

XP Power

Q3 trading update

Meeting elevated customer demand

XP Power's Q3 trading update confirmed that production volumes grew rapidly in its Asian facilities, allowing the company to satisfy some of the orders placed in H120. As expected, bookings returned to a more normal level in Q3. XP reported 28% y-o-y growth in revenues for Q3, prompting upgrades to our FY20/21 revenue and EPS forecasts. The company also announced that CEO Duncan Penny will retire at the end of the year, to be replaced by current CFO Gavin Griggs from 1 January 2021.

Year end	Revenue (£m)	PBT* (£m)	Diluted EPS* (p)	DPS (p)	P/E (x)	Yield (%)
12/18	195.1	41.2	172.8	85.0	27.2	1.8
12/19	199.9	33.2	145.5	55.0	32.3	1.2
12/20e	230.7	40.6	162.9	68.0	28.8	1.4
12/21e	233.8	43.2	173.2	87.0	27.1	1.9

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

Q3 production ramps up to meet demand

In Q320, XP Power reported revenue of £69.0m, +28% y-o-y and +23% q-o-q, as the company ramped up production to meet the backlog generated in H120 by healthcare and semiconductor equipment customers. Bookings in Q3 fell back to a more normal level of £56.3m, +1% y-o-y and -23% q-o-q to close the quarter with a backlog of £125.7m (Q220 £138.2m). Q3 book-to-bill was 0.82x while 9M20 book-to-bill was 1.16x. XP announced a 20p dividend for Q3, ahead of our 19p forecast. Net debt at quarter-end had declined to £28.2m from £34.4m at the end of H120.

Upgrading forecasts

Management noted that while demand across all sectors is generally encouraging, healthcare orders have normalised and it does not expect a repeat of the exceptional demand experienced in H1. It estimates that c £15–20m (7–10%) of 9M20 orders were linked to COVID-19. The board anticipates FY20 performance at the top end of consensus expectations, but sounded a note of caution on the level of uncertainty over a potential second wave of COVID-19 as well as global trade tensions. We have raised our revenue forecasts to reflect the high level of shipments in Q3. We increase our FY20 revenue forecast by 4.9% and FY21 by 2.6%, resulting in upgrades to our normalised EPS forecast of 8.0% in FY20 and 3.7% in FY21.

Valuation: Reflects strong order intake

The share has more than doubled from its low in March and is up 51% year-to-date. On a P/E basis, it is trading at a premium to global power converter companies. It is trading in line with UK electronics companies for FY20 and at a 22% premium for FY21, while generating EBIT margins ahead of both peer groups. While there remains uncertainty over demand during this period of disruption, we highlight XP's strong backlog and balance sheet.

Tech hardware & equipment

12 October 2020

Price **4,700p**

Market cap **£913m**

\$1.29/£1

Net debt (£m) at end-Q320 28.2

Shares in issue 19.2m

Free float 90%

Code XPP

Primary exchange LSE

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs 3.8 30.6 100.9

Rel (local) 3.1 29.6 133.5

52-week high/low 4,600p 2,130p

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 event

FY20 trading update January 2021

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Changes to forecasts

Exhibit 1: Changes to forecasts								
£m	FY20e	FY20e			FY21e	FY21e		
	Old	New	Change	y-o-y	Old	New	Change	y-o-y
Revenues	220.0	230.7	4.9%	15.4%	227.9	233.8	2.6%	1.3%
Gross profit	98.8	103.9	5.2%	15.3%	103.4	106.0	2.6%	2.0%
Gross margin	44.9%	45.0%	0.2%	(0.0%)	45.4%	45.3%	(0.0%)	0.3%
EBITDA	51.1	54.0	5.8%	19.0%	55.5	57.0	2.8%	5.5%
EBITDA margin	23.2%	23.4%	0.2%	0.7%	24.3%	24.4%	0.0%	1.0%
Normalised operating profit	39.7	42.6	7.5%	18.8%	43.7	45.2	3.5%	6.0%
Normalised operating margin	18.0%	18.5%	0.5%	0.5%	19.2%	19.3%	0.2%	0.9%
Reported operating profit	28.9	31.8	10.3%	19.2%	40.5	42.0	3.8%	31.9%
Reported operating margin	13.1%	13.8%	0.7%	0.4%	17.8%	18.0%	0.2%	4.2%
Normalised PBT	37.7	40.6	7.9%	22.4%	41.7	43.2	3.7%	6.3%
Reported PBT	26.9	29.8	11.1%	24.3%	38.5	40.0	4.0%	34.1%
Normalised net income	29.9	32.3	8.0%	13.6%	33.1	34.3	3.7%	6.3%
Reported net income	21.2	23.6	11.2%	15.2%	30.5	31.7	4.0%	34.4%
Normalised basic EPS (p)	153.8	166.0	8.0%	12.0%	170.2	176.5	3.7%	6.3%
Normalised diluted EPS (p)	150.9	162.9	8.0%	12.0%	167.0	173.2	3.7%	6.3%
Reported basic EPS (p)	109.3	121.5	11.2%	13.5%	157.0	163.3	4.0%	34.4%
Dividend per share (p)	67.0	68.0	1.5%	23.6%	87.0	87.0	0.0%	27.9%
Net debt/(cash)	39.9	38.2	(4.2%)	(7.5%)	31.1	27.2	(12.6%)	(28.7%)

Source: Edison Investment Research

Exhibit 2: Financial summary

£m	2015	2016	2017	2018	2019	2020e	2021e
31-December	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT							
Revenue	109.7	129.8	166.8	195.1	199.9	230.7	233.8
Cost of Sales	(55.1)	(67.8)	(89.2)	(102.8)	(109.8)	(126.8)	(127.8)
Gross Profit	54.6	62.0	77.6	92.3	90.1	103.9	106.0
EBITDA	29.7	33.0	41.7	49.2	45.4	54.0	57.0
Normalised operating profit	25.9	28.8	36.4	42.9	35.9	42.6	45.2
Amortisation of acquired intangibles	0.0	(0.4)	(0.6)	(2.8)	(3.2)	(3.2)	(3.2)
Exceptionals	(0.3)	(0.4)	(3.3)	(0.8)	(6.0)	(7.6)	0.0
Share-based payments	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	31.8	42.0
Net Interest	(0.2)	(0.2)	(0.3)	(1.7)	(2.7)	(2.0)	(2.0)
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	0.0	0.0
Profit Before Tax (norm)	25.7	28.6	36.1	41.2	33.2	40.6	43.2
Profit Before Tax (reported)	25.4	27.8	32.2	37.6	24.0	29.8	40.0
Reported tax	(5.5)	(6.3)	(3.6)	(7.2)	(3.2)	(6.0)	(8.0)
Profit After Tax (norm)	20.2	22.3	28.8	33.9	28.7	32.5	34.5
Profit After Tax (reported)	19.9	21.5	28.6	30.4	20.8	23.9	32.0
Minority interests	(0.2)	(0.2)	(0.3)	(0.2)	(0.3)	(0.3)	(0.3)
Discontinued operations	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	28.4	32.3	34.3
Net income (reported)	19.7	21.3	28.3	30.2	20.5	23.6	31.7
Basic ave. number of shares outstanding (m)	19.0	19.0	19.1	19.1	19.2	19.4	19.4
EPS - basic normalised (p)	105.3	116.2	149.4	176.1	148.3	166.0	176.5
EPS - diluted normalised (p)	104.3	115.3	147.0	172.8	145.5	162.9	173.2
EPS - basic reported (p)	103.7	112.0	148.3	157.8	107.0	121.5	163.3
Dividend (p)	66	71	78	85	55	68	87
Revenue growth (%)	8.5	18.3	28.5	17.0	2.5	15.4	1.3
Gross Margin (%)	49.8	47.8	46.5	47.3	45.1	45.0	45.3
EBITDA Margin (%)	27.0	25.4	25.0	25.2	22.7	23.4	24.4
Normalised Operating Margin	23.6	22.2	21.8	22.0	18.0	18.5	19.3
BALANCE SHEET							
Fixed Assets	65.4	73.2	88.1	129.2	137.4	141.1	142.6
Intangible Assets	48.2	53.0	63.9	97.7	99.6	102.7	103.3
Tangible Assets	16.1	19.1	22.5	30.7	35.9	36.5	37.4
Investments & other	1.1	1.1	1.7	0.8	1.9	1.9	1.9
Current Assets	53.5	65.7	83.5	105.1	96.0	105.4	112.3
Stocks	28.7	32.2	37.8	56.5	44.1	50.4	50.8
Debtors	17.5	21.5	23.8	33.0	34.8	39.8	40.4
Cash & cash equivalents	4.9	9.2	15.0	11.5	11.2	9.3	15.3
Other	2.4	2.8	6.9	4.1	5.9	5.9	5.9
Current Liabilities	(19.8)	(25.8)	(25.1)	(26.8)	(30.4)	(34.2)	(34.3)
Creditors	(14.6)	(16.1)	(21.4)	(22.4)	(25.2)	(29.0)	(29.1)
Tax and social security	(1.2)	(3.3)	(3.5)	(4.2)	(3.1)	(3.1)	(3.1)
Short term borrowings	(4.0)	(5.5)	0.0	0.0	(1.6)	(1.6)	(1.6)
Other	0.0	(0.9)	(0.2)	(0.2)	(0.5)	(0.5)	(0.5)
Long Term Liabilities	(10.0)	(6.2)	(29.6)	(70.1)	(64.1)	(57.6)	(51.1)
Long term borrowings	(4.6)	0.0	(24.0)	(63.5)	(57.3)	(50.8)	(44.3)
Other long term liabilities	(5.4)	(6.2)	(5.6)	(6.6)	(6.8)	(6.8)	(6.8)
Net Assets	89.1	106.9	116.9	137.4	138.9	154.6	169.5
Minority interests	(0.8)	(0.8)	(0.9)	(1.0)	(0.7)	(0.8)	(0.8)
Shareholders' equity	88.3	106.1	116.0	136.4	138.2	153.8	168.7
CASH FLOW							
Op Cash Flow before WC and tax	29.7	33.0	41.7	49.2	45.4	54.0	57.0
Working capital	(4.6)	(6.1)	0.4	(21.6)	10.6	(7.5)	(0.9)
Exceptional & other	0.6	5.1	(6.3)	3.2	(5.3)	(6.4)	0.0
Tax	(4.7)	(4.1)	(6.1)	(4.1)	(4.5)	(6.0)	(8.0)
Net operating cash flow	21.0	27.9	29.7	26.7	46.2	34.2	48.1
Capex	(5.4)	(6.8)	(10.1)	(15.0)	(16.3)	(19.5)	(16.5)
Acquisitions/disposals	(8.3)	0.1	(18.3)	(35.4)	0.0	0.0	0.0
Net interest	(0.1)	(0.2)	(0.2)	(1.5)	(2.7)	(2.0)	(2.0)
Equity financing	0.0	0.2	(0.2)	0.6	0.5	(0.6)	0.0
Dividends	(12.2)	(13.1)	(14.2)	(15.6)	(17.2)	(7.5)	(17.1)
Other	0.2	0.0	0.0	0.0	(1.5)	(1.5)	(1.5)
Net Cash Flow	(4.8)	8.1	(13.3)	(40.2)	9.0	3.1	11.0
Opening net debt/(cash)	(1.3)	3.7	(3.7)	9.0	52.0	41.3	38.2
FX	(0.2)	(0.5)	0.6	(2.7)	1.7	0.0	0.0
Other non-cash movements	0.1	(0.2)	0.0	(0.1)	0.0	0.0	0.0
Closing net debt/(cash)	3.7	(3.7)	9.0	52.0	41.3	38.2	27.2

Source: XP Power, Edison Investment Research

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