

discoverIE Group

D&M driving good organic growth

H1 trading update

In an uncertain trading environment, discoverIE generated 5% organic year-on-year revenue growth in H120 and 6% organic growth in Q220. The Design & Manufacturing (D&M) business is the key driver of revenue growth, resulting in 12% organic growth in Q220. Management believes the company is on track to meet its underlying earnings expectations for FY20; we maintain our forecasts.

Year end	Revenue (£m)	PBT* (£m)	Dil. EPS* (p)	DPS (p)	P/E (x)	Yield (%)
03/18	387.9	22.6	23.0	9.0	18.3	2.1
03/19	438.9	28.4	28.4	9.6	14.8	2.3
03/20e	465.8	32.1	29.1	10.0	14.4	2.4
03/21e	479.2	33.2	30.0	10.4	14.0	2.5

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

H120 results: 5% organic revenue growth

discoverIE saw reported and constant currency revenue growth of 9% y-o-y in H120. Q220 constant currency growth of 11% accelerated from the 8% generated in Q120. On an organic constant currency basis, H120 revenues grew 5%, with Q120 growth of 4% and Q220 growth of 6%. The D&M business saw a strong performance, with organic constant currency growth of 7% in H120 (Q120 +4%, Q220 +12%) and strong demand in target growth areas including renewables and transportation. Custom Supply (CS) revenues were flat y-o-y as a larger proportion of sales are generated outside target growth markets. Gross margin for H120 was consistent with the margin in H119. Integration of the recent Hobart and Positek acquisitions is progressing well.

D&M also drives 4% organic order growth

H120 group order intake was 4% higher y-o-y on an organic constant currency basis, with Q120 growth of 3% accelerating to 7% in Q220. D&M was the key driver of growth in orders, whereas CS saw a small decline y-o-y. The group order book of £153m at the end of H120 was 15% higher y-o-y in constant currency and 11% higher on an organic basis. The company believes it is on track to deliver full year underlying earnings in line with the board's expectations. We maintain our forecasts.

Valuation: Discount has widened

While the share price is up 11% year to date, discoverIE continues to trade at a discount to peers (20% discount based on FY20e P/E). Further progress in increasing the weighting of business towards D&M (64% of H120 revenues vs 61% in FY19), combined with maintaining the profitability of the CS business, should help to reduce the discount. As discoverIE increases the proportion of revenues generated from D&M, we would expect to see meaningful increases in operating margins, which should flow through to the earnings level, and we expect it to make further accretive D&M acquisitions to accelerate revenue and earnings growth. The stock is supported by a dividend yield above 2%.

Electronic & electrical equipment

14 October 2019

Price **420p**
Market cap **£339m**

€1.11:NOK11.2:£1

Net debt (£m) at end FY19 63.3

Shares in issue 80.7m

Free float 96%

Code DSCV

Primary exchange LSE

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs (6.5) 3.7 11.4

Rel (local) (5.5) 6.3 7.4

52-week high/low 462p 325p

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

H120 results 28 November 2019

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Exhibit 1: Financial summary

	£m	2015	2016	2017	2018	2019	2020e	2021e
Year end 31 March		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS								
Revenue		271.1	287.7	338.2	387.9	438.9	465.8	479.2
Cost of Sales		(186.7)	(195.1)	(227.2)	(261.2)	(293.9)	(312.1)	(321.0)
Gross Profit		84.4	92.6	111.0	126.7	145.0	153.7	158.1
EBITDA		16.6	19.8	24.3	29.3	37.0	41.2	42.4
Operating Profit (before am, SBP and except.)		14.0	17.0	20.6	25.2	31.8	35.8	36.8
Operating Profit (before am. and except.)		13.4	16.3	20.0	24.5	30.6	34.5	35.5
Amortisation of acquired intangibles		(2.1)	(2.8)	(3.9)	(4.9)	(5.9)	(8.0)	(8.0)
Exceptionals		(5.2)	(2.1)	(8.4)	(2.3)	(2.0)	(3.2)	(3.2)
Share-based payments		(0.6)	(0.7)	(0.6)	(0.7)	(1.2)	(1.3)	(1.3)
Operating Profit		6.1	11.4	7.7	17.3	22.7	23.3	24.3
Net Interest		(1.6)	(1.8)	(2.8)	(2.6)	(3.4)	(3.7)	(3.6)
Profit Before Tax (norm)		12.4	15.2	17.8	22.6	28.4	32.1	33.2
Profit Before Tax (FRS 3)		4.3	9.4	4.8	14.6	19.3	19.5	20.6
Tax		(1.4)	(2.2)	(1.3)	(4.0)	(4.7)	(4.9)	(5.1)
Profit After Tax (norm)		10.0	11.8	13.6	17.1	21.5	24.1	24.9
Profit After Tax (FRS 3)		2.9	7.2	3.5	10.6	14.6	14.6	15.4
Average Number of Shares Outstanding (m)		57.6	63.3	65.4	70.8	73.0	80.3	80.7
EPS - normalised & diluted (p)		16.4	17.8	19.9	23.0	28.4	29.1	30.0
EPS - IFRS basic (p)		5.0	11.4	5.3	15.0	20.0	18.2	19.1
EPS - IFRS diluted (p)		4.8	10.9	5.1	14.2	19.4	17.6	18.6
Dividend per share (p)		7.6	8.1	8.5	9.0	9.6	10.0	10.4
Gross Margin (%)		31.1	32.2	32.8	32.7	33.0	33.0	33.0
EBITDA Margin (%)		6.1	6.9	7.2	7.6	8.4	8.8	8.8
Operating Margin (before am, SBP and except.) (%)		5.2	5.9	6.1	6.5	7.2	7.7	7.7
BALANCE SHEET								
Fixed Assets		88.6	108.4	122.2	136.4	149.2	158.1	151.0
Intangible Assets		69.9	88.2	100.7	107.2	119.7	127.5	119.4
Tangible Assets		13.8	14.7	16.0	23.4	24.4	25.5	26.5
Deferred tax assets		4.9	5.5	5.5	5.8	5.1	5.1	5.1
Current Assets		127.3	128.3	147.1	165.9	179.1	205.0	215.6
Stocks		39.8	42.9	48.8	58.1	66.2	70.2	72.2
Debtors		60.2	65.5	77.3	84.6	88.7	102.1	105.0
Cash		26.7	19.9	21.0	21.9	22.9	31.5	37.0
Current Liabilities		(62.1)	(61.7)	(78.1)	(94.0)	(96.0)	(101.4)	(103.0)
Creditors		(61.9)	(60.9)	(77.1)	(87.6)	(94.3)	(99.7)	(101.3)
Short term borrowings		(0.2)	(0.8)	(1.0)	(6.4)	(1.7)	(1.7)	(1.7)
Long Term Liabilities		(61.1)	(73.1)	(68.7)	(81.5)	(97.6)	(92.1)	(86.6)
Long term borrowings		(45.5)	(57.2)	(50.0)	(67.9)	(84.5)	(79.5)	(74.5)
Other long term liabilities		(15.6)	(15.9)	(18.7)	(13.6)	(13.1)	(12.6)	(12.1)
Net Assets		92.7	101.9	122.5	126.8	134.7	169.6	177.0
CASH FLOW								
Operating Cash Flow		6.6	14.6	20.5	21.7	30.0	27.4	37.1
Net Interest		(1.6)	(1.8)	(2.8)	(2.6)	(3.4)	(3.7)	(3.6)
Tax		(3.3)	(4.3)	(3.0)	(3.7)	(3.8)	(8.0)	(8.3)
Capex		(2.5)	(2.3)	(3.4)	(4.3)	(5.4)	(6.4)	(6.5)
Acquisitions/disposals		(37.3)	(19.8)	(11.8)	(25.4)	(22.4)	(15.9)	0.0
Financing		52.7	0.0	13.6	(1.5)	0.1	28.0	0.0
Dividends		(3.6)	(4.9)	(5.2)	(6.2)	(6.7)	(7.8)	(8.2)
Net Cash Flow		11.0	(18.5)	7.9	(22.0)	(11.6)	13.6	10.6
Opening net cash/(debt)		1.8	(19.0)	(38.1)	(30.0)	(52.4)	(63.3)	(49.7)
HP finance leases initiated		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
Closing net cash/(debt)		(19.0)	(38.1)	(30.0)	(52.4)	(63.3)	(49.7)	(39.2)

Source: discoverIE, Edison Investment Research

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