

# XP Power

Sector news flow

## Reflecting a tougher trading environment

The trading environment for XP Power has become more uncertain in recent months, with the US imposing higher tariffs on imports from China and threatening tariffs on imports from Mexico. At the same time, demand for semiconductors and consequently semiconductor equipment remains weak. We have revised down our revenue and EPS forecasts to reflect the combination of weaker demand and pressure on margins; despite this the valuation does not look challenging.

Year end	Revenue (£m)	PBT* (£m)	Diluted EPS* (p)	DPS (p)	P/E (x)	Yield (%)
12/17	166.8	36.1	147.0	78.0	15.4	3.5
12/18	195.1	41.2	172.8	85.0	13.1	3.8
12/19e	199.8	38.4	160.8	88.0	14.1	3.9
12/20e	209.0	41.6	173.8	92.0	13.0	4.1

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

## Trade tariff situation worsens

In May, the US increased trade tariffs from 10% to 25% on a variety of goods imported from China, including XP's power converters. At the same time, China has imposed tariffs on imports from the US. As XP manufactures in China and Vietnam, not all US imports of XP products incur the tariffs. XP is trying to mitigate the effect by qualifying more products in Vietnam, but this process takes time and in the meantime, the tariffs are creating uncertainty and pressure on margins. While the tariffs on Mexican imports to the US have been suspended for now, these could be reinstated and while not affecting XP directly, they could negatively affect demand for capital equipment in the US.

## Semiconductor market still subdued

Reports from semiconductor production equipment manufacturers in recent months confirm that demand for semiconductor equipment remains weak. While logic and foundry chip manufacturers are seeing signs of improvement, the memory market continues to suffer from oversupply. The bottom in the market has not yet been confirmed and could shift out further into H219. On the back of the tariff situation and weaker demand for semiconductors, we have revised down our forecasts. In FY19, we now factor in a 20% decline in the semiconductor business and reduce growth in the rest of the business from 5% to 2.5%, which cuts revenues by 5% in FY19 and FY20 and reduces normalised EPS by 12.7% in FY19 and 9.7% in FY20. While our net debt forecast increases, we estimate that net debt/EBITDA will only increase from 0.8x to 1.0x by the end of FY19.

## Valuation: Share price already factoring in weakness

The share price has pulled back from its year-to-date high of 2,670p at the end of April reflecting the weaker trading environment. On our revised forecasts, XP is trading on a P/E of 14.1x for FY19e and 13.0x FY20e, still at a substantial discount to power converter peers as well as UK electronics companies. XP's dividend yield is also at the top end of the peer group range.

## Tech hardware & equipment

20 June 2019

**Price** **2,260p**
**Market cap** **£432m**

\$1.25/£

Net debt (£m) at 31 March 2019 49.1

Shares in issue 19.1m

Free float 90%

Code XPP

Primary exchange LSE

Secondary exchange N/A

## Share price performance



% 1m 3m 12m

Abs (11.0) (9.6) (35.4)

Rel (local) (11.4) (10.2) (33.0)

52-week high/low 3,620p 1,965p

## 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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## Changes to forecasts

Exhibit 1: Changes to forecasts								
£m	FY19e	FY19e			FY20e	FY20e		
	Old	New	Change	y-o-y	Old	New	Change	y-o-y
Revenues	210.3	199.8	(5.0%)	2.4%	220.0	209.0	(5.0%)	4.6%
Gross profit	97.5	88.9	(8.9%)	(3.7%)	102.7	96.0	(6.5%)	8.0%
Gross margin	46.4%	44.5%	(1.9%)	(2.8%)	46.7%	45.9%	(0.7%)	1.5%
EBITDA	52.9	47.4	(10.5%)	(3.8%)	55.8	51.3	(7.9%)	8.4%
EBITDA margin	25.2%	23.7%	(1.4%)	(1.5%)	25.3%	24.6%	(0.8%)	0.9%
Normalised operating profit	45.7	40.2	(12.1%)	(6.4%)	47.8	43.3	(9.3%)	7.9%
Normalised operating profit margin	21.7%	20.1%	(1.6%)	(1.9%)	21.7%	20.7%	(1.0%)	0.6%
Reported operating profit	39.8	34.3	(13.9%)	(12.8%)	42.9	38.4	(10.3%)	12.2%
Reported operating margin	18.9%	17.1%	(1.8%)	(3.0%)	19.5%	18.4%	(1.1%)	1.2%
Normalised PBT	43.9	38.4	(12.6%)	(6.8%)	46.0	41.6	(9.6%)	8.3%
Reported PBT	38.0	32.5	(14.6%)	(13.6%)	41.1	36.7	(10.8%)	12.9%
Normalised net income	35.8	31.3	(12.7%)	(7.1%)	37.4	33.8	(9.7%)	8.1%
Reported net income	30.9	26.4	(14.7%)	(12.6%)	33.4	29.8	(10.8%)	13.0%
Normalised basic EPS (p)	187.7	163.9	(12.7%)	(6.9%)	196.1	177.1	(9.7%)	8.1%
Normalised diluted EPS (p)	184.2	160.8	(12.7%)	(6.9%)	192.4	173.8	(9.7%)	8.1%
Reported basic EPS (p)	162.1	138.2	(14.7%)	(12.4%)	175.2	156.2	(10.8%)	13.0%
Dividend per share (p)	88.0	88.0	0.0%	3.5%	92.0	92.0	0.0%	4.5%
Net debt/(cash)	43.3	49.0	13.3%	(5.8%)	31.8	37.1	16.7%	(24.4%)
Source: Edison Investment Research								

**Exhibit 2: Financial summary**

	£m	2012	2013	2014	2015	2016	2017	2018	2019e	2020e
Year end 31 December		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
<b>INCOME STATEMENT</b>										
Revenue		93.9	101.1	101.1	109.7	129.8	166.8	195.1	199.8	209.0
Cost of Sales		(49.0)	(51.5)	(51.0)	(55.1)	(67.8)	(89.2)	(102.8)	(110.9)	(113.0)
Gross Profit		44.9	49.6	50.1	54.6	62.0	77.6	92.3	88.9	96.0
EBITDA		23.3	26.0	27.6	29.7	33.0	41.7	49.2	47.4	51.3
Normalised operating profit		21.0	23.3	24.5	25.9	28.8	36.4	42.9	40.2	43.3
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	34.3	38.4
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	38.4	41.6
Profit Before Tax (reported)		20.2	22.9	24.3	25.4	27.8	32.2	37.6	32.5	36.7
Reported tax		(4.5)	(4.5)	(4.8)	(5.5)	(6.3)	(3.6)	(7.2)	(5.8)	(6.6)
Profit After Tax (norm)		15.7	18.4	19.5	20.2	22.3	28.8	33.9	31.5	34.1
Profit After Tax (reported)		15.7	18.4	19.5	19.9	21.5	28.6	30.4	26.6	30.1
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	31.3	33.8
Net income (reported)		15.5	18.2	19.4	19.7	21.3	28.3	30.2	26.4	29.8
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	163.9	177.1
EPS - diluted normalised (p)		81.3	95.1	101.1	104.3	115.3	147.0	172.8	160.8	173.8
EPS - basic reported (p)		81.7	95.8	102.1	103.7	112.0	148.3	157.8	138.2	156.2
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	2.4	4.6
Gross Margin (%)		47.8	49.1	49.6	49.8	47.8	46.5	47.3	44.5	45.9
EBITDA Margin (%)		24.8	25.7	27.3	27.0	25.4	25.0	25.2	23.7	24.6
Normalised Operating Margin		22.4	23.0	24.2	23.6	22.2	21.8	22.0	20.1	20.7
<b>BALANCE SHEET</b>										
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	104.2	110.6
Stocks		19.8	20.4	25.2	28.7	32.2	37.8	56.5	57.7	55.7
Debtors		14.2	15.4	16.0	17.5	21.5	23.8	33.0	32.8	34.4
Cash & cash equivalents		4.1	5.0	3.8	4.9	9.2	15.0	11.5	9.5	16.4
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)	(29.5)	(30.3)
Creditors		(11.1)	(12.7)	(14.4)	(14.6)	(16.1)	(21.4)	(22.4)	(25.1)	(25.9)
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	147.7	160.8
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	146.6	159.7
<b>CASH FLOW</b>										
Op Cash Flow before WC and tax		23.3	26.0	27.6	29.7	33.0	41.7	49.2	47.4	51.3
Working capital		4.2	(0.3)	(4.1)	(4.6)	(6.1)	0.4	(21.6)	1.6	1.4
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)	(5.8)	(6.6)
Net operating cash flow		23.6	20.2	21.8	21.0	27.9	29.7	26.7	42.1	46.1
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)	3.0	11.9
Opening net debt/(cash)		18.6	10.6	3.5	(1.3)	3.7	(3.7)	9.0	52.0	49.0
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	49.0	37.1

Source: XP Power, Edison Investment Research

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