

# XP Power

Trading update

## Record orders in FY21

**Well-flagged supply chain issues in Q421 held back revenue despite continued strong order intake. We have trimmed our FY21 forecasts to reflect this (EPS down 2.9%) but note that stronger than expected order intake increases confidence in our unchanged FY22 forecasts.**

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
12/19	199.9	32.3	141.4	55.0	34.0	1.1
12/20	233.3	44.3	198.4	74.0	24.2	1.5
12/21e	240.2	43.5	179.0	95.0	26.8	2.0
12/22e	257.1	49.3	203.7	98.0	23.6	2.0

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

## Supply chain issues weigh on Q421 revenue

XP Power reported Q421 revenue of £58.8m (-1% y-o-y, +4% in constant currency, -5% q-o-q). Previously flagged supply chain issues (production constraints, reduced freight capacity) meant that the company was not able to ship as much product as initially expected, resulting in FY21 revenue of £240.2m (+3% y-o-y, +10% constant currency), below our £243.7m forecast. While a large proportion of FY20 revenue growth of 17% was due to high demand for COVID-19 related healthcare equipment, FY21 constant currency growth of 10% was predominantly driven by semiconductor equipment manufacturers. Lower Q421 revenues flow through to adjusted operating profit, which is expected to be modestly below the current consensus range of £46–48m. We understand that production constraints have since lifted and output is back to normal levels. XP closed the year with net debt of £24.7m (vs our £24.0m forecast) and expects to announce a final dividend of at least 36p per share for a full year dividend of at least 94p (vs our 95p forecast).

## Order intake remains strong

While supply chain issues weighed on the production and shipment of product, order intake across all end markets remained strong with orders worth £88.6m received in Q421 (+58% y-o-y, +65% constant currency, -9% q-o-q), resulting in FY21 orders totalling £343.4m, up 33% y-o-y or 43% at constant currency and ahead of our £327.7m forecast. XP closed the year with a record order backlog (we estimate up more than 70% y-o-y), providing good visibility for FY22 revenue. Consistently strong order intake provides evidence of demand across all end markets and should support sustained revenue growth in the short to medium term. We have revised our forecasts to reflect Q421 performance, reducing FY21e normalised diluted EPS by 2.9%. We maintain our FY22 revenue and EPS forecasts and increase our bookings forecast by 14%.

## Valuation: Reflects superior profitability

On an FY21e P/E basis, XP is trading at a 12% premium to global power-converter companies and in line with 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 January 2022

**Price** **4,800p**

**Market cap** **£943m**

\$1.36/£

Net debt (£m) at end FY21 24.7

Shares in issue 19.6m

Free float 90%

Code XPP

Primary exchange LSE

Secondary exchange N/A

## Share price performance



% 1m 3m 12m

Abs 3.0 5.1 8.1

Rel (local) (2.3) (1.5) (5.8)

52-week high/low 5,700p 4,630p

## 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 results 1 March

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## Changes to forecasts

**Exhibit 1: Changes to forecasts**

£m	FY21e	FY21e	Change	y-o-y	FY22e	FY22e	Change	y-o-y
	Old	New			Old	New		
Revenues	243.7	240.2	(1.4%)	3.0%	257.1	257.1	0.0%	7.0%
Gross profit	112.6	111.0	(1.4%)	0.8%	120.2	120.2	(0.0%)	8.3%
Gross margin	46.2%	46.2%	(0.0%)	(1.0%)	46.7%	46.7%	(0.0%)	0.5%
EBITDA	57.9	56.6	(2.2%)	(0.3%)	62.8	62.8	(0.0%)	10.8%
EBITDA margin	23.8%	23.6%	(0.2%)	(0.8%)	24.4%	24.4%	(0.0%)	0.8%
Normalised operating profit	46.3	45.0	(2.8%)	(2.1%)	50.6	50.6	(0.0%)	12.3%
Normalised operating margin	19.0%	18.7%	(0.3%)	(1.0%)	19.7%	19.7%	(0.0%)	0.9%
Reported operating profit	36.6	35.3	(3.5%)	(5.5%)	47.4	47.4	(0.0%)	34.1%
Reported operating margin	15.0%	14.7%	(0.3%)	(1.3%)	18.4%	18.4%	(0.0%)	3.7%
Normalised PBT	44.8	43.5	(2.9%)	(1.7%)	49.3	49.3	(0.0%)	13.2%
Reported PBT	35.1	33.8	(3.7%)	(5.2%)	46.1	46.1	(0.0%)	36.2%
Normalised net income	36.8	35.7	(2.9%)	(8.4%)	40.7	40.7	(0.0%)	13.8%
Reported net income	28.9	27.8	(3.7%)	(11.7%)	38.0	38.0	(0.0%)	36.5%
Normalised basic EPS (p)	187.4	182.0	(2.9%)	(9.8%)	207.1	207.1	(0.0%)	13.8%
Normalised diluted EPS (p)	184.4	179.0	(2.9%)	(9.8%)	203.7	203.7	(0.0%)	13.8%
Reported basic EPS (p)	147.2	141.7	(3.7%)	(13.1%)	193.5	193.5	(0.0%)	36.5%
Dividend per share (p)	95.0	95.0	0.0%	28.4%	98.0	98.0	0.0%	3.2%
Net debt/(cash)	24.0	24.7	2.6%	37.7%	12.1	13.4	10.3%	(45.8%)
Orders	327.7	343.4	4.8%	33.1%	282.3	322.6	14.3%	(6.1%)

Source: Edison Investment Research

**Exhibit 2: Financial summary**

	£m	2015	2016	2017	2018	2019	2020	2021e	2022e
Year end 31 December		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
<b>INCOME STATEMENT</b>									
Revenue		109.7	129.8	166.8	195.1	199.9	233.3	240.2	257.1
Cost of Sales		(55.1)	(67.8)	(89.2)	(102.8)	(109.8)	(123.2)	(129.3)	(137.0)
Gross Profit		54.6	62.0	77.6	92.3	90.1	110.1	111.0	120.2
EBITDA		29.7	33.0	41.7	49.2	44.5	56.8	56.6	62.8
Normalised operating profit		25.9	28.8	36.4	42.9	35.0	46.0	45.0	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	35.3	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	43.5	49.3
Profit Before Tax (reported)		25.4	27.8	32.2	37.6	24.0	35.7	33.8	46.1
Reported tax		(5.5)	(6.3)	(3.6)	(7.2)	(3.2)	(4.0)	(5.8)	(7.8)
Profit After Tax (norm)		20.2	22.3	28.8	33.9	27.9	39.2	36.0	40.9
Profit After Tax (reported)		19.9	21.5	28.6	30.4	20.8	31.7	28.1	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	35.7	40.7
Net income (reported)		19.7	21.3	28.3	30.2	20.5	31.5	27.8	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	182.0	207.1
EPS - diluted normalised (p)		104.3	115.3	147.0	172.8	141.4	198.4	179.0	203.7
EPS - basic reported (p)		103.7	112.0	148.3	157.8	107.0	163.0	141.7	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	3.0	7.0
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	23.6	24.4
Normalised Operating Margin		23.6	22.2	21.8	22.0	17.5	19.7	18.7	19.7
<b>BALANCE SHEET</b>									
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	105.3	117.2
Stocks		28.7	32.2	37.8	56.5	44.1	54.2	54.5	57.8
Debtors		17.5	21.5	23.8	33.0	34.8	30.2	39.9	42.3
Cash & cash equivalents		4.9	9.2	15.0	11.5	11.2	13.9	2.1	8.4
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)	(36.1)	(37.8)
Creditors		(14.6)	(16.1)	(21.4)	(22.4)	(25.2)	(28.3)	(29.7)	(31.4)
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	174.2	193.2
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	173.5	192.4
<b>CASH FLOW</b>									
Op Cash Flow before WC and tax		29.7	33.0	41.7	49.2	44.5	56.8	56.6	62.8
Working capital		(4.6)	(6.1)	0.4	(21.6)	10.6	(6.2)	(8.6)	(3.9)
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)	(5.8)	(7.8)
Net operating cash flow		21.0	27.9	29.7	26.7	46.2	45.6	35.7	51.0
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	(6.8)	11.3
Opening net debt/(cash)		(1.3)	3.7	(3.7)	9.0	52.0	41.3	17.9	24.7
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	24.7	13.4

Source: XP Power, Edison Investment Research

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