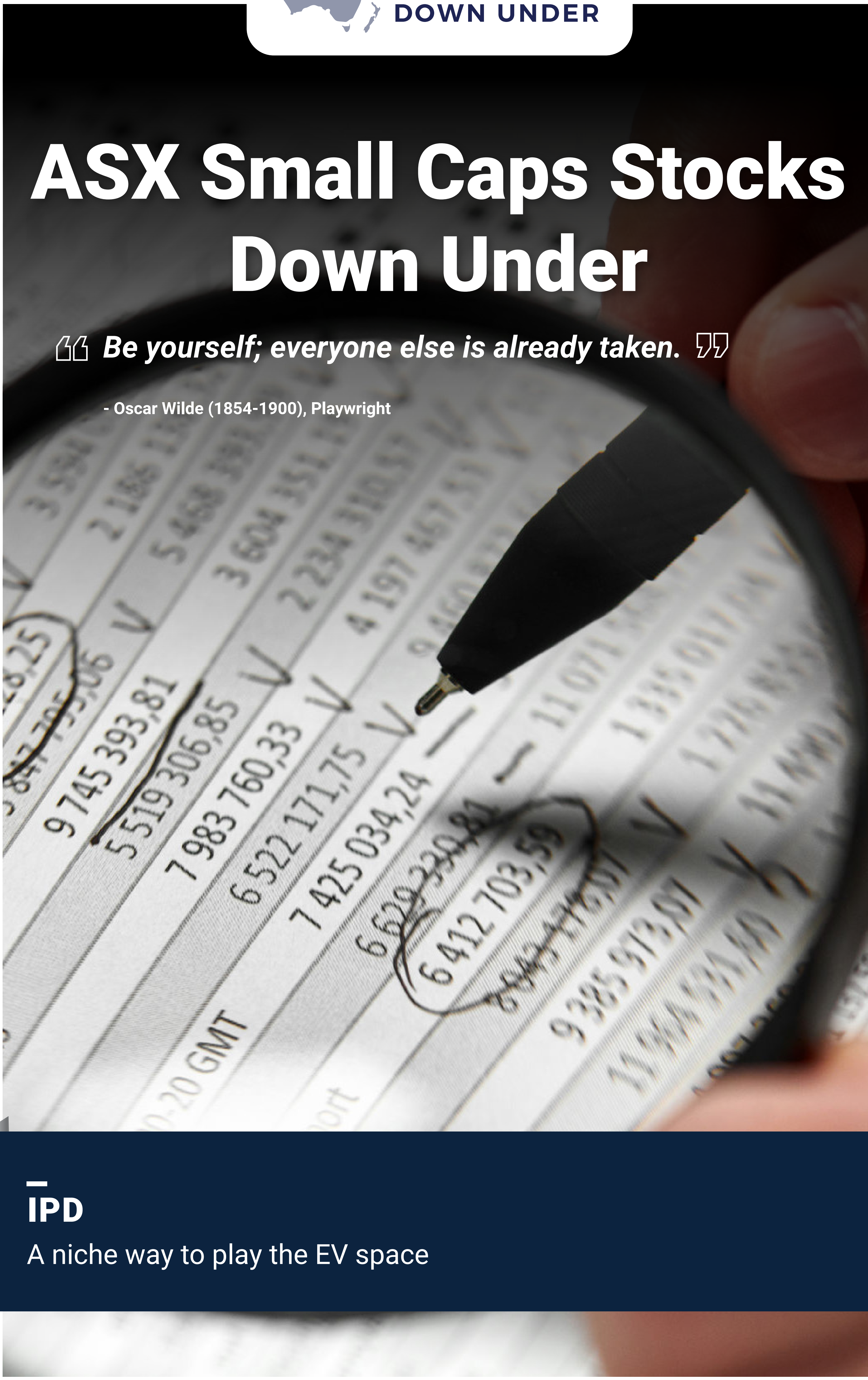

ASX Small Caps Stocks Down Under

“Be yourself; everyone else is already taken.”

- Oscar Wilde (1854-1900), Playwright

IPD

A niche way to play the EV space

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A niche way to play the EV space

Stocks Down Under rating: ★★★★

ASX: IPG
Market cap: A$120.8M

52-week range: A$1.55 / A$1.02
Share price: A$1.36

Electric vehicles, the internet, data centres and smart homes – they're all growing exponentially, but how are they going to be powered? It's no guarantee that existing power infrastructure can keep up, but IPD Group (ASX: IPG) is one company that might be able to help. IPD is a distributor and service provider to the Australian electrical product market and is also one of the few ways to play the EV space on the ASX.

Share price chart

Source: Tradingview

IPD has got the power

IPD is a distributor of electrical equipment, such as distribution boards, switchboard systems and power meters. The company also has an electrical services division that provides testing, installation, commissioning and maintenance services, although this division is only responsible for 11% of the company's revenue compared with the 89% share the distribution division holds.

IPD has over 4,200 pro forma customers. The majority of these are switchboard manufacturers, electric wholesalers, and electrical contractors, which account for 76% of gross revenue. No individual IPD customer accounts for over 13% of gross revenue, and its top 10 customers have been around long term with an average tenure of 25 years.

The company listed on the ASX in December last year, after raising $40m at $1.20 per share. It is expecting $169.6m in revenue and $16.0m EBITDA in FY22. For the first few weeks, the share price trod water, but it surpassed $1.50 per share in early February after a positive trading update. IPD is expecting $169.6m in revenue and $16.0m EBITDA in FY22. The company increased its FY22 EBITDA guidance, to $17.6m-$18.4m, after unaudited management accounts showed a positive performance in the first half of FY22. It recorded revenue of $81.7m and EBITDA of $8.8m – year-on-year gains of 54% and 38% respectively.

The need for electricity (at the right price) is a favourable tailwind

Australian power consumption keeps going up in conjunction with population growth and adoption of new technologies, from EVs to data centres. Although the average energy use per person can fluctuate annually, the country's total consumption is only going in one direction. BP's Statistical Review of Global Energy found Australia's electricity consumption was 254 terawatt-hours (TWh) in 2019, up from 235TWh in 2009.

Because of rising energy usage (and costs), infrastructure operators are upgrading their assets and putting more effort into proactive maintenance to avoid the costs of potential malfunctions. According to the Australian Bureau of Statistics, private capital expenditure on equipment, plant and machinery grew by 14% - from $13.8bn to $15.8bn - in the past five years. Construction activity is expected to grow as well, reaching $212.1bn by 2024-25.

Additionally, asset owners monitor their energy usage more regularly, which IPD can also help with. The company sells products to commercial buildings and utility operators, providing them with the ability to analyse energy usage at a granular level., Using IPD's equipment, customers can also get early indications of problems and obtain necessary data to ensure they can earn and maintain sustainability certifications, such as Greenstar and NABERS.

How to access EVs on the ASX

IPD's most significant end-market users are commercial construction, infrastructure and resources companies, which account for 60% of its revenue. But IPD is one of a few ASX companies offering exposure to electric vehicles, albeit indirectly. Australia's EV sales are beginning to take off – sales grew from 6,900 in 2020 to over 20,000 in 2021 and now account for 1.95% of new vehicle sales, up from 0.78% in 2020. Although this is far behind other markets such as North America and Europe, the Australian market is taking off thanks to government support, declining upfront costs and growing public support.

But it's not just car makers that will benefit. Companies that provide the necessary infrastructure for EVs will benefit as well. European equipment and automation company ABB, which is IPD's largest supply partner by share of FY21 revenue, provides electric vehicle chargers – both alternating current (AC) and direct current (DC) chargers. IPD provides installation, testing, commissioning and ongoing maintenance services required for the charging stations and any associated infrastructure that provides the energy to feed these outlets. In its prospectus, IPD credited its latest distribution agreement with ABB, which includes EV chargers, as a key catalyst for revenue growth. Without this deal, FY22 revenue growth would only be 5.9% instead of 18.9%.

Will investors be electrified?

The company's IPO valuation was 5.6x EV/EBITDA for FY22, but since its market update on February 7, it has reached 7.1x EV/EBITDA. There is a handful of comparable companies on the ASX, ranging from Southern Cross Electrical Engineering (ASX: SXE), which is currently trading at 3.3x EV/EBITDA, to John Lyng Group (ASX: JLG) which is trading at 25x EV/EBITDA. none of these are exclusively focused on electrical services.

One comparable pureplay company listed on Wall Street (although it does some business in Australia) is Quanta Services (NYSE: PWR), which is currently trading at 10.2xEV/EBITDA. Its share price has risen 40% in the last year and 183% in the past five years. Although it builds electrical infrastructure in addition to providing parts and maintenance services, it too has gained from increasing electrification needs in the USA.

IPD probably won't grow into a US$14.8bn company like Quanta. But we believe even if electric vehicles sales growth returned to the snail-like pace seen in Australia before 2021, which we don't expect, the company has enough upside from traditional energy assets alone to have an electrifying few years. Four stars.

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