

XP Power

Tax changes

Tax changes support EPS upside

XP expects a lower effective group tax rate resulting from the reduction in US corporate tax rates from 35% to 21%. In addition, it expects to receive a tax refund from the Inland Revenue Authority of Singapore. This should drive upside to our FY18 EPS forecast as well as boosting XP's cash position.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
12/15	109.7	25.7	104.3	66.0	30.3	2.1
12/16	129.8	28.6	115.3	71.0	27.4	2.2
12/17e	166.7	35.5	142.9	76.0	22.1	2.4
12/18e	179.1	38.4	147.9	79.0	21.4	2.5

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

XP Power should see a two-fold benefit from the change in the US corporate tax rate from 35% to 21% from 2018. First, it is likely to report a non-cash credit relating to the £5.2m deferred tax liability as at the end of FY17. This will be excluded from any adjusted profitability measures. Second, it should reduce the group's effective tax rate from FY18 onwards. In addition, the company expects to receive a £1.3m refund of tax paid in Singapore relating to FY15 and FY16 (also to be excluded from adjusted profits). Overall, XP expects the group effective tax rate to reduce to a range of 15-17% from FY18. We currently forecast an effective rate of 25.5% on FY18 normalised PBT. We leave our forecasts unchanged pending FY17 results on 1 March but highlight that a reduction to an effective rate of 17% in FY18 would increase our normalised diluted EPS forecast by c 11%.

Tech hardware & equipment

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Price 3160p
Market cap £600m

Net cash (£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



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.

Analysts

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