

XP Power

FY20 trading update

Strong finish to the year

XP reported a strong finish to 2020, with Q4 revenues up 24% y-o-y and 4% ahead of our forecast, driving FY20 profitability ahead of expectations. Order intake has normalised to pre-COVID-19 levels, reflecting continued strong demand from the semiconductor sector. We have revised our estimates to reflect strong Q420 performance and the weaker dollar, driving a 3.0% increase in FY20 EPS and a 2.3% cut to our FY21 EPS.

Year end	Revenue (£m)	PBT* (£m)	Diluted EPS* (p)	DPS (p)	P/E (x)	Yield (%)
12/18	195.1	41.2	172.8	85.0	29.5	1.7
12/19	199.9	33.2	145.5	55.0	35.1	1.1
12/20e	232.9	41.9	167.9	72.0	30.4	1.4
12/21e	227.4	42.2	169.2	92.0	30.1	1.8

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

Q420 revenue ahead; bookings in line

XP reported revenue of £58.8m for Q420 (+25% y-o-y, +26% constant currency, cc) and £232.9m for FY20 (+16% y-o-y), 1% ahead of our £230.7m forecast. Order intake was £55.9m for Q420 (-4% y-o-y, -2% cc) and £258.0m for FY20 (+20% y-o-y), in line with our forecast. Book-to-bill was 0.95x for Q420 and 1.11x for FY20. XP anticipates FY20 profits will be ahead of expectations due to strong healthcare demand driving efficiency gains and higher gross margins. Net debt at the end FY20 of £18.0m was substantially lower than our £38.2m forecast, mainly due to good working capital management, but aided by the weaker dollar at year-end. The company expects to propose a final dividend of at least 34p when it reports results on 2 March, ahead of our 30p forecast.

Forecast revisions reflect stronger demand and FX

Q4 order intake was strong, helped by demand from semiconductor equipment companies and XP expects further underlying (ie constant currency) revenue growth in FY21. We have revised our FY20 forecasts to reflect stronger revenues and higher than expected cash generation in Q420, lifting normalised diluted EPS by 3.0%. For FY21, while we have increased our cc revenue growth rate from 2.9% to 3.8%, a revision to our FY21 \$/£ exchange rate forecast from 1.30 to 1.36, reflecting the weakening of the dollar over Q420, results in a 2.8% cut to our FY21 revenue forecast and a 2.3% cut in normalised diluted EPS. Our end FY21 net debt forecast reduces from £27.2m to £13.7m. We have raised our dividend forecasts for both years: FY20e from 68p to 72p, FY21e from 87p to 92p.

Valuation: Reflects robust performance

On a P/E basis, XP is trading at a premium to global power converter companies and UK electronics companies for FY20 and FY21. In our view, this reflects XP's strong performance over a difficult year and EBIT margins ahead of both peer groups. While there remains uncertainty over demand in this period of disruption, we highlight XP's strong backlog and balance sheet.

Tech hardware & equipment

12 January 2021

Price **5,100p**
Market cap **£991m**

\$1.35:£1

Net debt (£m) at end FY20 18.0

Shares in issue 19.4m

Free float 90%

Code XPP

Primary exchange LSE

Secondary exchange N/A

Share price performance



%	1m	3m	12m
Abs	18.1	8.5	58.9
Rel (local)	13.2	(4.5)	74.2
52-week high/low	5,100p		2,130p

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

FY20 results 2 March

Analyst

Katherine Thompson +44 (0)20 3077 5730

tech@edisongroup.com
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Changes to forecasts

We have made the following changes to forecasts:

- **Revenue:** we have increased our dollar-based revenue growth forecast for FY21 from 2.9% to 3.8%, reflecting continued strong demand in Q420. We have revised our \$/£ assumption for FY21 from 1.30 to 1.36 reflecting the recent weakening of the dollar versus sterling. Combined, this results in a 2.8% reduction in FY21 revenues.
- **Gross margin:** we have increased this for H220 and FY21 to reflect better performance in H220.
- **Net interest cost:** we have reduced this by £0.5m in FY21 to reflect the lower level of debt.
- **Net debt:** we have reduced accounts receivable and inventory to reflect better collections and the weaker dollar at year-end. We have also factored in the exchange rate in the translation of the dollar-denominated debt.
- **Dividend:** reflecting the higher-than-expected final dividend expected for FY20, we have increased our dividend forecasts for both years.

Exhibit 1: Changes to forecasts

£m	FY20e				FY21e			
	Old	New	Change	y-o-y	Old	New	Change	y-o-y
Revenues	230.7	232.9	0.9%	16.5%	233.8	227.4	(2.8%)	(2.3%)
Gross profit	103.9	107.3	3.3%	19.1%	106.0	104.3	(1.6%)	(2.8%)
Gross margin	45.0%	46.1%	1.1%	1.0%	45.3%	45.9%	0.5%	(0.2%)
EBITDA	54.0	55.3	2.3%	21.7%	57.0	55.5	(2.6%)	0.5%
EBITDA margin	23.4%	23.7%	0.3%	1.0%	24.4%	24.4%	0.0%	0.7%
Normalised operating profit	42.6	43.9	2.9%	22.2%	45.2	43.7	(3.3%)	(0.3%)
Normalised operating margin	18.5%	18.8%	0.4%	0.9%	19.3%	19.2%	(0.1%)	0.4%
Reported operating profit	31.8	33.1	3.9%	23.8%	42.0	40.5	(3.5%)	22.6%
Reported operating margin	13.8%	14.2%	0.4%	0.8%	18.0%	17.8%	(0.1%)	3.6%
Normalised PBT	40.6	41.9	3.0%	26.1%	43.2	42.2	(2.3%)	0.9%
Reported PBT	29.8	31.1	4.1%	29.4%	40.0	39.0	(2.4%)	25.6%
Normalised net income	32.3	33.2	3.0%	17.1%	34.3	33.5	(2.3%)	0.8%
Reported net income	23.6	24.6	4.2%	20.0%	31.7	31.0	(2.5%)	25.9%
Normalised basic EPS (p)	166.0	171.1	3.0%	15.4%	176.5	172.4	(2.3%)	0.8%
Normalised diluted EPS (p)	162.9	167.9	3.0%	15.4%	173.2	169.2	(2.3%)	0.8%
Reported basic EPS (p)	121.5	126.6	4.2%	18.3%	163.3	159.3	(2.5%)	25.9%
Dividend per share (p)	68.0	72.0	5.9%	30.9%	87.0	92.0	5.7%	27.8%
Net debt/(cash)	38.2	18.0	(52.9%)	(56.4%)	27.2	13.7	(49.6%)	(23.7%)

Source: Edison Investment Research

Exhibit 2: Financial summary

	£'m	2015	2016	2017	2018	2019	2020e	2021e
31-December		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT								
Revenue		109.7	129.8	166.8	195.1	199.9	232.9	227.4
Cost of Sales		(55.1)	(67.8)	(89.2)	(102.8)	(109.8)	(125.5)	(123.1)
Gross Profit		54.6	62.0	77.6	92.3	90.1	107.3	104.3
EBITDA		29.7	33.0	41.7	49.2	45.4	55.3	55.5
Normalised operating profit		25.9	28.8	36.4	42.9	35.9	43.9	43.7
Amortisation of acquired intangibles		0.0	(0.4)	(0.6)	(2.8)	(3.2)	(3.2)	(3.2)
Exceptionals		(0.3)	(0.4)	(3.3)	(0.8)	(6.0)	(7.6)	0.0
Share-based payments		0.0	0.0	0.0	0.0	0.0	0.0	0.0
Reported operating profit		25.6	28.0	32.5	39.3	26.7	33.1	40.5
Net Interest		(0.2)	(0.2)	(0.3)	(1.7)	(2.7)	(2.0)	(1.5)
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)		25.7	28.6	36.1	41.2	33.2	41.9	42.2
Profit Before Tax (reported)		25.4	27.8	32.2	37.6	24.0	31.1	39.0
Reported tax		(5.5)	(6.3)	(3.6)	(7.2)	(3.2)	(6.2)	(7.8)
Profit After Tax (norm)		20.2	22.3	28.8	33.9	28.7	33.5	33.8
Profit After Tax (reported)		19.9	21.5	28.6	30.4	20.8	24.8	31.2
Minority interests		(0.2)	(0.2)	(0.3)	(0.2)	(0.3)	(0.3)	(0.3)
Discontinued operations		0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net income (normalised)		20.0	22.1	28.5	33.7	28.4	33.2	33.5
Net income (reported)		19.7	21.3	28.3	30.2	20.5	24.6	31.0
Basic average number of shares outstanding (m)		19.0	19.0	19.1	19.1	19.2	19.4	19.4
EPS - basic normalised (p)		105.3	116.2	149.4	176.1	148.3	171.1	172.4
EPS - diluted normalised (p)		104.3	115.3	147.0	172.8	145.5	167.9	169.2
EPS - basic reported (p)		103.7	112.0	148.3	157.8	107.0	126.6	159.3
Dividend (p)		66	71	78	85	55	72	92
Revenue growth (%)		8.5	18.3	28.5	17.0	2.5	16.5	(-2.3)
Gross Margin (%)		49.8	47.8	46.5	47.3	45.1	46.1	45.9
EBITDA Margin (%)		27.0	25.4	25.0	25.2	22.7	23.7	24.4
Normalised Operating Margin		23.6	22.2	21.8	22.0	18.0	18.8	19.2
BALANCE SHEET								
Fixed Assets		65.4	73.2	88.1	129.2	137.4	141.1	142.6
Intangible Assets		48.2	53.0	63.9	97.7	99.6	102.7	103.3
Tangible Assets		16.1	19.1	22.5	30.7	35.9	36.5	37.4
Investments & other		1.1	1.1	1.7	0.8	1.9	1.9	1.9
Current Assets		53.5	65.7	83.5	105.1	96.0	109.9	111.9
Stocks		28.7	32.2	37.8	56.5	44.1	45.7	44.9
Debtors		17.5	21.5	23.8	33.0	34.8	33.8	37.4
Cash & cash equivalents		4.9	9.2	15.0	11.5	11.2	24.5	23.8
Other		2.4	2.8	6.9	4.1	5.9	5.9	5.9
Current Liabilities		(19.8)	(25.8)	(25.1)	(26.8)	(30.4)	(36.8)	(33.5)
Creditors		(14.6)	(16.1)	(21.4)	(22.4)	(25.2)	(31.6)	(28.3)
Tax and social security		(1.2)	(3.3)	(3.5)	(4.2)	(3.1)	(3.1)	(3.1)
Short term borrowings		(4.0)	(5.5)	0.0	0.0	(1.6)	(1.6)	(1.6)
Other		0.0	(0.9)	(0.2)	(0.2)	(0.5)	(0.5)	(0.5)
Long Term Liabilities		(10.0)	(6.2)	(29.6)	(70.1)	(64.1)	(52.6)	(46.1)
Long term borrowings		(4.6)	0.0	(24.0)	(63.5)	(57.3)	(45.8)	(39.3)
Other long term liabilities		(5.4)	(6.2)	(5.6)	(6.6)	(6.8)	(6.8)	(6.8)
Net Assets		89.1	106.9	116.9	137.4	138.9	161.6	174.9
Minority interests		(0.8)	(0.8)	(0.9)	(1.0)	(0.7)	(0.8)	(0.8)
Shareholders' equity		88.3	106.1	116.0	136.4	138.2	160.8	174.1
CASH FLOW								
Op Cash Flow before WC and tax		29.7	33.0	41.7	49.2	45.4	55.3	55.5
Working capital		(4.6)	(6.1)	0.4	(21.6)	10.6	5.8	(6.1)
Exceptional & other		0.6	5.1	(6.3)	3.2	(5.3)	(6.4)	0.0
Tax		(4.7)	(4.1)	(6.1)	(4.1)	(4.5)	(6.2)	(7.8)
Net operating cash flow		21.0	27.9	29.7	26.7	46.2	48.4	41.7
Capex		(5.4)	(6.8)	(10.1)	(15.0)	(16.3)	(19.5)	(16.5)
Acquisitions/disposals		(8.3)	0.1	(18.3)	(35.4)	0.0	0.0	0.0
Net interest		(0.1)	(0.2)	(0.2)	(1.5)	(2.7)	(2.0)	(1.5)
Equity financing		0.0	0.2	(0.2)	0.6	0.5	(0.6)	0.0
Dividends		(12.2)	(13.1)	(14.2)	(15.6)	(17.2)	(7.5)	(17.9)
Other		0.2	0.0	0.0	0.0	(1.5)	(1.5)	(1.5)
Net Cash Flow		(4.8)	8.1	(13.3)	(40.2)	9.0	17.3	4.3
Opening net debt/(cash)		(1.3)	3.7	(3.7)	9.0	52.0	41.3	18.0
FX		(0.2)	(0.5)	0.6	(2.7)	1.7	6.0	0.0
Other non-cash movements		0.1	(0.2)	0.0	(0.1)	0.0	0.0	0.0
Closing net debt/(cash)		3.7	(3.7)	9.0	52.0	41.3	18.0	13.7

Source: XP Power, Edison Investment Research

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Frankfurt +49 (0)69 78 8076 960
Schumannstrasse 34b
60325 Frankfurt
Germany

London +44 (0)20 3077 5700
280 High Holborn
London, WC1V 7EE
United Kingdom

New York +1 646 653 7026
1185 Avenue of the Americas
3rd Floor, New York, NY 10036
United States of America

Sydney +61 (0)2 8249 8342
Level 4, Office 1205
95 Pitt Street, Sydney
NSW 2000, Australia