

discoverIE Group

Strong growth in D&M continues

Q3 trading update

discoverIE continues to see a strong trading environment, with reported year-on-year revenue growth of 13% for Q318, and organic constant currency growth of 7%. Order intake was 4% higher on an organic basis, with strong growth from Design & Manufacturing. Management anticipates that trading is in line to meet its expectations for FY18 and we leave our estimates unchanged. The addition of outgoing Diploma CEO, Bruce Thompson, as a non-executive director should bring a wealth of experience in growing an international business.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
03/16	287.7	15.2	17.8	8.1	21.3	2.1
03/17	338.2	17.8	19.9	8.5	19.1	2.2
03/18e	388.0	21.6	21.6	9.0	17.6	2.4
03/19e	402.6	22.9	22.6	9.5	16.8	2.5

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

Strong Q3 trading, in line with expectations

discoverIE saw a continuation of the strong trading environment in Q3 and believes it is on track to meet expectations for the full year. Q318 revenues were 13% higher on a reported basis, and 12% higher at constant exchange rates (CER). Excluding Variohm, which was acquired in January 2017, organic CER growth was 7% y-o-y. Design & Manufacturing (D&M) organic growth of 11% compensated for the 1% growth in Custom Supply (CS). While Custom Supply saw widespread strength in Europe, UK demand remained weaker. Gross margin for Q3 improved by 50bp versus the 32.2% reported in H118.

Positive outlook for Q4

Q318 orders grew 4% y-o-y organically, with a book-to-bill of 1.09x and strong organic growth in D&M orders of 10%. The company continues to consider acquisition opportunities, with several in the pipeline. We maintain our forecasts. We note that last week the company appointed Bruce Thompson as a non-executive director. Bruce is soon to retire from Diploma, where he has served as CEO since 1996; he will join the discoverIE board on 26 February.

Valuation: Still trading at a discount to peers

With a share price rise of 20% over the last three months, and 7% since we last wrote in December, the discount to peers has narrowed slightly. On an FY18e P/E of 17.6x and FY18e EV/EBITDA of 10.4x, the stock is trading at a c 20% discount to the peer group average for both multiples. The share is trading at a 16% discount to the electronic & electrical equipment sector. The strong order book, combined with good progress in the strategy to grow the D&M side of the business, provides confidence in both the near- and longer-term outlook for the company. Continued growth in the proportion of revenue generated from design and manufacturing should support operating margin expansion, and should help to reduce the valuation discount. The stock is also supported by a dividend yield of more than 2%.

Electronic & electrical equipment

1 February 2018

Price **380p**

Market cap **£269m**

€1.14:NOK10.88:£1

Net debt (£m) at end H118 37.6

Shares in issue 70.7m

Free float 96%

Code DSCV

Primary exchange LSE

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs 2.6 19.9 62.4

Rel (local) 4.7 19.3 51.4

52-week high/low 398.0p 212.5p

Business description

discoverIE (formerly Acal plc) is a leading international supplier of customised electronics to industry. It designs, manufactures and distributes customer-specific electronic products and solutions to 25,000 industrial manufacturers.

Next events

Capital markets day 15 March 2018

Y/E trading update April 2018

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Exhibit 1: Financial summary

	£m	2013	2014	2015	2016	2017	2018e	2019e
Year end 31 March		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS								
Revenue		177.4	211.6	271.1	287.7	338.2	388.0	402.6
Cost of Sales		(123.0)	(148.6)	(186.7)	(195.1)	(227.2)	(262.9)	(272.2)
Gross Profit		54.4	63.0	84.4	92.6	111.0	125.1	130.5
EBITDA		7.4	9.1	16.6	19.8	24.3	28.6	29.9
Operating Profit (before am, SBP and except.)		6.1	7.7	14.0	17.0	20.6	24.5	25.7
Operating Profit (before am. and except.)		5.5	7.1	13.4	16.3	20.0	23.9	24.9
Amortisation of acquired intangibles		(0.7)	(1.0)	(2.1)	(2.8)	(3.9)	(4.4)	(4.4)
Exceptionals		(3.4)	(0.9)	(5.2)	(2.1)	(8.4)	(2.9)	(0.6)
Share-based payments		(0.6)	(0.6)	(0.6)	(0.7)	(0.6)	(0.6)	(0.8)
Operating Profit		1.4	5.2	6.1	11.4	7.7	16.7	19.9
Net Interest		(0.5)	(0.8)	(1.6)	(1.8)	(2.8)	(2.9)	(2.8)
Profit Before Tax (norm)		5.6	6.9	12.4	15.2	17.8	21.6	22.9
Profit Before Tax (FRS 3)		0.7	4.2	4.3	9.4	4.8	13.6	16.9
Tax		1.4	(0.5)	(1.4)	(2.2)	(1.3)	(3.9)	(4.4)
Profit After Tax (norm)		4.6	6.0	10.0	11.8	13.6	16.2	17.1
Profit After Tax (FRS 3)		2.1	3.7	2.9	7.2	3.5	9.6	12.5
Average Number of Shares Outstanding (m)		39.2	43.1	57.6	63.3	65.4	70.7	70.7
EPS - normalised & diluted (p)		11.3	13.1	16.4	17.8	19.9	21.6	22.6
EPS - IFRS basic (p)		(4.8)	3.0	5.0	11.4	5.3	13.6	17.7
EPS - IFRS diluted (p)		(4.7)	2.8	4.8	10.9	5.1	12.9	16.5
Dividend per share (p)		6.2	6.8	7.6	8.1	8.5	9.0	9.5
Gross Margin (%)		30.7	29.8	31.1	32.2	32.8	32.2	32.4
EBITDA Margin (%)		4.2	4.3	6.1	6.9	7.2	7.4	7.4
Operating Margin (before am, SBP and except.) (%)		3.4	3.6	5.2	5.9	6.1	6.3	6.4
BALANCE SHEET								
Fixed Assets		30.9	33.1	88.6	108.4	122.2	117.5	112.3
Intangible Assets		24.2	25.5	69.9	88.2	100.7	96.0	91.1
Tangible Assets		3.1	3.5	13.8	14.7	16.0	16.0	15.7
Deferred tax assets		3.6	4.1	4.9	5.5	5.5	5.5	5.5
Current Assets		81.8	92.7	127.3	128.3	149.6	164.8	170.7
Stocks		19.3	19.4	39.8	42.9	50.1	57.4	59.6
Debtors		44.7	48.3	60.2	65.5	77.3	86.1	89.4
Cash		17.8	18.1	26.7	19.9	22.2	21.3	21.8
Current Liabilities		(50.9)	(58.3)	(62.1)	(61.7)	(78.4)	(94.5)	(96.1)
Creditors		(46.6)	(51.5)	(61.9)	(60.9)	(77.1)	(89.2)	(90.8)
Short term borrowings		(4.3)	(6.8)	(0.2)	(0.8)	(1.3)	(5.3)	(5.3)
Long Term Liabilities		(10.3)	(19.0)	(61.1)	(73.1)	(69.6)	(63.0)	(58.0)
Long term borrowings		(1.7)	(9.5)	(45.5)	(57.2)	(50.9)	(45.9)	(40.9)
Other long term liabilities		(8.6)	(9.5)	(15.6)	(15.9)	(18.7)	(17.1)	(17.1)
Net Assets		51.5	48.5	92.7	101.9	123.8	124.7	128.8
CASH FLOW								
Operating Cash Flow		5.7	6.1	6.6	14.6	20.3	20.3	25.9
Net Interest		(0.6)	(0.8)	(1.6)	(1.8)	(2.8)	(2.9)	(2.8)
Tax		(1.4)	(0.9)	(3.3)	(4.3)	(3.0)	(5.4)	(5.8)
Capex		(1.3)	(1.4)	(2.5)	(2.3)	(3.4)	(3.7)	(3.4)
Acquisitions/disposals		(0.5)	(9.2)	(37.3)	(19.8)	(11.8)	(2.0)	(2.0)
Financing		5.7	0.1	52.7	0.0	13.6	0.0	0.0
Dividends		(2.3)	(2.7)	(3.6)	(4.9)	(5.2)	(6.1)	(6.4)
Net Cash Flow		5.3	(8.8)	11.0	(18.5)	7.7	0.1	5.5
Opening net cash/(debt)		6.3	11.8	1.8	(19.0)	(38.1)	(30.0)	(29.9)
HP finance leases initiated		0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other		0.2	(1.2)	(31.8)	(0.6)	0.4	0.0	0.0
Closing net cash/(debt)		11.8	1.8	(19.0)	(38.1)	(30.0)	(29.9)	(24.4)

Source: discoverIE, Edison Investment Research

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