

XP Power

FY17 trading update

Strong demand continues into Q4

XP saw a strong finish to the year, with Q4 revenue growth of 16% y-o-y and order growth of 24% y-o-y, resulting in FY17 revenues slightly ahead of our forecast. Good demand across all sectors and geographies was boosted by a strong contribution from the recent Comdel acquisition. Management expects continued growth in FY18; we maintain our forecasts which, based on current momentum, could prove conservative.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
12/15	109.7	25.7	104.3	66.0	34.8	1.8
12/16	129.8	28.6	115.3	71.0	31.5	2.0
12/17e	166.7	35.5	142.9	76.0	25.4	2.1
12/18e	179.1	38.4	147.9	79.0	24.6	2.2

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

Positive momentum continues into Q4

XP generated revenues of £43.2m in Q4, +16% y-o-y and +23% in constant currency. Stripping out the contribution from Comdel, revenues grew 5% y-o-y. FY17 revenues of £167m were 29% higher y-o-y (+22% constant currency) and were marginally ahead of our £166.7m forecast. Q4 order intake of £46.8m was 24% higher y-o-y (+32% constant currency) and 11% ahead on an organic basis. Book-to-bill stood at 1.08x for Q4 and 1.11x for FY17. Net debt at year-end stood at £10.1m, below our £12.6m forecast. XP expects to declare a Q4 dividend of at least 28p per share, ahead of our 27p forecast. With the strong backlog in place at year-end and positive momentum during H217, management expects continued order and revenue growth in FY18. We make no changes to our forecasts pending preliminary results on 1 March.

Comdel integration off to a good start

Recently acquired Comdel (29 September 2017) generated revenues of £4.1m/\$5.4m in Q417 (+30% y-o-y reported and constant currency), ahead of our \$4.4m forecast. Bookings of £5.8m/\$7.7m were significantly higher than a year ago (+101% y-o-y and +114% in constant currency) driven by strong demand from Comdel's existing customer base. Integration of the business is underway and proceeding as planned.

Valuation: Factoring in strong growth

The stock is up 107% over the year and 12% in the last three months, reflecting multiple earnings upgrades over the course of the year. XP is currently trading on 24.6x FY18e EPS. This is at a premium to both its UK electronics peer group and versus international power supply peers, and is also at a historic high. In part we believe this is justified by XP's superior profitability and in our view, the valuation is likely to be factoring in higher growth than our conservative 7.4% revenue growth forecast for FY18. Cross-selling and a reduction in manufacturing costs for Comdel could provide another source of upside to our forecasts.

Tech hardware & equipment

12 January 2018

Price **3630p**
Market cap **£690m**

\$1.35:£1

Net debt (£m) at end FY17 10.1

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	6.6	11.9	106.3
Rel (local)	2.5	8.6	91.4

52-week high/low 3650p 1750p

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 results 1 March 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	84.7
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	8.1
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)	(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	131.2
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	130.1
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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