

discoverIE Group

Strong finish to FY18

discoverIE saw continued strong trading in Q418 and expects to report revenue growth of 15% for FY18 and earnings in line with management expectations. Design & Manufacturing (D&M) delivered further strong organic growth in the final quarter, and the group has a strong order book entering FY19, bolstered by the recent Stanton acquisition. The company is making good progress in its strategy to build the D&M side of the business and we continue to expect further acquisitions in this space.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
03/16	287.7	15.2	17.8	8.1	23.6	1.9
03/17	338.2	17.8	19.9	8.5	21.1	2.0
03/18e	391.0	21.6	21.6	9.0	19.4	2.1
03/19e	427.6	25.0	24.6	9.5	17.1	2.3

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

FY18 – 6% organic growth

discoverIE expects to report FY18 revenue growth of 15% (our forecast 15.6%) and earnings in line with management expectations. Group revenues grew 11% at constant exchange rates (CER) and 6% on an organic basis. The group generated £9m revenues from cross-selling, close to double the level achieved in FY17. Order intake increased 5% on an organic basis, resulting in an order book of £122m at the year end (+12% y-o-y CER). Group gross margin increased half-on-half in H218. We make no changes to our forecasts pending preliminary results on 5 June.

Growth from D&M

In FY18, the D&M division saw organic revenue growth of 11% y-o-y, with order intake up 10%, resulting in the year-end order book 12% higher y-o-y on an organic basis. Stanton Group, acquired in February, is settling in well and in addition to seeing strength in its core solar business, is generating new opportunities in the transportation and industrial sectors. The Custom Supply business saw flat organic revenues in FY18, partly due to a very strong Q417 creating a tough comparison. Strength in Germany and Italy was offset by weaker domestic demand in the UK. Post restructuring, the business is more efficient and delivering better profitability.

Valuation: Reducing the discount

The stock is trading on an FY19e P/E of 17.1x, at a c 10% discount to the peer group average. Continued growth in the proportion of revenue generated from design and manufacturing should support operating margin expansion and should help to reduce the valuation discount. The stock is also supported by a dividend yield of more than 2%.

FY18 trading update

Electronic & electrical equipment

24 April 2018

Price 420p
Market cap £300m

Net debt (£m) at end H118	37.6
Shares in issue	71.4m
Free float	96%
Code	DSCV
Primary exchange	LSE
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	4.7	9.1	68.0
Rel (local)	(1.7)	13.4	61.2
52-week high/low		430p	251p

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

FY18 results	5 June 2018
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Exhibit 1: Financial summary

	£m	2013	2014	2015	2016	2017	2018e	2019e
Year end 31 March		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS								
Revenue		177.4	211.6	271.1	287.7	338.2	391.0	427.6
Cost of Sales		(123.0)	(148.6)	(186.7)	(195.1)	(227.2)	(264.9)	(289.1)
Gross Profit		54.4	63.0	84.4	92.6	111.0	126.1	138.6
EBITDA		7.4	9.1	16.6	19.8	24.3	29.0	34.4
Operating Profit (before am, SBP and except.)		6.1	7.7	14.0	17.0	20.6	24.8	29.2
Operating Profit (before am. and except.)		5.5	7.1	13.4	16.3	20.0	24.2	28.4
Amortisation of acquired intangibles		(0.7)	(1.0)	(2.1)	(2.8)	(3.9)	(4.9)	(7.4)
Exceptionals		(3.4)	(0.9)	(5.2)	(2.1)	(8.4)	(3.9)	(3.2)
Share-based payments		(0.6)	(0.6)	(0.6)	(0.7)	(0.6)	(0.6)	(0.8)
Operating Profit		1.4	5.2	6.1	11.4	7.7	15.4	17.7
Net Interest		(0.5)	(0.8)	(1.6)	(1.8)	(2.8)	(3.1)	(4.2)
Profit Before Tax (norm)		5.6	6.9	12.4	15.2	17.8	21.6	25.0
Profit Before Tax (FRS 3)		0.7	4.2	4.3	9.4	4.8	12.1	13.3
Tax		1.4	(0.5)	(1.4)	(2.2)	(1.3)	(3.5)	(3.5)
Profit After Tax (norm)		4.6	6.0	10.0	11.8	13.6	16.2	18.7
Profit After Tax (FRS 3)		2.1	3.7	2.9	7.2	3.5	8.6	9.9
Average Number of Shares Outstanding (m)		39.2	43.1	57.6	63.3	65.4	70.7	70.9
EPS - normalised & diluted (p)		11.3	13.1	16.4	17.8	19.9	21.6	24.6
EPS - IFRS basic (p)		(4.8)	3.0	5.0	11.4	5.3	12.1	13.9
EPS - IFRS diluted (p)		(4.7)	2.8	4.8	10.9	5.1	11.4	13.0
Dividend per share (p)		6.2	6.8	7.6	8.1	8.5	9.0	9.5
Gross Margin (%)		30.7	29.8	31.1	32.2	32.8	32.2	32.4
EBITDA Margin (%)		4.2	4.3	6.1	6.9	7.2	7.4	8.0
Operating Margin (before am, SBP and except.) (%)		3.4	3.6	5.2	5.9	6.1	6.3	6.8
BALANCE SHEET								
Fixed Assets		30.9	33.1	88.6	108.4	122.2	147.9	141.5
Intangible Assets		24.2	25.5	69.9	88.2	100.7	126.6	118.8
Tangible Assets		3.1	3.5	13.8	14.7	16.0	15.8	17.3
Deferred tax assets		3.6	4.1	4.9	5.5	5.5	5.5	5.5
Current Assets		81.8	92.7	127.3	128.3	149.6	164.6	170.7
Stocks		19.3	19.4	39.8	42.9	50.1	57.8	63.3
Debtors		44.7	48.3	60.2	65.5	77.3	86.8	94.9
Cash		17.8	18.1	26.7	19.9	22.2	20.0	12.6
Current Liabilities		(50.9)	(58.3)	(62.1)	(61.7)	(78.4)	(95.2)	(101.6)
Creditors		(46.6)	(51.5)	(61.9)	(60.9)	(77.1)	(89.9)	(96.3)
Short term borrowings		(4.3)	(6.8)	(0.2)	(0.8)	(1.3)	(5.3)	(5.3)
Long Term Liabilities		(10.3)	(19.0)	(61.1)	(73.1)	(69.6)	(93.3)	(86.5)
Long term borrowings		(1.7)	(9.5)	(45.5)	(57.2)	(50.9)	(70.9)	(65.9)
Other long term liabilities		(8.6)	(9.5)	(15.6)	(15.9)	(18.7)	(22.4)	(20.6)
Net Assets		51.5	48.5	92.7	101.9	123.8	124.1	124.2
CASH FLOW								
Operating Cash Flow		5.7	6.1	6.6	14.6	20.3	19.2	27.1
Net Interest		(0.6)	(0.8)	(1.6)	(1.8)	(2.8)	(3.1)	(4.2)
Tax		(1.4)	(0.9)	(3.3)	(4.3)	(3.0)	(5.4)	(6.3)
Capex		(1.3)	(1.4)	(2.5)	(2.3)	(3.4)	(3.7)	(6.2)
Acquisitions/disposals		(0.5)	(9.2)	(37.3)	(19.8)	(11.8)	(27.0)	(6.4)
Financing		5.7	0.1	52.7	0.0	13.6	0.0	0.0
Dividends		(2.3)	(2.7)	(3.6)	(4.9)	(5.2)	(6.2)	(6.5)
Net Cash Flow		5.3	(8.8)	11.0	(18.5)	7.7	(26.2)	(2.4)
Opening net cash/(debt)		6.3	11.8	1.8	(19.0)	(38.1)	(30.0)	(56.2)
HP finance leases initiated		0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other		0.2	(1.2)	(31.8)	(0.6)	0.4	0.0	0.0
Closing net cash/(debt)		11.8	1.8	(19.0)	(38.1)	(30.0)	(56.2)	(58.6)

Source: discoverIE, Edison Investment Research

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