

discoverIE Group

Stronger close to FY20

Year-end trading update

discoverIE saw a stronger finish to FY20 than expected as China resumed trading faster than anticipated. In Q121 so far, slightly weaker customer demand and manufacturing shutdowns elsewhere are affecting sales; to manage cash during this period management has cut discretionary spending, is pausing M&A and has cut the FY20 final dividend. These measures combined with lower than expected gearing at the end of FY20 leave the company well-funded to trade through this period of disruption.

Year end	Revenue (£m)	PBT* (£m)	Diluted EPS* (p)	DPS (p)	P/E (x)	Yield (%)
03/18	387.9	22.6	23.0	9.0	20.0	2.0
03/19	438.9	28.4	28.4	9.6	16.2	2.1
03/20e	466.0	31.8	27.7	3.0	16.6	0.6
03/21e	463.6	28.8	23.8	10.4	19.3	2.3
03/22e	497.8	36.2	29.9	10.7	15.4	2.3

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

Faster than expected China recovery in March

discoverIE's update on 19 March highlighted that manufacturing facility closures in China, weaker Chinese demand and supply chain issues had reduced trading in Q420. Since then, the situation in China has improved faster than expected and discoverIE closed FY20 with reported revenue growth of 6% (8% constant currency, 2% organic) and an order book of £159m (+7% organic y-o-y). Net debt/EBITDA at year-end was 1.3x, lower than the 1.5x at the end of Q320. We have revised our FY20 forecasts to reflect slightly higher revenues and operating profit as well as lower net debt (cut from £71m to £64m); we lift normalised diluted EPS by 2.5%.

Taking action to preserve cash

Four out of the group's 27 manufacturing facilities were forced to close (India, Sri Lanka, US) but have since reopened and are building up capacity while some other facilities are operating at reduced capacity. Supply chains have remained resilient and the company is working with certain customers for the rapid development and supply of key components for virus-related medical products (eg ventilators, test equipment). So far in Q121 revenues are 10% lower year-on-year (organic) and the book-to-bill ratio is 0.95:1. Responding to the uncertain outlook, the company has taken cost-cutting measures: the final dividend has been cut; pay rises, bonuses and hiring are frozen; the board is taking a 20% pay cut for three months; all discretionary spend has been deferred; and all acquisitions are on hold (although pipeline development is ongoing). We leave our FY21/22 forecasts unchanged other than to reflect the cash effect of the dividend cut and lower FY20 net debt position.

Valuation: Reflects uncertainty

The stock is trading broadly in line with peers on EV/EBIT and P/E multiples for FY21. Triggers for upside include evidence of demand pick up, the return of normal operating conditions on the supply side and the resumption of the acquisition strategy.

Electronic & electrical equipment

18 May 2020

Price **460p**

Market cap **£411m**

€1.12:US\$1.21:£1

Net debt (£m) at end H120 55.4

Shares in issue 89.5m

Free float 96%

Code DSCV

Primary exchange LSE

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs (8.0) (20.7) 11.7

Rel (local) (10.9) 2.9 40.0

52-week high/low 586p 378p

Business description

discoverIE 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

FY20 results 24 June

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Changes to forecasts

We have increased our FY20 revenue forecast to reflect 6% growth. This results in a 2% uplift to our operating profit forecast and a 2.5% increase in our diluted EPS forecast. We have reduced our year-end FY20 net debt forecast by 10% to reflect the 1.3x net debt/EBITDA ratio reported by the company. In FY21 and FY22, we make no changes to the income statement. We reflect the cash impact of cutting the FY20 final dividend. We have also updated the issued share capital as at the end of April 2020, which results in a small decrease in our basic EPS estimates in FY21 and FY22.

Exhibit 1: Changes to estimates

£m	FY20e old	FY20e new	Change	y-o-y	FY21e old	FY21e new	Change	y-o-y	FY21e old	FY22e new	Change	y-o-y
Revenues	463.1	466.0	0.6%	6.2%	463.6	463.6	0.0%	(0.5%)	497.8	497.8	0.0%	7.4%
Custom supply	170.6	172.4	1.0%	(0.2%)	170.2	169.9	(0.2%)	(1.5%)	178.7	178.4	(0.2%)	5.0%
Design & manufacturing	292.4	293.6	0.4%	10.3%	293.4	293.7	0.1%	0.0%	319.0	319.4	0.1%	8.8%
Gross margin	33.3%	33.3%	(0.0%)	0.3%	33.3%	33.3%	0.0%	(0.0%)	33.3%	33.3%	0.0%	0.0%
EBITDA	47.7	48.5	1.6%	31.0%	45.6	45.6	0.0%	(5.9%)	53.0	53.0	0.0%	16.2%
EBITDA margin	10.3%	10.4%	0.1%	2.0%	9.8%	9.8%	0.0%	(0.6%)	10.7%	10.7%	0.0%	0.8%
Underlying operating profit	34.5	35.3	2.3%	15.3%	32.6	32.6	0.0%	(7.5%)	40.0	40.0	0.0%	22.7%
Underlying operating margin	7.5%	7.6%	0.1%	0.6%	7.0%	7.0%	0.0%	(0.5%)	8.0%	8.0%	0.0%	1.0%
Normalised operating profit	35.7	36.5	2.2%	14.7%	33.8	33.8	0.0%	(7.3%)	41.2	41.2	0.0%	21.9%
Normalised operating margin	7.7%	7.8%	0.1%	0.6%	7.3%	7.3%	0.0%	(0.5%)	8.3%	8.3%	0.0%	1.0%
Normalised PBT	31.0	31.8	2.5%	11.9%	28.8	28.8	0.0%	(9.4%)	36.2	36.2	0.0%	25.7%
Normalised net income	23.3	23.9	2.5%	11.5%	21.7	21.7	0.0%	(9.3%)	27.3	27.3	0.0%	25.7%
Normalised diluted EPS (p)	27.0	27.7	2.5%	(2.7%)	23.78	23.78	0.0%	(14.1%)	29.9	29.9	0.0%	25.7%
Reported basic EPS (p)	17.0	17.7	4.1%	(11.4%)	13.82	13.76	(0.4%)	(22.4%)	20.1	19.9	(0.8%)	44.9%
Dividend per share (p)	10.0	3.0	(70.3%)	(68.9%)	10.4	10.4	0.0%	250.2%	10.7	10.7	0.0%	2.9%
Net (debt)/cash	(71.1)	(64.0)	(9.9%)	1.2%	(64.6)	(52.7)	(18.4%)	(17.8%)	(55.1)	(43.0)	(22.1%)	(18.4%)
Net debt/EBITDA (x)	1.5	1.3			1.6	1.3			1.2	0.9		

Source: Edison Investment Research

Exhibit 2: Financial summary

	£m	2015	2016	2017	2018	2019	2020e	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	466.0	463.6	497.8
Cost of Sales		(186.7)	(195.1)	(227.2)	(261.2)	(293.9)	(310.7)	(309.2)	(332.1)
Gross Profit		84.4	92.6	111.0	126.7	145.0	155.3	154.4	165.8
EBITDA		16.6	19.8	24.3	29.3	37.0	48.5	45.6	53.0
Operating Profit (before am, SBP and except.)		14.0	17.0	20.6	25.2	31.8	36.5	33.8	41.2
Operating Profit (before am. and except.)		13.4	16.3	20.0	24.5	30.6	35.3	32.6	40.0
Amortisation of acquired intangibles		(2.1)	(2.8)	(3.9)	(4.9)	(5.9)	(7.6)	(8.0)	(8.0)
Exceptionals		(5.2)	(2.1)	(8.4)	(2.3)	(2.0)	(3.1)	(3.2)	(3.2)
Share-based payments		(0.6)	(0.7)	(0.6)	(0.7)	(1.2)	(1.2)	(1.2)	(1.2)
Operating Profit		6.1	11.4	7.7	17.3	22.7	24.6	21.4	28.8
Net Interest		(1.6)	(1.8)	(2.8)	(2.6)	(3.4)	(4.7)	(5.1)	(5.1)
Profit Before Tax (norm)		12.4	15.2	17.8	22.6	28.4	31.8	28.8	36.2
Profit Before Tax (FRS 3)		4.3	9.4	4.8	14.6	19.3	19.8	16.2	23.6
Tax		(1.4)	(2.2)	(1.3)	(4.0)	(4.7)	(4.9)	(4.0)	(5.8)
Profit After Tax (norm)		10.0	11.8	13.6	17.1	21.5	23.9	21.7	27.3
Profit After Tax (FRS 3)		2.9	7.2	3.5	10.6	14.6	14.9	12.3	17.8
Ave. Number of Shares Outstanding (m)		57.6	63.3	65.4	70.8	73.0	83.9	89.1	89.5
EPS - normalised & diluted (p)		16.4	17.8	19.9	23.0	28.4	27.7	23.8	29.9
EPS - IFRS basic (p)		5.0	11.4	5.3	15.0	20.0	17.7	13.8	19.9
EPS - IFRS diluted (p)		4.8	10.9	5.1	14.2	19.4	17.2	13.4	19.6
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	33.3	33.3	33.3
EBITDA Margin (%)		6.1	6.9	7.2	7.6	8.4	10.4	9.8	10.7
Operating Margin (before am, SBP and except.) (%)		5.2	5.9	6.1	6.5	7.2	7.8	7.3	8.3
BALANCE SHEET									
Fixed Assets		88.6	108.4	122.2	136.4	149.2	232.9	219.6	206.3
Intangible Assets		69.9	88.2	100.7	107.2	119.7	187.6	179.5	171.4
Tangible Assets		13.8	14.7	16.0	23.4	24.4	40.2	35.0	29.8
Deferred tax assets		4.9	5.5	5.5	5.8	5.1	5.1	5.1	5.1
Current Assets		127.3	128.3	147.1	165.9	179.1	180.3	186.2	202.8
Stocks		39.8	42.9	48.8	58.1	66.2	67.7	67.3	72.3
Debtors		60.2	65.5	77.3	84.6	88.7	94.2	94.0	100.9
Cash		26.7	19.9	21.0	21.9	22.9	17.2	23.5	28.2
Current Liabilities		(62.1)	(61.7)	(78.1)	(94.0)	(96.0)	(109.7)	(107.9)	(109.3)
Creditors		(61.9)	(60.9)	(77.1)	(87.6)	(94.3)	(101.3)	(99.5)	(106.4)
Lease liabilities		0.0	0.0	0.0	0.0	0.0	(6.7)	(6.7)	(1.2)
Short term borrowings		(0.2)	(0.8)	(1.0)	(6.4)	(1.7)	(1.7)	(1.7)	(1.7)
Long Term Liabilities		(61.1)	(73.1)	(68.7)	(81.5)	(97.6)	(100.2)	(85.4)	(76.1)
Long term borrowings		(45.5)	(57.2)	(50.0)	(67.9)	(84.5)	(79.5)	(74.5)	(69.5)
Lease liabilities		0.0	0.0	0.0	0.0	0.0	(7.9)	(1.2)	0.0
Other long term liabilities		(15.6)	(15.9)	(18.7)	(13.6)	(13.1)	(12.8)	(9.7)	(6.6)
Net Assets		92.7	101.9	122.5	126.8	134.7	203.4	212.5	223.7
CASH FLOW									
Operating Cash Flow		6.6	14.6	20.5	21.7	30.0	46.7	42.5	46.2
Net Interest		(1.6)	(1.8)	(2.8)	(2.6)	(3.4)	(4.7)	(5.1)	(5.1)
Tax		(3.3)	(4.3)	(3.0)	(3.7)	(3.8)	(6.9)	(7.1)	(8.9)
Capex		(2.5)	(2.3)	(3.4)	(4.3)	(5.4)	(6.4)	(6.5)	(6.5)
Acquisitions/disposals		(37.3)	(19.8)	(11.8)	(25.4)	(22.4)	(74.7)	(3.0)	0.0
Financing		52.7	0.0	13.6	(1.5)	0.1	53.9	(6.7)	(6.7)
Dividends		(3.6)	(4.9)	(5.2)	(6.2)	(6.7)	(8.6)	(2.8)	(9.3)
Net Cash Flow		11.0	(18.5)	7.9	(22.0)	(11.6)	(0.7)	11.4	9.7
Opening net cash/(debt)		1.8	(19.0)	(38.1)	(30.0)	(52.4)	(63.3)	(64.0)	(52.7)
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	(0.0)	0.0	(0.0)
Closing net cash/(debt)		(19.0)	(38.1)	(30.0)	(52.4)	(63.3)	(64.0)	(52.7)	(43.0)

Source: discoverIE accounts, Edison Investment Research

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