

XP Power

Q1 trading update

Q1 book-to-bill of 1.16x

XP's Q1 revenues reflect varying performance by end-market: encouraging growth from industrial, healthcare and technology customers was offset by the expected decline in demand from the semiconductor sector. Order intake was higher on a year-on-year and quarter-on-quarter basis, resulting in a book-to-bill of 1.16x for the quarter. With management's full-year expectations unchanged, we maintain our forecasts.

Year end	Revenue (£m)	PBT* (£m)	Dil. EPS* (p)	DPS (p)	P/E (x)	Yield (%)
12/17	166.8	36.1	147.0	78.0	17.3	3.1
12/18	195.1	41.2	172.8	85.0	14.7	3.3
12/19e	210.3	43.9	184.2	88.0	13.8	3.5
12/20e	220.0	46.0	192.4	92.0	13.2	3.6

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

Q119 revenues weaker as expected

XP reported Q119 revenues of £46.9m, 1% higher than a year ago. On a constant currency basis, revenues declined 5% and like-for-like revenues (excluding Glassman) declined 12% y-o-y. XP had already flagged weaker demand from the semiconductor sector and this continued through Q1. The other markets (industrial, healthcare, technology) that make up c 75% of revenues saw good demand in the quarter. The company announced a 17p quarterly dividend, in line with our forecast, which will be paid on 11 July to shareholders as at 14 June. Net debt reduced from £52.0m at the end of FY18 to £49.1m by the end of Q119.

Order intake supports FY19 revenue expectations

XP received orders worth £54.6m in Q1, 7% higher than a year ago and 21% ahead of last quarter. Constant currency orders were flat and like-for-like orders were down 4% y-o-y. This resulted in a book-to-bill of 1.16x for the quarter. Management continues to expect a year of revenue growth, with growth weighted to the second half, and maintains expectations for the year. We leave our estimates unchanged.

Valuation: Still trading at a discount

Since the company reported FY18 results in March, the stock has gained 28%. Despite the discount narrowing, XP still trades at a more than 20% discount to both power converter and UK electronics peers on a P/E basis, and has a dividend yield at the top end of the range. With a broad product portfolio focused on structural growth markets, local customer support, control over the manufacturing process and strong cash generation, we view the company as well positioned to grow market share while maintaining high operating margins. Evidence of order growth in the semiconductor equipment sector is likely to be the key trigger for share price upside from this point.

Tech hardware & equipment

15 April 2019

Price **2,540p**

Market cap **£486m**

\$1.31:£1

Net debt (£m) at 31 March 2019 49.1

Shares in issue 19.2m

Free float 90%

Code XPP

Primary exchange LSE

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs 11.9 13.4 (27.8)

Rel (local) 7.8 5.8 (29.1)

52-week high/low 3710p 1965p

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

H119 results 1 August 2019

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Exhibit 1: Financial summary

	£m	2012	2013	2014	2015	2016	2017	2018	2019e	2020e
31-December		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT										
Revenue		93.9	101.1	101.1	109.7	129.8	166.8	195.1	210.3	220.0
Cost of Sales		(49.0)	(51.5)	(51.0)	(55.1)	(67.8)	(89.2)	(102.8)	(112.8)	(117.3)
Gross Profit		44.9	49.6	50.1	54.6	62.0	77.6	92.3	97.5	102.7
EBITDA		23.3	26.0	27.6	29.7	33.0	41.7	49.2	52.9	55.8
Normalised operating profit		21.0	23.3	24.5	25.9	28.8	36.4	42.9	45.7	47.8
Amortisation of acquired intangibles		0.0	0.0	0.0	0.0	(0.4)	(0.6)	(2.8)	(4.4)	(4.4)
Exceptionals		0.0	0.0	0.0	(0.3)	(0.4)	(3.3)	(0.8)	(1.0)	0.0
Share-based payments		0.0	0.0	0.0	0.0	0.0	0.0	0.0	(0.5)	(0.5)
Reported operating profit		21.0	23.3	24.5	25.6	28.0	32.5	39.3	39.8	42.9
Net Interest		(0.8)	(0.4)	(0.2)	(0.2)	(0.2)	(0.3)	(1.7)	(1.8)	(1.8)
Joint ventures & associates		0.0	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	0.0
Profit Before Tax (norm)		20.2	22.9	24.3	25.7	28.6	36.1	41.2	43.9	46.0
Profit Before Tax (reported)		20.2	22.9	24.3	25.4	27.8	32.2	37.6	38.0	41.1
Reported tax		(4.5)	(4.5)	(4.8)	(5.5)	(6.3)	(3.6)	(7.2)	(6.8)	(7.4)
Profit After Tax (norm)		15.7	18.4	19.5	20.2	22.3	28.8	33.9	36.1	37.7
Profit After Tax (reported)		15.7	18.4	19.5	19.9	21.5	28.6	30.4	31.2	33.7
Minority interests		(0.2)	(0.2)	(0.1)	(0.2)	(0.2)	(0.3)	(0.2)	(0.3)	(0.3)
Discontinued operations		0.0	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	33.7	35.8	37.4
Net income (reported)		15.5	18.2	19.4	19.7	21.3	28.3	30.2	30.9	33.4
Basic ave. number of shares outstanding (m)		19	19	19	19	19	19	19	19	19
EPS - basic normalised (p)		81.7	95.8	102.1	105.3	116.2	149.4	176.1	187.7	196.1
EPS - diluted normalised (p)		81.3	95.1	101.1	104.3	115.3	147.0	172.8	184.2	192.4
EPS - basic reported (p)		81.7	95.8	102.1	103.7	112.0	148.3	157.8	162.1	175.2
Dividend (p)		50	55	61	66	71	78	85	88	92
Revenue growth (%)		(9.4)	7.7	0.0	8.5	18.3	28.5	17.0	7.8	4.6
Gross Margin (%)		47.8	49.1	49.6	49.8	47.8	46.5	47.3	46.4	46.7
EBITDA Margin (%)		24.8	25.7	27.3	27.0	25.4	25.0	25.2	25.2	25.3
Normalised Operating Margin		22.4	23.0	24.2	23.6	22.2	21.8	22.0	21.7	21.7
BALANCE SHEET										
Fixed Assets		52.8	53.3	56.1	65.4	73.2	88.1	129.2	138.1	140.7
Intangible Assets		38.1	39.1	40.5	48.2	53.0	63.9	97.7	100.4	100.0
Tangible Assets		13.2	12.7	14.4	16.1	19.1	22.5	30.7	36.9	39.9
Investments & other		1.5	1.5	1.2	1.1	1.1	1.7	0.8	0.8	0.8
Current Assets		39.3	42.2	47.0	53.5	65.7	83.5	105.1	109.5	119.9
Stocks		19.8	20.4	25.2	28.7	32.2	37.8	56.5	55.6	57.9
Debtors		14.2	15.4	16.0	17.5	21.5	23.8	33.0	34.6	36.2
Cash & cash equivalents		4.1	5.0	3.8	4.9	9.2	15.0	11.5	15.2	21.7
Other		1.2	1.4	2.0	2.4	2.8	6.9	4.1	4.1	4.1
Current Liabilities		(20.2)	(22.4)	(18.6)	(19.8)	(25.8)	(25.1)	(26.8)	(30.3)	(31.4)
Creditors		(11.1)	(12.7)	(14.4)	(14.6)	(16.1)	(21.4)	(22.4)	(25.9)	(27.0)
Tax and social security		(1.6)	(1.1)	(1.7)	(1.2)	(3.3)	(3.5)	(4.2)	(4.2)	(4.2)
Short term borrowings		(7.3)	(8.5)	(2.5)	(4.0)	(5.5)	0.0	0.0	0.0	0.0
Other		(0.2)	(0.1)	0.0	0.0	(0.9)	(0.2)	(0.2)	(0.2)	(0.2)
Long Term Liabilities		(10.6)	(3.7)	(4.2)	(10.0)	(6.2)	(29.6)	(70.1)	(65.1)	(60.1)
Long term borrowings		(7.4)	0.0	0.0	(4.6)	0.0	(24.0)	(63.5)	(58.5)	(53.5)
Other long term liabilities		(3.2)	(3.7)	(4.2)	(5.4)	(6.2)	(5.6)	(6.6)	(6.6)	(6.6)
Net Assets		61.3	69.4	80.3	89.1	106.9	116.9	137.4	152.2	169.0
Minority interests		(0.2)	(0.2)	(0.1)	(0.8)	(0.8)	(0.9)	(1.0)	(1.1)	(1.1)
Shareholders' equity		61.1	69.2	80.2	88.3	106.1	116.0	136.4	151.1	167.9
CASH FLOW										
Op Cash Flow before WC and tax		23.3	26.0	27.6	29.7	33.0	41.7	49.2	52.9	55.8
Working capital		4.2	(0.3)	(4.1)	(4.6)	(6.1)	0.4	(21.6)	2.8	(2.7)
Exceptional & other		0.4	(0.5)	1.9	0.6	5.1	(6.3)	3.2	(1.0)	0.0
Tax		(4.3)	(5.0)	(3.6)	(4.7)	(4.1)	(6.1)	(4.1)	(6.8)	(7.4)
Net operating cash flow		23.6	20.2	21.8	21.0	27.9	29.7	26.7	47.8	45.7
Capex		(4.7)	(3.2)	(5.8)	(5.4)	(6.8)	(10.1)	(15.0)	(20.5)	(15.0)
Acquisitions/disposals		(1.6)	0.1	0.1	(8.3)	0.1	(18.3)	(35.4)	0.0	0.0
Net interest		(0.5)	(0.3)	(0.1)	(0.1)	(0.2)	(0.2)	(1.5)	(1.8)	(1.8)
Equity financing		(0.5)	0.1	(0.2)	0.0	0.2	(0.2)	0.6	0.0	0.0
Dividends		(9.1)	(10.1)	(11.0)	(12.2)	(13.1)	(14.2)	(15.6)	(16.8)	(17.4)
Other		0.5	0.2	0.1	0.2	0.0	0.0	0.0	0.0	0.0
Net Cash Flow		7.7	7.0	4.9	(4.8)	8.1	(13.3)	(40.2)	8.7	11.5
Opening net debt/(cash)		18.6	10.6	3.5	(1.3)	3.7	(3.7)	9.0	52.0	43.3
FX		0.3	0.1	(0.1)	(0.2)	(0.5)	0.6	(2.7)	0.0	0.0
Other non-cash movements		0.0	0.0	0.0	0.1	(0.2)	0.0	(0.1)	0.0	0.0
Closing net debt/(cash)		10.6	3.5	(1.3)	3.7	(3.7)	9.0	52.0	43.3	31.8

Source: XP Power, Edison Investment Research

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