

XP Power

Trading update

Encouraging Q4 order intake

XP Power saw Q4 trading in line with expectations, driving revenue growth of 8% in FY15 (4% in constant currency). Helped by a recovery in orders from the US, Q4 order intake was strong, providing positive momentum going into FY16. The recently acquired EMCO business is also trading well and the company has already identified cross-selling opportunities. We leave our forecasts unchanged pending FY15 results on 22 February.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
12/13	101.1	22.9	95.1	55.0	14.9	3.9
12/14	101.1	24.3	101.1	61.0	14.1	4.3
12/15e	108.5	25.0	97.9	64.0	14.5	4.5
12/16e	117.8	26.8	105.2	65.0	13.5	4.6

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

Q4 trading in line; EMCO trading well

XP Power has reported that the business traded in line with its expectations in Q415, resulting in revenues of £109.5m for FY15 (+8% y-o-y and +4% in constant currency), marginally higher than our £108.5m forecast. This implies Q4 revenues of £27.8m, +6% y-o-y and flat q-o-q. Integration of the recently acquired EMCO business (25 November 2015) is progressing well and the business saw strong orders from its existing customer base in December. XP closed the year with net debt of £3.5m (FY14: net cash £1.3m) and expects to pay a final quarterly dividend of at least 23p per share (versus our 22p forecast).

US order recovery in Q4 bodes well for FY16

XP received orders worth £110.4m in FY15 (+5% y-o-y, +1% constant currency). After a weak Q3, when US orders disappointed, Q4 order intake increased 26% sequentially to £30m (+15% y-o-y), the highest quarterly intake in FY15. Notably, the US (excluding EMCO) saw a 28% pick up in orders to \$22.2m from \$17.3m in Q3. Encouraged by the better order intake in Q4 and the progress made to date with the EMCO business, the company expects to show further modest growth in FY16. We leave our forecasts unchanged, with estimated FY16 revenue growth of 8.6% (4.3% organic, 4.3% from the inclusion of EMCO).

Valuation: Order recovery provides support

XP is trading on a P/E of 13.5x FY16e EPS, with a forecast dividend yield of more than 4.5% in FY16 and with FY16e EBITDA margins of 26.4%. The company trades at a discount to peers (power converter companies trade at c 16x FY16e EPS on average EBITDA margins of 17%; UK distributors trade at c 12x FY16e EPS, on average 9% EBITDA margins). An improving order environment in the US should provide support in the short term; in the medium term, successful integration of and cross-selling arising from the two recent acquisitions could provide further upside to estimates. XP generates strong cash flows that should support further investment in growth, either through internal product development or bolt-on acquisitions.

Tech hardware & equipment

8 January 2016

Price **1,421p**

Market cap **£270m**

\$1.47£

Net debt (£m) at end FY15 3.0

Shares in issue 19.0m

Free float 85.6%

Code XPP

Primary exchange LSE

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs (3.3) (13.1) (1.2)

Rel (local) 0.8 (8.4) 3.9

52-week high/low 1,733p 1,421p

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

FY15 results 22 February 2016

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XP Power is a research client of Edison Investment Research Limited

Exhibit 1: Financial summary

	£m	2011	2012	2013	2014	2015e	2016e
Year-end 31 December		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS							
Revenue		103.6	93.9	101.1	101.1	108.5	117.8
Cost of Sales		(52.7)	(49.0)	(51.5)	(51.0)	(54.6)	(58.7)
Gross Profit		50.9	44.9	49.6	50.1	53.8	59.1
EBITDA		27.5	23.3	26.0	27.6	28.9	31.1
Operating Profit (before am. acq. Intang & except.)		25.3	21.0	23.3	24.5	25.1	27.1
Amortisation of acquired intangibles		0.0	0.0	0.0	0.0	0.0	0.0
Exceptionals		0.0	0.0	0.0	0.0	0.0	0.0
Other		0.0	0.0	0.0	0.0	0.0	0.0
Operating Profit		25.3	21.0	23.3	24.5	25.1	27.1
Net Interest		(1.0)	(0.8)	(0.4)	(0.2)	(0.2)	(0.3)
Profit Before Tax (norm)		24.3	20.2	22.9	24.3	25.0	26.8
Profit Before Tax (FRS 3)		24.3	20.2	22.9	24.3	25.0	26.8
Tax		(3.6)	(4.5)	(4.5)	(4.8)	(6.0)	(6.4)
Profit After Tax (norm)		20.7	15.7	18.4	19.5	19.0	20.4
Profit After Tax (FRS 3)		20.7	15.7	18.4	19.5	19.0	20.4
Average Number of Shares Outstanding (m)		18.9	19.0	19.0	19.0	19.0	19.0
EPS - normalised (p)		107.1	81.7	95.8	102.1	98.9	106.3
EPS - normalised fully diluted (p)		106.4	81.3	95.1	101.1	97.9	105.2
EPS - FRS 3 (p)		107.1	81.7	95.8	102.1	98.9	106.3
Dividend per share (p)		45.0	50.0	55.0	61.0	64.0	65.0
Gross Margin (%)		49.1	47.8	49.1	49.6	49.6	50.2
EBITDA Margin (%)		26.5	24.8	25.7	27.3	26.6	26.4
Operating Margin (before GW and except.) (%)		24.4	22.4	23.0	24.2	23.2	23.0
BALANCE SHEET							
Fixed Assets		52.7	52.8	53.3	56.1	65.0	65.9
Intangible Assets		37.7	38.1	39.1	40.5	49.2	50.0
Tangible Assets		12.9	13.2	12.7	14.4	14.6	14.7
Investment in associates		2.1	1.5	1.5	1.2	1.2	1.2
Current Assets		46.9	39.3	42.2	47.0	51.3	56.2
Stocks		22.0	19.8	20.4	25.2	26.7	28.4
Debtors		16.0	14.2	15.4	16.0	17.2	18.6
Cash		6.3	4.1	5.0	3.8	5.4	7.2
Other		2.6	1.2	1.4	2.0	2.0	2.0
Current Liabilities		(28.2)	(20.2)	(22.4)	(18.6)	(21.2)	(23.6)
Creditors		(14.8)	(12.9)	(13.9)	(16.1)	(16.4)	(17.6)
Short term borrowings		(13.4)	(7.3)	(8.5)	(2.5)	(4.8)	(6.0)
Long Term Liabilities		(15.6)	(10.6)	(3.7)	(4.2)	(8.7)	(4.2)
Long term borrowings		(11.5)	(7.4)	0.0	0.0	(4.5)	0.0
Other long term liabilities		(4.1)	(3.2)	(3.7)	(4.2)	(4.2)	(4.2)
Net Assets		55.8	61.3	69.4	80.3	86.4	94.3
CASH FLOW							
Operating Cash Flow		21.2	27.9	25.2	25.4	26.4	29.2
Net Interest		(0.8)	(0.5)	(0.3)	(0.1)	(0.2)	(0.3)
Tax		(5.0)	(4.3)	(5.0)	(3.6)	(6.0)	(6.4)
Capex		(7.7)	(4.7)	(3.2)	(5.8)	(4.9)	(4.9)
Acquisitions/disposals		(0.1)	(1.6)	0.1	0.1	(8.4)	0.0
Financing		(0.8)	(0.5)	0.1	(0.2)	0.0	0.0
Dividends		(7.8)	(9.1)	(10.1)	(11.0)	(12.2)	(12.5)
Other		0.8	0.5	0.2	0.1	0.0	0.0
Net Cash Flow		(0.2)	7.7	7.0	4.9	(5.2)	5.1
Opening net debt/(cash)		18.4	18.6	10.6	3.5	(1.3)	3.9
HP finance leases initiated		0.0	0.0	0.0	0.0	0.0	0.0
Other		(0.0)	0.3	0.1	(0.1)	0.0	0.0
Closing net debt/(cash)		18.6	10.6	3.5	(1.3)	3.9	(1.2)

Source: XP Power, Edison Investment Research

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