

SDI GROUP INDUSTRIALS

1 August 2022

SDI.L

167p

Market Cap: £170.2m

SHARE PRICE (p)



12m high/low

217p/138p

Source: LSE Data (priced as at prior close)

KEY DATA

Net (Debt)/Cash	£1.1m (at 30/04/22)
Enterprise value	£169.1m
Index/market	AIM
Next news	AGM Sept
Shares in Issue (m)	102.2
Chairman	Ken Ford
Chief Executive	Mike Creedon
CFO	Jon Abell

COMPANY DESCRIPTION

SDI Group designs and manufactures analytical technology products for digital imaging, and sensing and control applications.

www.thesdigroup.net

SDI GROUP IS A RESEARCH CLIENT OF
PROGRESSIVE

ANALYSTS

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Acquisition of LTE Scientific Limited

SDI Group has announced the acquisition of LTE Scientific Limited (LTE), a UK manufacturer of sterilizers and decontamination equipment, for an estimated total consideration of £4.2m, net of £1.3m excess cash acquired. The initial cash consideration is £4.2m, with a further £1.3m payment due shortly after completion. It will be funded by the group's existing cash resources and £20m revolving credit facility, highlighting SDI's balance sheet strength. The acquisition is expected to be immediately earnings enhancing. We therefore increase our estimates for this year and next, with a 3.6% uplift to our fully adjusted EBITDA for FY23E and 5.6% for FY24.

- We believe the underlying EBIT multiple to be favourable.** Excluding the market value of the freehold building (£1.65m), the cash-free purchase price of £2.5m buys adjusted EBIT of £0.4m (after addbacks and nominal rental charges). LTE generated £6.4m revenue and £0.4m audited EBIT for the year to December 2021.
- Complementary acquisition underpins growth strategy.** LTE comes hot on the heels of the two recent acquisitions of Safelab Systems for £7.7m in March 2022 and Scientific Vacuum Systems Ltd (SVS) for £3.75m in January 2022. Management believes there are long-term growth drivers for LTE's products and services, and additional synergies such as opportunities to expand production in LTE's modern facility.
- Earnings-accretive transaction.** We forecast that LTE will add around £4.8m to revenue and £0.375m to adjusted EBIT for SDI Group for nine months in FY23, with a full-year contribution for FY24 of around £7m and £0.6m. We now forecast total group revenue growth of 26.2% in FY23 and 7.2% in FY24. More detail on the changes to estimates is shown overleaf.

We see this acquisition as another positive development for SDI Group, confirming that management continues to execute its buy and build strategy. This acquisition, coupled with the recent acquisitions of SVS and Safelab, helps to plug the potential gap from the Covid-related orders at Atik, which we believe will normalise at a lower level from the second half of the current year, due to PCR equipment demand. SDI has entered its current financial year (FY23E) from a position of strength. This was highlighted by its recent record results, building on its strong track record of profitable growth. We also welcome the recent appointment of Andrew Hosty as Non-Executive Director, given his strong background in engineering and technology, to support the Board to deliver on its successful strategy.

FYE APR (£M)	2020	2021	2022	2023E	2024E
Revenue	24.5	35.1	49.7	62.7	67.2
Adj EBITDA	6.0	9.1	13.7	14.4	15.2
Fully Adj PBT	4.3	7.4	11.8	11.6	12.4
Fully Adj EPS (p)	3.4	6.0	8.7	9.4	10.0
EV/Sales (x)	6.9x	4.8x	3.4x	2.7x	2.5x
EV/EBITDA (x)	28.3x	18.6x	12.3x	10.8x	10.2x
PER (x)	48.5x	27.9x	19.1x	16.3x	15.3x

Source: Company Information and Progressive Equity Research estimates.

This publication should not be seen as an inducement under MiFID II regulations.

Please refer to important disclosures at the end of the document.

Changes to estimates

Estimate changes						
£m unless stated	FY23E			FY24E		
	Old	New	Change (%)	Old	New	Change (%)
Revenue	57.9	62.7	8.3%	60.2	67.2	11.7%
Adj EBITDA	13.9	14.4	3.6%	14.4	15.2	5.6%
Reported PBT	9.2	9.6	4.1%	9.9	10.4	5.6%
Fully adj PBT	11.2	11.6	3.4%	11.9	12.4	4.6%
Reported EPS (p)	7.2	7.4	4.1%	7.7	8.1	5.6%
Fully adj EPS (p)	9.1	9.4	3.2%	9.6	10.0	4.4%

Source: Company information, Progressive Equity Research

Financial Summary: SDI Group

Year end: April (£m unless shown)

	2020	2021	2022	2023E	2024E
PROFIT & LOSS					
Revenue	24.5	35.1	49.7	62.7	67.2
Adj EBITDA	6.0	9.1	13.7	14.4	15.2
Adj EBIT	4.6	7.7	12.1	12.1	12.8
Reported PBT	3.3	5.6	9.9	9.6	10.4
Fully Adj PBT	4.3	7.4	11.8	11.6	12.4
NOPAT	4.2	7.4	10.1	11.0	11.6
Reported EPS (p)	2.6	4.6	7.2	7.4	8.1
Fully Adj EPS (p)	3.4	6.0	8.7	9.4	10.0
Dividend per share (p)	0.0	0.0	0.0	0.0	0.0
CASH FLOW & BALANCE SHEET					
Operating cash flow	5.2	11.7	14.7	12.1	16.4
Free Cash flow	3.0	9.3	11.3	8.3	12.0
FCF per share (p)	3.0	9.0	10.9	8.0	11.5
Acquisitions	(5.2)	(4.1)	(11.0)	(4.8)	0.0
Disposals	0.0	0.0	0.0	0.0	0.0
Shares issued	0.1	0.2	0.7	0.0	0.0
Net cash flow	2.8	(1.3)	1.3	0.1	12.0
Overdrafts / borrowings	(9.3)	(3.1)	(4.0)	0.0	0.0
Cash & equivalents	5.3	3.8	5.1	0.4	12.3
Net (Debt)/Cash	(4.0)	0.8	1.1	0.4	12.3
NAV AND RETURNS					
Net asset value	20.1	26.8	35.8	44.1	53.0
NAV/share (p)	19.8	26.0	34.3	42.3	50.8
Net Tangible Asset Value	3.9	4.1	11.4	12.8	12.8
NTAV/share (p)	3.9	4.0	10.9	12.2	12.3
Average equity	18.6	23.4	31.3	39.9	48.5
Post-tax ROE (%)	23.4%	31.7%	37.6%	29.0%	25.6%
METRICS					
Revenue growth	40.6%	43.2%	41.6%	26.2%	7.2%
Adj EBITDA growth	108.1%	52.5%	50.7%	4.7%	6.0%
Adj EBIT growth	48.4%	67.3%	56.8%	0.0%	6.2%
Adj PBT growth	43.7%	70.5%	58.9%	(1.7%)	7.1%
Adj EPS growth	13.8%	74.0%	45.7%	7.5%	6.8%
Dividend growth	N/A	N/A	N/A	N/A	N/A
Adj EBIT margins	18.8%	22.0%	24.3%	19.3%	19.1%
VALUATION					
EV/Sales (x)	6.9	4.8	3.4	2.7	2.5
EV/EBITDA (x)	28.3	18.6	12.3	10.8	10.2
EV/NOPAT (x)	40.5	22.9	16.8	14.1	13.3
PER (x)	48.5	27.9	19.1	16.3	15.3
Dividend yield	N/A	N/A	N/A	N/A	N/A
FCF yield	1.8%	5.4%	6.5%	5.2%	7.5%

Source: Company information and Progressive Equity Research estimates

Disclaimers and Disclosures

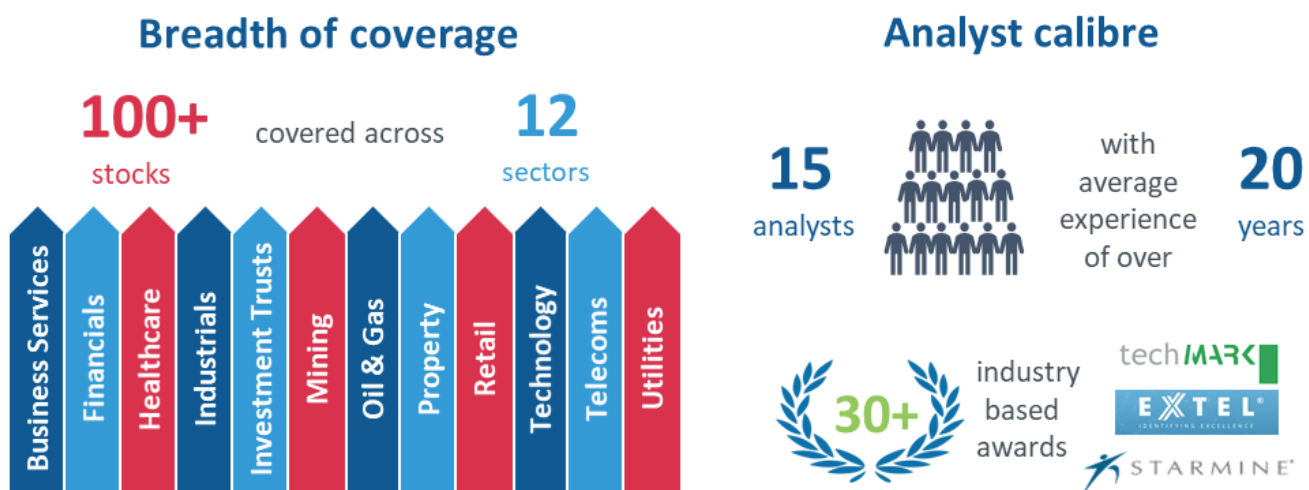
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