

SDI GROUP INDUSTRIALS

4 November 2021

SDI.L

190p

Market Cap: £188.7m

SHARE PRICE (p)



12m high/low

215p/70p

Source: LSE Data

KEY DATA

Net (Debt)/Cash	£0.8m (at 30/04/21)
Enterprise value	£187.9m
Index/market	AIM
Next news	Interims - 07 Dec 2021
Shares in Issue (m)	99.6
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.

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SDI GROUP IS A RESEARCH CLIENT OF
PROGRESSIVE

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Half-year trading update and new loan facility

Good organic growth

SDI Group, AIM-listed specialist in the acquisition and development of companies that design and manufacture scientific and technology products, has announced a positive trading update for the half year ended 31 October 2021. It has also renewed and expanded its loan facility with HSBC, from £5m to £20m, providing a significant war chest for potential acquisitions. Management reported very strong sales and profits, with revenue of c.£24.7m expected for H1 2022E (H1 2021: £14.1m; H1 2020: £11.4m). We are upgrading our FY22E and FY23E forecasts accordingly. Monmouth Scientific and Uniform Engineering, both acquired in the second half of FY2021, contributed to the strong sales growth, alongside expected organic growth of c.40%, due in part to significant one-off COVID-19 related contracts. We note that order intake has been robust across all of SDI's businesses and look forward to further updates at the Interims on 7 December 2021.

- Strong first half.** Performance across all of the SDI businesses was positive, and we are raising estimates for this year and next. We increase FY22E revenue by 7% to £45.1m and adjusted PBT by 6% to £9.2m, and FY23E revenue by 2.5% to £41.0m. We expect remaining one-off orders to be skewed to H1 22E and at this stage are not factoring any further repeat orders, or acquisitions, into our FY23E forecasts.
- Good organic growth,** with an encouraging uptick in sales in the existing businesses. While headline revenue growth is distorted by recent acquisitions and the one-off orders within Atik, stripping out these factors we forecast underlying organic revenue growth of c.8% FY21E to FY22E. SDI is managing industry-wide supply chain issues through a mixture of increased volumes and prices, which mitigates margin pressure.
- New facility underlines optimism on acquisitions.** Post period, SDI has renewed and expanded its loan facility with HSBC, from £5m to £20m. With its net cash position (£750k at the year-end) and excellent cash generation, this provides sufficient funding for further sensibly priced acquisitions.

We believe SDI Group has demonstrated its ability to under-promise and over-deliver, through its buy and build strategy. As end markets return to normal levels, SDI is well-positioned to continue to grow underlying organic revenue and profitability. We believe that the new loan facility marks an intention to make further acquisitions in the near term.

FYE APR (€M)	2019	2020	2021	2022E	2023E
Revenue	17.4	24.5	35.1	45.1	41.0
Adj EBITDA	4.0	6.0	9.5	11.2	9.4
Fully Adj PBT	3.0	4.3	7.4	9.2	7.1
Fully Adj EPS (p)	2.8	3.4	6.0	7.2	5.2
EV/Sales (x)	10.8x	7.7x	5.4x	4.2x	4.6x
EV/EBITDA (x)	47.3x	31.2x	19.8x	16.8x	20.0x
PER (x)	66.9x	55.2x	31.7x	26.3x	36.6x

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.

Financial Summary: SDI Group

Year end: April (£m unless shown)

	2019	2020	2021	2022E	2023E
PROFIT & LOSS					
Revenue	17.4	24.5	35.1	45.1	41.0
Adj EBITDA	4.0	6.0	9.5	11.2	9.4
Adj EBIT	3.1	4.6	7.7	9.5	7.5
Reported PBT	2.1	3.3	5.6	8.0	5.8
Fully Adj PBT	3.0	4.3	7.4	9.2	7.1
NOPAT	3.6	5.8	6.7	7.9	5.9
Reported EPS (p)	2.0	2.6	4.6	5.6	4.2
Fully Adj EPS (p)	2.8	3.4	6.0	7.2	5.2
Dividend per share (p)	0.0	0.0	0.0	0.0	0.0
CASH FLOW & BALANCE SHEET					
Operating cash flow	3.6	5.2	11.7	10.5	9.4
Free Cash flow	2.2	3.0	9.3	7.1	6.1
FCF per share (p)	2.4	3.1	9.5	7.0	6.1
Acquisitions	(6.8)	(5.2)	(4.1)	(2.4)	0.0
Disposals	0.0	0.0	0.0	0.0	0.0
Shares issued	2.4	0.1	0.2	0.0	0.0
Net cash flow	0.0	2.8	(1.3)	0.2	1.7
Overdrafts / borrowings	(4.1)	(9.3)	(3.1)	0.9	4.9
Cash & equivalents	2.5	5.3	3.8	4.0	5.7
Net (Debt)/Cash	(1.6)	(4.0)	0.8	5.0	10.6
NAV AND RETURNS					
Net asset value	17.1	20.1	26.8	30.7	35.5
NAV/share (p)	17.6	20.6	27.2	30.1	35.5
Net Tangible Asset Value	0.8	3.9	4.1	4.4	4.5
NTAV/share (p)	0.8	4.0	4.2	4.3	4.5
Average equity	14.8	18.6	23.4	29.9	35.4
Post-tax ROE (%)	20.4%	23.4%	31.7%	30.8%	19.9%
METRICS					
Revenue growth	40.6%	40.6%	43.2%	28.6%	(9.1%)
Adj EBITDA growth	51.5%	51.5%	57.7%	17.9%	(15.9%)
Adj EBIT growth	48.4%	48.4%	67.3%	23.5%	(21.3%)
Adj PBT growth	43.7%	43.7%	70.5%	24.0%	(23.1%)
Adj EPS growth	21.2%	21.2%	74.0%	20.6%	(28.0%)
Dividend growth	N/A	N/A	N/A	N/A	N/A
Adj EBIT margins	18.8%	18.8%	22.0%	21.1%	18.3%
VALUATION					
EV/Sales (x)	10.8	7.7	5.4	4.2	4.6
EV/EBITDA (x)	47.3	31.2	19.8	16.8	20.0
EV/NOPAT (x)	52.1	32.2	28.1	23.7	32.1
PER (x)	66.9	55.2	31.7	26.3	36.6
Dividend yield	N/A	N/A	N/A	N/A	N/A
FCF yield	1.3%	1.7%	5.0%	3.7%	3.2%

Source: Company information and Progressive Equity Research estimates

Disclaimers and Disclosures

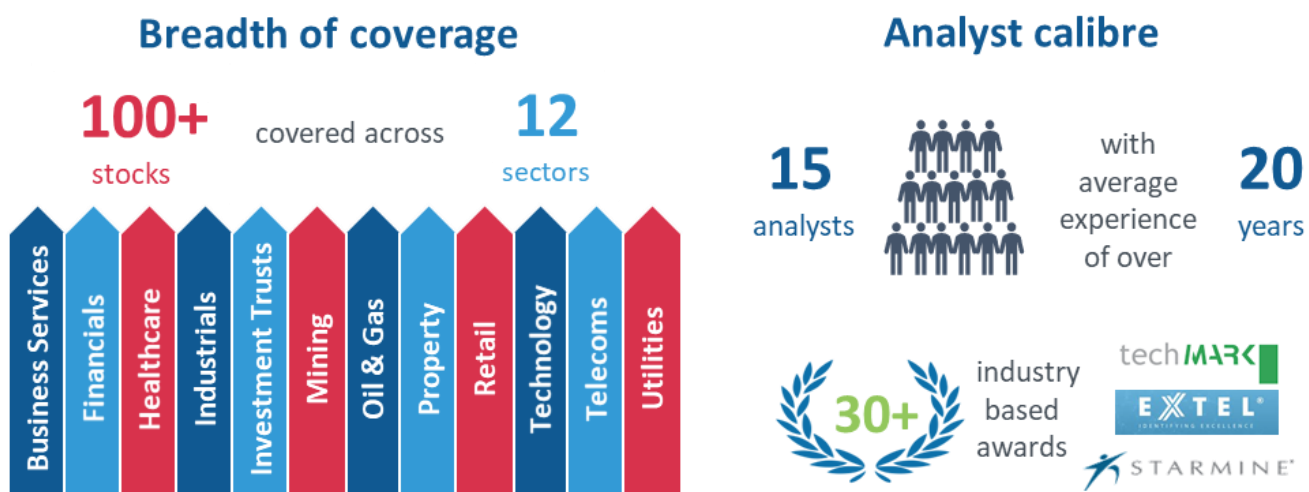
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