

XP Power

Strong orders support FY16 outlook

Trading update

XP has seen an improving order trend through the course of Q316, with orders 44% above the Q315 intake and 9% above the record level reported in Q216 providing a strong backlog going into Q4. Management expects trading to be in line with expectations for FY16 and 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	16.3	3.7
12/15	109.7	25.7	104.3	66.0	15.8	4.0
12/16e	127.2	27.4	107.3	69.0	15.4	4.2
12/17e	136.4	30.5	119.5	73.0	13.8	4.4

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

Q3 sees record order intake

XP saw a 13% y-o-y increase in revenues for the nine months to 30 September 2016 (+5% constant currency). This implies Q316 revenues of £32.3m (+16% y-o-y, +3% q-o-q). Nine-month order intake increased 19% y-o-y (+11% constant currency). Order intake for Q316 of £34.2m was 9% higher q-o-q and 44% higher y-o-y, resulting in a book-to-bill for Q3 of 1.06x. Orders increased through the quarter, with the company seeing orders pulled in from Q416 and notably a pick-up in North American demand. The Brexit vote does not appear to have affected demand. XP ended Q316 with a net debt position of £2.2m, down from £6.0m at the end of H116. The company announced a Q3 dividend of 16p (in line with our forecast) to be paid on 12 January 2017 to shareholders on the register on 16 December 2016.

Outlook: estimates unchanged

The Board expects trading to be in line with expectations for FY16. We leave our estimates unchanged – we are forecasting revenue growth of 15.9% for FY16 from a combination of a full year of the EMCO acquisition and the strong dollar versus the pound. For the longer term, the company is seeing an increasing level of design wins with key customers; as customers move into production this should lead to volume orders and market share gains.

Valuation: Trading at a discount

Although the economic outlook is mixed, 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 15.4x FY16e and 13.8x FY17e normalised EPS, with a forecast dividend yield of 4.2% in FY16. Competitor power converter companies are trading at around 23x FY16e EPS on EBITDA margins of c 16% versus XP's 25% forecast EBITDA margin. The UK distributors are trading on c 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

7 October 2016

Price 1,655p

Market cap £314m

\$1.27:£1

Net debt (£m) at end Q316 2.2

Shares in issue 19.0m

Free float 85.7%

Code XPP

Primary exchange LSE

Secondary exchange N/A

Share price performance



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

FY16 trading update 13 January 2017

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Exhibit 1: Financial summary

	£'m	2012	2013	2014	2015	2016e	2017e
31-December		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT							
Revenue		93.9	101.1	101.1	109.7	127.2	136.4
Cost of Sales		(49.0)	(51.5)	(51.0)	(55.1)	(64.5)	(69.1)
Gross Profit		44.9	49.6	50.1	54.6	62.6	67.4
EBITDA		23.3	26.0	27.6	29.7	32.0	35.3
Normalised operating profit		21.0	23.3	24.5	25.9	27.7	30.8
Amortisation of acquired intangibles		0.0	0.0	0.0	0.0	(0.2)	(0.2)
Exceptionals		0.0	0.0	0.0	(0.3)	(0.1)	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	27.4	30.6
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	27.4	30.5
Profit Before Tax (reported)		20.2	22.9	24.3	25.4	27.1	30.3
Reported tax		(4.5)	(4.5)	(4.8)	(5.5)	(6.5)	(7.3)
Profit After Tax (norm)		15.7	18.4	19.5	20.2	20.9	23.2
Profit After Tax (reported)		15.7	18.4	19.5	19.9	20.6	23.0
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	20.6	22.9
Net income (reported)		15.5	18.2	19.4	19.7	20.3	22.7
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	108.39	120.80
EPS - diluted normalised (p)		81.35	95.05	101.07	104.32	107.26	119.54
EPS - basic reported (p)		81.67	95.84	102.12	103.70	106.81	119.74
Dividend (p)		50	55	61	66	69	73
Revenue growth (%)		(9.4)	7.7	0.0	8.5	15.9	7.3
Gross Margin (%)		47.8	49.1	49.6	49.8	49.2	49.4
EBITDA Margin (%)		24.8	25.7	27.3	27.0	25.1	25.9
Normalised Operating Margin		22.4	23.0	24.2	23.6	21.8	22.6
BALANCE SHEET							
Fixed Assets		52.8	53.3	56.1	65.4	66.9	67.7
Intangible Assets		38.1	39.1	40.5	48.2	49.4	50.5
Tangible Assets		13.2	12.7	14.4	16.1	16.4	16.1
Investments & other		1.5	1.5	1.2	1.1	1.1	1.1
Current Assets		39.3	42.2	47.0	53.5	58.4	63.1
Stocks		19.8	20.4	25.2	28.7	32.7	35.0
Debtors		14.2	15.4	16.0	17.5	20.2	21.7
Cash & cash equivalents		4.1	5.0	3.8	4.9	3.1	4.0
Other		1.2	1.4	2.0	2.4	2.4	2.4
Current Liabilities		(20.2)	(22.4)	(18.6)	(19.8)	(23.3)	(19.5)
Creditors		(11.1)	(12.7)	(14.4)	(14.6)	(16.9)	(18.2)
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)	(5.2)	(0.1)
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	96.5	105.9
Minority interests		(0.2)	(0.2)	(0.1)	(0.8)	(0.9)	(1.0)
Shareholders' equity		61.1	69.2	80.2	88.3	95.6	104.9
CASH FLOW							
Op Cash Flow before WC and tax		23.3	26.0	27.6	29.7	32.0	35.3
Working capital		4.2	(0.3)	(4.1)	(4.6)	(4.4)	(2.5)
Exceptional & other		0.4	(0.5)	1.9	0.6	(0.1)	0.0
Tax		(4.3)	(5.0)	(3.6)	(4.7)	(6.5)	(7.3)
Net operating cash flow		23.6	20.2	21.8	21.0	21.0	25.5
Capex		(4.7)	(3.2)	(5.8)	(5.4)	(6.0)	(5.5)
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)	1.6	6.0
Opening net debt/(cash)		18.6	10.6	3.5	(1.3)	3.7	2.1
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	2.1	(3.9)

Source: XP Power, Edison Investment Research

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