

discoverIE Group

Robust H123 order intake drives record orderbook

In H123, discoverIE reported strong organic growth in revenue and orders, with a book-to-bill of 1.07x and a record order book at the end of H1. Gross margins have been resilient, despite various supply chain challenges, and the company is adding new production capacity in India. The company is on track to deliver underlying earnings in line with board expectations for FY23; we maintain our forecasts.

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	30.1	1.5%
03/22	379.2	37.6	29.4	10.80	22.9	1.6%
03/23e	414.6	41.7	31.6	11.15	21.3	1.7%
03/24e	425.3	43.1	32.6	11.50	20.7	1.7%

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

Strong organic growth in H123

discoverIE reported revenue growth of 26% y-o-y for H123, or 23% at constant exchange rates (CER) and 14% organic CER. On an organic basis, Magnetics & Controls saw 17% y-o-y growth and Sensing & Connectivity 11% growth. Order intake was stronger than management expected, with a book-to-bill of 1.07x and a record order book of £257m at the end of H123, up 15% h-o-h and organically up 21% y-o-y. The company expects the order book level to normalise as it converts to sales in H223. Gross margins remained resilient and the semiconductor supply issues in two of the group's 21 businesses are starting to improve.

Building sustainable capacity

To support customers as they look to build more diversity into their supply chains, discoverIE has started work on a new larger production facility in Kerala, India, which will supersede the existing plant there next year. Despite the ongoing turmoil in the country, the Sri Lankan facility (c 6% of group sales) continued to produce at expected levels through H123, and the company is providing support to local employees. As part of the company's target to reduce carbon emissions by 50% by 2025, renewable energy sources are being installed at various production facilities.

Valuation: Well-positioned for profitable growth

While the stock is trading at a small premium to the average of its broader UK industrial technology peer group on a P/E basis for FY23, it trades 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 headroom for further acquisitions, with gearing of 0.8x at the end of H123 well below the target range of 1.5–2.0x, a recently expanded credit facility and a strong pipeline of opportunities.

H123 trading update

Tech hardware and equipment

14 October 2022

Price **675p**

Market cap **£644m**

\$1.13:€1.16:£1

Net debt (£m) at end FY22 30.2

Shares in issue 95.5m

Free float 96%

Code DSCV

Primary exchange LSE

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs (12.3) 11.6 (35.7)

Rel (local) (4.8) 17.6 (29.9)

52-week high/low 1,116p 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

H123 results 23 November

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Exhibit 1: 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	414.6	425.3
EBITDA		43.6	44.0	56.1	61.3	62.7
Normalised operating Profit (before am, SBP and except.)		31.6	31.9	44.8	48.7	49.9
Underlying operating Profit (before am. and except.)		29.8	30.8	41.4	46.3	47.5
Amortisation of acquired intangibles		(9.0)	(11.1)	(14.0)	(16.5)	(16.5)
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	26.8	28.0
Net Interest		(4.3)	(3.6)	(3.8)	(4.6)	(4.4)
Profit Before Tax (norm)		27.3	28.3	41.0	44.1	45.5
Profit Before Tax (FRS 3)		12.2	13.5	17.1	22.2	23.6
Tax		(3.3)	(4.0)	(7.4)	(5.6)	(6.0)
Profit After Tax (norm)		21.8	21.6	30.8	32.9	34.0
Profit After Tax (FRS 3)		8.9	9.5	9.7	16.5	17.6
Discontinued operations		5.4	2.5	15.5	0.0	0.0
Net income (norm)		21.8	21.6	30.8	32.9	34.0
Net income (FRS 3)		14.3	12.0	25.2	16.5	17.6
Ave. Number of Shares Outstanding (m)		84.0	88.8	93.0	95.7	96.2
EPS - normalised & diluted (p)		25.1	23.4	32.1	33.5	34.4
EPS - underlying, diluted (p)		24.4	22.4	29.4	31.6	32.6
EPS - IFRS basic (p)		17.0	13.5	27.1	17.3	18.3
EPS - IFRS diluted (p)		16.5	13.0	26.3	16.8	17.8
Dividend per share (p)		2.97	10.15	10.80	11.15	11.50
EBITDA Margin (%)		14.6	14.5	14.8	14.8	14.7
Normalised operating margin (before am, SBP and except.) (%)		10.6	10.5	11.8	11.7	11.7
discoverIE underlying operating margin (%)		10.0	10.2	10.9	11.2	11.2
BALANCE SHEET						
Fixed Assets		236.4	244.6	326.5	323.9	312.1
Intangible Assets		182.2	190.8	263.3	257.8	243.3
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	205.0	216.2
Stocks		68.4	67.7	77.8	88.6	90.9
Debtors		90.1	84.9	78.0	88.6	90.9
Cash		36.8	29.2	39.4	26.2	32.8
Current Liabilities		(103.6)	(107.8)	(120.9)	(130.9)	(133.8)
Creditors		(94.0)	(102.2)	(114.2)	(124.2)	(127.1)
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)	(100.7)	(89.5)
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)	(22.4)	(16.9)
Net Assets		200.5	208.4	290.4	297.4	304.9
CASH FLOW						
Operating Cash Flow		48.0	56.8	42.5	44.8	56.0
Net Interest		(3.7)	(3.1)	(3.3)	(4.1)	(3.9)
Tax		(6.4)	(7.2)	(7.1)	(11.2)	(11.6)
Capex		(6.3)	(3.9)	(6.2)	(9.0)	(9.0)
Acquisitions/disposals		(73.6)	(20.5)	(46.8)	(11.0)	(2.0)
Financing		53.9	(6.6)	46.1	(7.2)	(7.2)
Dividends		(8.1)	(2.8)	(9.4)	(10.4)	(10.9)
Net Cash Flow		3.8	12.7	15.8	(8.1)	11.6
Opening net cash/(debt)		(63.3)	(61.3)	(47.2)	(30.2)	(38.4)
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)	(38.4)	(26.8)

Source: discoverIE, Edison Investment Research

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