

XP Power

Trading update

Revising forecasts to reflect weaker semis sector

As previously flagged, a drop in demand from XP's semiconductor customers had a negative impact on Q4 revenues and orders. Conversely, demand from all other end-markets remained strong. With FY18 revenues likely to be 2% lower than we had expected, we have revised our forecasts to reflect this and expected weaker demand from the semiconductor sector in FY19. Despite the resulting 5% cut in EPS forecasts for FY19, the stock is trading at a discount to peers, with a superior dividend yield.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
12/16	129.8	28.6	115.3	71.0	19.4	3.2
12/17	166.8	36.1	147.0	78.0	15.2	3.5
12/18e	194.8	40.7	170.5	84.0	13.1	3.8
12/19e	210.3	43.9	187.9	87.0	11.9	3.9

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

Q418 revenues and orders see sequential decline

XP expects to report Q4 revenues of £48.9m (+14% y-o-y/+12% constant currency/-8% q-o-q) and orders of £45.1m (-4% y-o-y/-6% cc/-13% q-o-q). Weakness from the semiconductor sector (c 25% of revenues) had already been flagged, and this continued during Q4. Year-end net debt was £52.5m, versus our £44.8m forecast. XP expects to announce a Q4 dividend of at least 32p (ahead of our 30p forecast). Despite the dip in demand from semiconductor production equipment customers (SPE), XP expects to generate growth in FY19, including the effect of a full year of Glassman revenues.

Estimates revised to reflect bookings and currency

After several years of strong growth, industry association SEMI is forecasting a c 8% decline in global semiconductor capex in CY19 as chip manufacturers respond to weaker memory prices. We have revised our estimates to factor in declining SPE revenues in FY19, with the remaining business forecast to grow at mid-single digits. We have also factored in the stronger dollar (from \$1.32/£1 to \$1.30/£1 for FY19). We have revised our working capital forecast, assuming that inventory grew faster due to slower revenues in Q4 and the impact of the stronger dollar. We reduce our normalised EPS forecasts by 4.0% for FY18e and 5.3% for FY19e.

Valuation: Semis weakness factored in

Since its peak of 3,620p at the end of July, the stock has declined nearly 40%, we believe due to concerns over weakening demand from SPE customers. XP is now trading at 11.9x revised FY19 EPS estimates, compared to 18.9x in July. We estimate that XP currently generates c 25% of revenues from the SPE sector so is not immune to weakening sector demand, but market share gains as well as robust demand in its other end-markets should reduce the potential exposure. On an FY19e P/E basis, XP is trading at c 22% discount to global power converter companies and UK electronics companies, with a dividend yield at the top end of the range. XP generates EBITDA and EBIT margins at the top end of its peer group.

Tech hardware & equipment

14 January 2019

Price **2,240p**

Market cap **£434m**

\$1.28:£1

Net debt (£m) at end FY18 52.5

Shares in issue 19.4m

Free float 90%

Code XPP

Primary exchange LSE

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs 0.0 (13.9) (38.3)

Rel (local) (2.1) (12.7) (30.8)

52-week high/low 3740p 2000p

Business description

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

Next events

FY18 results 5 March 2019

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Changes to estimates

Exhibit 1: Changes to estimates									
£'m	FY18e			FY19e			y-o-y		
	Old	New	Change	Old	New	Change	Old	New	Change
Revenues	198.9	194.8	(2.1%)	16.8%	219.4	210.3	(4.2%)	8.0%	
Gross profit	90.8	89.6	(1.3%)	15.4%	100.4	97.0	(3.4%)	8.3%	
Gross margin	45.6%	46.0%	0.4%	(0.5%)	45.7%	46.1%	0.4%	0.1%	
EBITDA	49.2	48.2	(2.0%)	15.7%	55.0	52.7	(4.2%)	9.2%	
EBITDA margin	24.8%	24.8%	0.0%	(0.2%)	25.1%	25.1%	(0.0%)	0.3%	
Normalised operating profit	43.5	42.1	(3.2%)	15.8%	49.0	45.7	(6.7%)	8.4%	
Normalised operating profit margin	21.9%	21.6%	(0.3%)	(0.2%)	22.3%	21.7%	(0.6%)	0.1%	
Reported operating profit	41.7	39.7	(4.8%)	22.3%	47.8	37.7	(21.1%)	(5.2%)	
Reported operating margin	21.0%	20.4%	(0.6%)	0.9%	21.8%	17.9%	(3.9%)	(2.5%)	
Normalised PBT	42.2	40.7	(3.5%)	12.7%	47.2	43.9	(7.0%)	8.0%	
Reported PBT	40.4	38.3	(5.2%)	18.9%	46.0	35.9	(21.9%)	(6.1%)	
Normalised net income	34.4	33.3	(3.3%)	16.9%	38.5	37.0	(3.8%)	11.1%	
Reported net income	32.9	31.1	(5.2%)	10.0%	37.5	29.2	(22.1%)	(6.2%)	
Normalised basic EPS (p)	180.4	173.1	(4.0%)	15.9%	201.5	190.8	(5.3%)	10.2%	
Normalised diluted EPS (p)	177.6	170.5	(4.0%)	16.0%	198.4	187.9	(5.3%)	10.2%	
Reported basic EPS (p)	172.1	161.8	(6.0%)	9.1%	196.3	150.6	(23.3%)	(6.9%)	
Dividend per share (p)	82.0	84.0	2.4%	7.7%	85.0	87.0	2.4%	3.6%	
Net debt/(cash)	44.8	52.5	17.2%	483.3%	32.7	45.0	37.4%	(14.3%)	

Source: Edison Investment Research

Exhibit 2: Financial summary

	£'m	2012	2013	2014	2015	2016	2017	2018e	2019e
31-December		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT									
Revenue		93.9	101.1	101.1	109.7	129.8	166.8	194.8	210.3
Cost of Sales		(49.0)	(51.5)	(51.0)	(55.1)	(67.8)	(89.2)	(105.2)	(113.3)
Gross Profit		44.9	49.6	50.1	54.6	62.0	77.6	89.6	97.0
EBITDA		23.3	26.0	27.6	29.7	33.0	41.7	48.2	52.7
Normalised operating profit		21.0	23.3	24.5	25.9	28.8	36.4	42.1	45.7
Amortisation of acquired intangibles		0.0	0.0	0.0	0.0	(0.4)	(0.6)	(2.0)	(2.5)
Exceptionals		0.0	0.0	0.0	(0.3)	(0.4)	(3.3)	(0.4)	(5.0)
Share-based payments		0.0	0.0	0.0	0.0	0.0	0.0	0.0	(0.5)
Reported operating profit		21.0	23.3	24.5	25.6	28.0	32.5	39.7	37.7
Net Interest		(0.8)	(0.4)	(0.2)	(0.2)	(0.2)	(0.3)	(1.5)	(1.8)
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	0.0	0.0	0.0
Profit Before Tax (norm)		20.2	22.9	24.3	25.7	28.6	36.1	40.7	43.9
Profit Before Tax (reported)		20.2	22.9	24.3	25.4	27.8	32.2	38.3	35.9
Reported tax		(4.5)	(4.5)	(4.8)	(5.5)	(6.3)	(3.6)	(6.9)	(6.5)
Profit After Tax (norm)		15.7	18.4	19.5	20.2	22.3	28.8	33.6	37.3
Profit After Tax (reported)		15.7	18.4	19.5	19.9	21.5	28.6	31.4	29.5
Minority interests		(0.2)	(0.2)	(0.1)	(0.2)	(0.2)	(0.3)	(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)		15.5	18.2	19.4	20.0	22.1	28.5	33.3	37.0
Net income (reported)		15.5	18.2	19.4	19.7	21.3	28.3	31.1	29.2
Basic average number of shares outstanding (m)		19	19	19	19	19	19	19	19
EPS - basic normalised (p)		81.7	95.8	102.1	105.3	116.2	149.4	173.1	190.8
EPS - diluted normalised (p)		81.3	95.1	101.1	104.3	115.3	147.0	170.5	187.9
EPS - basic reported (p)		81.7	95.8	102.1	103.7	112.0	148.3	161.8	150.6
Dividend (p)		50	55	61	66	71	78	84	87
Revenue growth (%)		(9.4)	7.7	0.0	8.5	18.3	28.5	16.8	8.0
Gross Margin (%)		47.8	49.1	49.6	49.8	47.8	46.5	46.0	46.1
EBITDA Margin (%)		24.8	25.7	27.3	27.0	25.4	25.0	24.8	25.1
Normalised Operating Margin		22.4	23.0	24.2	23.6	22.2	21.8	21.6	21.7
BALANCE SHEET									
Fixed Assets		52.8	53.3	56.1	65.4	73.2	88.1	126.2	132.4
Intangible Assets		38.1	39.1	40.5	48.2	53.0	63.9	91.6	91.3
Tangible Assets		13.2	12.7	14.4	16.1	19.1	22.5	32.9	39.4
Investments & other		1.5	1.5	1.2	1.1	1.1	1.7	1.7	1.7
Current Assets		39.3	42.2	47.0	53.5	65.7	83.5	96.7	100.5
Stocks		19.8	20.4	25.2	28.7	32.2	37.8	53.3	52.8
Debtors		14.2	15.4	16.0	17.5	21.5	23.8	29.9	31.7
Cash & cash equivalents		4.1	5.0	3.8	4.9	9.2	15.0	9.5	12.0
Other		1.2	1.4	2.0	2.4	2.8	6.9	4.0	4.0
Current Liabilities		(20.2)	(22.4)	(18.6)	(19.8)	(25.8)	(25.1)	(27.8)	(29.6)
Creditors		(11.1)	(12.7)	(14.4)	(14.6)	(16.1)	(21.4)	(24.1)	(25.9)
Tax and social security		(1.6)	(1.1)	(1.7)	(1.2)	(3.3)	(3.5)	(3.5)	(3.5)
Short term borrowings		(7.3)	(8.5)	(2.5)	(4.0)	(5.5)	0.0	0.0	0.0
Other		(0.2)	(0.1)	0.0	0.0	(0.9)	(0.2)	(0.2)	(0.2)
Long Term Liabilities		(10.6)	(3.7)	(4.2)	(10.0)	(6.2)	(29.6)	(67.6)	(62.6)
Long term borrowings		(7.4)	0.0	0.0	(4.6)	0.0	(24.0)	(62.0)	(57.0)
Other long term liabilities		(3.2)	(3.7)	(4.2)	(5.4)	(6.2)	(5.6)	(5.6)	(5.6)
Net Assets		61.3	69.4	80.3	89.1	106.9	116.9	127.6	140.8
Minority interests		(0.2)	(0.2)	(0.1)	(0.8)	(0.8)	(0.9)	(1.0)	(1.1)
Shareholders' equity		61.1	69.2	80.2	88.3	106.1	116.0	126.5	139.5
CASH FLOW									
Op Cash Flow before WC and tax		23.3	26.0	27.6	29.7	33.0	41.7	48.2	52.7
Working capital		4.2	(0.3)	(4.1)	(4.6)	(6.1)	0.4	(18.9)	0.6
Exceptional & other		0.4	(0.5)	1.9	0.6	5.1	(6.3)	(0.4)	(5.0)
Tax		(4.3)	(5.0)	(3.6)	(4.7)	(4.1)	(6.1)	(4.0)	(6.5)
Net operating cash flow		23.6	20.2	21.8	21.0	27.9	29.7	24.9	41.8
Capex		(4.7)	(3.2)	(5.8)	(5.4)	(6.8)	(10.1)	(15.5)	(15.7)
Acquisitions/disposals		(1.6)	0.1	0.1	(8.3)	0.1	(18.3)	(35.6)	0.0
Net interest		(0.5)	(0.3)	(0.1)	(0.1)	(0.2)	(0.2)	(1.5)	(1.8)
Equity financing		(0.5)	0.1	(0.2)	0.0	0.2	(0.2)	0.0	0.0
Dividends		(9.1)	(10.1)	(11.0)	(12.2)	(13.1)	(14.2)	(15.5)	(16.8)
Other		0.5	0.2	0.1	0.2	0.0	0.0	(0.4)	0.0
Net Cash Flow		7.7	7.0	4.9	(4.8)	8.1	(13.3)	(43.5)	7.5
Opening net debt/(cash)		18.6	10.6	3.5	(1.3)	3.7	(3.7)	9.0	52.5
FX		0.3	0.1	(0.1)	(0.2)	(0.5)	0.7	0.0	0.0
Other non-cash movements		0.0	0.0	0.0	0.1	(0.2)	(0.1)	0.0	0.0
Closing net debt/(cash)		10.6	3.5	(1.3)	3.7	(3.7)	9.0	52.5	45.0

Source: Company accounts, Edison Investment Research

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