

XP Power

Maintaining FY23 outlook

Q123 trading update

XP Power confirmed that trading in Q123 was in line with its expectations. As expected, order intake declined from the record level a year ago, reflecting an improving supply chain and softening end-market demand, particularly for semiconductor equipment and industrial technology. Revenue and profitability were higher than a year ago. The strong backlog provides good visibility for the remainder of the year and we expect it to gradually reduce as current year orders are shipped and customers revert to pre-pandemic ordering patterns. We maintain our forecasts.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
12/21	240.3	43.8	176.3	94	10.6	5.1
12/22	290.4	38.0	160.1	94	11.6	5.1
12/23e	309.5	37.3	152.3	94	12.2	5.1
12/24e	316.8	43.3	174.6	97	10.7	5.2

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

Q1 trading in line with expectations

XP Power reported Q123 revenue of £77.9m, up 26% y-o-y or 16% in constant currency (cc) and down 11% q-o-q, resulting in improved profitability year-on-year. Order intake of £61.2m was down 40% y-o-y or 45% cc and down 11% q-o-q, resulting in a book-to-bill ratio of 0.79x for the quarter. As a reminder, Q122 order intake was a record and reflected customer concerns over long lead times. The order book declined from £308m at the end of FY22 to £280m at the end of Q123. Net debt at the end of Q123 was £147.0m, down from £151.0m at the end of FY22. The company expects net debt/EBITDA at the end of H123 to be below the level at the end of FY22 (2.7x) and to decline towards 2x by the end of FY23 (our forecast: 2.3x). A Q1 dividend of 18p (flat year-on-year) was announced, in line with our forecast.

Full year outlook unchanged

Management's view on the outlook for FY23 is unchanged, noting that the outturn is likely to have a modest H2 weighting. XP expects a similar level of orders in Q223 before a pick-up in demand in H223. We expect the book-to-bill ratio to remain below one for the rest of the year and for the backlog to reduce from the current high level (which based on Q1 revenue equates to more than 10 months of revenue visibility, well ahead of the historical four- to five-month level). We maintain our forecasts.

Valuation: Discount has widened

The shares have declined 24% since we last wrote in February and the discount to peers has widened. On a P/E basis for FY23 and FY24, XP is trading at a c 30% discount to global power solution companies and UK electronics companies (compared to a 15% discount at the end of February), with a dividend yield at the top end of the range. The company generates EBITDA and EBIT margins at the upper end of both peer groups and has a strong order book. In our view, further evidence of an improving supply chain, resolution of the Comet litigation and stability in order intake will be the key drivers of the share price.

Electronic and electrical equipment

13 April 2023

Price **1860p**

Market cap **£365m**

\$1.25/£

Net debt (£m) at end Q123 147.0

Shares in issue at end 2022 19.6m

Free float 93.7%

Code XPP

Primary exchange LSE

Secondary exchange N/A

Share price performance



%	1m	3m	12m
Abs	(15.1)	(13.7)	(46.5)
Rel (local)	(15.5)	(13.4)	(47.0)
52-week high/low		3,600p	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

H123 results August

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Exhibit 1: Financial summary

	£m	2017	2018	2019	2020	2021	2022	2023e	2024e
Year end 31 December		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT									
Revenue		166.8	195.1	199.9	233.3	240.3	290.4	309.5	316.8
Cost of Sales		(89.2)	(102.8)	(109.8)	(123.2)	(132.0)	(169.8)	(174.8)	(174.7)
Gross Profit		77.6	92.3	90.1	110.1	108.3	120.6	134.7	142.1
EBITDA		41.7	49.2	44.5	56.8	55.5	56.4	65.3	71.8
Normalised operating profit		36.4	42.9	35.0	46.0	45.1	42.9	49.3	54.3
Amortisation of acquired intangibles		(0.6)	(2.8)	(3.2)	(3.2)	(2.8)	(4.1)	(4.1)	(4.1)
Exceptionals		(3.3)	(0.8)	(5.1)	(5.4)	(12.6)	(62.9)	0.0	0.0
Share-based payments		0.0	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	(24.1)	45.2	50.2
Net Interest		(0.3)	(1.7)	(2.7)	(1.7)	(1.3)	(4.9)	(12.0)	(11.0)
Joint ventures & associates (post tax)		0.0	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	(1.2)	0.0	0.0
Profit Before Tax (norm)		36.1	41.2	32.3	44.3	43.8	38.0	37.3	43.3
Profit Before Tax (reported)		32.2	37.6	24.0	35.7	28.4	(30.2)	33.2	39.2
Reported tax		(3.6)	(7.2)	(3.2)	(4.0)	(5.4)	10.6	(6.3)	(7.8)
Profit After Tax (norm)		28.8	33.9	27.9	39.2	35.4	31.9	30.3	34.7
Profit After Tax (reported)		28.6	30.4	20.8	31.7	23.0	(19.6)	26.9	31.4
Minority interests		(0.3)	(0.2)	(0.3)	(0.2)	(0.4)	(0.4)	(0.3)	(0.3)
Discontinued operations		0.0	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	31.5	30.0	34.4
Net income (reported)		28.3	30.2	20.5	31.5	22.6	(20.0)	26.7	31.1
Basic average number of shares outstanding (m)		19.1	19.1	19.2	19.3	19.5	19.6	19.6	19.6
EPS - basic normalised (p)		149.4	176.1	144.1	201.8	179.4	160.6	152.7	175.2
EPS - diluted normalised (p)		147.0	172.8	141.4	198.4	176.3	160.1	152.3	174.6
EPS - basic reported (p)		148.3	157.8	107.0	163.0	115.8	(102.0)	135.8	158.5
Dividend (p)		78	85	55	74	94	94	94	97
Revenue growth (%)		28.5	17.0	2.5	16.7	3.0	20.8	6.6	2.4
Gross Margin (%)		46.5	47.3	45.1	47.2	45.1	41.5	43.5	44.8
EBITDA Margin (%)		25.0	25.2	22.3	24.3	23.1	19.4	21.1	22.7
Normalised Operating Margin (%)		21.8	22.0	17.5	19.7	18.8	14.8	15.9	17.1
BALANCE SHEET									
Fixed Assets		88.1	129.2	137.4	135.2	150.5	255.1	276.5	279.4
Intangible Assets		63.9	97.7	99.6	98.8	108.8	147.4	147.3	147.7
Tangible Assets		22.5	30.7	35.9	33.5	38.5	91.5	113.0	115.5
Investments & other		1.7	0.8	1.9	2.9	3.2	16.2	16.2	16.2
Current Assets		83.5	105.1	96.0	107.0	121.7	226.6	201.3	202.7
Stocks		37.8	56.5	44.1	54.2	74.0	114.4	93.4	93.3
Debtors		23.8	33.0	34.8	30.2	30.8	42.4	42.4	43.4
Cash & cash equivalents		15.0	11.5	11.2	13.9	9.0	22.3	22.0	26.5
Other		6.9	4.1	5.9	8.7	7.9	47.5	43.5	39.5
Current Liabilities		(25.1)	(26.8)	(30.4)	(34.7)	(49.0)	(106.2)	(101.1)	(101.3)
Creditors		(21.4)	(22.4)	(25.2)	(28.3)	(44.7)	(52.6)	(57.5)	(57.7)
Tax and social security		(3.5)	(4.2)	(3.1)	(4.9)	(2.5)	(4.9)	(4.9)	(4.9)
Short term borrowings		0.0	0.0	(1.6)	(1.5)	(1.8)	(2.6)	(2.6)	(2.6)
Other		(0.2)	(0.2)	(0.5)	0.0	0.0	(46.1)	(36.1)	(36.1)
Long Term Liabilities		(29.6)	(70.1)	(64.1)	(43.0)	(50.8)	(236.0)	(227.8)	(219.6)
Long term borrowings		(24.0)	(63.5)	(57.3)	(35.2)	(39.9)	(223.1)	(214.9)	(206.7)
Other long term liabilities		(5.6)	(6.6)	(6.8)	(7.8)	(10.9)	(12.9)	(12.9)	(12.9)
Net Assets		116.9	137.4	138.9	164.5	172.4	139.5	148.8	161.1
Minority interests		(0.9)	(1.0)	(0.7)	(0.7)	(0.9)	(0.8)	(0.9)	(0.9)
Shareholders' equity		116.0	136.4	138.2	163.8	171.5	138.7	148.0	160.2
CASH FLOW									
Op Cash Flow before WC and tax		41.7	49.2	44.5	56.8	55.5	56.4	65.3	71.8
Working capital		0.4	(21.6)	10.6	(6.2)	(4.0)	(33.5)	26.0	(0.8)
Exceptional & other		(6.3)	3.2	(4.4)	(1.7)	(10.9)	(57.7)	(10.0)	0.0
Tax		(6.1)	(4.1)	(4.5)	(3.3)	(4.2)	(4.1)	(2.3)	(3.8)
Net operating cash flow		29.7	26.7	46.2	45.6	36.4	(38.9)	79.0	67.2
Capex		(10.1)	(15.0)	(16.3)	(14.9)	(21.9)	(19.4)	(40.0)	(23.0)
Acquisitions/disposals		(18.3)	(35.4)	0.0	(0.5)	0.0	(33.0)	0.0	0.0
Net interest		(0.2)	(1.5)	(2.7)	(1.3)	(0.9)	(5.5)	(12.0)	(11.0)
Equity financing		(0.2)	0.6	0.5	3.5	0.6	0.0	0.0	0.0
Dividends		(14.2)	(15.6)	(17.2)	(7.3)	(18.4)	(19.0)	(18.6)	(19.1)
Other		0.0	0.0	(1.5)	(1.7)	(1.7)	(5.8)	(1.7)	(1.7)
Net Cash Flow		(13.3)	(40.2)	9.0	23.4	(5.9)	(121.6)	6.6	12.4
Opening net debt/(cash)		(3.7)	9.0	52.0	41.3	17.9	24.6	151.0	144.4
FX		0.6	(2.7)	1.7	0.0	(0.8)	(4.8)	0.0	0.0
Other non-cash movements		0.0	(0.1)	0.0	0.0	0.0	0.0	0.0	0.0
Closing net debt/(cash)		9.0	52.0	41.3	17.9	24.6	151.0	144.4	131.9

Source: XP Power, Edison Investment Research

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