

# XP Power

## Positive Q1 trading update

Q1 trading update

**XP confirmed that Q116 revenues and orders grew year-on-year on both a reported and constant currency basis, remaining at the strong level achieved in the previous quarter. Trading continues to support management's expectations for revenue growth in 2016 and, accordingly, we leave our estimates unchanged.**

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
12/14	101.1	24.3	101.1	61.0	15.6	3.9
12/15	109.7	25.7	104.3	66.0	15.1	4.2
12/16e	122.2	27.0	105.3	69.0	15.0	4.4
12/17e	129.6	29.8	116.6	73.0	13.5	4.6

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

## Q116 trading a continuation of Q415

XP saw encouraging trading in Q116: revenues grew 10% y-o-y to £28.2m (+6% constant currency) and 1% from the previous quarter. Order intake of £30.3m was marginally higher than the Q415 intake and 9% higher than a year ago (+4% constant currency). Net debt of £3.7m at the end of Q116 was flat compared to the end of FY15. The Q1 dividend of 14p was in line with our expectations and 8% higher than a year ago. It will be paid on 8 July to shareholders as at 17 June.

## Outlook remains positive; no change to forecasts

The strong order inflow in Q116 supports management's expectations for revenue growth in 2016. The integration of the recent EMCO acquisition continues on track – the business was shifted onto XP's ERP system on 1 January and training of the salesforce is now complete, paving the way for cross-selling opportunities. We make no change to forecasts at this point – we note that there is upside potential to revenues from the continued weakness of sterling versus the dollar, although this would have a more limited effect at the net income level.

## Valuation: Recent investment supports growth

While the economic outlook is mixed, with slower growth forecast in the US and China, we believe that XP should benefit from its recent investment in engineering and sales resource, as well as acquisitions in the US and South Korea. Strong forecast cash generation should enable the company to invest in further growth, either through internal product development or through the bolt-on acquisitions it continues to evaluate. XP now trades on a P/E of 15.0x FY16e and 13.5x FY17e normalised EPS, with a forecast dividend yield of 4.4% in FY16 and 4.6% in FY17. Competitor power converter companies are trading at around 19x FY16e EPS on EBITDA margins of c 16% versus XP's 25.6% forecast EBITDA margin. The UK distributors are trading on 12-20x FY16e EPS, on c 9% EBITDA margins. Based on XP's superior margins, the company is undervalued versus peers, and is further supported by its dividend yield.

Tech hardware & equipment

11 April 2016

**Price** **1,577p**

**Market cap** **£300m**

\$1.41:€1.24:£1

Net debt (£m) at end Q116 3.7

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) 5.9 8.6

Rel (local) (4.5) 1.8 19.7

52-week high/low 1733p 1421p

### 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 events

H1 results 22 July 2016

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**Exhibit 1: Financial summary**

	£m	2012	2013	2014	2015	2016e	2017e
31-December		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
<b>INCOME STATEMENT</b>							
Revenue		93.9	101.1	101.1	109.7	122.2	129.6
Cost of Sales		(49.0)	(51.5)	(51.0)	(55.1)	(61.1)	(64.6)
Gross Profit		44.9	49.6	50.1	54.6	61.1	65.0
EBITDA		23.3	26.0	27.6	29.7	31.2	34.2
Normalised operating profit		21.0	23.3	24.5	25.9	27.2	30.1
Amortisation of acquired intangibles		0.0	0.0	0.0	0.0	0.0	0.0
Exceptionals		0.0	0.0	0.0	(0.3)	0.0	0.0
Share-based payments		0.0	0.0	0.0	0.0	0.0	0.0
Reported operating profit		21.0	23.3	24.5	25.6	27.2	30.1
Net Interest		(0.8)	(0.4)	(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
Exceptional & other financial		0.0	0.0	0.0	0.0	0.0	0.0
Profit Before Tax (norm)		20.2	22.9	24.3	25.7	27.0	29.8
Profit Before Tax (reported)		20.2	22.9	24.3	25.4	27.0	29.8
Reported tax		(4.5)	(4.5)	(4.8)	(5.5)	(6.5)	(7.2)
Profit After Tax (norm)		15.7	18.4	19.5	20.2	20.5	22.7
Profit After Tax (reported)		15.7	18.4	19.5	19.9	20.5	22.7
Minority interests		(0.2)	(0.2)	(0.1)	(0.2)	(0.3)	(0.3)
Discontinued operations		0.0	0.0	0.0	0.0	0.0	0.0
Net income (normalised)		15.5	18.2	19.4	20.0	20.2	22.4
Net income (reported)		15.5	18.2	19.4	19.7	20.2	22.4
Basic average number of shares outstanding (m)		19	19	19	19	19	19
EPS - basic normalised (p)		81.67	95.84	102.12	105.28	106.45	117.78
EPS - diluted normalised (p)		81.35	95.05	101.07	104.32	105.34	116.56
EPS - basic reported (p)		81.67	95.84	102.12	103.70	106.45	117.78
Dividend (p)		50	55	61	66	69	73
Revenue growth (%)		(9.4)	7.7	0.0	8.5	11.4	6.0
Gross Margin (%)		47.8	49.1	49.6	49.8	50.0	50.2
EBITDA Margin (%)		24.8	25.7	27.3	27.0	25.6	26.4
Normalised Operating Margin		22.4	23.0	24.2	23.6	22.3	23.2
<b>BALANCE SHEET</b>							
Fixed Assets		52.8	53.3	56.1	65.4	66.3	67.1
Intangible Assets		38.1	39.1	40.5	48.2	49.0	49.7
Tangible Assets		13.2	12.7	14.4	16.1	16.2	16.3
Investments & other		1.5	1.5	1.2	1.1	1.1	1.1
Current Assets		39.3	42.2	47.0	53.5	58.2	62.8
Stocks		19.8	20.4	25.2	28.7	30.1	31.8
Debtors		14.2	15.4	16.0	17.5	18.8	19.9
Cash & cash equivalents		4.1	5.0	3.8	4.9	6.9	8.7
Other		1.2	1.4	2.0	2.4	2.4	2.4
Current Liabilities		(20.2)	(22.4)	(18.6)	(19.8)	(22.6)	(19.0)
Creditors		(11.1)	(12.7)	(14.4)	(14.6)	(16.3)	(17.2)
Tax and social security		(1.6)	(1.1)	(1.7)	(1.2)	(1.2)	(1.2)
Short term borrowings		(7.3)	(8.5)	(2.5)	(4.0)	(5.1)	(0.6)
Other		(0.2)	(0.1)	0.0	0.0	0.0	0.0
Long Term Liabilities		(10.6)	(3.7)	(4.2)	(10.0)	(5.4)	(5.4)
Long term borrowings		(7.4)	0.0	0.0	(4.6)	0.0	0.0
Other long term liabilities		(3.2)	(3.7)	(4.2)	(5.4)	(5.4)	(5.4)
Net Assets		61.3	69.4	80.3	89.1	96.4	105.4
Minority interests		(0.2)	(0.2)	(0.1)	(0.8)	(0.9)	(1.0)
Shareholders' equity		61.1	69.2	80.2	88.3	95.5	104.4
<b>CASH FLOW</b>							
Op Cash Flow before WC and tax		23.3	26.0	27.6	29.7	31.2	34.2
Working capital		4.2	(0.3)	(4.1)	(4.6)	(1.0)	(1.9)
Exceptional & other		0.4	(0.5)	1.9	0.6	0.0	0.0
Tax		(4.3)	(5.0)	(3.6)	(4.7)	(6.5)	(7.2)
Net operating cash flow		23.6	20.2	21.8	21.0	23.7	25.2
Capex		(4.7)	(3.2)	(5.8)	(5.4)	(4.9)	(4.9)
Acquisitions/disposals		(1.6)	0.1	0.1	(8.3)	0.0	0.0
Net interest		(0.5)	(0.3)	(0.1)	(0.1)	(0.3)	(0.3)
Equity financing		(0.5)	0.1	(0.2)	0.0	0.0	0.0
Dividends		(9.1)	(10.1)	(11.0)	(12.2)	(13.1)	(13.7)
Other		0.5	0.2	0.1	0.2	0.0	0.0
Net Cash Flow		7.7	7.0	4.9	(4.8)	5.5	6.3
Opening net debt/(cash)		18.6	10.6	3.5	(1.3)	3.7	(1.8)
FX		0.3	0.1	(0.1)	(0.2)	0.0	0.0
Other non-cash movements		0.0	0.0	0.0	0.1	0.0	0.0
Closing net debt/(cash)		10.6	3.5	(1.3)	3.7	(1.8)	(8.1)

Source: XP Power, Edison Investment Research

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