

# XP Power

Q3 trading update

## Q3 output picks up; demand remains strong

Quarter-on-quarter revenue growth of 28% in Q322 confirmed that supply chain challenges have started to ease for XP. Despite the current uncertain economic environment, and reports of weaker consumer demand from some semiconductor companies, XP reported robust order intake and a book-to-bill of 1.27x for Q3, closing the quarter with a record order book. The discount to peers has widened, in our view reflecting uncertainty around demand and the Comet litigation case.

Year end	Revenue (£m)	PBT* (£m)	Diluted EPS* (p)	DPS (p)	P/E (x)	Yield (%)
12/20	233.3	44.3	198.4	74	8.0	4.7
12/21	240.3	43.8	176.3	94	9.0	5.9
12/22e	282.4	42.3	170.1	94	9.3	5.9
12/23e	295.8	52.9	213.3	97	7.4	6.1

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

## Supply chain issues eased in Q322

XP Power reported Q322 revenue of £79.4m, up 29% y-o-y (+15% y-o-y constant currency (cc) and +9% like-for-like cc) and 28% q-o-q, as supply chain conditions eased. Order intake of £101.1m was 4% higher y-o-y (down 8% cc and down 11% like-for-like cc) and up 11% q-o-q, resulting in a book-to-bill of 1.27x for Q322 and 1.45x year-to-date (9M22). Although some semiconductor companies have highlighted weaker consumer demand for certain products, XP notes that order intake remains robust across each end segment it serves. Net debt at the end of Q322 was £118.7m, up from £102.0m at the end of H122, reflecting the impact of the stronger dollar on US dollar-denominated debt as well as higher inventory. XP declared a Q3 dividend of 21p per share, flat y-o-y and in line with our expectation.

## Outlook unchanged

The board's expectations for FY22 are in line with market expectations and the record order book (c £320m at the end of Q3) provides good visibility into 2023. The board is considering next steps regarding the Comet legal action. Longer term, the board believes XP can grow ahead of its end markets, recover profitability and deliver strong cash generation. We have raised our FY22 revenue forecast by 4% to reflect the Q3 performance, and on higher base rates, we increase our net interest expense forecast, reducing FY22 EPS by 1.6% and FY23 by 3.5%.

## Valuation: Discount has widened

On a P/E basis for FY22 and FY23, XP is trading at a 40–50% 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 record order book entering Q422. 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

11 October 2022

**Price** 1,588p

**Market cap** £312m

\$1.11:£1

Net debt (£m) at end Q322 118.7

Shares in issue 19.6m

Free float 90%

Code XPP

Primary exchange LSE

Secondary exchange N/A

## Share price performance



%	1m	3m	12m
Abs	(17.3)	(43.7)	(68.2)
Rel (local)	(11.9)	(41.2)	(66.1)
52-week high/low		5,540p	1,576p

## 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 trading update January 2023

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**Exhibit 1: Financial summary**

	£'m	2017	2018	2019	2020	2021	2022e	2023e
31-December		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
<b>INCOME STATEMENT</b>								
Revenue		166.8	195.1	199.9	233.3	240.3	282.4	295.8
Cost of Sales		(89.2)	(102.8)	(109.8)	(123.2)	(132.0)	(160.5)	(160.3)
Gross Profit		77.6	92.3	90.1	110.1	108.3	122.0	135.5
EBITDA		41.7	49.2	44.5	56.8	55.5	57.9	70.8
Normalised operating profit		36.4	42.9	35.0	46.0	45.1	45.4	57.2
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	(20.1)	53.0
Net Interest		(0.3)	(1.7)	(2.7)	(1.7)	(1.3)	(3.2)	(4.3)
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	42.3	52.9
Profit Before Tax (reported)		32.2	37.6	24.0	35.7	28.4	(24.2)	48.7
Reported tax		(3.6)	(7.2)	(3.2)	(4.0)	(5.4)	4.6	(9.2)
Profit After Tax (norm)		28.8	33.9	27.9	39.2	35.4	34.2	42.9
Profit After Tax (reported)		28.6	30.4	20.8	31.7	23.0	(19.6)	39.5
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	34.0	42.6
Net income (reported)		28.3	30.2	20.5	31.5	22.6	(19.9)	39.3
Basic ave. 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	173.1	217.1
EPS - diluted normalised (p)		147.0	172.8	141.4	198.4	176.3	170.1	213.3
EPS - basic reported (p)		148.3	157.8	107.0	163.0	115.8	(101.3)	200.0
Dividend (p)		78	85	55	74	94	94	97
Revenue growth (%)		28.5	17.0	2.5	16.7	3.0	17.5	4.7
Gross Margin (%)		46.5	47.3	45.1	47.2	45.1	43.2	45.8
EBITDA Margin (%)		25.0	25.2	22.3	24.3	23.1	20.5	23.9
Normalised Operating Margin		21.8	22.0	17.5	19.7	18.8	16.1	19.3
<b>BALANCE SHEET</b>								
Fixed Assets		88.1	129.2	137.4	135.2	150.5	198.3	205.0
Intangible Assets		63.9	97.7	99.6	98.8	108.8	144.2	146.0
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	122.3	122.3
Stocks		37.8	56.5	44.1	54.2	74.0	88.8	83.5
Debtors		23.8	33.0	34.8	30.2	30.8	42.6	48.6
Cash & cash equivalents		15.0	11.5	11.2	13.9	9.0	(16.9)	(17.7)
Other		6.9	4.1	5.9	8.7	7.9	7.9	7.9
Current Liabilities		(25.1)	(26.8)	(30.4)	(34.7)	(49.0)	(48.0)	(44.4)
Creditors		(21.4)	(22.4)	(25.2)	(28.3)	(44.7)	(43.7)	(40.1)
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)	(133.4)	(123.2)
Long term borrowings		(24.0)	(63.5)	(57.3)	(35.2)	(39.9)	(122.5)	(112.3)
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	139.2	159.7
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	138.3	158.7
<b>CASH FLOW</b>								
Op Cash Flow before WC and tax		41.7	49.2	44.5	56.8	55.5	57.9	70.8
Working capital		0.4	(21.6)	10.6	(6.2)	(4.0)	(27.6)	(4.3)
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)	4.6	(9.2)
Net operating cash flow		29.7	26.7	46.2	45.6	36.4	(18.9)	57.3
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)	(3.2)	(4.3)
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)	(108.7)	9.2
Opening net debt/(cash)		(3.7)	9.0	52.0	41.3	17.9	24.6	133.3
FX		0.6	(2.7)	1.7	0.0	(0.8)	0.0	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	133.3	124.1

Source: XP Power, Edison Investment Research

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