

XP Power

Q117 trading update

Firing on all cylinders

After a strong H216, XP saw further acceleration in order intake in Q117, with growth of 55% y-o-y and 27% q-o-q. Q117 revenues grew 23% on a constant currency basis. Revenue and bookings strength combined with sterling weakness lead us to upgrade our forecasts. We lift our revenue forecasts by 4% and normalised EPS forecasts by 2% for FY17 and FY18.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
12/15	109.7	25.7	104.3	66.0	21.1	3.0
12/16	129.8	28.6	115.3	71.0	19.1	3.2
12/17e	150.0	31.5	123.6	75.0	17.8	3.4
12/18e	156.9	33.5	131.3	79.0	16.8	3.6

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

Strong demand across the board

XP generated revenues of £39.6m in Q117, +40% y-o-y, and +23% on a constant currency basis. This follows y-o-y revenue and bookings growth of 33% and 24% respectively in Q416. Bookings of £47.0m in Q117 were up 55% y-o-y (36% constant currency) and 27% q-o-q, as customers pulled in orders from future quarters. The company is seeing strong demand across all sectors and geographies, with particular strength from the semiconductor sector. XP ended Q117 with net cash of £8.8m, up from £3.7m at the end of FY16. A dividend of 15p was announced for Q1, in line with our forecast, and will be paid on 10 July to shareholders as at 16 June.

Estimates revised up

Taking into account the strong Q1 revenues and bookings and the fact that the US\$/£ rate has remained below an average of 1.25 for the quarter, we have revised up our FY17 and FY18 revenue forecasts by 4.4% and 4.5% respectively. We raise our underlying revenue growth assumption from 4.2% to 6.3% in FY17 and reduce our US\$/£ rate assumption for FY17 and FY18 from 1.30 to 1.27. As a large proportion of costs of goods and operating costs are US\$-denominated, this has a much smaller impact at the operating profit level. We raise our normalised EPS forecasts by 1.8% in FY17 and 2.3% in FY18. It is difficult to forecast how sustainable the current order intake level is – we have conservatively assumed that demand slows in H217. If current momentum can be maintained into H2, then further upgrades are possible.

Valuation: Discount narrowing

The share price has gained 36% over the last year, and is up 14% since it announced FY16 results in March. The stock now trades on a P/E of 17.8x FY17e and 16.8x FY18e normalised EPS, with a forecast dividend yield of 3.4% in FY17. The company trades at a discount to peers, despite its better profitability; evidence of accelerating earnings growth could reduce this discount. Strong forecast cash generation should enable the company to invest in further growth, either through internal product development or bolt-on acquisitions, while maintaining its high level of profitability.

Tech hardware & equipment

11 April 2017

Price **2,200p**

Market cap **£418m**

Spot rate: US\$1.24/£

Net cash (£m) at end Q117 8.8

Shares in issue 19.0m

Free float 90%

Code XPP

Primary exchange LSE

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs 12.0 24.8 38.3

Rel (local) 11.5 21.8 16.3

52-week high/low 2,200p 1,480p

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

H117 results 31 July 2017

Analysts

Katherine Thompson +44 (0)20 3077 5730

Dan Ridsdale +44 (0)20 3077 5729

tech@edisongroup.com

[Edison profile page](#)

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

Exhibit 1: Financial summary

	£m	2012	2013	2014	2015	2016	2017e	2018e
31-December		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT								
Revenue		93.9	101.1	101.1	109.7	129.8	150.0	156.9
Cost of Sales		(49.0)	(51.5)	(51.0)	(55.1)	(67.8)	(78.9)	(82.4)
Gross Profit		44.9	49.6	50.1	54.6	62.0	71.1	74.4
EBITDA		23.3	26.0	27.6	29.7	33.0	36.9	39.3
Normalised operating profit		21.0	23.3	24.5	25.9	28.8	31.8	33.8
Amortisation of acquired intangibles		0.0	0.0	0.0	0.0	(0.4)	(0.4)	(0.4)
Exceptionals		0.0	0.0	0.0	(0.3)	(0.4)	0.0	0.0
Share-based payments		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	31.4	33.4
Net Interest		(0.8)	(0.4)	(0.2)	(0.2)	(0.2)	(0.3)	(0.3)
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)		20.2	22.9	24.3	25.7	28.6	31.5	33.5
Profit Before Tax (reported)		20.2	22.9	24.3	25.4	27.8	31.1	33.1
Reported tax		(4.5)	(4.5)	(4.8)	(5.5)	(6.3)	(7.5)	(7.9)
Profit After Tax (norm)		15.7	18.4	19.5	20.2	22.3	24.0	25.4
Profit After Tax (reported)		15.7	18.4	19.5	19.9	21.5	23.7	25.1
Minority interests		(0.2)	(0.2)	(0.1)	(0.2)	(0.2)	(0.3)	(0.3)
Discontinued operations		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	23.7	25.2
Net income (reported)		15.5	18.2	19.4	19.7	21.3	23.4	24.9
Basic average number of shares outstanding (m)		19	19	19	19	19	19	19
EPS - basic normalised (p)		81.67	95.84	102.12	105.28	116.22	124.92	132.67
EPS - diluted normalised (p)		81.35	95.05	101.07	104.32	115.33	123.62	131.29
EPS - basic reported (p)		81.67	95.84	102.12	103.70	112.02	123.34	131.09
Dividend (p)		50	55	61	66	71	75	79
Revenue growth (%)		(9.4)	7.7	0.0	8.5	18.3	15.5	4.6
Gross Margin (%)		47.8	49.1	49.6	49.8	47.8	47.4	47.4
EBITDA Margin (%)		24.8	25.7	27.3	27.0	25.4	24.6	25.0
Normalised Operating Margin		22.4	23.0	24.2	23.6	22.2	21.2	21.5
BALANCE SHEET								
Fixed Assets		52.8	53.3	56.1	65.4	73.2	76.9	80.7
Intangible Assets		38.1	39.1	40.5	48.2	53.0	54.2	55.2
Tangible Assets		13.2	12.7	14.4	16.1	19.1	21.6	24.4
Investments & other		1.5	1.5	1.2	1.1	1.1	1.1	1.1
Current Assets		39.3	42.2	47.0	53.5	65.7	68.5	75.8
Stocks		19.8	20.4	25.2	28.7	32.2	37.4	39.1
Debtors		14.2	15.4	16.0	17.5	21.5	24.2	25.8
Cash & cash equivalents		4.1	5.0	3.8	4.9	9.2	4.0	8.1
Other		1.2	1.4	2.0	2.4	2.8	2.8	2.8
Current Liabilities		(20.2)	(22.4)	(18.6)	(19.8)	(25.7)	(22.6)	(23.4)
Creditors		(11.1)	(12.7)	(14.4)	(14.6)	(16.0)	(18.5)	(19.3)
Tax and social security		(1.6)	(1.1)	(1.7)	(1.2)	(3.3)	(3.3)	(3.3)
Short term borrowings		(7.3)	(8.5)	(2.5)	(4.0)	(5.5)	(0.4)	(0.4)
Other		(0.2)	(0.1)	0.0	0.0	(0.9)	(0.4)	(0.4)
Long Term Liabilities		(10.6)	(3.7)	(4.2)	(10.0)	(6.2)	(6.2)	(6.2)
Long term borrowings		(7.4)	0.0	0.0	(4.6)	0.0	0.0	0.0
Other long term liabilities		(3.2)	(3.7)	(4.2)	(5.4)	(6.2)	(6.2)	(6.2)
Net Assets		61.3	69.4	80.3	89.1	107.0	116.5	126.9
Minority interests		(0.2)	(0.2)	(0.1)	(0.8)	(0.9)	(1.0)	(1.1)
Shareholders' equity		61.1	69.2	80.2	88.3	106.1	115.5	125.8
CASH FLOW								
Op Cash Flow before WC and tax		23.3	26.0	27.6	29.7	33.0	36.9	39.3
Working capital		4.2	(0.3)	(4.1)	(4.6)	(6.2)	(5.4)	(2.4)
Exceptional & other		0.4	(0.5)	1.9	0.6	5.2	0.0	0.0
Tax		(4.3)	(5.0)	(3.6)	(4.7)	(4.1)	(7.5)	(7.9)
Net operating cash flow		23.6	20.2	21.8	21.0	27.9	24.0	28.9
Capex		(4.7)	(3.2)	(5.8)	(5.4)	(6.8)	(9.2)	(9.7)
Acquisitions/disposals		(1.6)	0.1	0.1	(8.3)	0.1	(0.5)	0.0
Net interest		(0.5)	(0.3)	(0.1)	(0.1)	(0.2)	(0.3)	(0.3)
Equity financing		(0.5)	0.1	(0.2)	0.0	0.2	0.0	0.0
Dividends		(9.1)	(10.1)	(11.0)	(12.2)	(13.1)	(14.1)	(14.8)
Other		0.5	0.2	0.1	0.2	0.0	0.0	0.0
Net Cash Flow		7.7	7.0	4.9	(4.8)	8.1	(0.1)	4.1
Opening net debt/(cash)		18.6	10.6	3.5	(1.3)	3.7	(3.7)	(3.6)
FX		0.3	0.1	(0.1)	(0.2)	(0.5)	0.0	0.0
Other non-cash movements		0.0	0.0	0.0	0.1	(0.2)	0.0	0.0
Closing net debt/(cash)		10.6	3.5	(1.3)	3.7	(3.7)	(3.6)	(7.7)

Source: XP Power, Edison Investment Research

Edison is an investment research and advisory company, with offices in North America, Europe, the Middle East and AsiaPac. The heart of Edison is our world-renowned equity research platform and deep multi-sector expertise. At Edison Investment Research, our research is widely read by international investors, advisers and stakeholders. Edison Advisors leverages our core research platform to provide differentiated services including investor relations and strategic consulting. Edison is authorised and regulated by the [Financial Conduct Authority](#). Edison Investment Research (NZ) Limited (Edison NZ) is the New Zealand subsidiary of Edison. Edison NZ is registered on the New Zealand Financial Service Providers Register (FSP number 247505) and is registered to provide wholesale and/or generic financial adviser services only. Edison Investment Research Inc (Edison US) is the US subsidiary of Edison and is regulated by the Securities and Exchange Commission. Edison Investment Research Limited (Edison Aus) [46085869] is the Australian subsidiary of Edison and is not regulated by the Australian Securities and Investment Commission. Edison Germany is a branch entity of Edison Investment Research Limited [4794244]. www.edisongroup.com

DISCLAIMER

Copyright 2017 Edison Investment Research Limited. All rights reserved. This report has been commissioned by Xp Power and prepared and issued by Edison for publication globally. 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. Opinions contained in this report represent those of the research department of Edison at the time of publication. The securities described in the Investment Research may not be eligible for sale in all jurisdictions or to certain categories of investors. This research is issued in Australia by Edison Aus and any access to it, is intended only for "wholesale clients" within the meaning of the Australian Corporations Act. The Investment Research is distributed in the United States by Edison US to major US institutional investors only. Edison US is registered as an investment adviser with the Securities and Exchange Commission. Edison US 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. As such, Edison does not offer or provide personalised advice. We publish information about companies in which we believe our readers may be interested and this information reflects our sincere opinions. The information that we provide or that is derived from our website is not intended to be, and should not be construed in any manner whatsoever as, personalised advice. Also, our website and 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 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. This document is provided 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. Edison has a restrictive policy relating to personal dealing. 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. Edison or its affiliates may perform services or solicit business from any of the companies mentioned in this report. The value of securities mentioned in this report can fall as well as rise and are subject to large and sudden swings. In addition it may be difficult or not possible to buy, sell or obtain accurate information about the value of securities mentioned in this report. Past performance is not necessarily a guide to future performance. 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. 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 (ie 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. To the maximum extent permitted by law, Edison, its affiliates and contractors, and their respective directors, officers and employees will not be liable for any loss or damage arising as a result of reliance being placed on any of the information contained in this report and do not guarantee the returns on investments in the products discussed in this publication. FTSE International Limited ("FTSE") © FTSE 2017. "FTSE®" is a trade mark of the London Stock Exchange Group companies and is used by FTSE International Limited under license. All rights in the FTSE indices and/or FTSE ratings vest in FTSE and/or its licensors. Neither FTSE nor its licensors accept any liability for any errors or omissions in the FTSE indices and/or FTSE ratings or underlying data. No further distribution of FTSE Data is permitted without FTSE's express written consent.