June, with the exception that the recent weakening in the US dollar will result in a slightly lower contribution from the US-based satellite communications division. We have brought our FY 2010E PBT estimates down by c.8% to account for this change. The outlook for the remainder of the year remains positive, hence our reiterated BUY recommendation.

- **Trading steady after a sluggish start** Demand from commercial markets remains relatively weak in **Paradise Datacom**, Intelek's satellite communication - and largest - division. This leaves the business more dependent on the government sector, where it is currently bidding on a number of large government programmes; this should provide a boost to sales in H2, thereby offsetting any sluggishness in H1. **Labtech**, the microwave components business, has seen order intake 15% ahead of deliveries in the first five months of the year as a result of the continued build up in military business and a recent surge in demand for high-spec telecoms products. As previously flagged, **CML**, the aerostructures division, has been suffering from the fall-off in demand in the corporate jet market, leading management to cut costs earlier in the year. While Q2 has seen some encouraging signs of recovery, full year divisional profits are still expected to be substantially lower than last year in line with previous guidance.

Table 1: Revised estimates

Year to	Sales		PBT (£m)		EPS (p)		DPS (p)	
Mar	New	Old	New	Old	New	Old	New	Old
2010E	38.0	38.7	3.4	3.7	2.7	2.9	0.5	0.5
2011E	39.8	40.5	4.0	4.2	3.1	3.3	0.6	0.6

Source: Altium Securities

- **Earnings adjustment** In order to account for the movement in the US dollar over the past few months - it has weakened by 20% against sterling since March - we have reduced our assumptions for the likely contribution by Paradise Datacom, the vast majority of whose sales are in dollars. The result is a reduction of c.8% in our FY 2010E PBT estimates, with a similar adjustment to subsequent years.

- **Valuation still compelling** We retain our view that the satellite communication division Paradise Datacom is the jewel in the crown of the group and that it 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 3x 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	5.5	0.5	3.0	-3.9	3.3
2009A	39.3	4.1	31.1	3.3	4.6	0.5	3.0	-3.8	2.8
2010E	38.0	3.4	33.0	2.7	5.7	0.5	3.4	-3.0	3.0
2011E	39.8	4.0	33.0	3.1	4.9	0.6	3.7	-2.2	2.6
2012E	42.5	4.5	33.0	3.6	4.3	0.6	4.1	-0.2	2.1

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