

discoverIE Group

H122 trading update

Starting H222 with a record order book

discoverIE's trading update confirmed that performance in H122 was ahead of board expectations, with organic revenue growth of 15% y-o-y and 8% versus the pre-COVID H120. Despite supply chain challenges, the company maintained gross margins. Q222 order intake continued in the same strong vein as H221 and Q122, resulting in a record order book entering H222 and driving a small upgrade to our FY22 and FY23 forecasts.

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	33.8	0.3
03/21	454.3	32.6	27.0	10.2	39.9	0.9
03/22e	529.6	40.3	31.2	10.7	34.5	1.0
03/23e	556.0	44.2	33.2	11.0	32.5	1.0

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

H122 trading ahead of expectations

discoverIE noted that the strong order intake experienced in H221 and Q122 continued through Q222. H122 revenue was 23% higher y-o-y at constant exchange rates (CER), 15% higher y-o-y organically and 8% higher organically compared to H120 (pre-COVID). Orders grew 64% y-o-y on an organic basis and 34% compared to H120, with similar growth in both divisions. The order book at the end of H122 was 71% higher organically y-o-y and 53% higher than at the end of H120. Gross margins were maintained during H122 and the five acquisitions made over the last year are making excellent progress. Pro forma gearing (net debt/adjusted EBITDA) at the end of H122 reduced to 1.4x from 1.6x at the end of FY21, below the company's target range of 1.5–2.0x providing headroom for further acquisitions.

Small upgrade to estimates

Management noted that performance in H122 was ahead of board expectations, despite currency headwinds and supply chain challenges. While the company reported that supply chain issues limited revenue growth slightly in H122, we estimate that growth was ahead of our forecast. We have revised up our FY22 and FY23 revenue estimates by 1.1% and underlying EPS by 1.3% in both years. The strong order book at the end of H122 provides good visibility for H222, with the ability to ship product the limiting factor for growth, rather than any lack of customer demand.

Valuation: Reflects growth potential

On our revised forecasts, the stock trades towards the upper end of its peer group on a P/E basis, in our view reflecting the group's potential to drive earnings growth through accretive acquisitions. 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.

Tech hardware & equipment

18 October 2021

Price 1,076p

Market cap £1,020m

€1.18:\$1.37:£1

Net debt (£m) at end FY21 47.2

Shares in issue 94.8m

Free float 96%

Code DSCV

Primary exchange LSE

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs (9.9) 19.8 63.3

Rel (local) (11.0) 18.1 32.7

52-week high/low 1262p 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 results 30 November 2021

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Changes to forecasts

Exhibit 1: Changes to estimates								
£m	FY22e old	FY22e new	Change	y-o-y	FY23e old	FY23e new	Change	y-o-y
Revenues	523.8	529.6	1.1%	16.6%	550.0	556.0	1.1%	5.0%
Design & manufacturing	354.0	358.2	1.2%	20.8%	375.9	380.2	1.1%	6.1%
Custom supply	169.8	171.4	0.9%	8.7%	174.1	175.8	1.0%	2.6%
Gross margin	33.9%	33.9%	(0.0%)	(0.3%)	33.9%	33.9%	0.0%	0.0%
EBITDA	57.3	57.8	0.9%	19.3%	62.4	62.9	0.9%	9.0%
EBITDA margin	10.9%	10.9%	(0.0%)	0.3%	11.3%	11.3%	(0.0%)	0.4%
Underlying operating profit	42.8	43.3	1.1%	22.9%	47.4	47.9	1.1%	10.8%
Underlying operating margin	8.2%	8.2%	0.0%	0.4%	8.6%	8.6%	0.0%	0.5%
Normalised operating profit	44.6	45.1	1.1%	24.1%	49.2	49.7	1.1%	10.4%
Normalised operating margin	8.5%	8.5%	(0.0%)	0.5%	8.9%	8.9%	0.0%	0.4%
Normalised PBT	39.8	40.3	1.2%	23.6%	43.6	44.2	1.2%	9.6%
Normalised net income	29.5	29.9	1.2%	20.0%	32.1	32.5	1.2%	8.8%
Normalised diluted EPS (p)	30.8	31.2	1.2%	15.6%	32.7	33.2	1.2%	6.3%
Underlying diluted EPS (p)	29.4	29.8	1.3%	14.5%	31.4	31.8	1.3%	6.8%
Reported basic EPS (p)	17.8	18.2	2.2%	34.7%	20.6	21.0	2.0%	15.4%
Dividend per share (p)	10.7	10.7	0.0%	5.4%	11.0	11.0	0.0%	2.8%
Net (debt)/cash	(82.1)	(78.2)	(4.8%)	65.7%	(72.1)	(70.6)	(2.1%)	(9.7%)
Net debt/EBITDA (x)	1.5	1.4			1.3	1.3		

Source: Edison Investment Research

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	529.6	556.0
Cost of Sales		(261.2)	(293.9)	(309.7)	(299.0)	(350.3)	(367.5)
Gross Profit		126.7	145.0	156.7	155.3	179.3	188.5
EBITDA		29.3	37.0	50.9	48.4	57.8	62.9
Operating Profit (before am, SBP and except.)		25.2	31.8	38.9	36.3	45.1	49.7
Operating Profit (before am. and except.)		24.5	30.6	37.1	35.2	43.3	47.9
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	27.7	32.7
Net Interest		(2.6)	(3.4)	(4.3)	(3.7)	(4.8)	(5.6)
Profit Before Tax (norm)		22.6	28.4	34.6	32.6	40.3	44.2
Profit Before Tax (FRS 3)		14.6	19.3	19.5	17.0	22.8	27.1
Tax		(4.0)	(4.7)	(5.2)	(5.0)	(5.9)	(7.1)
Profit After Tax (norm)		17.1	21.5	27.6	24.9	29.9	32.5
Profit After Tax (FRS 3)		10.6	14.6	14.3	12.0	16.9	19.9
Ave. Number of Shares Outstanding (m)		70.8	73.0	84.0	88.8	92.6	94.8
EPS - normalised & diluted (p)		23.0	28.4	31.8	27.0	31.2	33.2
EPS - underlying, diluted (p)		22.3	27.2	30.2	26.0	29.8	31.8
EPS - IFRS basic (p)		15.0	20.0	17.0	13.5	18.2	21.0
EPS - IFRS diluted (p)		14.2	19.4	16.5	13.0	17.6	20.3
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	33.9	33.9
EBITDA Margin (%)		7.6	8.4	10.9	10.7	10.9	11.3
Operating Margin (before am, SBP and except.) (%)		6.5	7.2	8.3	8.0	8.5	8.9
discoverIE adjusted operating margin (%)		6.3	7.0	8.0	7.7	8.2	8.6
BALANCE SHEET							
Fixed Assets		136.4	149.2	236.4	245.0	320.2	309.9
Intangible Assets		107.2	119.7	182.2	191.2	265.0	253.8
Tangible Assets		23.4	24.4	46.3	45.9	47.3	48.2
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	174.6	187.7
Stocks		58.1	66.2	68.4	67.7	79.5	83.5
Debtors		84.6	88.7	90.1	84.9	100.1	106.6
Cash		21.9	22.9	36.8	29.2	(6.8)	(4.2)
Current Liabilities		(94.0)	(96.0)	(103.6)	(107.8)	(124.4)	(128.5)
Creditors		(87.6)	(94.3)	(94.0)	(102.2)	(118.8)	(122.9)
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)	(98.9)	(85.8)
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)	(12.2)	(4.7)
Net Assets		126.8	134.7	200.5	208.8	271.6	283.3
CASH FLOW							
Operating Cash Flow		21.7	30.0	48.0	57.2	44.9	54.6
Net Interest		(2.6)	(3.4)	(3.7)	(3.1)	(4.2)	(5.0)
Tax		(3.7)	(3.8)	(6.4)	(7.2)	(10.4)	(11.7)
Capex		(4.3)	(5.4)	(6.3)	(3.9)	(8.5)	(8.5)
Acquisitions/disposals		(25.4)	(22.4)	(73.6)	(20.5)	(90.1)	(5.0)
Financing		(1.5)	0.1	53.9	(6.6)	46.7	(6.7)
Dividends		(6.2)	(6.7)	(8.1)	(2.8)	(9.5)	(10.1)
Net Cash Flow		(22.0)	(11.6)	3.8	13.1	(31.0)	7.6
Opening net cash/(debt)		(30.0)	(52.4)	(63.3)	(61.3)	(47.2)	(78.2)
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)	(78.2)	(70.6)

Source: discoverIE, Edison Investment Research

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