

# XP Power

FY19 trading update

## Demand acceleration through Q419

While previously reported issues with an ERP upgrade limited the amount of product XP could ship in Q419, revenues for FY19 came in ahead of our forecast and XP closed the year with a strong order book after an acceleration in demand across all markets in December. We have revised our forecasts to reflect both factors, with normalised EPS upgrades of 4.3% in FY19 and 1.5% in FY20.

Year end	Revenue (£m)	PBT* (£m)	Diluted EPS* (p)	DPS (p)	P/E (x)	Yield (%)
12/17	166.8	36.1	147.0	78.0	21.8	2.4
12/18	195.1	41.2	172.8	85.0	18.6	2.6
12/19e	200.4	34.3	143.1	91.0	22.4	2.8
12/20e	211.0	40.5	169.3	95.0	19.0	3.0

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

## ERP issue resolved; Q4 orders +30% y-o-y

XP has reported Q419 revenue of £47.7m (-3% y-o-y, -5% constant currency), resulting in FY19 revenue of £200.4m (+3% y-o-y, -1% cc, -4% like-for-like), well head of our £194.8m forecast. Q4 bookings of £58.6m were 30% higher year-on-year and 29% higher on a constant currency basis. Combined with the previously announced delay in shipments, this resulted in a book-to-bill of 1.23x for Q4. The company noted that its ERP system is now working well and shipments have been at normal or higher rates since mid-November. Year-end net debt stood at £41.5m, well below our £54.2m forecast. The company highlighted that US-denominated debt benefited from stronger sterling while working capital requirements were lower than expected. During Q4, XP increased its debt facility from \$105m to \$120m and added a \$60m accordion facility. XP expects to announce a Q4 dividend of at least 36p, bringing the full-year dividend to at least 91p (our forecast was 88p).

## Forecasts upgraded to reflect bookings intake

Management pointed to an acceleration in bookings during December (XP had previously reported that bookings in the first two months of Q4 were 20% higher year-on-year) and noted that strength was across all sectors. We have revised our forecasts to reflect the stronger revenue performance and higher than expected bookings intake in Q4 as well as the higher dividend and better cash position. We have also reflected a slightly higher US\$/£ rate in FY20 (1.31 vs 1.30). This results in a normalised EPS upgrade of 4.3% in FY19 and 1.5% in FY20.

## Valuation: Well positioned going into 2020

The stock is up 43% over the last year and on an FY20e P/E basis, it trades at a small discount versus UK electronics peers. It continues to trade at a larger discount to international power converter peers. XP has taken steps to mitigate the impact of trade tariffs between China and the US as well as preparing for Brexit; evidence that this is helping margins should support upside to the stock. A sustained return to order growth from the semiconductor equipment sector would be a further trigger for upside.

### Tech hardware & equipment

13 January 2020

**Price** **3,210p**
**Market cap** **£613m**

\$1.31:£1

Net debt (£m) at end FY19 41.5

Shares in issue 19.1m

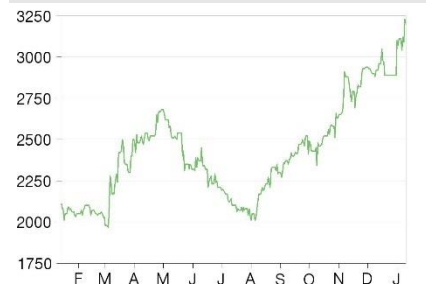
Free float 90%

Code XPP

Primary exchange LSE

Secondary exchange N/A

### Share price performance



%	1m	3m	12m
Abs	9.9	29.4	44
Rel (local)	4.7	21.2	30.2

52-week high/low 3,230p 1,965p

### 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

FY19 results March 2020

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## Changes to forecasts

Exhibit 1: Changes to estimates									
£m	FY19e				FY20e				
	Old	New	Change	y-o-y	Old	New	Change	y-o-y	
<b>Revenues</b>	<b>194.8</b>	<b>200.4</b>	<b>2.9%</b>	<b>2.7%</b>	<b>209.0</b>	<b>211.0</b>	<b>1.0%</b>	<b>5.3%</b>	
Gross profit	86.5	89.0	2.9%	(3.5%)	94.9	95.8	1.0%	7.6%	
Gross margin	44.4%	44.4%	0.0%	(2.9%)	45.4%	45.4%	0.0%	1.0%	
EBITDA	45.1	46.5	3.1%	(5.5%)	52.5	53.1	1.1%	14.2%	
<i>EBITDA margin</i>	23.2%	23.2%	0.0%	(2.0%)	25.1%	25.2%	0.0%	1.9%	
<b>Normalised operating profit</b>	<b>36.1</b>	<b>37.5</b>	<b>3.9%</b>	<b>(12.6%)</b>	<b>42.9</b>	<b>43.5</b>	<b>1.4%</b>	<b>16.0%</b>	
<i>Normalised operating profit margin</i>	18.5%	18.7%	0.2%	(3.3%)	20.5%	20.6%	0.1%	1.9%	
Reported operating profit	29.8	31.2	4.7%	(20.6%)	39.2	39.8	1.5%	27.5%	
<i>Reported operating margin</i>	15.3%	15.6%	0.3%	(4.6%)	18.7%	18.8%	0.1%	3.3%	
Normalised PBT	32.9	34.3	4.2%	(16.8%)	39.9	40.5	1.5%	18.0%	
Reported PBT	26.6	28.0	5.2%	(25.6%)	36.2	36.8	1.7%	31.4%	
Normalised net income	26.7	27.9	4.3%	(17.4%)	32.5	33.0	1.5%	18.3%	
Reported net income	21.6	22.7	5.3%	(24.8%)	29.4	29.9	1.7%	31.7%	
Normalised basic EPS (p)	139.9	145.9	4.3%	(17.2%)	170.0	172.6	1.5%	18.3%	
<b>Normalised diluted EPS (p)</b>	<b>137.3</b>	<b>143.1</b>	<b>4.3%</b>	<b>(17.2%)</b>	<b>166.8</b>	<b>169.3</b>	<b>1.5%</b>	<b>18.3%</b>	
Reported basic EPS (p)	112.9	118.9	5.3%	(24.7%)	154.1	156.6	1.7%	31.7%	
Dividend per share (p)	88.0	91.0	3.4%	7.1%	92.0	95.0	3.3%	4.4%	
<b>Net debt/(cash)</b>	<b>54.2</b>	<b>41.5</b>	<b>(23.4%)</b>	<b>(20.1%)</b>	<b>45.7</b>	<b>38.7</b>	<b>(15.5%)</b>	<b>(6.9%)</b>	

Source: Edison Investment Research

**Exhibit 2: Financial summary**

	£m	2012	2013	2014	2015	2016	2017	2018	2019e	2020e
31-December		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
<b>INCOME STATEMENT</b>										
Revenue	93.9	101.1	101.1	109.7	129.8	166.8	195.1	200.4	211.0	
Cost of Sales	(49.0)	(51.5)	(51.0)	(55.1)	(67.8)	(89.2)	(102.8)	(111.3)	(115.2)	
Gross Profit	44.9	49.6	50.1	54.6	62.0	77.6	92.3	89.0	95.8	
EBITDA	23.3	26.0	27.6	29.7	33.0	41.7	49.2	46.5	53.1	
Normalised operating profit	21.0	23.3	24.5	25.9	28.8	36.4	42.9	37.5	43.5	
Amortisation of acquired intangibles	0.0	0.0	0.0	0.0	(0.4)	(0.6)	(2.8)	(3.2)	(3.2)	
Exceptionals	0.0	0.0	0.0	(0.3)	(0.4)	(3.3)	(0.8)	(2.6)	0.0	
Share-based payments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(0.5)	(0.5)	
Reported operating profit	21.0	23.3	24.5	25.6	28.0	32.5	39.3	31.2	39.8	
Net Interest	(0.8)	(0.4)	(0.2)	(0.2)	(0.2)	(0.3)	(1.7)	(3.2)	(3.0)	
Joint ventures & associates	0.0	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	0.0	
Profit Before Tax (norm)	20.2	22.9	24.3	25.7	28.6	36.1	41.2	34.3	40.5	
Profit Before Tax (reported)	20.2	22.9	24.3	25.4	27.8	32.2	37.6	28.0	36.8	
Reported tax	(4.5)	(4.5)	(4.8)	(5.5)	(6.3)	(3.6)	(7.2)	(5.0)	(6.6)	
Profit After Tax (norm)	15.7	18.4	19.5	20.2	22.3	28.8	33.9	28.1	33.2	
Profit After Tax (reported)	15.7	18.4	19.5	19.9	21.5	28.6	30.4	23.0	30.2	
Minority interests	(0.2)	(0.2)	(0.1)	(0.2)	(0.2)	(0.3)	(0.2)	(0.3)	(0.3)	
Discontinued operations	0.0	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	33.7	27.9	33.0	
Net income (reported)	15.5	18.2	19.4	19.7	21.3	28.3	30.2	22.7	29.9	
Basic ave. number of shares outstanding (m)	19	19	19	19	19	19	19	19	19	
EPS - basic normalised (p)	81.7	95.8	102.1	105.3	116.2	149.4	176.1	145.9	172.6	
EPS - diluted normalised (p)	81.3	95.1	101.1	104.3	115.3	147.0	172.8	143.1	169.3	
EPS - basic reported (p)	81.7	95.8	102.1	103.7	112.0	148.3	157.8	118.9	156.6	
Dividend (p)	50	55	61	66	71	78	85	91	95	
Revenue growth (%)	(9.4)	7.7	0.0	8.5	18.3	28.5	17.0	2.7	5.3	
Gross Margin (%)	47.8	49.1	49.6	49.8	47.8	46.5	47.3	44.4	45.4	
EBITDA Margin (%)	24.8	25.7	27.3	27.0	25.4	25.0	25.2	23.2	25.2	
Normalised Operating Margin	22.4	23.0	24.2	23.6	22.2	21.8	22.0	18.7	20.6	
<b>BALANCE SHEET</b>										
Fixed Assets	52.8	53.3	56.1	65.4	73.2	88.1	129.2	141.7	144.9	
Intangible Assets	38.1	39.1	40.5	48.2	53.0	63.9	97.7	103.3	105.1	
Tangible Assets	13.2	12.7	14.4	16.1	19.1	22.5	30.7	37.6	39.0	
Investments & other	1.5	1.5	1.2	1.1	1.1	1.7	0.8	0.8	0.8	
Current Assets	39.3	42.2	47.0	53.5	65.7	83.5	105.1	108.0	111.1	
Stocks	19.8	20.4	25.2	28.7	32.2	37.8	56.5	53.4	55.2	
Debtors	14.2	15.4	16.0	17.5	21.5	23.8	33.0	31.3	34.7	
Cash & cash equivalents	4.1	5.0	3.8	4.9	9.2	15.0	11.5	19.3	17.1	
Other	1.2	1.4	2.0	2.4	2.8	6.9	4.1	4.1	4.1	
Current Liabilities	(20.2)	(22.4)	(18.6)	(19.8)	(25.8)	(25.1)	(26.8)	(35.8)	(34.4)	
Creditors	(11.1)	(12.7)	(14.4)	(14.6)	(16.1)	(21.4)	(22.4)	(29.5)	(28.1)	
Tax and social security	(1.6)	(1.1)	(1.7)	(1.2)	(3.3)	(3.5)	(4.2)	(4.2)	(4.2)	
Short term borrowings	(7.3)	(8.5)	(2.5)	(4.0)	(5.5)	0.0	0.0	(1.9)	(1.9)	
Other	(0.2)	(0.1)	0.0	0.0	(0.9)	(0.2)	(0.2)	(0.2)	(0.2)	
Long Term Liabilities	(10.6)	(3.7)	(4.2)	(10.0)	(6.2)	(29.6)	(70.1)	(65.5)	(60.5)	
Long term borrowings	(7.4)	0.0	0.0	(4.6)	0.0	(24.0)	(63.5)	(58.9)	(53.9)	
Other long term liabilities	(3.2)	(3.7)	(4.2)	(5.4)	(6.2)	(5.6)	(6.6)	(6.6)	(6.6)	
Net Assets	61.3	69.4	80.3	89.1	106.9	116.9	137.4	148.4	161.1	
Minority interests	(0.2)	(0.2)	(0.1)	(0.8)	(0.8)	(0.9)	(1.0)	(1.1)	(1.1)	
Shareholders' equity	61.1	69.2	80.2	88.3	106.1	116.0	136.4	147.3	160.0	
<b>CASH FLOW</b>										
Op Cash Flow before WC and tax	23.3	26.0	27.6	29.7	33.0	41.7	49.2	46.5	53.1	
Working capital	4.2	(0.3)	(4.1)	(4.6)	(6.1)	0.4	(21.6)	12.0	(6.6)	
Exceptional & other	0.4	(0.5)	1.9	0.6	5.1	(6.3)	3.2	(2.6)	0.0	
Tax	(4.3)	(5.0)	(3.6)	(4.7)	(4.1)	(6.1)	(4.1)	(5.0)	(6.6)	
Net operating cash flow	23.6	20.2	21.8	21.0	27.9	29.7	26.7	50.8	39.8	
Capex	(4.7)	(3.2)	(5.8)	(5.4)	(6.8)	(10.1)	(15.0)	(18.4)	(16.0)	
Acquisitions/disposals	(1.6)	0.1	0.1	(8.3)	0.1	(18.3)	(35.4)	0.0	0.0	
Net interest	(0.5)	(0.3)	(0.1)	(0.1)	(0.2)	(0.2)	(1.5)	(3.2)	(3.0)	
Equity financing	(0.5)	0.1	(0.2)	0.0	0.2	(0.2)	0.6	0.0	0.0	
Dividends	(9.1)	(10.1)	(11.0)	(12.2)	(13.1)	(14.2)	(15.6)	(16.8)	(18.0)	
Other	0.5	0.2	0.1	0.2	0.0	0.0	0.0	0.0	0.0	
Net Cash Flow	7.7	7.0	4.9	(4.8)	8.1	(13.3)	(40.2)	12.4	2.9	
Opening net debt/(cash)	18.6	10.6	3.5	(1.3)	3.7	(3.7)	9.0	52.0	41.5	
FX	0.3	0.1	(0.1)	(0.2)	(0.5)	0.6	(2.7)	2.9	0.0	
Other non-cash movements	0.0	0.0	0.0	0.1	(0.2)	0.0	(0.1)	(4.8)	0.0	
Closing net debt/(cash)	10.6	3.5	(1.3)	3.7	(3.7)	9.0	52.0	41.5	38.7	

Source: XP Power, Edison Investment Research

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