

discoverIE Group

Upgrading on strong close to FY23

FY23 trading update

Electrical components

20 April 2023

Price **768p**

Market cap **£740m**

\$1.24:€1.14:£1

Net debt (£m) at end H123 45.2

Shares in issue 96.4m

Free float 96%

Code DSCV

Primary exchange LSE

Secondary exchange N/A

With Q423 trading slightly better than expected, discoverIE is on track to deliver FY23 underlying earnings ahead of board expectations. The year-end order book was also higher than anticipated due to stronger than expected order intake in Q423, providing good visibility for FY24. We have upgraded our underlying EPS forecasts for FY23 and FY24 and reduced our net debt forecasts over the same period.

Year end	Revenue (£m)	PBT* (£m)	Diluted EPS* (p)	DPS (p)	P/E (x)	Yield (%)
03/21	302.8	27.2	22.4	10.15	34.2	1.3%
03/22	379.2	37.6	29.4	10.80	26.1	1.4%
03/23e	439.8	44.4	33.3	11.45	23.0	1.5%
03/24e	453.4	45.3	34.1	12.00	22.5	1.6%

Note: *PBT and EPS as per discoverIE's underlying metric, excluding amortisation of acquired intangibles and exceptional items.

Closing the year ahead of expectations

discoverIE expects to report 16% revenue growth for FY23, ahead of our 14% forecast, with 8% organic growth (in both divisions), a 5% contribution from acquisitions and 3% from foreign exchange. Q423 revenue growth was 8% year-on-year (2% organic, 3% foreign exchange, 3% acquisitions). Gross margins remain robust and the semiconductor supply issues that affected two of discoverIE's 21 businesses have largely been resolved. With the continued positive trading momentum through Q423, management anticipates reporting underlying FY23 earnings ahead of board expectations. Year-end net debt/EBITDA was 0.9x, below our 1.0x forecast.

Upgrading forecasts

The company had previously flagged that it expected the order book to normalise from the record end-H123 level as orders shipped. The year-end order book was in line with the prior year and was higher than expected due to stronger order intake in Q423, which was up 16% quarter-on-quarter and in line with sales. We have revised our FY23 and FY24 forecasts to reflect stronger revenue growth, resulting in upgrades to underlying EPS of 3.2% for FY23 and 1.9% for FY24. We have also reduced our net debt forecast for both years, resulting in gearing of 0.9x at the end of FY23 and 0.7x at the end of FY24. This is well below the target range of 1.5–2.0x, providing headroom for further acquisitions. The company noted that the acquisition pipeline continues to build with good potential opportunities for FY24.

Valuation: Well positioned for growth

The stock is trading in line with the average of its broader UK industrial technology peer group on a P/E basis for FY23, but at a discount compared to peers with a similar decentralised operating model (such as Halma and Spirax). The focus on strategic growth markets supports sustained organic revenue growth and we see potential for upside to earnings through operating margin expansion and accretive acquisitions. The company has ample headroom for further acquisitions and a strong pipeline of opportunities, which could well be boosted by the current uncertain macroeconomic environment.

Share price performance



% 1m 3m 12m

Abs 1.5 1.2 (7.0)

Rel (local) (5.2) (0.1) (8.5)

52-week high/low 914p 597p

Business description

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

Next events

FY23 results 8 June

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Changes to forecasts

Exhibit 1: Changes to forecasts

£m	FY23e old	FY23e new	Change	y-o-y	FY24e old	FY24e new	Change	y-o-y
Revenues	432.0	439.8	1.8%	16.0%	445.3	453.4	1.8%	3.1%
EBITDA	63.3	64.8	2.3%	15.5%	67.2	68.2	1.5%	5.3%
EBITDA margin	14.7%	14.7%	0.1%	(0.1%)	15.1%	15.0%	(0.0%)	0.3%
Underlying operating profit	48.3	49.8	3.1%	20.2%	51.1	52.1	2.0%	4.7%
Underlying operating margin	11.2%	11.3%	0.1%	0.4%	11.5%	11.5%	0.0%	0.2%
Normalised operating profit	50.7	52.2	2.9%	16.5%	53.5	54.5	1.9%	4.5%
Normalised operating margin	11.7%	11.9%	0.1%	0.0%	12.0%	12.0%	0.0%	0.2%
Underlying PBT	43.0	44.4	3.2%	18.1%	44.5	45.3	1.9%	2.1%
Normalised PBT	45.4	46.8	3.0%	14.2%	46.9	47.7	1.8%	2.0%
Normalised net income	33.6	34.6	3.0%	12.6%	35.0	35.6	1.8%	2.8%
Normalised diluted EPS (p)	34.1	35.1	3.0%	9.4%	35.3	35.9	1.8%	2.3%
Underlying diluted EPS (p)	32.3	33.3	3.2%	13.2%	33.5	34.1	1.9%	2.4%
Reported basic EPS (p)	18.2	19.2	5.8%	(29.1%)	20.0	20.7	3.2%	7.5%
Dividend per share (p)	11.5	11.5	0.0%	6.0%	12.0	12.0	0.0%	4.8%
Net (debt)/cash	(59.3)	(54.6)	(7.9%)	80.7%	(46.5)	(41.1)	(11.7%)	(24.7%)
Net debt/EBITDA (x)	1.0	0.9			0.8	0.7		

Source: Edison Investment Research

Exhibit 2: Financial summary

	£m	2020	2021	2022	2023e	2024e
Year end 31 March		IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS						
Revenue		297.9	302.8	379.2	439.8	453.4
EBITDA		43.6	44.0	56.1	64.8	68.2
Normalised operating Profit (before am, SBP and except.)		31.6	31.9	44.8	52.2	54.5
Underlying operating Profit (before am. and except.)		29.8	30.8	41.4	49.8	52.1
Amortisation of acquired intangibles		(9.0)	(11.1)	(14.0)	(16.5)	(15.6)
Exceptionals		(4.3)	(2.6)	(6.5)	(3.0)	(3.0)
Share-based payments		(1.8)	(1.1)	(3.4)	(2.4)	(2.4)
Operating Profit		16.5	17.1	20.9	30.3	33.5
Net Interest		(4.3)	(3.6)	(3.8)	(5.4)	(6.8)
Profit Before Tax (norm)		27.3	28.3	41.0	46.8	47.7
Profit Before Tax (FRS 3)		12.2	13.5	17.1	24.9	26.7
Tax		(3.3)	(4.0)	(7.4)	(6.5)	(6.8)
Profit After Tax (norm)		21.8	21.6	30.8	34.6	35.6
Profit After Tax (FRS 3)		8.9	9.5	9.7	18.4	20.0
Discontinued operations		5.4	2.5	15.5	0.0	0.0
Net income (norm)		21.8	21.6	30.8	34.6	35.6
Net income (FRS 3)		14.3	12.0	25.2	18.4	20.0
Ave. Number of Shares Outstanding (m)		84.0	88.8	93.0	95.9	96.6
EPS - normalised & diluted (p)		25.1	23.4	32.1	35.1	35.9
EPS - underlying, diluted (p)		24.4	22.4	29.4	33.3	34.1
EPS - IFRS basic (p)		17.0	13.5	27.1	19.2	20.7
EPS - IFRS diluted (p)		16.5	13.0	26.3	18.7	20.1
Dividend per share (p)		2.97	10.15	10.80	11.45	12.00
EBITDA Margin (%)		14.6	14.5	14.8	14.7	15.0
Normalised operating margin (before am, SBP and except.) (%)		10.6	10.5	11.8	11.9	12.0
discoverIE underlying operating margin (%)		10.0	10.2	10.9	11.3	11.5
BALANCE SHEET						
Fixed Assets		236.4	244.6	326.5	342.9	331.1
Intangible Assets		182.2	190.8	263.3	276.8	262.3
Tangible Assets		46.3	45.9	45.4	48.3	51.0
Deferred tax assets		7.9	7.9	17.8	17.8	17.8
Current Assets		197.4	183.6	196.8	194.8	208.9
Stocks		68.4	67.7	77.8	91.6	94.4
Debtors		90.1	84.9	78.0	91.6	94.4
Cash		36.8	29.2	39.4	10.0	18.5
Current Liabilities		(103.6)	(107.8)	(120.9)	(137.9)	(141.7)
Creditors		(94.0)	(102.2)	(114.2)	(131.2)	(135.0)
Lease liabilities		(5.3)	(4.8)	(4.7)	(4.7)	(4.7)
Short term borrowings		(4.3)	(0.8)	(2.0)	(2.0)	(2.0)
Long Term Liabilities		(129.7)	(112.0)	(112.0)	(100.6)	(89.6)
Long term borrowings		(93.8)	(75.6)	(67.6)	(62.6)	(57.6)
Lease liabilities		(14.7)	(16.7)	(16.4)	(15.7)	(15.0)
Other long term liabilities		(21.2)	(19.7)	(28.0)	(22.3)	(17.0)
Net Assets		200.5	208.4	290.4	299.1	308.7
CASH FLOW						
Operating Cash Flow		48.0	56.8	42.5	49.4	61.3
Net Interest		(3.7)	(3.1)	(3.3)	(4.9)	(6.3)
Tax		(6.4)	(7.2)	(7.1)	(12.2)	(12.1)
Capex		(6.3)	(3.9)	(6.2)	(9.0)	(9.0)
Acquisitions/disposals		(73.6)	(20.5)	(46.8)	(30.0)	(2.0)
Financing		53.9	(6.6)	46.1	(7.2)	(7.2)
Dividends		(8.1)	(2.8)	(9.4)	(10.5)	(11.2)
Net Cash Flow		3.8	12.7	15.8	(24.3)	13.5
Opening net cash/(debt)		(63.3)	(61.3)	(47.2)	(30.2)	(54.6)
HP finance leases initiated		0.0	0.0	0.0	0.0	0.0
Other		(1.8)	1.4	1.2	0.0	(0.0)
Closing net cash/(debt)		(61.3)	(47.2)	(30.2)	(54.6)	(41.1)

Source: discoverIE, Edison Investment Research

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