

# discoverIE Group

Double-digit order growth for D&M

Q1 trading update

discoverIE has confirmed that trading in Q119 was in line with expectations and is on track to meet FY19 earnings expectations. The group generated organic revenue growth of 3% y-o-y, with Design & Manufacturing (D&M) at 5% organic growth and Custom Supply (CS) at 1%. Strong 13% organic growth in D&M orders resulted in 20% y-o-y growth in the group order book at end-Q119 and provides good visibility for FY19 revenues. We maintain our forecasts.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
03/17	338.2	17.8	19.9	8.5	21.4	2.0
03/18	387.9	22.6	23.0	9.0	18.5	2.1
03/19e	422.5	25.3	25.0	9.5	17.0	2.2
03/20e	433.8	26.5	25.9	9.8	16.4	2.3

Note: \*PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

## Q119 trading on track

In Q119, discoverIE saw group revenue growth of 12% y-o-y at constant exchange rates (CER) and 3% on an organic basis. The divisions traded in line with expectations: D&M saw 5% and CS 1% organic revenue growth. D&M saw continuing strong momentum in orders at 13% organic growth, with strong demand across the board. discoverIE's most recent acquisition, Santon, has seen new design wins in its industrial and transportation businesses, helped by the additional resources and focus now that it is part of the discoverIE group. Santon's solar business has seen weaker demand since Chinese feed-in tariffs were reduced, but this eventuality was factored into the transaction structure, and the company expects demand to recover over time. Group gross margin was higher y-o-y, in line with our forecasts.

## Outlook and estimates unchanged

In Q119, group orders increased by 16% CER and 7% organically. The group order book increased by 20% CER/13% organically y-o-y to £135m at the end of Q119, with c 80% due for delivery in the next 12 months. Management anticipates that it is on track to deliver earnings in line with its expectations; we make no change to forecasts. The company noted that it has an active pipeline of acquisition opportunities.

## Valuation: Growing D&M business drives upside

The stock is trading on a P/E of 17.0x for FY19e, at a 13% discount to its peer group average. With continuing growth and higher margins, further progress in increasing the weighting of business towards D&M (including accretive acquisitions), combined with good control over the profitability of the CS business should help to close the valuation gap further. The stock is also supported by a dividend yield of more than 2%.

Electronic & electrical equipment

27 July 2018

Price **425p**

Market cap **£312m**

€1.13:NOK10.7:£1

Net debt (£m) at end-FY18 52.4

Shares in issue 73.3m

Free float 96%

Code DSCV

Primary exchange LSE

Secondary exchange N/A

### Share price performance



% 1m 3m 12m

Abs (4.5) 1.7 30.8

Rel (local) (5.7) (1.4) 26.7

52-week high/low 455p 290p

### Business description

discoverIE (formerly Acal) is a leading international designer and manufacturer of customised electronics to industry, supplying customer-specific electronic products and solutions to 25,000 industrial manufacturers.

### Next events

H1 trading update October 2018

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**Exhibit 1: Financial summary**

	£m	2013	2014	2015	2016	2017	2018	2019e	2020e
Year end 31 March		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
<b>PROFIT &amp; LOSS</b>									
Revenue		177.4	211.6	271.1	287.7	338.2	387.9	422.5	433.8
Cost of Sales		(123.0)	(148.6)	(186.7)	(195.1)	(227.2)	(261.2)	(283.1)	(290.6)
Gross Profit		54.4	63.0	84.4	92.6	111.0	126.7	139.4	143.1
EBITDA		7.4	9.1	16.6	19.8	24.3	29.3	34.1	35.2
Operating Profit (before am, SBP and except.)		6.1	7.7	14.0	17.0	20.6	25.2	29.2	30.4
Operating Profit (before am. and except.)		5.5	7.1	13.4	16.3	20.0	24.5	28.4	29.5
Amortisation of acquired intangibles		(0.7)	(1.0)	(2.1)	(2.8)	(3.9)	(4.9)	(6.0)	(6.0)
Exceptionals		(3.4)	(0.9)	(5.2)	(2.1)	(8.4)	(1.1)	(3.2)	(3.2)
Share-based payments		(0.6)	(0.6)	(0.6)	(0.7)	(0.6)	(0.7)	(0.8)	(0.9)
Operating Profit		1.4	5.2	6.1	11.4	7.7	18.5	19.2	20.2
Net Interest		(0.5)	(0.8)	(1.6)	(1.8)	(2.8)	(2.6)	(3.9)	(3.9)
Profit Before Tax (norm)		5.6	6.9	12.4	15.2	17.8	22.6	25.3	26.5
Profit Before Tax (FRS 3)		0.7	4.2	4.3	9.4	4.8	15.8	15.1	16.1
Tax		1.4	(0.5)	(1.4)	(2.2)	(1.3)	(4.0)	(3.8)	(4.0)
Profit After Tax (norm)		4.6	6.0	10.0	11.8	13.6	17.1	19.0	19.9
Profit After Tax (FRS 3)		2.1	3.7	2.9	7.2	3.5	11.8	11.3	12.1
Average Number of Shares Outstanding (m)		39.2	43.1	57.6	63.3	65.4	70.8	72.9	73.3
EPS - normalised & diluted (p)		11.3	13.1	16.4	17.8	19.9	23.0	25.0	25.9
EPS - IFRS basic (p)		(4.8)	3.0	5.0	11.4	5.3	16.7	15.5	16.5
EPS - IFRS diluted (p)		(4.7)	2.8	4.8	10.9	5.1	15.8	14.9	15.7
Dividend per share (p)		6.2	6.8	7.6	8.1	8.5	9.0	9.5	9.8
Gross Margin (%)		30.7	29.8	31.1	32.2	32.8	32.7	33.0	33.0
EBITDA Margin (%)		4.2	4.3	6.1	6.9	7.2	7.6	8.1	8.1
Operating Margin (before am, SBP and except.) (%)		3.4	3.6	5.2	5.9	6.1	6.5	6.9	7.0
<b>BALANCE SHEET</b>									
Fixed Assets		30.9	33.1	88.6	108.4	122.2	144.2	139.4	133.0
Intangible Assets		24.2	25.5	69.9	88.2	100.7	115.0	108.9	102.8
Tangible Assets		3.1	3.5	13.8	14.7	16.0	23.4	24.7	24.4
Deferred tax assets		3.6	4.1	4.9	5.5	5.5	5.8	5.8	5.8
Current Assets		81.8	92.7	127.3	128.3	148.4	166.2	176.9	178.7
Stocks		19.3	19.4	39.8	42.9	50.1	60.6	66.0	68.9
Debtors		44.7	48.3	60.2	65.5	77.3	82.4	89.1	92.7
Cash		17.8	18.1	26.7	19.9	21.0	21.9	20.5	15.8
Current Liabilities		(50.9)	(58.3)	(62.1)	(61.7)	(78.1)	(93.4)	(101.6)	(104.0)
Creditors		(46.6)	(51.5)	(61.9)	(60.9)	(77.1)	(87.0)	(95.2)	(97.6)
Short term borrowings		(4.3)	(6.8)	(0.2)	(0.8)	(1.0)	(6.4)	(6.4)	(6.4)
Long Term Liabilities		(10.3)	(19.0)	(61.1)	(73.1)	(68.7)	(87.7)	(82.8)	(69.8)
Long term borrowings		(1.7)	(9.5)	(45.5)	(57.2)	(50.0)	(67.9)	(62.9)	(57.9)
Other long term liabilities		(8.6)	(9.5)	(15.6)	(15.9)	(18.7)	(19.8)	(19.9)	(11.9)
Net Assets		51.5	48.5	92.7	101.9	123.8	129.3	131.9	137.8
<b>CASH FLOW</b>									
Operating Cash Flow		5.7	6.1	6.6	14.6	20.5	21.7	28.4	29.3
Net Interest		(0.6)	(0.8)	(1.6)	(1.8)	(2.8)	(2.6)	(3.9)	(3.9)
Tax		(1.4)	(0.9)	(3.3)	(4.3)	(3.0)	(3.7)	(5.3)	(5.6)
Capex		(1.3)	(1.4)	(2.5)	(2.3)	(3.4)	(4.3)	(6.0)	(4.5)
Acquisitions/disposals		(0.5)	(9.2)	(37.3)	(19.8)	(11.8)	(25.4)	(3.0)	(8.0)
Financing		5.7	0.1	52.7	0.0	13.6	(1.5)	0.0	(0.0)
Dividends		(2.3)	(2.7)	(3.6)	(4.9)	(5.2)	(6.2)	(6.6)	(7.0)
Net Cash Flow		5.3	(8.8)	11.0	(18.5)	7.9	(22.0)	3.6	0.3
Opening net cash/(debt)		6.3	11.8	1.8	(19.0)	(38.1)	(30.0)	(52.4)	(48.8)
HP finance leases initiated		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other		0.2	(1.2)	(31.8)	(0.6)	0.2	(0.4)	0.0	0.0
Closing net cash/(debt)		11.8	1.8	(19.0)	(38.1)	(30.0)	(52.4)	(48.8)	(48.5)

Source: discoverIE, Edison Investment Research

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