

XP Power

Q3 trading update

Q3 bookings up 73% year-on-year

XP Power has reported another record quarter for orders as customers in all three sectors seek to secure their requirements in the midst of global supply-chain challenges. Revenue and bookings for the nine months to 30 September (9M21) are ahead of our expectations and we have revised our forecasts to reflect this, with EPS upgrades of 2% in FY21 and 3% in FY22.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
12/19	199.9	32.3	141.4	55.0	35.2	1.1
12/20	233.3	44.3	198.4	74.0	25.1	1.5
12/21e	243.7	44.8	184.4	95.0	27.0	1.9
12/22e	257.1	49.3	203.7	98.0	24.4	2.0

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

Record order intake in Q3

XP reported Q321 order intake of £97.2m, up 73% y-o-y (87% in constant currency, cc) and 16% q-o-q. While the company saw continued strong demand from the semiconductor manufacturing equipment sector, it also benefited from the ongoing recovery in industrial technology and a pick-up in demand from the healthcare sector (where orders were 70% higher than 2019 levels). XP has seen lead times extend due to supply chain issues, which has prompted many customers to seek security of supply, with most recent orders unlikely to be fulfilled until H222. Q321 revenue of £61.6m was down 11% y-o-y or 5% cc, with 9M21 revenue up 4% y-o-y or 12% cc. Q321 book-to-bill was 1.58x and 9M21 was 1.40x. XP closed Q321 with net debt of £25.2m and declared a Q3 dividend of 21p, ahead of our 20p forecast.

Upgrading estimates on strong outlook

The board's expectations for FY21 are in line with market expectations. Management also sounded a note of caution on the supply chain issues it is facing, including component shortages, COVID-19 restrictions and freight capacity constraints, all of which are putting upward pressure on costs. We have revised up our forecasts to reflect slightly stronger than expected revenue in H221 and a higher order backlog. Our revenue forecasts increase by 1% in FY21 and 2% in FY22 resulting in normalised diluted EPS forecast increases of 2% in FY21 and 3% in FY22. We also tweak up our dividend forecast for FY21 by 1p to 95p.

Valuation: Semiconductor sector drives volatility

The share price rebounded after H1 results were released, reaching 5,630p on 17 August. Since then, the stock has declined 12%, in line with semiconductor equipment stocks, while the FTSE 250 is down 8% from its peak, we believe on inflation and supply chain concerns. On an FY21e P/E basis, XP is trading at a 21% premium to global power-converter companies but a 2% discount to UK electronics companies, with a dividend yield at the upper end of the range. The company generates EBITDA and EBIT margins at the top end of both peer groups.

Tech hardware & equipment

11 October 2021

Price **4,980p**

Market cap **£978m**

\$1.38:£1

Net debt (£m) at end Q321 25.2

Shares in issue 19.6m

Free float 90%

Code XPP

Primary exchange LSE

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs (5.5) (9.8) 6.4

Rel (local) (4.5) (10.4) (11.8)

52-week high/low 5,700p 3,960p

Business description

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

Next events

FY21 trading update January 2022

Analyst

Katherine Thompson +44 (0)20 3077 5730

tech@edisongroup.com

[Edison profile page](#)

**XP Power is a research client
of Edison Investment
Research Limited**

Changes to forecasts

Exhibit 1: Changes to forecasts								
£'m	FY21e	FY21e		y-o-y	FY22e	FY22e		
	Old	New	Change	y-o-y	Old	New	Change	y-o-y
Revenues	241.1	243.7	1.1%	4.4%	252.0	257.1	2.0%	5.5%
Gross profit	111.4	112.6	1.1%	2.3%	117.8	120.2	2.1%	6.7%
Gross margin	46.2%	46.2%	0.0%	(1.0%)	46.7%	46.7%	0.0%	0.5%
EBITDA	57.0	57.9	1.6%	2.0%	61.4	62.8	2.2%	8.4%
EBITDA margin	23.6%	23.8%	0.1%	(0.6%)	24.4%	24.4%	0.0%	0.6%
Normalised operating profit	45.4	46.3	2.0%	0.7%	49.2	50.6	2.8%	9.2%
Normalised operating margin	18.8%	19.0%	0.2%	(0.7%)	19.5%	19.7%	0.1%	0.7%
Reported operating profit	35.7	36.6	2.5%	(2.1%)	46.0	47.4	3.0%	29.4%
Reported operating margin	14.8%	15.0%	0.2%	(1.0%)	18.3%	18.4%	0.2%	3.4%
Normalised PBT	43.9	44.8	2.0%	1.2%	47.9	49.3	2.9%	9.9%
Reported PBT	34.2	35.1	2.6%	(1.6%)	44.7	46.1	3.1%	31.2%
Normalised net income	36.1	36.8	2.1%	(5.6%)	39.5	40.7	2.9%	10.5%
Reported net income	28.2	28.9	2.6%	(8.3%)	36.9	38.0	3.1%	31.5%
Normalised basic EPS (p)	183.6	187.4	2.1%	(7.1%)	201.3	207.1	2.9%	10.5%
Normalised diluted EPS (p)	180.6	184.4	2.1%	(7.1%)	198.0	203.7	2.9%	10.5%
Reported basic EPS (p)	143.4	147.2	2.6%	(9.7%)	187.7	193.5	3.1%	31.5%
Dividend per share (p)	94.0	95.0	1.1%	28.4%	98.0	98.0	0.0%	3.2%
Net debt/(cash)	24.0	24.0	(0.1%)	34.2%	12.4	12.1	(2.6%)	(49.6%)

Source: Edison Investment Research

Exhibit 2: Financial summary

	£'m	2015	2016	2017	2018	2019	2020	2021e	2022e
31-December		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT									
Revenue		109.7	129.8	166.8	195.1	199.9	233.3	243.7	257.1
Cost of Sales		(55.1)	(67.8)	(89.2)	(102.8)	(109.8)	(123.2)	(131.1)	(136.9)
Gross Profit		54.6	62.0	77.6	92.3	90.1	110.1	112.6	120.2
EBITDA		29.7	33.0	41.7	49.2	44.5	56.8	57.9	62.8
Normalised operating profit		25.9	28.8	36.4	42.9	35.0	46.0	46.3	50.6
Amortisation of acquired intangibles		0.0	(0.4)	(0.6)	(2.8)	(3.2)	(3.2)	(3.2)	(3.2)
Exceptionals		(0.3)	(0.4)	(3.3)	(0.8)	(5.1)	(5.4)	(6.5)	0.0
Share-based payments		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Reported operating profit		25.6	28.0	32.5	39.3	26.7	37.4	36.6	47.4
Net Interest		(0.2)	(0.2)	(0.3)	(1.7)	(2.7)	(1.7)	(1.5)	(1.3)
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)		25.7	28.6	36.1	41.2	32.3	44.3	44.8	49.3
Profit Before Tax (reported)		25.4	27.8	32.2	37.6	24.0	35.7	35.1	46.1
Reported tax		(5.5)	(6.3)	(3.6)	(7.2)	(3.2)	(4.0)	(6.0)	(7.8)
Profit After Tax (norm)		20.2	22.3	28.8	33.9	27.9	39.2	37.1	40.9
Profit After Tax (reported)		19.9	21.5	28.6	30.4	20.8	31.7	29.2	38.2
Minority interests		(0.2)	(0.2)	(0.3)	(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
Net income (normalised)		20.0	22.1	28.5	33.7	27.6	39.0	36.8	40.7
Net income (reported)		19.7	21.3	28.3	30.2	20.5	31.5	28.9	38.0
Basic average number of shares outstanding (m)		19.0	19.0	19.1	19.1	19.2	19.3	19.6	19.6
EPS - basic normalised (p)		105.3	116.2	149.4	176.1	144.1	201.8	187.4	207.1
EPS - diluted normalised (p)		104.3	115.3	147.0	172.8	141.4	198.4	184.4	203.7
EPS - basic reported (p)		103.7	112.0	148.3	157.8	107.0	163.0	147.2	193.5
Dividend (p)		66	71	78	85	55	74	95	98
Revenue growth (%)		8.5	18.3	28.5	17.0	2.5	16.7	4.4	5.5
Gross Margin (%)		49.8	47.8	46.5	47.3	45.1	47.2	46.2	46.7
EBITDA Margin (%)		27.0	25.4	25.0	25.2	22.3	24.3	23.8	24.4
Normalised Operating Margin		23.6	22.2	21.8	22.0	17.5	19.7	19.0	19.7
BALANCE SHEET									
Fixed Assets		65.4	73.2	88.1	129.2	137.4	135.2	141.4	143.5
Intangible Assets		48.2	53.0	63.9	97.7	99.6	98.8	105.4	107.8
Tangible Assets		16.1	19.1	22.5	30.7	35.9	33.5	33.1	32.8
Investments & other		1.1	1.1	1.7	0.8	1.9	2.9	2.9	2.9
Current Assets		53.5	65.7	83.5	105.1	96.0	107.0	107.2	118.8
Stocks		28.7	32.2	37.8	56.5	44.1	54.2	55.7	58.1
Debtors		17.5	21.5	23.8	33.0	34.8	30.2	40.1	42.3
Cash & cash equivalents		4.9	9.2	15.0	11.5	11.2	13.9	2.8	9.7
Other		2.4	2.8	6.9	4.1	5.9	8.7	8.7	8.7
Current Liabilities		(19.8)	(25.8)	(25.1)	(26.8)	(30.4)	(34.7)	(36.9)	(38.3)
Creditors		(14.6)	(16.1)	(21.4)	(22.4)	(25.2)	(28.3)	(30.5)	(31.9)
Tax and social security		(1.2)	(3.3)	(3.5)	(4.2)	(3.1)	(4.9)	(4.9)	(4.9)
Short term borrowings		(4.0)	(5.5)	0.0	0.0	(1.6)	(1.5)	(1.5)	(1.5)
Other		0.0	(0.9)	(0.2)	(0.2)	(0.5)	0.0	0.0	0.0
Long Term Liabilities		(10.0)	(6.2)	(29.6)	(70.1)	(64.1)	(43.0)	(36.3)	(29.6)
Long term borrowings		(4.6)	0.0	(24.0)	(63.5)	(57.3)	(35.2)	(28.5)	(21.8)
Other long term liabilities		(5.4)	(6.2)	(5.6)	(6.6)	(6.8)	(7.8)	(7.8)	(7.8)
Net Assets		89.1	106.9	116.9	137.4	138.9	164.5	175.3	194.3
Minority interests		(0.8)	(0.8)	(0.9)	(1.0)	(0.7)	(0.7)	(0.8)	(0.8)
Shareholders' equity		88.3	106.1	116.0	136.4	138.2	163.8	174.6	193.5
CASH FLOW									
Op Cash Flow before WC and tax		29.7	33.0	41.7	49.2	44.5	56.8	57.9	62.8
Working capital		(4.6)	(6.1)	0.4	(21.6)	10.6	(6.2)	(9.1)	(3.3)
Exceptional & other		0.6	5.1	(6.3)	3.2	(4.4)	(1.7)	(6.5)	0.0
Tax		(4.7)	(4.1)	(6.1)	(4.1)	(4.5)	(3.3)	(6.0)	(7.8)
Net operating cash flow		21.0	27.9	29.7	26.7	46.2	45.6	36.4	51.7
Capex		(5.4)	(6.8)	(10.1)	(15.0)	(16.3)	(14.9)	(21.0)	(17.5)
Acquisitions/disposals		(8.3)	0.1	(18.3)	(35.4)	0.0	(0.5)	0.0	0.0
Net interest		(0.1)	(0.2)	(0.2)	(1.5)	(2.7)	(1.3)	(1.5)	(1.3)
Equity financing		0.0	0.2	(0.2)	0.6	0.5	3.5	0.0	0.0
Dividends		(12.2)	(13.1)	(14.2)	(15.6)	(17.2)	(7.3)	(18.3)	(19.2)
Other		0.2	0.0	0.0	0.0	(1.5)	(1.7)	(1.7)	(1.7)
Net Cash Flow		(4.8)	8.1	(13.3)	(40.2)	9.0	23.4	(6.1)	11.9
Opening net debt/(cash)		(1.3)	3.7	(3.7)	9.0	52.0	41.3	17.9	24.0
FX		(0.2)	(0.5)	0.6	(2.7)	1.7	0.0	0.0	0.0
Other non-cash movements		0.1	(0.2)	0.0	(0.1)	0.0	0.0	0.0	0.0
Closing net debt/(cash)		3.7	(3.7)	9.0	52.0	41.3	17.9	24.0	12.1

Source: XP Power, Edison Investment Research

General disclaimer and copyright

This report has been commissioned by XP Power and prepared and issued by Edison, in consideration of a fee payable by XP Power. Edison Investment Research standard fees are £49,500 pa for the production and broad dissemination of a detailed note (Outlook) following by regular (typically quarterly) update notes. Fees are paid upfront in cash without recourse. Edison may seek additional fees for the provision of roadshows and related IR services for the client but does not get remunerated for any investment banking services. We never take payment in stock, options or warrants for any of our services.

Accuracy of content: All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report and have not sought for this information to be independently verified. Opinions contained in this report represent those of the research department of Edison at the time of publication. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations.

Exclusion of Liability: To the fullest extent allowed by law, Edison shall not be liable for any direct, indirect or consequential losses, loss of profits, damages, costs or expenses incurred or suffered by you arising out of or in connection with the access to, use of or reliance on any information contained on this note.

No personalised advice: The information that we provide should not be construed in any manner whatsoever as, personalised advice. Also, the information provided by us should not be construed by any subscriber or prospective subscriber as Edison's solicitation to effect, or attempt to effect, any transaction in a security. The securities described in the report may not be eligible for sale in all jurisdictions or to certain categories of investors.

Investment in securities mentioned: Edison has a restrictive policy relating to personal dealing and conflicts of interest. Edison Group does not conduct any investment business and, accordingly, does not itself hold any positions in the securities mentioned in this report. However, the respective directors, officers, employees and contractors of Edison may have a position in any or related securities mentioned in this report, subject to Edison's policies on personal dealing and conflicts of interest.

Copyright: Copyright 2021 Edison Investment Research Limited (Edison).

Australia

Edison Investment Research Pty Ltd (Edison AU) is the Australian subsidiary of Edison. Edison AU is a Corporate Authorised Representative (1252501) of Crown Wealth Group Pty Ltd who holds an Australian Financial Services Licence (Number: 494274). This research is issued in Australia by Edison AU and any access to it, is intended only for "wholesale clients" within the meaning of the Corporations Act 2001 of Australia. Any advice given by Edison AU is general advice only and does not take into account your personal circumstances, needs or objectives. You should, before acting on this advice, consider the appropriateness of the advice, having regard to your objectives, financial situation and needs. If our advice relates to the acquisition, or possible acquisition, of a particular financial product you should read any relevant Product Disclosure Statement or like instrument.

New Zealand

The research in this document is intended for New Zealand resident professional financial advisers or brokers (for use in their roles as financial advisers or brokers) and habitual investors who are "wholesale clients" for the purpose of the Financial Advisers Act 2008 (FAA) (as described in sections 5(c) (1)(a), (b) and (c) of the FAA). This is not a solicitation or inducement to buy, sell, subscribe, or underwrite any securities mentioned or in the topic of this document. For the purpose of the FAA, the content of this report is of a general nature, is intended as a source of general information only and is not intended to constitute a recommendation or opinion in relation to acquiring or disposing (including refraining from acquiring or disposing) of securities. The distribution of this document is not a "personalised service" and, to the extent that it contains any financial advice, is intended only as a "class service" provided by Edison within the meaning of the FAA (i.e. without taking into account the particular financial situation or goals of any person). As such, it should not be relied upon in making an investment decision.

United Kingdom

This document is prepared and provided by Edison for information purposes only and should not be construed as an offer or solicitation for investment in any securities mentioned or in the topic of this document. A marketing communication under FCA Rules, this document has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research.

This Communication is being distributed in the United Kingdom and is directed only at (i) persons having professional experience in matters relating to investments, i.e. investment professionals within the meaning of Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "FPO") (ii) high net-worth companies, unincorporated associations or other bodies within the meaning of Article 49 of the FPO and (iii) persons to whom it is otherwise lawful to distribute it. The investment or investment activity to which this document relates is available only to such persons. It is not intended that this document be distributed or passed on, directly or indirectly, to any other class of persons and in any event and under no circumstances should persons of any other description rely on or act upon the contents of this document.

This Communication is being supplied to you solely for your information and may not be reproduced by, further distributed to or published in whole or in part by, any other person.

United States

Edison relies upon the "publishers' exclusion" from the definition of investment adviser under Section 202(a)(11) of the Investment Advisers Act of 1940 and corresponding state securities laws. This report is a bona fide publication of general and regular circulation offering impersonal investment-related advice, not tailored to a specific investment portfolio or the needs of current and/or prospective subscribers. As such, Edison does not offer or provide personal advice and the research provided is for informational purposes only. No mention of a particular security in this report constitutes a recommendation to buy, sell or hold that or any security, or that any particular security, portfolio of securities, transaction or investment strategy is suitable for any specific person.

Frankfurt +49 (0)69 78 8076 960
Schumannstrasse 34b
60325 Frankfurt
Germany

London +44 (0)20 3077 5700
280 High Holborn
London, WC1V 7EE
United Kingdom

New York +1 646 653 7026
1185 Avenue of the Americas
3rd Floor, New York, NY 10036
United States of America

Sydney +61 (0)2 8249 8342
Level 4, Office 1205
95 Pitt Street, Sydney
NSW 2000, Australia