

discoverIE Group

Strong finish to year prompts upgrades

FY21 trading update

discoverIE confirmed a return to organic revenue growth in the last two months of FY21 and 17% organic growth in orders over the same period, helped by robust performance in target markets, which make up more than 70% of revenue. With board expectations for underlying earnings now ahead of the consensus range, we have upgraded our forecasts reflecting higher revenue and lower interest expense, resulting in an upgrade to underlying EPS of 7.7% for FY21e and 3.3% EPS for FY22e.

Year end	Revenue (£m)	PBT* (£m)	Dil. EPS* (p)	DPS (p)	P/E (x)	Yield (%)
03/19	438.9	28.4	28.4	9.6	27.4	1.2
03/20	466.4	34.6	31.8	3.0	24.5	0.4
03/21e	453.6	31.5	25.6	10.4	30.4	1.3
03/22e	489.0	33.4	27.2	10.7	28.7	1.4

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

Return to organic revenue growth

discoverIE reported that order intake accelerated in the final two months of FY21, up 17% organically year-on-year (with double-digit growth in both divisions) compared to 10% y-o-y growth for the prior four months. Bookings for FY21 were 2% lower organically, with H221 bookings 40% higher than H121. H221 sales were 9% higher half-on-half and the last two months saw organic growth of 1% y-o-y resulting in an FY21 group sales decline of 3% y-o-y and 6% on an organic basis (-4% D&M, -8% CS). This resulted in FY21 underlying earnings ahead of the upper end of consensus (adjusted EPS range 22.4–24.2p). Continued strong cash generation reduced net debt/EBITDA at year-end to 1.2x, well below our 1.6x forecast and the company's target range of 1.5–2.0x.

Upgrading estimates

We have revised our forecasts to reflect stronger performance in the final months of the year. We increase our revenue forecasts by 1.1% in FY21 and 0.5% in FY22 and reduced our net interest expense estimates (based on lower debt), resulting in underlying diluted EPS increasing by 7.7% in FY21 and 3.3% in FY22. We have also reflected lower working capital outflows, reducing our year-end net debt forecast from £66m to £54m.

Valuation: Discount to peers

The stock is trading at a c 11% discount to its peer group on an FY21e P/E basis, down from 13% when we last wrote, and a smaller 2% discount to peer average P/E in FY22e. Aside from the continuing 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 close to 1.5%.

Tech hardware & equipment

21 April 2021

Price **780p**

Market cap **£698m**

€1.16/\$1.40/£1

Net debt (£m) at end H121 42.1

Shares in issue 89.5m

Free float 96%

Code DSCV

Primary exchange LSE

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs 15.7 5.4 51.8

Rel (local) 12.9 2.6 23.9

52-week high/low 780p 431p

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

FY21 results 3 June 2021

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Exhibit 1: Financial summary

	£m	2015	2016	2017	2018	2019	2020	2021e	2022e
Year end 31 March		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS									
Revenue		271.1	287.7	338.2	387.9	438.9	466.4	453.6	489.0
Cost of Sales		(186.7)	(195.1)	(227.2)	(261.2)	(293.9)	(309.7)	(300.8)	(323.7)
Gross Profit		84.4	92.6	111.0	126.7	145.0	156.7	152.8	165.3
EBITDA		16.6	19.8	24.3	29.3	37.0	50.9	47.9	50.3
Operating Profit (before am, SBP and except.)		14.0	17.0	20.6	25.2	31.8	38.9	35.5	37.9
Operating Profit (before am. and except.)		13.4	16.3	20.0	24.5	30.6	37.1	33.9	36.1
Amortisation of acquired intangibles		(2.1)	(2.8)	(3.9)	(4.9)	(5.9)	(9.0)	(10.8)	(11.0)
Exceptionals		(5.2)	(2.1)	(8.4)	(2.3)	(2.0)	(4.3)	(2.4)	(3.6)
Share-based payments		(0.6)	(0.7)	(0.6)	(0.7)	(1.2)	(1.8)	(1.6)	(1.8)
Operating Profit		6.1	11.4	7.7	17.3	22.7	23.8	20.7	21.5
Net Interest		(1.6)	(1.8)	(2.8)	(2.6)	(3.4)	(4.3)	(4.0)	(4.5)
Profit Before Tax (norm)		12.4	15.2	17.8	22.6	28.4	34.6	31.5	33.4
Profit Before Tax (FRS 3)		4.3	9.4	4.8	14.6	19.3	19.5	16.6	16.9
Tax		(1.4)	(2.2)	(1.3)	(4.0)	(4.7)	(5.2)	(4.2)	(4.2)
Profit After Tax (norm)		10.0	11.8	13.6	17.1	21.5	27.6	23.6	25.1
Profit After Tax (FRS 3)		2.9	7.2	3.5	10.6	14.6	14.3	12.5	12.7
Ave. Number of Shares Outstanding (m)		57.6	63.3	65.4	70.8	73.0	84.0	89.1	89.5
EPS - normalised & diluted (p)		16.4	17.8	19.9	23.0	28.4	31.8	25.6	27.2
EPS - underlying, diluted (p)		15.4	17.0	19.2	22.3	27.2	30.2	24.3	25.7
EPS - IFRS basic (p)		5.0	11.4	5.3	15.0	20.0	17.0	14.0	14.2
EPS - IFRS diluted (p)		4.8	10.9	5.1	14.2	19.4	16.5	13.5	13.8
Dividend per share (p)		7.6	8.1	8.5	9.0	9.6	3.0	10.4	10.7
Gross Margin (%)		31.1	32.2	32.8	32.7	33.0	33.6	33.7	33.8
EBITDA Margin (%)		6.1	6.9	7.2	7.6	8.4	10.9	10.6	10.3
Operating Margin (before am, SBP and except.) (%)		5.2	5.9	6.1	6.5	7.2	8.3	7.8	7.7
discoverIE adjusted operating margin (%)		4.9	5.7	5.9	6.3	7.0	8.0	7.5	7.4
BALANCE SHEET									
Fixed Assets		88.6	108.4	122.2	136.4	149.2	236.4	238.9	223.0
Intangible Assets		69.9	88.2	100.7	107.2	119.7	182.2	192.8	181.7
Tangible Assets		13.8	14.7	16.0	23.4	24.4	46.3	38.2	33.4
Deferred tax assets		4.9	5.5	5.5	5.8	5.1	7.9	7.9	7.9
Current Assets		127.3	128.3	147.1	165.9	179.1	197.4	195.6	203.9
Stocks		39.8	42.9	48.8	58.1	66.2	68.4	67.1	73.4
Debtors		60.2	65.5	77.3	84.6	88.7	90.1	87.0	95.1
Cash		26.7	19.9	21.0	21.9	22.9	36.8	39.4	33.2
Current Liabilities		(62.1)	(61.7)	(78.1)	(94.0)	(96.0)	(103.6)	(110.8)	(116.9)
Creditors		(61.9)	(60.9)	(77.1)	(87.6)	(94.3)	(94.0)	(101.2)	(107.3)
Lease liabilities		0.0	0.0	0.0	0.0	0.0	(5.3)	(5.3)	(5.3)
Short term borrowings		(0.2)	(0.8)	(1.0)	(6.4)	(1.7)	(4.3)	(4.3)	(4.3)
Long Term Liabilities		(61.1)	(73.1)	(68.7)	(81.5)	(97.6)	(129.7)	(114.4)	(95.7)
Long term borrowings		(45.5)	(57.2)	(50.0)	(67.9)	(84.5)	(93.8)	(88.8)	(83.8)
Lease liabilities		0.0	0.0	0.0	0.0	0.0	(14.7)	(8.1)	(1.5)
Other long term liabilities		(15.6)	(15.9)	(18.7)	(13.6)	(13.1)	(21.2)	(17.5)	(10.4)
Net Assets		92.7	101.9	122.5	126.8	134.7	200.5	209.3	214.2
CASH FLOW									
Operating Cash Flow		6.6	14.6	20.5	21.7	30.0	48.0	57.6	40.0
Net Interest		(1.6)	(1.8)	(2.8)	(2.6)	(3.4)	(3.7)	(4.0)	(4.5)
Tax		(3.3)	(4.3)	(3.0)	(3.7)	(3.8)	(6.4)	(7.9)	(8.3)
Capex		(2.5)	(2.3)	(3.4)	(4.3)	(5.4)	(6.3)	(4.0)	(7.5)
Acquisitions/disposals		(37.3)	(19.8)	(11.8)	(25.4)	(22.4)	(73.6)	(24.7)	(5.0)
Financing		52.7	0.0	13.6	(1.5)	0.1	53.9	(6.6)	(6.6)
Dividends		(3.6)	(4.9)	(5.2)	(6.2)	(6.7)	(8.1)	(2.8)	(9.3)
Net Cash Flow		11.0	(18.5)	7.9	(22.0)	(11.6)	3.8	7.6	(1.2)
Opening net cash/(debt)		1.8	(19.0)	(38.1)	(30.0)	(52.4)	(63.3)	(61.3)	(53.7)
HP finance leases initiated		0.0	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	(1.8)	(0.0)	(0.0)
Closing net cash/(debt)		(19.0)	(38.1)	(30.0)	(52.4)	(63.3)	(61.3)	(53.7)	(54.9)

Source: discoverIE, Edison Investment Research

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