EDISON

discoverIE Group

Q122 trading update

Upgrading on strong organic growth

Tech hardware & equipment

discoverIE saw trading in Q122 continue in the same vein as H221, with strong organic revenue growth on a year-on-year and pre-COVID-19 basis. Order intake was well ahead of revenue and the order book grew 22% from the end of FY21. We have upgraded our forecasts to reflect stronger organic growth, resulting in upgrades to our EPS forecasts of 3% in FY22 and 2% in FY23.

Year end	Revenue (£m)	PBT* (£m)	Diluted EPS* (p)	DPS (p)	P/E (x)	Yield (%)
03/20	466.4	34.6	31.8	3.0	32.7	0.3
03/21	454.3	32.6	27.0	10.2	38.5	1.0
03/22e	507.5	36.3	29.4	10.7	35.4	1.0
03/23e	521.0	38.0	30.4	11.0	34.2	1.1

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

Strong trading continues into Q122

discoverIE saw strong organic revenue and order growth in H221, which continued through Q122. Group revenue was 21% higher y-o-y at constant exchange rates (CER) and 16% higher on an organic basis, clearly helped by the weaker Q121 comparative. Encouragingly, the group also grew compared to the same period two years ago, up 10% on an organic basis. Group margins were consistent with those achieved in Q121, and despite the strength of sterling in the quarter, performance was ahead of board expectations. Recent acquisitions (Phoenix, Limitor, CPI) are contributing well to the group's strong performance. Post the CPI acquisition, gearing was 1.2x at the end of Q122, compared to pro forma gearing of 1.25x at the end of FY21. Production facilities in Sri Lanka and India are returning to near-normal levels despite local COVID-19 restrictions and the company is investing to double its capacity at its Nogales, Mexico site, operational this quarter.

Upgrading estimates on robust order intake

The end-June 2021 order book of £220m was 50% higher y-o-y (organic), 30% higher (organic) versus end-June 2019 and 22% higher (reported) q-o-q. Orders were ahead of sales, and on an organic basis were up 83% y-o-y and up 35% versus Q120. We have revised our estimates to reflect stronger organic growth, with revenues upgraded by 2% in FY22 and FY23, and normalised and underlying EPS increasing by 3% in FY22 and 2% in FY23.

Valuation: Factoring in strong performance

The stock has gained 36% since the company reported its FY21 results in early June and now trades at a 9% premium to its peer group on an FY22e P/E basis, suggesting an expectation of further earnings upgrades. Aside from the ongoing recovery in customer demand, we view the key trigger for earnings and share price upside to be progress in increasing the weighting of the business towards the higher-growth, higher-margin D&M business (organically and via acquisition), which in turn should move the company closer to its 12.5% medium-term operating margin target. The stock is supported by a dividend yield of 1%.

30 July 2021

Price	**1,040p**
Market cap	**£930m**
	€1.17/$1.40/£1
Net debt (£m) as at end FY21	47.2
Shares in issue	89.5m
Free float	96%
Code	DSCV
Primary exchange	LSE
Secondary exchange	N/A

Share price performance

%	1m	3m	12m
Abs	10.1	30.0	71.1
Rel (local)	9.7	27.5	43.3
52-week high/low		1040p	560p

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

H122 trading update	October 2021

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Edison profile page

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Changes to forecasts

We have revised our forecasts to reflect stronger organic revenue growth in FY22. This results in a 3% increase in our normalised and underlying EPS forecasts for FY22 and a 2% increase for FY23.

Exhibit 1: Changes to estimates

£m	FY22e old	FY22e new	Change	y-o-y	FY23e old	FY23e new	Change	y-o-y
Revenues	**498.0**	**507.5**	**1.9%**	**11.7%**	**513.0**	**521.0**	**1.6%**	**2.7%**
Design & manufacturing	330.5	337.7	2.2%	13.9%	341.3	347.0	1.7%	2.7%
Custom supply	167.5	169.8	1.4%	7.7%	171.7	174.1	1.4%	2.5%
Gross margin	33.8%	33.8%	0.0%	(0.4%)	33.8%	33.8%	0.0%	0.0%
EBITDA	52.1	53.0	1.6%	9.5%	54.2	55.0	1.5%	3.8%
EBITDA margin	10.5%	10.4%	(0.0%)	(0.2%)	10.6%	10.6%	(0.0%)	0.1%
Underlying* operating profit	**37.9**	**38.8**	**2.2%**	**10.2%**	**39.9**	**40.7**	**2.0%**	**5.0%**
Underlying operating margin	*7.6%*	*7.6%*	*0.0%*	*(0.1%)*	*7.8%*	*7.8%*	*0.0%*	*0.2%*
Normalised operating profit	**39.7**	**40.6**	**2.1%**	**11.8%**	**41.7**	**42.5**	**1.9%**	**4.7%**
Normalised operating margin	*8.0%*	*8.0%*	*0.0%*	*0.0%*	*8.1%*	*8.2%*	*0.0%*	*0.2%*
Normalised PBT	35.3	36.3	2.9%	11.4%	37.2	38.0	2.2%	4.8%
Normalised net income	26.5	27.2	2.9%	9.4%	27.5	28.1	2.2%	3.4%
Normalised diluted EPS (p)	**28.6**	**29.4**	**2.9%**	**8.9%**	**29.7**	**30.4**	**2.2%**	**3.4%**
Underlying diluted EPS (p)	**27.1**	**27.9**	**3.0%**	**7.3%**	**28.3**	**28.9**	**2.3%**	**3.6%**
Reported basic EPS (p)	14.7	15.6	5.8%	15.1%	16.7	17.3	4.0%	11.3%
Dividend per share (p)	10.7	10.7	0.0%	5.4%	11.0	11.0	0.0%	2.8%
Net (debt)/cash	(59.4)	(60.0)	0.9%	27.0%	(52.6)	(52.3)	(0.5%)	(12.7%)
Net debt/EBITDA (x)	1.3	1.3			1.1	1.1		

Source: Edison Investment Research. Note: *As per company definition – excludes exceptional items and amortisation of acquired intangibles.

Exhibit 2: Financial summary

	£m	2018	2019	2020	2021	2022e	2023e
Year-end 31 March		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS							
Revenue		387.9	438.9	466.4	454.3	507.5	521.0
Cost of Sales		(261.2)	(293.9)	(309.7)	(299.0)	(336.0)	(344.9)
Gross Profit		126.7	145.0	156.7	155.3	171.5	176.1
EBITDA		29.3	37.0	50.9	48.4	53.0	55.0
Operating Profit (before am, SBP and except.)		25.2	31.8	38.9	36.3	40.6	42.5
Operating Profit (before am. and except.)		24.5	30.6	37.1	35.2	38.8	40.7
Amortisation of acquired intangibles		(4.9)	(5.9)	(9.0)	(11.1)	(11.6)	(11.6)
Exceptionals		(2.3)	(2.0)	(4.3)	(3.4)	(4.0)	(3.6)
Share-based payments		(0.7)	(1.2)	(1.8)	(1.1)	(1.8)	(1.8)
Operating Profit		17.3	22.7	23.8	20.7	23.2	25.5
Net Interest		(2.6)	(3.4)	(4.3)	(3.7)	(4.3)	(4.5)
Profit Before Tax (norm)		22.6	28.4	34.6	32.6	36.3	38.0
Profit Before Tax (FRS 3)		14.6	19.3	19.5	17.0	18.8	20.9
Tax		(4.0)	(4.7)	(5.2)	(5.0)	(4.9)	(5.4)
Profit After Tax (norm)		17.1	21.5	27.6	24.9	27.2	28.1
Profit After Tax (FRS 3)		10.6	14.6	14.3	12.0	13.9	15.5
Ave. Number of Shares Outstanding (m)		70.8	73.0	84.0	88.8	89.5	89.5
EPS - normalised & diluted (p)		23.0	28.4	31.8	27.0	29.4	30.4
EPS - underlying, diluted (p)		22.3	27.2	30.2	26.0	27.9	28.9
EPS - IFRS basic (p)		15.0	20.0	17.0	13.5	15.6	17.3
EPS - IFRS diluted (p)		14.2	19.4	16.5	13.0	15.0	16.7
Dividend per share (p)		9.0	9.6	3.0	10.2	10.7	11.0
Gross Margin (%)		32.7	33.0	33.6	34.2	33.8	33.8
EBITDA Margin (%)		7.6	8.4	10.9	10.7	10.4	10.6
Operating Margin (before am, SBP and except.) (%)		6.5	7.2	8.3	8.0	8.0	8.2
discoverIE adjusted operating margin (%)		6.3	7.0	8.0	7.7	7.6	7.8
BALANCE SHEET							
Fixed Assets		136.4	149.2	236.4	245.0	243.5	233.9
Intangible Assets		107.2	119.7	182.2	191.2	188.0	176.8
Tangible Assets		23.4	24.4	46.3	45.9	47.6	49.2
Deferred tax assets		5.8	5.1	7.9	7.9	7.9	7.9
Current Assets		165.9	179.1	197.4	183.6	188.2	195.4
Stocks		58.1	66.2	68.4	67.7	76.2	78.2
Debtors		84.6	88.7	90.1	84.9	98.7	101.3
Cash		21.9	22.9	36.8	29.2	11.4	14.1
Current Liabilities		(94.0)	(96.0)	(103.6)	(107.8)	(116.9)	(119.7)
Creditors		(87.6)	(94.3)	(94.0)	(102.2)	(111.3)	(114.1)
Lease liabilities		0.0	0.0	(5.3)	(4.8)	(4.8)	(4.8)
Short term borrowings		(6.4)	(1.7)	(4.3)	(0.8)	(0.8)	(0.8)
Long Term Liabilities		(81.5)	(97.6)	(129.7)	(112.0)	(99.2)	(86.2)
Long term borrowings		(67.9)	(84.5)	(93.8)	(75.6)	(70.6)	(65.6)
Lease liabilities		0.0	0.0	(14.7)	(16.7)	(16.1)	(15.5)
Other long-term liabilities		(13.6)	(13.1)	(21.2)	(19.7)	(12.5)	(5.1)
Net Assets		126.8	134.7	200.5	208.8	215.6	223.5
CASH FLOW							
Operating Cash Flow		21.7	30.0	48.0	57.2	37.4	51.1
Net Interest		(2.6)	(3.4)	(3.7)	(3.1)	(3.7)	(3.9)
Tax		(3.7)	(3.8)	(6.4)	(7.2)	(9.1)	(9.9)
Capex		(4.3)	(5.4)	(6.3)	(3.9)	(8.5)	(8.5)
Acquisitions/disposals		(25.4)	(22.4)	(73.6)	(20.5)	(13.1)	(5.0)
Financing		(1.5)	0.1	53.9	(6.6)	(6.7)	(6.7)
Dividends		(6.2)	(6.7)	(8.1)	(2.8)	(9.1)	(9.6)
Net Cash Flow		(22.0)	(11.6)	3.8	13.1	(12.8)	7.6
Opening net cash/(debt)		(30.0)	(52.4)	(63.3)	(61.3)	(47.2)	(60.0)
HP finance leases initiated		0.0	0.0	0.0	0.0	0.0	0.0
Other		(0.4)	0.7	(1.8)	1.0	0.0	(0.0)
Closing net cash/(debt)		(52.4)	(63.3)	(61.3)	(47.2)	(60.0)	(52.3)

Source: Company accounts, Edison Investment Research

EDISON

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