

XP Power

Strong Q1 drives forecast upgrades

Q1 trading update

XP Power's Q1 trading update confirmed continuing positive momentum in order intake. Orders received were 9% higher on a year-on-year and quarter-on-quarter basis. With Q1 revenue growth of 18% y-o-y, book-to-bill remained strong at 1.1x. We have revised our revenue forecasts to take account of the higher than expected performance in Q1, resulting in an upgrade to forecast normalised EPS of 7.7% in FY18 and 7.6% in FY19.

Year end	Revenue (£m)	PBT* (£m)	Dil. EPS* (p)	DPS (p)	P/E (x)	Yield (%)
12/16	129.8	28.6	115.3	71.0	30.5	2.0
12/17	166.8	36.1	147.0	78.0	23.9	2.2
12/18e	186.0	40.3	171.1	82.0	20.6	2.3
12/19e	195.1	42.9	182.5	85.0	19.3	2.4

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

Q118 trading: Revenues and bookings up strongly

XP Power reported revenues of £46.6m in Q118, up 18% y-o-y, up 28% on a constant currency basis and up 17% on a like-for-like basis. Order intake of £51.2m was 9% higher y-o-y (+19% constant currency, +12% like-for-like) and 9% higher q-o-q. Book-to-bill remained strong at 1.1x. Net debt at quarter-end was £6.8m, down from £9.0m at end FY17. The company announced a 16p per share dividend for Q118, in line with our forecast.

Upgrading forecasts

Management's expectations for full year performance remain unchanged. We have raised our forecasts to reflect the stronger than expected trading in Q1. We lift revenue forecasts by 5.8% for FY18 and FY19, based on constant currency revenue growth of 22% in FY18 (which includes the full year effect of Comdel) and 5% in FY19. This results in an increase in operating profit of 7.5% in FY18 and 7.4% in FY19 and normalised EPS of 7.7% in FY18 and 7.6% in FY19. We forecast that XP will move into a net cash position by the end of FY19, increasing our forecast from £4.1m to £6.2m.

Valuation: Reflects consistently profitable growth

On a P/E basis, XP is trading at a premium to global power converter companies and at a small discount to UK electronics companies, with a dividend yield at the top end of the range. XP generates EBITDA and EBIT margins at the top end of its peer group. We see scope for upgrades to earnings estimates from cross-selling and further market share gains in healthcare. The company is well funded to make further acquisitions, while maintaining its strong operating profitability.

Tech hardware & equipment

13 April 2018

Price 3520p

Market cap £673m

\$1.41:£1

Net debt (£m) at end Q118 6.8

Shares in issue 19.1m

Free float 90%

Code XPP

Primary exchange LSE

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs 2.0 (4.9) 40.8

Rel (local) 1.9 1.6 41.6

52-week high/low 3740.0p 2390.0p

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

H118 results 30 July 2018

Analysts

Katherine Thompson +44 (0)20 3077 5730

Dan Ridsdale +44 (0)20 3077 5729

tech@edisongroup.com

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Research Limited**

Exhibit 1: Financial summary

	£m	2012	2013	2014	2015	2016	2017	2018e	2019e
31-December		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT									
Revenue		93.9	101.1	101.1	109.7	129.8	166.8	186.0	195.1
Cost of Sales		(49.0)	(51.5)	(51.0)	(55.1)	(67.8)	(89.2)	(100.0)	(104.9)
Gross Profit		44.9	49.6	50.1	54.6	62.0	77.6	86.0	90.2
EBITDA		23.3	26.0	27.6	29.7	33.0	41.7	46.6	49.5
Normalised operating profit		21.0	23.3	24.5	25.9	28.8	36.4	40.9	43.5
Amortisation of acquired intangibles		0.0	0.0	0.0	0.0	(0.4)	(0.6)	(1.4)	(1.2)
Exceptionals		0.0	0.0	0.0	(0.3)	(0.4)	(3.3)	0.0	0.0
Share-based payments		0.0	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	32.5	39.5	42.3
Net Interest		(0.8)	(0.4)	(0.2)	(0.2)	(0.2)	(0.3)	(0.6)	(0.6)
Joint ventures & associates (post tax)		0.0	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	0.0
Profit Before Tax (norm)		20.2	22.9	24.3	25.7	28.6	36.1	40.3	42.9
Profit Before Tax (reported)		20.2	22.9	24.3	25.4	27.8	32.2	38.9	41.7
Reported tax		(4.5)	(4.5)	(4.8)	(5.5)	(6.3)	(3.6)	(6.6)	(7.1)
Profit After Tax (norm)		15.7	18.4	19.5	20.2	22.3	28.8	33.4	35.6
Profit After Tax (reported)		15.7	18.4	19.5	19.9	21.5	28.6	32.2	34.6
Minority interests		(0.2)	(0.2)	(0.1)	(0.2)	(0.2)	(0.3)	(0.3)	(0.3)
Discontinued operations		0.0	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	28.5	33.2	35.4
Net income (reported)		15.5	18.2	19.4	19.7	21.3	28.3	32.0	34.4
Basic average number of shares outstanding (m)		19	19	19	19	19	19	19	19
EPS - basic normalised (p)		81.67	95.84	102.12	105.28	116.22	149.36	173.78	185.41
EPS - diluted normalised (p)		81.35	95.05	101.07	104.32	115.33	147.00	171.09	182.54
EPS - basic reported (p)		81.67	95.84	102.12	103.70	112.02	148.31	167.60	180.17
Dividend (p)		50	55	61	66	71	78	82	85
Revenue growth (%)		(9.4)	7.7	0.0	8.5	18.3	28.5	11.5	4.9
Gross Margin (%)		47.8	49.1	49.6	49.8	47.8	46.5	46.2	46.2
EBITDA Margin (%)		24.8	25.7	27.3	27.0	25.4	25.0	25.0	25.4
Normalised Operating Margin		22.4	23.0	24.2	23.6	22.2	21.8	22.0	22.3
BALANCE SHEET									
Fixed Assets		52.8	53.3	56.1	65.4	73.2	88.1	96.5	100.5
Intangible Assets		38.1	39.1	40.5	48.2	53.0	63.9	65.2	66.7
Tangible Assets		13.2	12.7	14.4	16.1	19.1	22.5	29.6	32.1
Investments & other		1.5	1.5	1.2	1.1	1.1	1.7	1.7	1.7
Current Assets		39.3	42.2	47.0	53.5	65.7	83.5	89.2	99.6
Stocks		19.8	20.4	25.2	28.7	32.2	37.8	43.9	46.0
Debtors		14.2	15.4	16.0	17.5	21.5	23.8	28.0	29.4
Cash & cash equivalents		4.1	5.0	3.8	4.9	9.2	15.0	13.3	20.2
Other		1.2	1.4	2.0	2.4	2.8	6.9	4.0	4.0
Current Liabilities		(20.2)	(22.4)	(18.6)	(19.8)	(25.8)	(25.1)	(27.4)	(28.4)
Creditors		(11.1)	(12.7)	(14.4)	(14.6)	(16.1)	(21.4)	(23.7)	(24.7)
Tax and social security		(1.6)	(1.1)	(1.7)	(1.2)	(3.3)	(3.5)	(3.5)	(3.5)
Short term borrowings		(7.3)	(8.5)	(2.5)	(4.0)	(5.5)	0.0	0.0	0.0
Other		(0.2)	(0.1)	0.0	0.0	(0.9)	(0.2)	(0.2)	(0.2)
Long Term Liabilities		(10.6)	(3.7)	(4.2)	(10.0)	(6.2)	(29.6)	(24.6)	(19.6)
Long term borrowings		(7.4)	0.0	0.0	(4.6)	0.0	(24.0)	(19.0)	(14.0)
Other long term liabilities		(3.2)	(3.7)	(4.2)	(5.4)	(6.2)	(5.6)	(5.6)	(5.6)
Net Assets		61.3	69.4	80.3	89.1	106.9	116.9	133.6	152.0
Minority interests		(0.2)	(0.2)	(0.1)	(0.8)	(0.8)	(0.9)	(1.0)	(1.1)
Shareholders' equity		61.1	69.2	80.2	88.3	106.1	116.0	132.6	150.9
CASH FLOW									
Op Cash Flow before WC and tax		23.3	26.0	27.6	29.7	33.0	41.7	46.6	49.5
Working capital		4.2	(0.3)	(4.1)	(4.6)	(6.1)	0.4	(8.0)	(2.5)
Exceptional & other		0.4	(0.5)	1.9	0.6	5.1	(6.3)	0.0	0.0
Tax		(4.3)	(5.0)	(3.6)	(4.7)	(4.1)	(6.1)	(3.7)	(7.1)
Net operating cash flow		23.6	20.2	21.8	21.0	27.9	29.7	34.9	40.0
Capex		(4.7)	(3.2)	(5.8)	(5.4)	(6.8)	(10.1)	(15.5)	(11.2)
Acquisitions/disposals		(1.6)	0.1	0.1	(8.3)	0.1	(18.3)	0.0	0.0
Net interest		(0.5)	(0.3)	(0.1)	(0.1)	(0.2)	(0.2)	(0.6)	(0.6)
Equity financing		(0.5)	0.1	(0.2)	0.0	0.2	(0.2)	0.0	0.0
Dividends		(9.1)	(10.1)	(11.0)	(12.2)	(13.1)	(14.2)	(15.5)	(16.2)
Other		0.5	0.2	0.1	0.2	0.0	0.0	0.0	0.0
Net Cash Flow		7.7	7.0	4.9	(4.8)	8.1	(13.3)	3.3	11.9
Opening net debt/(cash)		18.6	10.6	3.5	(1.3)	3.7	(3.7)	9.0	5.7
FX		0.3	0.1	(0.1)	(0.2)	(0.5)	0.7	0.0	0.0
Other non-cash movements		0.0	0.0	0.0	0.1	(0.2)	(0.1)	0.0	0.0
Closing net debt/(cash)		10.6	3.5	(1.3)	3.7	(3.7)	9.0	5.7	(6.2)

Source: XP Power, Edison Investment Research

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