

XP Power

FY22 trading update

Strong H222 with good visibility for FY23

XP Power's FY22 trading update confirmed that its H222 performance was significantly stronger than H122 as supply chain conditions improved. As expected, Q4 order intake moderated as customers adapted to longer lead times. The year-end order book provides good visibility for FY23 and management is optimistic on XP's prospects for the year. We have revised our forecasts to reflect moderating order intake and higher levels of debt.

Year end	Revenue (£m)	PBT* (£m)	Diluted EPS* (p)	DPS (p)	P/E (x)	Yield (%)
12/20	233.3	44.3	198.4	74	10.9	3.4
12/21	240.3	43.8	176.3	94	12.3	4.3
12/22e	290.6	37.7	151.6	94	14.3	4.3
12/23e	309.5	40.0	160.8	97	13.5	4.5

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

Strong finish to FY22

Helped by improving supply chain conditions, XP generated Q422 revenue of £87.6m, +49% y-o-y (+30% constant currency (cc), +24% like-for-like (l-f-l)) and +10% q-o-q. FY22 revenue of £290.6m (+21% y-o-y, +11% cc, +5% l-f-l) compared to our £282.4m forecast. Management expects FY22 adjusted operating profit in the middle of the current consensus range (£41–46m). At £43.5m, this implies H222 operating profit of £28.5m (17.1% margin) versus £15.0m in H122 (12.1% margin). Year-end net debt of £152m was higher than our £133m, due to slower than expected inventory unwind, lower operating profit and higher net finance costs. Management has secured better banking covenant flexibility (net debt/EBITDA <3.5x at end FY22 (up from <3x), reducing to <3.25x at end H123 and <3x at end FY23) and expects leverage to reduce significantly through FY23. The Q4 dividend is likely to be at least 36p, in line with our forecast.

Moderating order intake

After a period of very strong order intake as customers sought to manage long lead times through the supply chain, Q4 orders moderated, falling 32% q-o-q and 23% y-o-y (31% cc, 34% l-f-l). Order backlog at year-end of c £300m remains high and provides good visibility for FY23. Management expects visibility to return to more normal levels during 2023 (c four months historically). We have revised our FY22 forecasts to reflect expected revenue and operating profit. We have adjusted our FY23 forecasts to reflect inflation and higher net interest costs.

Valuation: Discount narrows

On a P/E basis for FY22 and FY23, XP is trading at a 20% discount to both global power solution companies and UK electronics companies, with a dividend yield at the top end of the range. XP generates EBITDA and EBIT margins at the upper end of both peer groups and has a strong order book entering FY23. In our view, with supply chain issues abating, concern is switching to the demand side of the equation. We expect that key drivers of the share price will include evidence over coming quarters that order intake is relatively stable, despite increasing economic uncertainty, and that litigation has been resolved.

Tech hardware and equipment

12 January 2023

Price 2,165p

Market cap £425m

\$1.21/£

Net debt (£m) at end FY22 152

Shares in issue 19.6m

Free float 90%

Code XPP

Primary exchange LSE

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs 7.2 41.5 (56.7)

Rel (local) 3.7 25.6 (56.5)

52-week high/low 5,250p 1,464p

Business description

XP Power is a developer and designer of power control solutions, with production facilities in China, Vietnam, Germany and the United States and design, service and sales teams across Europe, the United States and Asia.

Next events

FY22 results 28 February 2023

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Changes to forecasts

Exhibit 1: Changes to forecasts								
£m	FY22e	FY22e			FY23e	FY23e		
	Old	New	Change	y-o-y	Old	New	Change	y-o-y
Revenues	282.4	290.6	2.9%	20.9%	295.8	309.5	4.6%	6.5%
Gross profit	122.0	124.0	1.7%	14.5%	135.5	134.7	(0.6%)	8.7%
Gross margin	43.2%	42.7%	(0.5%)	(2.4%)	45.8%	43.5%	(2.3%)	0.9%
EBITDA	57.9	55.9	(3.5%)	0.7%	70.8	65.6	(7.4%)	17.3%
EBITDA margin	20.5%	19.2%	(1.3%)	(3.9%)	23.9%	21.2%	(2.8%)	1.9%
Normalised operating profit	45.4	43.4	(4.4%)	(3.7%)	57.2	50.0	(12.7%)	15.1%
Normalised operating margin	16.1%	14.9%	(1.1%)	(3.8%)	19.3%	16.1%	(3.2%)	1.2%
Reported operating profit	(20.1)	(22.1)	10.0%	(174.4%)	53.0	45.8	(13.7%)	N/A
Reported operating margin	(7.1%)	(7.6%)	(0.5%)	(20.0%)	17.9%	14.8%	(3.1%)	22.4%
Normalised PBT	42.3	37.7	(10.8%)	(13.9%)	52.9	40.0	(24.5%)	6.0%
Reported PBT	(24.2)	(28.8)	18.8%	(201.4%)	48.7	35.8	(26.6%)	N/A
Normalised net income	34.0	30.3	(10.9%)	(13.4%)	42.6	32.1	(24.6%)	6.0%
Reported net income	(19.9)	(23.6)	18.6%	(204.4%)	39.3	28.8	(26.8%)	N/A
Normalised basic EPS (p)	173.1	154.3	(10.9%)	(14.0%)	217.1	163.6	(24.6%)	6.0%
Normalised diluted EPS (p)	170.1	151.6	(10.9%)	(14.0%)	213.3	160.8	(24.6%)	6.0%
Reported basic EPS (p)	(101.3)	(120.2)	18.6%	(203.8%)	200.0	146.5	(26.8%)	N/A
Dividend per share (p)	94.0	94.0	0.0%	0.0%	97.0	97.0	0.0%	3.2%
Net debt/(cash)	133.3	151.8	13.9%	517.2%	124.1	140.8	13.5%	(7.3%)
Orders	385.2	362.7	-5.8%	5.6%	310.6	276.4	-11.0%	-23.8%
Net debt/EBITDA (x)	2.4	2.8			1.8	2.2		

Source: Edison Investment Research

Exhibit 2: Financial summary

	£m	2017	2018	2019	2020	2021	2022e	2023e
Year end 31 December		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT								
Revenue		166.8	195.1	199.9	233.3	240.3	290.6	309.5
Cost of Sales		(89.2)	(102.8)	(109.8)	(123.2)	(132.0)	(166.6)	(174.7)
Gross Profit		77.6	92.3	90.1	110.1	108.3	124.0	134.7
EBITDA		41.7	49.2	44.5	56.8	55.5	55.9	65.6
Normalised operating profit		36.4	42.9	35.0	46.0	45.1	43.4	50.0
Amortisation of acquired intangibles		(0.6)	(2.8)	(3.2)	(3.2)	(2.8)	(4.2)	(4.2)
Exceptionals		(3.3)	(0.8)	(5.1)	(5.4)	(12.6)	(61.3)	0.0
Share-based payments		0.0	0.0	0.0	0.0	0.0	0.0	0.0
Reported operating profit		32.5	39.3	26.7	37.4	29.7	(22.1)	45.8
Net Interest		(0.3)	(1.7)	(2.7)	(1.7)	(1.3)	(5.7)	(10.0)
Joint ventures & associates (post tax)		0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exceptional & other financial		0.0	0.0	0.0	0.0	0.0	(1.0)	0.0
Profit Before Tax (norm)		36.1	41.2	32.3	44.3	43.8	37.7	40.0
Profit Before Tax (reported)		32.2	37.6	24.0	35.7	28.4	(28.8)	35.8
Reported tax		(3.6)	(7.2)	(3.2)	(4.0)	(5.4)	5.4	(6.8)
Profit After Tax (norm)		28.8	33.9	27.9	39.2	35.4	30.5	32.4
Profit After Tax (reported)		28.6	30.4	20.8	31.7	23.0	(23.3)	29.0
Minority interests		(0.3)	(0.2)	(0.3)	(0.2)	(0.4)	(0.3)	(0.3)
Discontinued operations		0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net income (normalised)		28.5	33.7	27.6	39.0	35.0	30.3	32.1
Net income (reported)		28.3	30.2	20.5	31.5	22.6	(23.6)	28.8
Basic average number of shares outstanding (m)		19.1	19.1	19.2	19.3	19.5	19.6	19.6
EPS - basic normalised (p)		149.4	176.1	144.1	201.8	179.4	154.3	163.6
EPS - diluted normalised (p)		147.0	172.8	141.4	198.4	176.3	151.6	160.8
EPS - basic reported (p)		148.3	157.8	107.0	163.0	115.8	(120.2)	146.5
Dividend (p)		78	85	55	74	94	94	97
Revenue growth (%)		28.5	17.0	2.5	16.7	3.0	20.9	6.5
Gross Margin (%)		46.5	47.3	45.1	47.2	45.1	42.7	43.5
EBITDA Margin (%)		25.0	25.2	22.3	24.3	23.1	19.2	21.2
Normalised Operating Margin (%)		21.8	22.0	17.5	19.7	18.8	14.9	16.1
BALANCE SHEET								
Fixed Assets		88.1	129.2	137.4	135.2	150.5	198.3	203.0
Intangible Assets		63.9	97.7	99.6	98.8	108.8	144.2	144.0
Tangible Assets		22.5	30.7	35.9	33.5	38.5	50.9	55.8
Investments & other		1.7	0.8	1.9	2.9	3.2	3.2	3.2
Current Assets		83.5	105.1	96.0	107.0	121.7	162.6	161.5
Stocks		37.8	56.5	44.1	54.2	74.0	94.9	95.3
Debtors		23.8	33.0	34.8	30.2	30.8	43.8	43.2
Cash & cash equivalents		15.0	11.5	11.2	13.9	9.0	9.6	12.6
Other		6.9	4.1	5.9	8.7	7.9	14.3	10.3
Current Liabilities		(25.1)	(26.8)	(30.4)	(34.7)	(49.0)	(49.9)	(51.7)
Creditors		(21.4)	(22.4)	(25.2)	(28.3)	(44.7)	(45.6)	(47.4)
Tax and social security		(3.5)	(4.2)	(3.1)	(4.9)	(2.5)	(2.5)	(2.5)
Short term borrowings		0.0	0.0	(1.6)	(1.5)	(1.8)	(1.8)	(1.8)
Other		(0.2)	(0.2)	(0.5)	0.0	0.0	0.0	0.0
Long Term Liabilities		(29.6)	(70.1)	(64.1)	(43.0)	(50.8)	(178.4)	(170.2)
Long term borrowings		(24.0)	(63.5)	(57.3)	(35.2)	(39.9)	(167.5)	(159.3)
Other long term liabilities		(5.6)	(6.6)	(6.8)	(7.8)	(10.9)	(10.9)	(10.9)
Net Assets		116.9	137.4	138.9	164.5	172.4	132.5	142.5
Minority interests		(0.9)	(1.0)	(0.7)	(0.7)	(0.9)	(1.0)	(1.0)
Shareholders' equity		116.0	136.4	138.2	163.8	171.5	131.6	141.5
CASH FLOW								
Op Cash Flow before WC and tax		41.7	49.2	44.5	56.8	55.5	55.9	65.6
Working capital		0.4	(21.6)	10.6	(6.2)	(4.0)	(33.0)	2.0
Exceptional & other		(6.3)	3.2	(4.4)	(1.7)	(10.9)	(53.8)	0.0
Tax		(6.1)	(4.1)	(4.5)	(3.3)	(4.2)	(1.0)	(2.8)
Net operating cash flow		29.7	26.7	46.2	45.6	36.4	(31.9)	64.8
Capex		(10.1)	(15.0)	(16.3)	(14.9)	(21.9)	(34.0)	(23.0)
Acquisitions/disposals		(18.3)	(35.4)	0.0	(0.5)	0.0	(32.3)	0.0
Net interest		(0.2)	(1.5)	(2.7)	(1.3)	(0.9)	(5.7)	(10.0)
Equity financing		(0.2)	0.6	0.5	3.5	0.6	0.0	0.0
Dividends		(14.2)	(15.6)	(17.2)	(7.3)	(18.4)	(18.7)	(19.0)
Other		0.0	0.0	(1.5)	(1.7)	(1.7)	(1.7)	(1.7)
Net Cash Flow		(13.3)	(40.2)	9.0	23.4	(5.9)	(124.2)	11.1
Opening net debt/(cash)		(3.7)	9.0	52.0	41.3	17.9	24.6	151.8
FX		0.6	(2.7)	1.7	0.0	(0.8)	(3.0)	0.0
Other non-cash movements		0.0	(0.1)	0.0	0.0	0.0	0.0	0.0
Closing net debt/(cash)		9.0	52.0	41.3	17.9	24.6	151.8	140.8

Source: XP Power, Edison Investment Research

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