

XP Power

Q3 trading update

Q3 trading supports FY18 outlook

XP Power's Q3 trading update confirms strong revenue growth, despite currency headwinds, and good progress in design wins across all end markets. Q3 bookings growth has moderated slightly, partially reflecting uncertainty in the semiconductor sector over capex plans, but management is confident of achieving expectations set at its recent interim results; we leave our forecasts unchanged.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
12/16	129.8	28.6	115.3	71.0	26.0	2.4
12/17	166.8	36.1	147.0	78.0	20.4	2.6
12/18e	198.9	42.2	177.6	82.0	16.9	2.7
12/19e	219.4	47.2	198.4	85.0	15.1	2.8

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

Strong 9M like-for-like revenue and bookings growth

XP received orders worth £153.3m in the nine months to 30 September 2018 (9M18), +11% y-o-y, +18% in constant currency and +8% on a like-for-like basis (excluding currency and acquisitions). In 9M18, the company reported revenues of £146.1m, +18% y-o-y, +24% in constant currency and 11% on a like-for-like basis; this equates to a book-to-bill of 1.05x for the period. As noted in July, the company has seen a shortage of components such as capacitors and has built its safety inventory to cope with extended lead times – this is factored into our gross margin assumptions for H218 and resulted in a small increase in net debt to £49.3m from £46.5m at the end of H118. The Q3 dividend of 19p is in line with our forecast.

Q3 order intake reflects moderation in demand

The 9M18 results imply Q3 order growth of 18% y-o-y/3% q-o-q and Q3 revenue growth of 21% y-o-y/14% q-o-q, with a book-to-bill of 0.98x. Considering that Q3 includes a full three months for the Glassman acquisition versus one month in Q2, this highlights a slight slowing in order growth which we assume relates to semiconductor production equipment (SPE) customers. Despite this, the company continues to see market share gains and good design win momentum across all end markets and anticipates that it will meet expectations as outlined at the end of July. We leave our estimates unchanged.

Valuation: Factors in moderating bookings growth

In the last three months, the stock has pulled back 16%, we believe in part due to concerns over weakening demand from SPE customers. 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 a P/E basis, XP is trading at a premium to global power converter companies and at a small discount to 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

8 October 2018

Price 3000p

Market cap £578m

US\$1.30:£1

Net debt (£m) at end Q318 49.3

Shares in issue 19.2m

Free float 90%

Code XPP

Primary exchange LSE

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs (0.7) (16.4) 4.2

Rel (local) 0.2 (14.5) 4.7

52-week high/low 3,740p 2,850p

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 trading update 14 January 2019

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Exhibit 1: 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	198.9	219.4
Cost of Sales		(49.0)	(51.5)	(51.0)	(55.1)	(67.8)	(89.2)	(108.1)	(119.0)
Gross Profit		44.9	49.6	50.1	54.6	62.0	77.6	90.8	100.4
EBITDA		23.3	26.0	27.6	29.7	33.0	41.7	49.2	55.0
Normalised operating profit		21.0	23.3	24.5	25.9	28.8	36.4	43.5	49.0
Amortisation of acquired intangibles		0.0	0.0	0.0	0.0	(0.4)	(0.6)	(1.4)	(1.2)
Exceptionals		0.0	0.0	0.0	(0.3)	(0.4)	(3.3)	(0.4)	0.0
Share-based payments		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Reported operating profit		21.0	23.3	24.5	25.6	28.0	32.5	41.7	47.8
Net Interest		(0.8)	(0.4)	(0.2)	(0.2)	(0.2)	(0.3)	(1.4)	(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	42.2	47.2
Profit Before Tax (reported)		20.2	22.9	24.3	25.4	27.8	32.2	40.4	46.0
Reported tax		(4.5)	(4.5)	(4.8)	(5.5)	(6.3)	(3.6)	(7.3)	(8.3)
Profit After Tax (norm)		15.7	18.4	19.5	20.2	22.3	28.8	34.7	38.7
Profit After Tax (reported)		15.7	18.4	19.5	19.9	21.5	28.6	33.1	37.7
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	34.4	38.5
Net income (reported)		15.5	18.2	19.4	19.7	21.3	28.3	32.9	37.5
Basic average number of shares outstanding (m)		19	19	19	19	19	19	19	19
EPS - basic normalised (p)		81.67	95.84	102.12	105.28	116.22	149.36	180.36	201.53
EPS - diluted normalised (p)		81.35	95.05	101.07	104.32	115.33	147.00	177.57	198.42
EPS - basic reported (p)		81.67	95.84	102.12	103.70	112.02	148.31	172.08	196.30
Dividend (p)		50	55	61	66	71	78	82	85
Revenue growth (%)		(9.4)	7.7	0.0	8.5	18.3	28.5	19.2	10.3
Gross Margin (%)		47.8	49.1	49.6	49.8	47.8	46.5	45.6	45.7
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	21.9	22.3
BALANCE SHEET									
Fixed Assets		52.8	53.3	56.1	65.4	73.2	88.1	127.2	131.2
Intangible Assets		38.1	39.1	40.5	48.2	53.0	63.9	92.3	93.8
Tangible Assets		13.2	12.7	14.4	16.1	19.1	22.5	33.2	35.7
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	93.2	108.2
Stocks		19.8	20.4	25.2	28.7	32.2	37.8	48.0	52.8
Debtors		14.2	15.4	16.0	17.5	21.5	23.8	30.0	33.1
Cash & cash equivalents		4.1	5.0	3.8	4.9	9.2	15.0	11.2	18.3
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)	(29.1)	(31.6)
Creditors		(11.1)	(12.7)	(14.4)	(14.6)	(16.1)	(21.4)	(25.4)	(27.9)
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)	(61.6)	(56.6)
Long term borrowings		(7.4)	0.0	0.0	(4.6)	0.0	(24.0)	(56.0)	(51.0)
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	129.6	151.1
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	128.6	150.0
CASH FLOW									
Op Cash Flow before WC and tax		23.3	26.0	27.6	29.7	33.0	41.7	49.2	55.0
Working capital		4.2	(0.3)	(4.1)	(4.6)	(6.1)	0.4	(12.3)	(5.4)
Exceptional & other		0.4	(0.5)	1.9	0.6	5.1	(6.3)	(0.4)	0.0
Tax		(4.3)	(5.0)	(3.6)	(4.7)	(4.1)	(6.1)	(4.4)	(8.3)
Net operating cash flow		23.6	20.2	21.8	21.0	27.9	29.7	32.1	41.3
Capex		(4.7)	(3.2)	(5.8)	(5.4)	(6.8)	(10.1)	(15.5)	(11.2)
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)	(1.4)	(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)	(16.2)
Other		0.5	0.2	0.1	0.2	0.0	0.0	0.0	0.0
Net Cash Flow		7.7	7.0	4.9	(4.8)	8.1	(13.3)	(35.8)	12.1
Opening net debt/(cash)		18.6	10.6	3.5	(1.3)	3.7	(3.7)	9.0	44.8
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	44.8	32.7

Source: XP Power, Edison Investment Research

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