

discoverIE Group

Confident outlook

discoverIE's trading update for the first four months of FY21 confirms that orders are moving in the right direction, with month-on-month increases in June and July. Revenues are down 8% y-o-y on a reported basis, in line with expectations. While COVID-19 is likely to present ongoing challenges in the short term, the company is confident it has the resources to manage the business through this and is well positioned to take advantage of growth opportunities post COVID-19, highlighting its intention to resume acquisitions in H2 as market conditions improve. We maintain our forecasts.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
03/19	438.9	28.4	28.4	9.6	20.9	1.6
03/20	466.4	34.6	31.8	3.0	18.7	0.5
03/21e	460.5	28.8	23.7	10.4	25.0	1.8
03/22e	494.8	36.2	29.9	10.7	19.9	1.8

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

Orders improving on a month-on-month basis

discoverIE has published a trading update covering the first four months of FY21 (4M21). The company is seeing trading conditions in line with what it was expecting when it reported FY20 results just over a month ago. For the period 1 April to 24 June, the company reported a book-to-bill ratio of 0.85:1; as bookings have increased sequentially by 10% in both June and July, the book-to-bill has improved to 0.89:1 for the four-month period (with July book-to-bill at c 1:1). As revenues lag orders, group revenues for 4M21 are down c 8% (7% at constant exchange rates) and down 10% on an organic basis. We maintain our forecasts.

Acquisitions possible from H2

discoverIE noted that recently it has seen temporary closures of two facilities in India, but with 27 manufacturing facilities across the group it has the flexibility to shift production to deal with local lockdowns. The company noted that it is considering several acquisition opportunities and it intends to resume acquisitions as long as market conditions continue to improve in H2. Net debt/EBITDA currently stands at 1.2x, compared to 1.25x at the end of FY20. With a target range of 1.5–2.0x, this provides some headroom to self-fund acquisitions.

Valuation: Looking to longer-term progress

The stock has gained 19% over the last month but it trades at a discount to its peer group, a mixture of specialist electronics and industrial buy-and-build companies (c 30% on an EV/EBIT basis and c 20% on a P/E basis). The company's long-term strategy is unchanged and the measures it has taken to conserve cash should support it through this period of uncertainty. Triggers for upside include clarity on the recovery in customer demand through FY21 and, in the longer term, progress towards the new 12.5% operating margin target, including the resumption in M&A activity.

Q121 trading update

Electronic & electrical equipment

3 August 2020

Price **594p**

Market cap **£531m**

€1.11:\$1.30:£1

Net debt (£m) at end FY20 61.3

Shares in issue 89.5m

Free float 96%

Code DSCV

Primary exchange LSE

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs 16.0 19.3 34.4

Rel (local) 20.6 18.6 69.3

52-week high/low 610p 378p

Business description

discoverIE is a leading international designer, manufacturer and supplier of customised electronics to industry, supplying customer-specific electronic products and solutions to original equipment manufacturers.

Next events

H121 trading update October

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Exhibit 1: Financial summary

	£m	2015	2016	2017	2018	2019	2020	2021e	2022e
Year end 31 March		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS									
Revenue		271.1	287.7	338.2	387.9	438.9	466.4	460.5	494.8
Cost of Sales		(186.7)	(195.1)	(227.2)	(261.2)	(293.9)	(309.7)	(306.3)	(327.5)
Gross Profit		84.4	92.6	111.0	126.7	145.0	156.7	154.3	167.2
EBITDA		16.6	19.8	24.3	29.3	37.0	50.9	46.0	53.6
Operating Profit (before am, SBP and except.)		14.0	17.0	20.6	25.2	31.8	38.9	33.8	41.2
Operating Profit (before am. and except.)		13.4	16.3	20.0	24.5	30.6	37.1	31.4	38.8
Amortisation of acquired intangibles		(2.1)	(2.8)	(3.9)	(4.9)	(5.9)	(9.0)	(11.0)	(11.0)
Exceptionals		(5.2)	(2.1)	(8.4)	(2.3)	(2.0)	(4.3)	(3.2)	(3.6)
Share-based payments		(0.6)	(0.7)	(0.6)	(0.7)	(1.2)	(1.8)	(2.4)	(2.4)
Operating Profit		6.1	11.4	7.7	17.3	22.7	23.8	17.2	24.2
Net Interest		(1.6)	(1.8)	(2.8)	(2.6)	(3.4)	(4.3)	(5.1)	(5.1)
Profit Before Tax (norm)		12.4	15.2	17.8	22.6	28.4	34.6	28.8	36.2
Profit Before Tax (FRS 3)		4.3	9.4	4.8	14.6	19.3	19.5	12.0	19.1
Tax		(1.4)	(2.2)	(1.3)	(4.0)	(4.7)	(5.2)	(3.0)	(4.7)
Profit After Tax (norm)		10.0	11.8	13.6	17.1	21.5	27.6	21.7	27.4
Profit After Tax (FRS 3)		2.9	7.2	3.5	10.6	14.6	14.3	9.1	14.4
Ave. Number of Shares Outstanding (m)		57.6	63.3	65.4	70.8	73.0	84.0	89.1	89.5
EPS - normalised & diluted (p)		16.4	17.8	19.9	23.0	28.4	31.8	23.7	29.9
EPS - IFRS basic (p)		5.0	11.4	5.3	15.0	20.0	17.0	10.2	16.1
EPS - IFRS diluted (p)		4.8	10.9	5.1	14.2	19.4	16.5	9.9	15.7
Dividend per share (p)		7.6	8.1	8.5	9.0	9.6	3.0	10.4	10.7
Gross Margin (%)		31.1	32.2	32.8	32.7	33.0	33.6	33.5	33.8
EBITDA Margin (%)		6.1	6.9	7.2	7.6	8.4	10.9	10.0	10.8
Operating Margin (before am, SBP and except.) (%)		5.2	5.9	6.1	6.5	7.2	8.3	7.3	8.3
BALANCE SHEET									
Fixed Assets		88.6	108.4	122.2	136.4	149.2	236.4	217.7	200.8
Intangible Assets		69.9	88.2	100.7	107.2	119.7	182.2	171.1	160.0
Tangible Assets		13.8	14.7	16.0	23.4	24.4	46.3	38.7	32.9
Deferred tax assets		4.9	5.5	5.5	5.8	5.1	7.9	7.9	7.9
Current Assets		127.3	128.3	147.1	165.9	179.1	197.4	212.4	226.8
Stocks		39.8	42.9	48.8	58.1	66.2	68.4	71.9	75.9
Debtors		60.2	65.5	77.3	84.6	88.7	90.1	97.2	103.0
Cash		26.7	19.9	21.0	21.9	22.9	36.8	41.2	45.8
Current Liabilities		(62.1)	(61.7)	(78.1)	(94.0)	(96.0)	(103.6)	(108.5)	(115.4)
Creditors		(61.9)	(60.9)	(77.1)	(87.6)	(94.3)	(94.0)	(98.9)	(105.8)
Lease liabilities		0.0	0.0	0.0	0.0	0.0	(5.3)	(5.3)	(5.3)
Short term borrowings		(0.2)	(0.8)	(1.0)	(6.4)	(1.7)	(4.3)	(4.3)	(4.3)
Long Term Liabilities		(61.1)	(73.1)	(68.7)	(81.5)	(97.6)	(129.7)	(114.0)	(95.3)
Long term borrowings		(45.5)	(57.2)	(50.0)	(67.9)	(84.5)	(93.8)	(88.8)	(83.8)
Lease liabilities		0.0	0.0	0.0	0.0	0.0	(14.7)	(8.1)	(1.5)
Other long term liabilities		(15.6)	(15.9)	(18.7)	(13.6)	(13.1)	(21.2)	(17.1)	(10.0)
Net Assets		92.7	101.9	122.5	126.8	134.7	200.5	207.6	216.9
CASH FLOW									
Operating Cash Flow		6.6	14.6	20.5	21.7	30.0	48.0	38.4	48.8
Net Interest		(1.6)	(1.8)	(2.8)	(2.6)	(3.4)	(3.7)	(5.1)	(5.1)
Tax		(3.3)	(4.3)	(3.0)	(3.7)	(3.8)	(6.4)	(7.1)	(8.8)
Capex		(2.5)	(2.3)	(3.4)	(4.3)	(5.4)	(6.3)	(4.5)	(6.5)
Acquisitions/disposals		(37.3)	(19.8)	(11.8)	(25.4)	(22.4)	(73.6)	(3.0)	(3.0)
Financing		52.7	0.0	13.6	(1.5)	0.1	53.9	(6.6)	(6.6)
Dividends		(3.6)	(4.9)	(5.2)	(6.2)	(6.7)	(8.1)	(2.8)	(9.3)
Net Cash Flow		11.0	(18.5)	7.9	(22.0)	(11.6)	3.8	9.4	9.5
Opening net cash/(debt)		1.8	(19.0)	(38.1)	(30.0)	(52.4)	(63.3)	(61.3)	(51.9)
HP finance leases initiated		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other		(31.8)	(0.6)	0.2	(0.4)	0.7	(1.8)	(0.0)	(0.0)
Closing net cash/(debt)		(19.0)	(38.1)	(30.0)	(52.4)	(63.3)	(61.3)	(51.9)	(42.3)

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