

discoverIE Group

Orders stabilising, EPS & margin targets on track

H125 trading update

Electrical components

discoverIE's H125 trading update confirmed that underlying earnings expectations for FY25 are unchanged. Destocking by industrial customers reduced in H125, with some now starting to place orders, resulting in a stabilisation in group order intake. Design wins in H125 with an estimated lifetime value (ELV) of £205m provide a strong foundation for future growth once destocking is complete. We maintain our FY25 and FY26 EPS forecasts despite reducing our revenue forecasts to reflect FX headwinds and lower organic growth in H125, reflecting continued good cost control and reducing interest rates.

Year end	Revenue (£m)	PBT* (£m)	Diluted EPS* (p)	DPS (p)	P/E (x)	Yield (%)
03/23	448.9	46.3	35.2	11.45	18.2	1.8
03/24	437.0	48.2	36.8	12.00	17.5	1.9
03/25e	441.1	49.9	37.3	12.50	17.2	1.9
03/26e	454.7	52.4	39.0	13.00	16.5	2.0

Note: *PBT and EPS as per discoverIE's underlying metric (excludes amortisation of acquired intangibles and exceptional items).

Orders +8% CER y-o-y, book-to-bill approaches 1x

discoverIE reported a 5% y-o-y decline in sales in H125, or 4% lower at constant exchange rates (CER). Organic sales declined 10% y-o-y, partially offset by an 8% contribution from acquisitions and a 2% decline from the disposal of Santon's solar business. In Q225, organic sales declined 7% y-o-y compared to 12% in Q125. Orders increased 8% CER y-o-y and h-o-h with book-to-bill increasing to 0.98x from 0.89x in H124. Organic order growth was 1% y-o-y and 5% h-o-h. Design wins with an ELV of £205m were 8% higher y-o-y and 33% higher compared to H123.

Earnings outlook maintained

The company noted that gross margins in H125 were robust, working capital was tightly managed and it expects to achieve its operating margin targets (13.5% for FY25 and 15% in the medium term). Gearing (net debt/EBITDA) at the end of H125 is expected to be 1.45x, down from 1.5x at the end of FY24 and below the target range of 1.5–2.0x. We have reduced our revenue forecasts for FY25 and FY26 mainly for the impact of FX and trimmed our underlying operating profit forecasts; this is offset by lower interest charges, resulting in no change to our EPS forecasts.

Valuation: Order growth to trigger upside

The stock trades at a 20% discount to its broader UK industrial technology peer group on FY25e P/E and at a larger discount to peers with a similar decentralised operating model (such as Halma and Spirax). Considering that the earnings outlook has been maintained, orders have stabilised and discoverIE continues to make excellent progress towards its margin targets, we believe this discount is overdone. The company has shown that focusing on strategic growth markets reduces cyclicity compared to the wider market and recent design win activity provides the foundations for revenue growth once larger industrial customers' de-stocking is complete.

16 October 2024

Price **642p**

Market cap **£619m**

€1.20/\$1.31/£

Net debt (£m) at end FY24 104.0

Shares in issue 96.4m

Free float 96%

Code DSCV

Primary exchange LSE

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs 6.5 (14.1) 5.1

Rel (local) 6.8 (14.4) (4.6)

52-week high/low 790p 572p

Business description

discoverIE Group is a leading international designer and manufacturer of customised electronics to industry, supplying customer-specific electronic products and solutions to original equipment manufacturers.

Next events

H125 results 3 December 2024

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Exhibit 1: Financial summary

	£m	2020	2021	2022	2023	2024	2025e	2026e
Year end 31 March		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS								
Revenue		297.9	302.8	379.2	448.9	437.0	441.1	454.7
EBITDA		43.6	44.0	56.1	65.4	71.1	74.6	77.1
Normalised operating Profit (before am, SBP and except.)		31.6	31.9	44.8	54.3	59.5	62.9	65.3
Underlying operating Profit (before am. and except.)		29.8	30.8	41.4	51.8	57.2	60.5	62.9
Amortisation of acquired intangibles		(9.0)	(11.1)	(14.0)	(15.8)	(16.2)	(17.0)	(17.0)
Exceptionals		(4.3)	(2.6)	(6.5)	(1.4)	(9.8)	(3.0)	(3.0)
Share-based payments		(1.8)	(1.1)	(3.4)	(2.5)	(2.3)	(2.4)	(2.4)
Operating Profit		16.5	17.1	20.9	34.6	31.2	40.5	42.9
Net Interest		(4.3)	(3.6)	(3.8)	(5.5)	(9.0)	(10.6)	(10.5)
Profit Before Tax (norm)		27.3	28.3	41.0	48.8	50.5	52.3	54.8
Profit Before Tax (FRS 3)		12.2	13.5	17.1	29.1	22.2	29.9	32.4
Tax		(3.3)	(4.0)	(7.4)	(7.8)	(6.7)	(7.9)	(8.5)
Profit After Tax (norm)		21.8	21.6	30.8	36.1	37.9	38.5	40.4
Profit After Tax (FRS 3)		8.9	9.5	9.7	21.3	15.5	22.0	23.9
Discontinued operations		5.4	2.5	15.5	0.0	0.0	0.0	0.0
Net income (norm)		21.8	21.6	30.8	36.1	37.9	38.5	40.4
Net income (FRS 3)		14.3	12.0	25.2	21.3	15.5	22.0	23.9
Ave. Number of Shares Outstanding (m)		84.0	88.8	93.0	95.4	95.8	95.9	96.4
EPS - normalised & diluted (p)		25.1	23.4	32.1	36.7	38.5	39.1	40.8
EPS - underlying, diluted (p)		24.4	22.4	29.4	35.2	36.8	37.3	39.0
EPS - IFRS basic (p)		17.0	13.5	27.1	22.3	16.2	23.0	24.8
EPS - IFRS diluted (p)		16.5	13.0	26.3	21.7	15.8	22.3	24.1
Dividend per share (p)		2.97	10.15	10.80	11.45	12.00	12.50	13.00
EBITDA Margin (%)		14.6	14.5	14.8	14.6	16.3	16.9	17.0
Normalised operating margin (before am, SBP and except.) (%)		10.6	10.5	11.8	12.1	13.6	14.3	14.4
discoverIE underlying operating margin (%)		10.0	10.2	10.9	11.5	13.1	13.7	13.8
BALANCE SHEET								
Fixed Assets		236.4	244.6	326.5	335.9	381.0	363.1	352.4
Intangible Assets		182.2	190.8	263.3	272.0	329.5	307.7	292.9
Tangible Assets		46.3	45.9	45.4	44.4	41.1	45.0	49.1
Deferred tax assets		7.9	7.9	17.8	19.5	10.4	10.4	10.4
Current Assets		197.4	183.6	266.2	249.8	287.7	294.4	309.5
Stocks		68.4	67.7	77.8	90.0	80.1	92.3	95.2
Debtors		90.1	84.9	78.0	74.6	88.8	80.3	82.7
Cash		36.8	29.2	108.8	83.9	110.8	120.8	130.7
Current Liabilities		(103.6)	(107.8)	(190.3)	(151.2)	(185.4)	(180.9)	(183.6)
Creditors		(94.0)	(102.2)	(114.2)	(107.3)	(101.0)	(96.5)	(99.2)
Lease liabilities		(5.3)	(4.8)	(4.7)	(4.0)	(5.7)	(5.7)	(5.7)
Short term borrowings		(4.3)	(0.8)	(71.4)	(39.9)	(78.7)	(78.7)	(78.7)
Long Term Liabilities		(129.7)	(112.0)	(112.0)	(130.9)	(181.7)	(170.8)	(159.9)
Long term borrowings		(93.8)	(75.6)	(67.6)	(86.7)	(136.1)	(131.1)	(126.1)
Lease liabilities		(14.7)	(16.7)	(16.4)	(14.8)	(14.4)	(14.4)	(14.4)
Other long term liabilities		(21.2)	(19.7)	(28.0)	(29.4)	(31.2)	(25.3)	(19.4)
Net Assets		200.5	208.4	290.4	303.6	301.6	305.7	318.4
CASH FLOW								
Operating Cash Flow		48.0	56.8	42.5	52.1	66.0	61.4	69.6
Net Interest		(3.7)	(3.1)	(3.3)	(4.8)	(7.7)	(10.1)	(10.0)
Tax		(6.4)	(7.2)	(7.1)	(9.0)	(12.5)	(13.7)	(14.4)
Capex		(6.3)	(3.9)	(6.2)	(5.6)	(4.9)	(9.2)	(9.5)
Acquisitions/disposals		(73.6)	(20.5)	(46.8)	(25.1)	(82.8)	5.0	(2.0)
Financing		53.9	(6.6)	47.2	(7.5)	(9.3)	(6.6)	(6.6)
Dividends		(8.1)	(2.8)	(9.4)	(10.5)	(11.2)	(11.7)	(12.2)
Net Cash Flow		3.8	12.7	16.9	(10.4)	(62.4)	15.0	14.9
Opening net cash/(debt)		(63.3)	(61.3)	(47.2)	(30.2)	(42.7)	(104.0)	(89.0)
HP finance leases initiated		0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other		(1.8)	1.4	0.1	(2.1)	1.1	(0.0)	0.0
Closing net cash/(debt)		(61.3)	(47.2)	(30.2)	(42.7)	(104.0)	(89.0)	(74.1)

Source: discoverIE, Edison Investment Research

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