Ian Berry
Research Analyst
+44 (0)20 7397 1936
iberry@cenkos.com

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Trading update

BUY

Price	34p
Price Target (GBP)	60p
52-week range	94p-34p

Reuter: ITQ **Bloomberg:** ITQ LN
Exchange: LSE **Ticker:** ITQ

InterQuest

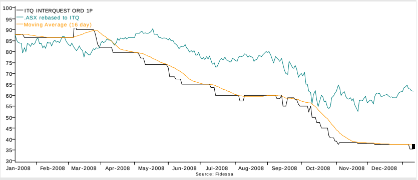
Trading strongly but economy weakening

Interquest the IT recruitment business, put out a trading update yesterday indicating that the business has performed well during 2008 but the weakening economy led to more difficult trading in Q4, most notably in relation to permanent placements. The public sector business however has remained strong and contractor numbers remained stable throughout the year at between 1020 and 1090 with the group ending the year with 1050 with this number remaining steady in January. This should give some visibility to 2009 but the outlook for permanent placements is likely to remain weak. The group has indicated that EBITA for FY12/08 will be approximately £5.3m with adjusted PBT of £4.75 against our estimate of £5.2m. We are adjusting our estimates accordingly (revised EPS 10p). We have revised our illustrative 2009 PBT estimate to £4.0m (£5.4m) with EPS of 8.8p. Net debt has fallen to less than £6m (£9.3m) compared to our estimate of £6.6m due primarily to improvements in working capital.

- The shares trade on a 12/08 p/e multiple of 3.3x reflecting concern over the extent to which trading conditions may continue to worsen in 2009. Despite market concerns about economic conditions, the group remains highly profitable and cash generative.
- It is clear that 2009 is going to be tougher from an economic perspective and historically recruitment businesses have been highly cyclical. However, Interquest is in a much stronger position than many of its competitors. Approximately a third of its sales staff cost base is bonus related, it is lowly geared and it has a strong position within its specialist field. It operates in diverse sectors of the IT market, with clients in a variety of industries in both the private and public sectors, the latter which is holding up well. This should help protect it from any narrower downturn in any one particular industry or segment of the economy.
- There is also the possibility of earnings enhancing acquisitions which could be achievable at attractive or even distressed prices.
- Falling interest rates in the last few months will help reduce debt servicing costs (the group is currently borrowing at 1 over BoE base rate until 6/09).

Cont…

Share Price Performance



Source: Fidessa

Performance(%)	1m	3m	12m
Absolute	-5	-29	-59
FTSE All Share	+4	-2	-30

Stock Data	
Market cap	£11m
Shares outstanding	30m
FTSE All Share	2596

Key Indicators	
Net debt/equity (12/07)	58%
Net interest cover (12/07)	8.4x
EBIT margin (12/07)	5.2%

Activities

IT recruitment services

Directors

G.P. Ashworth (Ch.)
R.D. Eades (CEO)
M.R.S. Joyce (FD)

Significant Share Holders	
G.P. Ashworth (Ch.)	41%
R.D. Eades (CEO)	5%
L.O. Johnson (Non-exec)	12%
Total	59%

Forecasts and ratios

Year end December	2006A	2007A	2008E	2009E
Revenue (£m)	57.2	86.8	104.0	97.0
EBITDA (£m)	3.2	4.7	5.5	4.4
Adj. PBT (£m)	2.7	4.0	4.5	4.0
Tax charge (%)	19	19	26	27
Adj. EPS F.D. (p)	7.3	10.0	10.2	8.8
% Change	+37%	+37%	+2%	-14%
DPS	0.0	0.0	0.0	0.0
EV/EBITDA (x)	4.8	4.2	3.3	3.6
PER (x)	4.8	3.5	3.4	4.0

Source: Cenkos securities estimates, company data

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Investment conclusion

The impact from the likely extent of the downturn in the UK economy in 2009 is currently extremely difficult to predict. As such, our 2009 estimates (which are based upon weaker recent run rates) should continue to be regarded as illustrative but indicate a forward p/e of 4.0x. The value currently attributed to Interquest by the stockmarket, is therefore discounting a more pessimistic scenario. If this proves correct and for example profits were to halve from current levels (which would require revenues to fall by over 30%) the shares would still be on only a 7x p/e which we believe would be an undemanding rating for a business that by the 12/09 period end could be near to the bottom of the economic cycle. We therefore consider that this is a sensible time to be buying the shares. We are recommending the shares be bought at the current level and are setting a 12 month target price of 60p.

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