

XP Power

Order momentum maintained in Q1

XP reported another robust quarter for order intake (+7% y-o-y, +38% q-o-q in constant currency), strengthening the backlog for the coming quarters. Demand from the semiconductor manufacturing sector remains strong and demand from the industrial technology sector has started to rebound, more than compensating for the moderation in orders from the healthcare sector. Management reiterates its outlook for underlying revenue growth in FY21 and we maintain our 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	33.9	1.1
12/20	233.3	44.3	198.4	74.0	24.1	1.5
12/21e	227.8	41.5	171.4	94.0	27.9	2.0
12/22e	237.8	44.9	185.3	98.0	25.8	2.0

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

Bookings remain robust in Q121

XP Power reported that Q121 bookings of £73.7m were 1% higher y-o-y (or 7% in constant currency) and 32% higher q-o-q (38% constant currency). Demand from semiconductor equipment manufacturers remained strong and industrial technology customer demand started to recover. As expected, orders from healthcare customers returned to pre COVID-19 levels. Q121 revenue was £57.1m, 16% higher y-o-y (23% constant currency) and down 3% q-o-q (up 1% constant currency). In the same period a year ago, the company experienced manufacturing shutdowns due to COVID-19 as well as related supply chain issues. Book-to-bill for the quarter was 1.29x, providing a strong backlog entering Q221.

Maintaining forecasts

XP finished Q121 with a net debt position of £18.4m (FY20: £17.9m). The board has recommended a Q1 dividend of 18p per share, in line with our expectations. Management is encouraged by the Q1 order book which underpins its expectations for underlying revenue growth for FY21, albeit injecting a note of caution around currency and continued COVID-19 risk. We maintain our forecasts which factor in constant currency revenue growth of 3.8% for FY21 (-2.4% on a reported basis).

Valuation: Supported by strong order intake

The stock is up 2% year-to-date, although it is down 16% from the peak reached in February, despite continued positive news from the semiconductor sector regarding fab investment plans. On an FY21e P/E basis XP is trading at an 11% premium to global power-converter companies but at an 8% 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. Strong cash management during the crisis leaves the company well-funded to pursue both organic and acquisitive growth.

Q121 trading update

Tech hardware & equipment

13 April 2021

Price 4,790p

Market cap £941m

US\$1.38:£1

Net debt (£m) at end Q121 18.4

Shares in issue 19.6m

Free float 90%

Code XPP

Primary exchange LSE

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs (5.0) (5.7) 46.5

Rel (local) (7.0) (8.5) 20.4

52-week high/low 5,700p 2,840p

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

H121 results 2 August 2021

Analyst

Katherine Thompson +44 (0)20 3077 5730

tech@edisongroup.com

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Exhibit 1: 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	227.8	237.8
Cost of Sales		(55.1)	(67.8)	(89.2)	(102.8)	(109.8)	(123.2)	(123.3)	(127.4)
Gross Profit		54.6	62.0	77.6	92.3	90.1	110.1	104.5	110.4
EBITDA		29.7	33.0	41.7	49.2	44.5	56.8	54.6	58.4
Normalised operating profit		25.9	28.8	36.4	42.9	35.0	46.0	43.0	46.2
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)	(1.5)	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	38.3	43.0
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	41.5	44.9
Profit Before Tax (reported)		25.4	27.8	32.2	37.6	24.0	35.7	36.8	41.7
Reported tax		(5.5)	(6.3)	(3.6)	(7.2)	(3.2)	(4.0)	(6.3)	(7.1)
Profit After Tax (norm)		20.2	22.3	28.8	33.9	27.9	39.2	34.5	37.2
Profit After Tax (reported)		19.9	21.5	28.6	30.4	20.8	31.7	30.6	34.6
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	34.2	37.0
Net income (reported)		19.7	21.3	28.3	30.2	20.5	31.5	30.3	34.3
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	174.3	188.4
EPS - diluted normalised (p)		104.3	115.3	147.0	172.8	141.4	198.4	171.4	185.3
EPS - basic reported (p)		103.7	112.0	148.3	157.8	107.0	163.0	154.4	174.8
Dividend (p)		66	71	78	85	55	74	94	98
Revenue growth (%)		8.5	18.3	28.5	17.0	2.5	16.7	(-2.4)	4.4
Gross Margin (%)		49.8	47.8	46.5	47.3	45.1	47.2	45.9	46.4
EBITDA Margin (%)		27.0	25.4	25.0	25.2	22.3	24.3	24.0	24.5
Normalised Operating Margin		23.6	22.2	21.8	22.0	17.5	19.7	18.9	19.4
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	106.5	114.3
Stocks		28.7	32.2	37.8	56.5	44.1	54.2	52.4	54.1
Debtors		17.5	21.5	23.8	33.0	34.8	30.2	37.4	39.1
Cash & cash equivalents		4.9	9.2	15.0	11.5	11.2	13.9	8.0	12.4
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)	(34.9)	(35.9)
Creditors		(14.6)	(16.1)	(21.4)	(22.4)	(25.2)	(28.3)	(28.5)	(29.5)
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	176.7	192.3
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	176.0	191.5
CASH FLOW									
Op Cash Flow before WC and tax		29.7	33.0	41.7	49.2	44.5	56.8	54.6	58.4
Working capital		(4.6)	(6.1)	0.4	(21.6)	10.6	(6.2)	(5.2)	(2.3)
Exceptional & other		0.6	5.1	(6.3)	3.2	(4.4)	(1.7)	(1.5)	0.0
Tax		(4.7)	(4.1)	(6.1)	(4.1)	(4.5)	(3.3)	(6.3)	(7.1)
Net operating cash flow		21.0	27.9	29.7	26.7	46.2	45.6	41.6	48.9
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)	(19.0)
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	(0.9)	9.4
Opening net debt/(cash)		(1.3)	3.7	(3.7)	9.0	52.0	41.3	17.9	18.8
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	18.8	9.4

Source: XP Power, Edison Investment Research

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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