

XP Power

Demand remains strong; earnings upgraded

Q3 trading update

Hot on the heels of its recent US acquisition, XP Power's trading update confirms that strong trading continued into Q3. Q3 revenues were 35% higher than a year ago, with nine-month revenues up 34% y-o-y and 21% in constant currency. We revise up our revenue forecasts to reflect much stronger than expected trading in Q3, which results in normalised EPS upgrades of 5.7% in FY17e and 7.1% in FY18e.

Year end	Revenue (£m)	PBT* (£m)	Dil. EPS* (p)	DPS (p)	P/E (x)	Yield (%)
12/15	109.7	25.7	104.3	66.0	27.5	2.3
12/16	129.8	28.6	115.3	71.0	24.9	2.5
12/17e	166.7	35.5	142.9	76.0	20.1	2.6
12/18e	179.1	38.4	147.9	79.0	19.4	2.8

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

Further acceleration in revenues

XP generated revenues of £43.7m in Q317, +35% y-o-y and +8% q-o-q, and ahead of our £37.4m forecast. For the nine months to 30 September, revenues grew 34% (21% in constant currency). Q3 order intake also remained strong at £44.1m, +26% y-o-y and -5% q-o-q, to result in a book-to-bill of 1.01x for Q3. For the nine months, orders grew 44% y-o-y (+30% in constant currency). The company saw particularly strong demand in North America, from semiconductor equipment manufacturers enjoying this year's upturn in chip demand and healthcare companies placing orders for new programmes.

Earnings upgrades for FY17 and FY18

After paying \$23m/£17m for Comdel at the end of the quarter, the company ended Q317 with a net debt position of £10.8m (vs net cash of £8.0m at the end of H117). The company announced an 18p dividend for Q3 (1p ahead of our forecast) to be paid on 11 January to shareholders as at 15 December. Management anticipates that FY17 results will be ahead of expectations outlined at H117 results. We have revised our forecasts to reflect the stronger than expected revenues and bookings in Q317. We raise our revenue forecasts by 4.7% in FY17 (28.5% growth y-o-y) and 5.3% in FY18 (7.4% growth). This results in an increase in our normalised EPS forecasts of 5.7% for FY17 and 7.1% for FY18.

Valuation: Reflects earnings momentum

The stock is up 62% year to date and 17% in the last three months, reflecting multiple earnings upgrades over the course of the year. On our revised forecasts, XP is trading on 19.4x FY18e EPS. This is in line with its UK electronics peer group and at a small premium versus international power supply peers. Cross-selling and a reduction in manufacturing costs for Comdel have the potential to provide upside to our forecasts.

Tech hardware & equipment

9 October 2017

Price 2,870p

Market cap £545m

\$1.34:£1

Net debt (£m) at end Q317 10.8

Shares in issue 19.0m

Free float 90.6%

Code XPP

Primary exchange LSE

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs 10.4 16.5 72.7

Rel (local) 7.9 13.3 59.3

52-week high/low 2920p 1689p

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

FY17 trading update 12 January 2018

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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	166.7	179.1
Cost of Sales		(49.0)	(51.5)	(51.0)	(55.1)	(67.8)	(89.0)	(97.2)
Gross Profit		44.9	49.6	50.1	54.6	62.0	77.8	81.9
EBITDA		23.3	26.0	27.6	29.7	33.0	41.0	44.7
Normalised operating profit		21.0	23.3	24.5	25.9	28.8	35.9	39.0
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)	(2.8)	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	32.7	38.6
Net Interest		(0.8)	(0.4)	(0.2)	(0.2)	(0.2)	(0.4)	(0.6)
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	35.5	38.4
Profit Before Tax (reported)		20.2	22.9	24.3	25.4	27.8	32.3	38.0
Reported tax		(4.5)	(4.5)	(4.8)	(5.5)	(6.3)	(7.8)	(9.7)
Profit After Tax (norm)		15.7	18.4	19.5	20.2	22.3	27.7	28.6
Profit After Tax (reported)		15.7	18.4	19.5	19.9	21.5	24.6	28.3
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	27.4	28.4
Net income (reported)		15.5	18.2	19.4	19.7	21.3	24.3	28.1
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	144.38	149.41
EPS - diluted normalised (p)		81.35	95.05	101.07	104.32	115.33	142.88	147.86
EPS - basic reported (p)		81.67	95.84	102.12	103.70	112.02	128.05	147.83
Dividend (p)		50	55	61	66	71	76	79
Revenue growth (%)		(9.4)	7.7	0.0	8.5	18.3	28.5	7.4
Gross Margin (%)		47.8	49.1	49.6	49.8	47.8	46.6	45.7
EBITDA Margin (%)		24.8	25.7	27.3	27.0	25.4	24.6	24.9
Normalised Operating Margin		22.4	23.0	24.2	23.6	22.2	21.5	21.7
BALANCE SHEET								
Fixed Assets		52.8	53.3	56.1	65.4	73.2	93.8	97.8
Intangible Assets		38.1	39.1	40.5	48.2	53.0	71.2	72.2
Tangible Assets		13.2	12.7	14.4	16.1	19.1	21.5	24.5
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	75.5	84.9
Stocks		19.8	20.4	25.2	28.7	32.2	41.4	45.3
Debtors		14.2	15.4	16.0	17.5	21.5	26.5	28.5
Cash & cash equivalents		4.1	5.0	3.8	4.9	9.2	4.8	8.3
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)	(45.2)	(45.0)
Creditors		(11.1)	(12.7)	(14.4)	(14.6)	(16.0)	(24.1)	(23.9)
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)	(17.4)	(17.4)
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	117.9	131.4
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	116.9	130.3
CASH FLOW								
Op Cash Flow before WC and tax		23.3	26.0	27.6	29.7	33.0	41.0	44.7
Working capital		4.2	(0.3)	(4.1)	(4.6)	(6.2)	(6.1)	(6.0)
Exceptional & other		0.4	(0.5)	1.9	0.6	5.2	(2.8)	0.0
Tax		(4.3)	(5.0)	(3.6)	(4.7)	(4.1)	(7.8)	(9.7)
Net operating cash flow		23.6	20.2	21.8	21.0	27.9	24.3	29.0
Capex		(4.7)	(3.2)	(5.8)	(5.4)	(6.8)	(9.2)	(10.1)
Acquisitions/disposals		(1.6)	0.1	0.1	(8.3)	0.1	(17.5)	0.0
Net interest		(0.5)	(0.3)	(0.1)	(0.1)	(0.2)	(0.4)	(0.6)
Equity financing		(0.5)	0.1	(0.2)	0.0	0.2	0.5	0.0
Dividends		(9.1)	(10.1)	(11.0)	(12.2)	(13.1)	(14.1)	(15.0)
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	(16.3)	3.3
Opening net debt/(cash)		18.6	10.6	3.5	(1.3)	3.7	(3.7)	12.6
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)	12.6	9.3

Source: XP Power, Edison Investment Research

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