

discoverIE Group

Organic growth accelerates

Q3 trading update

discoverIE has reported a strong Q3 trading update, with group organic revenue growth of 10% year-on-year, up from the 7% reported in H119. Demand was strong across both divisions and recent acquisitions are making good progress. With trading in line with management expectations, we make no change to forecasts, but highlight that if growth remains as strong in Q4, we see potential for earnings upgrades.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
03/17	338.2	17.8	19.9	8.5	21.1	2.0
03/18	387.9	22.6	23.0	9.0	18.2	2.1
03/19e	428.5	26.4	26.3	9.5	16.0	2.3
03/20e	445.4	28.0	27.5	10.0	15.2	2.4

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

Q3 organic growth accelerates for both divisions

discoverIE saw strong trading through Q319, with revenues up 18% y-o-y, up 20% at constant exchange rates (CER) and up 10% on an organic basis. Organic growth accelerated in both Design & Manufacturing (D&M), where Q3 revenues were up 11% compared to 10% in Q1 and Q2, and Custom Supply (CS), which saw Q3 growth of 9% up from 1% in Q1 and 4% in Q2. Good demand was spread across verticals and geographies, with Germany and Asia showing particular strength. Cursor Controls (acquired in October 2018) is seeing strong growth in orders and sales compared to the same period pre-acquisition. As flagged in December, Santon has seen a return to normal ordering patterns after a weaker H1. Revenues from cross-selling of £3m were 26% higher y-o-y, and put the company well on track to beat its £10m target for the year. Gross margin was in line with the 33% reported in H119.

Orders +7%, book-to-bill 1.08x for Q3

Group orders increased 7% y-o-y on an organic basis, resulting in a book-to-bill of 1.08x for the quarter. The order book at the end of Q3 was £145m, +21% CER and +12% organic, with c 80% due for delivery in the next 12 months. Management confirmed that the company is on track to deliver full year earnings in line with its expectations. The company has seen no obvious impact from Brexit uncertainty but, as previously noted, has increased inventory to cope with any potential disruption. At this point we make no changes to estimates, but note that if organic growth remains as strong in Q4, there is potential upside to our forecasts.

Valuation: Strong trading supports upside

For FY19e, the stock is trading on an EV/EBITDA of 9.6x (at an 11% discount to its peer group) and at a 2% discount on a P/E basis. With continuing growth and higher margins, further progress in increasing the weighting of business towards D&M (including accretive acquisitions), combined with good control over the profitability of the CS business, should help to close the valuation gap further. The stock is also supported by a dividend yield of more than 2%.

Electronic & electrical equipment

1 February 2019

Price 419p

Market cap £307m

€1.14;NOK11.03;£1

Net debt (£m) at end H119 62.6

Shares in issue 73.4m

Free float 96%

Code DSCV

Primary exchange LSE

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs 15.4 18.0 10.3

Rel (local) 10.9 20.5 19.3

52-week high/low 455p 325p

Business description

discoverIE (formerly Acal) 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

FY19 trading update April 2019

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Exhibit 1: Financial summary

	£m	2013	2014	2015	2016	2017	2018	2019e	2020e
Year end 31 March		IFRS							
PROFIT & LOSS									
Revenue		177.4	211.6	271.1	287.7	338.2	387.9	428.5	445.4
Cost of Sales		(123.0)	(148.6)	(186.7)	(195.1)	(227.2)	(261.2)	(287.0)	(298.3)
Gross Profit		54.4	63.0	84.4	92.6	111.0	126.7	141.5	147.1
EBITDA		7.4	9.1	16.6	19.8	24.3	29.3	35.3	37.4
Operating Profit (before am, SBP and except.)		6.1	7.7	14.0	17.0	20.6	25.2	30.4	32.5
Operating Profit (before am. and except.)		5.5	7.1	13.4	16.3	20.0	24.5	29.4	31.6
Amortisation of acquired intangibles		(0.7)	(1.0)	(2.1)	(2.8)	(3.9)	(4.9)	(5.9)	(6.0)
Exceptionals		(3.4)	(0.9)	(5.2)	(2.1)	(8.4)	(1.1)	(4.8)	(3.2)
Share-based payments		(0.6)	(0.6)	(0.6)	(0.7)	(0.6)	(0.7)	(1.0)	(0.9)
Operating Profit		1.4	5.2	6.1	11.4	7.7	18.5	18.7	22.4
Net Interest		(0.5)	(0.8)	(1.6)	(1.8)	(2.8)	(2.6)	(4.0)	(4.6)
Profit Before Tax (norm)		5.6	6.9	12.4	15.2	17.8	22.6	26.4	28.0
Profit Before Tax (FRS 3)		0.7	4.2	4.3	9.4	4.8	15.8	14.5	17.6
Tax		1.4	(0.5)	(1.4)	(2.2)	(1.3)	(4.0)	(3.6)	(4.5)
Profit After Tax (norm)		4.6	6.0	10.0	11.8	13.6	17.1	19.8	20.8
Profit After Tax (FRS 3)		2.1	3.7	2.9	7.2	3.5	11.8	10.9	13.1
Average Number of Shares Outstanding (m)		39.2	43.1	57.6	63.3	65.4	70.8	72.9	73.4
EPS - normalised & diluted (p)		11.3	13.1	16.4	17.8	19.9	23.0	26.3	27.5
EPS - IFRS basic (p)		(4.8)	3.0	5.0	11.4	5.3	16.7	14.9	17.9
EPS - IFRS diluted (p)		(4.7)	2.8	4.8	10.9	5.1	15.8	14.4	17.3
Dividend per share (p)		6.2	6.8	7.6	8.1	8.5	9.0	9.5	10.0
Gross Margin (%)		30.7	29.8	31.1	32.2	32.8	32.7	33.0	33.0
EBITDA Margin (%)		4.2	4.3	6.1	6.9	7.2	7.6	8.2	8.4
Operating Margin (before am, SBP and except.) (%)		3.4	3.6	5.2	5.9	6.1	6.5	7.1	7.3
BALANCE SHEET									
Fixed Assets		30.9	33.1	88.6	108.4	122.2	136.0	148.3	141.9
Intangible Assets		24.2	25.5	69.9	88.2	100.7	106.8	119.8	113.7
Tangible Assets		3.1	3.5	13.8	14.7	16.0	23.4	22.7	22.4
Deferred tax assets		3.6	4.1	4.9	5.5	5.5	5.8	5.8	5.8
Current Assets		81.8	92.7	127.3	128.3	148.4	168.4	182.3	193.1
Stocks		19.3	19.4	39.8	42.9	50.1	60.6	72.8	75.7
Debtors		44.7	48.3	60.2	65.5	77.3	84.6	91.6	97.6
Cash		17.8	18.1	26.7	19.9	21.0	21.9	16.6	18.6
Current Liabilities		(50.9)	(58.3)	(62.1)	(61.7)	(78.1)	(93.6)	(102.2)	(105.8)
Creditors		(46.6)	(51.5)	(61.9)	(60.9)	(77.1)	(87.2)	(95.8)	(99.4)
Short term borrowings		(4.3)	(6.8)	(0.2)	(0.8)	(1.0)	(6.4)	(6.4)	(6.4)
Long Term Liabilities		(10.3)	(19.0)	(61.1)	(73.1)	(68.7)	(81.5)	(93.5)	(88.5)
Long term borrowings		(1.7)	(9.5)	(45.5)	(57.2)	(50.0)	(67.9)	(82.9)	(77.9)
Other long term liabilities		(8.6)	(9.5)	(15.6)	(15.9)	(18.7)	(13.6)	(10.6)	(10.6)
Net Assets		51.5	48.5	92.7	101.9	123.8	129.3	134.8	140.7
CASH FLOW									
Operating Cash Flow		5.7	6.1	6.6	14.6	20.5	21.7	21.9	30.2
Net Interest		(0.6)	(0.8)	(1.6)	(1.8)	(2.8)	(2.6)	(4.0)	(4.6)
Tax		(1.4)	(0.9)	(3.3)	(4.3)	(3.0)	(3.7)	(5.6)	(7.1)
Capex		(1.3)	(1.4)	(2.5)	(2.3)	(3.4)	(4.3)	(4.0)	(4.5)
Acquisitions/disposals		(0.5)	(9.2)	(37.3)	(19.8)	(11.8)	(25.4)	(22.0)	0.0
Financing		5.7	0.1	52.7	0.0	13.6	(1.5)	0.0	0.0
Dividends		(2.3)	(2.7)	(3.6)	(4.9)	(5.2)	(6.2)	(6.6)	(7.1)
Net Cash Flow		5.3	(8.8)	11.0	(18.5)	7.9	(22.0)	(20.3)	7.0
Opening net cash/(debt)		6.3	11.8	1.8	(19.0)	(38.1)	(30.0)	(52.4)	(72.7)
HP finance leases initiated		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other		0.2	(1.2)	(31.8)	(0.6)	0.2	(0.4)	0.0	0.0
Closing net cash/(debt)		11.8	1.8	(19.0)	(38.1)	(30.0)	(52.4)	(72.7)	(65.7)

Source: discoverIE, Edison Investment Research

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