

XP Power

Demand outpacing supply

Q122 trading update

XP's Q122 trading update confirms demand has remained strong across the board, with order intake up 39% y-o-y. Ongoing supply chain issues limited the amount of product that could be shipped in the quarter, with revenue up 8% y-o-y. We have revised our forecasts to take account of supply chain headwinds and the recent US legal case, reducing our normalised diluted EPS forecast by 7.1% for FY22 and 4.2% for FY23.

Year end	Revenue (£m)	PBT* (£m)	Dil. EPS* (p)	DPS (p)	P/E (x)	Yield (%)
12/20	233.3	44.3	198.4	74	17.5	2.1
12/21	240.3	43.8	176.3	94	19.7	2.7
12/22e	260.2	47.0	189.2	94	18.4	2.7
12/23e	282.2	54.6	220.0	97	15.8	2.8

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

Strong order intake drives Q1 book-to-bill of 1.66x

XP Power reported Q122 order intake of £102.4m, up 39% y-o-y and 16% q-o-q (+37% y-o-y in constant currency). Demand has remained strong across all end markets and the order book was c £260m at the end of Q122, up from £216m at the end of FY21. Q122 revenue of £61.8m was up 8% y-o-y (7% constant currency) and 5% q-o-q. Excluding the FuG and Guth acquisitions, revenue was 1% higher y-o-y in constant currency. Shipments were affected by continued shortages of key components, logistics issues and ongoing COVID-19 effects. XP implemented phase two of its ERP upgrade in early March, which also had a modest impact on revenue. The company announced a Q1 dividend of 18p per share (flat year-on-year). XP confirmed Perak, North West Malaysia, as the location for its third Asian production facility, where it intends to break ground this year.

Forecasts reflect heavier H2 weighting

We have revised our forecasts to reflect lower product shipments in Q1; although we factor in sequential growth in revenue through the year and order backlog is at record levels, we have cut our FY22 revenue forecast by 3% and FY23 by 2% to reflect supply chain challenges. This results in EPS cuts of 7.1% in FY22 and 4.2% in FY23. We have also factored in payment of the damages award and related legal costs from the recent litigation with Comet. We forecast a net debt/EBITDA ratio of 1.8x by end FY22 (within banking covenants limit of 3x).

Valuation: Pressured by supply chain & legal issues

On a P/E basis for FY22, XP is trading in line with global power solution companies and at a discount to UK electronics companies, with a dividend yield at the upper end of the range. XP generates EBITDA and EBIT margins at the top end of both peer groups and has a record order book entering Q222. In our view, evidence that supply chain issues are abating, litigation has been resolved and FuG and Guth are being successfully integrated will be key drivers of the share price.

Tech hardware & equipment

14 April 2022

Price **3475p**

Market cap **£682m**

\$1.30:£1

Net debt (£m) at end Q122 81.5

Shares in issue 19.6m

Free float 90%

Code XPP

Primary exchange LSE

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs (0.1) (30.6) (31.9)

Rel (local) (5.4) (29.6) (36.3)

52-week high/low 5,690p 3,330p

Business description

XP Power is a developer and designer of power control solutions, with production facilities in China, Vietnam, Germany and the United States and design, service and sales teams across Europe, the United States and Asia.

Next events

H122 trading update July

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Outlook and changes to forecasts

Management noted that it enters Q222 with a very strong order book. While there are ongoing uncertainties regarding component supply and freight capacity and costs, management is optimistic on XP's prospects for FY22 and is progressing its planned investment in Malaysia. Longer term, it believes the company is well positioned to grow ahead of its end markets.

The company noted that net debt at the end of Q122 was £81.5m, up from £24.6m at the end of FY21. This reflects the £32.8m paid to acquire FuG and Guth, legal fees and an increase in working capital of c £12m to meet the increased backlog. Management estimates this working capital investment will be sufficient to meet the expected revenue ramp-up through FY22. By the end of H122, the company expects net debt/EBITDA to rise to 2.0–2.3x, within the banking covenants' maximum of 3.0x. This takes into account the damages claim and related legal costs (see below). Management expects this to reduce below 2.0x by year-end. The company noted that it has put through targeted price increases to reflect the inflationary environment.

We have revised our forecasts to reflect Q122 revenue and orders. We assume sequential growth in revenue on a quarterly basis through FY22, but from the lower base in Q1, this results in a 3.1% reduction in our FY22 revenue forecast as supply chain challenges persist. For FY23, we reduce our revenue forecast by 2.3%, equating to 8.5% growth year-on-year. This flows through to a reduction in our normalised EPS forecasts of 7.1% in FY22 and 4.2% in FY23.

In March, the company announced that in the US legal action brought by Comet Technologies USA, Comet and YXLON International (Comet) for trade secrets misappropriation, the jury found in favour of Comet and awarded damages of \$40m against the company. The board is awaiting the formal judgement and is assessing its next steps. We have factored the \$40m damages payment into our forecasts as an exceptional item. We also include our estimate for related legal costs of \$20m.

We have reduced our FY22 and FY23 dividend forecasts, assuming FY22 dividend is flat versus FY21 (Q122 dividend of 18p per share is flat year-on-year).

Exhibit 1: Changes to forecasts

£'m	FY22e		Change	y-o-y	FY23e		Change	y-o-y
	Old	New			Old	New		
Revenues	268.6	260.2	(3.1%)	8.3%	289.0	282.2	(2.3%)	8.5%
Gross profit	124.7	120.1	(3.7%)	10.9%	135.8	132.7	(2.3%)	10.5%
Gross margin	46.4%	46.1%	(0.3%)	1.1%	47.0%	47.0%	0.0%	0.9%
EBITDA	64.5	61.5	(4.7%)	10.8%	72.0	70.2	(2.5%)	14.1%
EBITDA margin	24.0%	23.6%	(0.4%)	0.5%	24.9%	24.9%	(0.0%)	1.2%
Normalised operating profit	52.0	49.0	(5.8%)	8.6%	58.4	56.6	(3.0%)	15.5%
Normalised operating margin	19.4%	18.8%	(0.5%)	0.1%	20.2%	20.0%	(0.1%)	1.2%
Reported operating profit	47.8	(1.4)	(102.9%)	(104.6%)	55.2	53.4	(3.2%)	N/A
Reported operating margin	17.8%	(0.5%)	(18.3%)	(12.9%)	19.1%	18.9%	(0.2%)	19.4%
Normalised PBT	50.5	47.0	(7.0%)	7.3%	56.9	54.6	(4.0%)	16.2%
Reported PBT	46.3	(3.4)	(107.3%)	(111.9%)	53.7	51.4	(4.2%)	N/A
Normalised net income	40.7	37.8	(7.1%)	8.0%	45.9	44.0	(4.2%)	16.3%
Reported net income	37.3	(3.0)	(108.0%)	(113.2%)	43.3	41.4	(4.3%)	N/A
Normalised basic EPS (p)	207.3	192.5	(7.1%)	7.4%	233.6	223.9	(4.2%)	16.3%
Normalised diluted EPS (p)	203.7	189.2	(7.1%)	7.4%	229.6	220.0	(4.2%)	16.3%
Reported basic EPS (p)	190.0	(15.2)	(108.0%)	(113.1%)	220.3	210.9	(4.3%)	N/A
Dividend per share (p)	97.0	94.0	(3.1%)	0.0%	101.0	97.0	(4.0%)	3.2%
Net debt/(cash)	64.7	106.4	64.3%	332.3%	55.4	98.7	78.3%	(7.2%)
Orders	322.6	365.3	13.2%	6.4%	322.0	326.0	1.2%	(10.7%)
Net debt/EBITDA (x)	1.0	1.8			0.8	1.4		

Source: Edison Investment Research

Exhibit 2: Financial summary

	£'m	2015	2016	2017	2018	2019	2020	2021	2022e	2023e
31-December		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT										
Revenue		109.7	129.8	166.8	195.1	199.9	233.3	240.3	260.2	282.2
Cost of Sales		(55.1)	(67.8)	(89.2)	(102.8)	(109.8)	(123.2)	(132.0)	(140.1)	(149.5)
Gross Profit		54.6	62.0	77.6	92.3	90.1	110.1	108.3	120.1	132.7
EBITDA		29.7	33.0	41.7	49.2	44.5	56.8	55.5	61.5	70.2
Normalised operating profit		25.9	28.8	36.4	42.9	35.0	46.0	45.1	49.0	56.6
Amortisation of acquired intangibles		0.0	(0.4)	(0.6)	(2.8)	(3.2)	(3.2)	(2.8)	(3.2)	(3.2)
Exceptionals		(0.3)	(0.4)	(3.3)	(0.8)	(5.1)	(5.4)	(12.6)	(47.2)	0.0
Share-based payments		0.0	0.0	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	37.4	29.7	(1.4)	53.4
Net Interest		(0.2)	(0.2)	(0.3)	(1.7)	(2.7)	(1.7)	(1.3)	(2.0)	(2.0)
Joint ventures & associates (post tax)		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)		25.7	28.6	36.1	41.2	32.3	44.3	43.8	47.0	54.6
Profit Before Tax (reported)		25.4	27.8	32.2	37.6	24.0	35.7	28.4	(3.4)	51.4
Reported tax		(5.5)	(6.3)	(3.6)	(7.2)	(3.2)	(4.0)	(5.4)	0.6	(9.7)
Profit After Tax (norm)		20.2	22.3	28.8	33.9	27.9	39.2	35.4	38.1	44.2
Profit After Tax (reported)		19.9	21.5	28.6	30.4	20.8	31.7	23.0	(2.7)	41.7
Minority interests		(0.2)	(0.2)	(0.3)	(0.2)	(0.3)	(0.2)	(0.4)	(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)		20.0	22.1	28.5	33.7	27.6	39.0	35.0	37.8	44.0
Net income (reported)		19.7	21.3	28.3	30.2	20.5	31.5	22.6	(3.0)	41.4
Basic ave. number of shares outstanding (m)		19.0	19.0	19.1	19.1	19.2	19.3	19.5	19.6	19.6
EPS - basic normalised (p)		105.3	116.2	149.4	176.1	144.1	201.8	179.4	192.5	223.9
EPS - diluted normalised (p)		104.3	115.3	147.0	172.8	141.4	198.4	176.3	189.2	220.0
EPS - basic reported (p)		103.7	112.0	148.3	157.8	107.0	163.0	115.8	(15.2)	210.9
Dividend (p)		66	71	78	85	55	74	94	94	97
Revenue growth (%)		8.5	18.3	28.5	17.0	2.5	16.7	3.0	8.3	8.5
Gross Margin (%)		49.8	47.8	46.5	47.3	45.1	47.2	45.1	46.1	47.0
EBITDA Margin (%)		27.0	25.4	25.0	25.2	22.3	24.3	23.1	23.6	24.9
Normalised Operating Margin		23.6	22.2	21.8	22.0	17.5	19.7	18.8	18.8	20.0
BALANCE SHEET										
Fixed Assets		65.4	73.2	88.1	129.2	137.4	135.2	150.5	197.1	204.8
Intangible Assets		48.2	53.0	63.9	97.7	99.6	98.8	108.8	147.0	149.8
Tangible Assets		16.1	19.1	22.5	30.7	35.9	33.5	38.5	46.9	51.8
Investments & other		1.1	1.1	1.7	0.8	1.9	2.9	3.2	3.2	3.2
Current Assets		53.5	65.7	83.5	105.1	96.0	107.0	121.7	132.5	134.2
Stocks		28.7	32.2	37.8	56.5	44.1	54.2	74.0	76.8	73.7
Debtors		17.5	21.5	23.8	33.0	34.8	30.2	30.8	37.8	44.8
Cash & cash equivalents		4.9	9.2	15.0	11.5	11.2	13.9	9.0	10.0	7.7
Other		2.4	2.8	6.9	4.1	5.9	8.7	7.9	7.9	7.9
Current Liabilities		(19.8)	(25.8)	(25.1)	(26.8)	(30.4)	(34.7)	(49.0)	(45.1)	(42.1)
Creditors		(14.6)	(16.1)	(21.4)	(22.4)	(25.2)	(28.3)	(44.7)	(40.8)	(37.8)
Tax and social security		(1.2)	(3.3)	(3.5)	(4.2)	(3.1)	(4.9)	(2.5)	(2.5)	(2.5)
Short term borrowings		(4.0)	(5.5)	0.0	0.0	(1.6)	(1.5)	(1.8)	(1.8)	(1.8)
Other		0.0	(0.9)	(0.2)	(0.2)	(0.5)	0.0	0.0	0.0	0.0
Long Term Liabilities		(10.0)	(6.2)	(29.6)	(70.1)	(64.1)	(43.0)	(50.8)	(133.4)	(123.2)
Long term borrowings		(4.6)	0.0	(24.0)	(63.5)	(57.3)	(35.2)	(39.9)	(122.5)	(112.3)
Other long term liabilities		(5.4)	(6.2)	(5.6)	(6.6)	(6.8)	(7.8)	(10.9)	(10.9)	(10.9)
Net Assets		89.1	106.9	116.9	137.4	138.9	164.5	172.4	151.0	173.6
Minority interests		(0.8)	(0.8)	(0.9)	(1.0)	(0.7)	(0.7)	(0.9)	(1.0)	(1.0)
Shareholders' equity		88.3	106.1	116.0	136.4	138.2	163.8	171.5	150.1	172.6
CASH FLOW										
Op Cash Flow before WC and tax		29.7	33.0	41.7	49.2	44.5	56.8	55.5	61.5	70.2
Working capital		(4.6)	(6.1)	0.4	(21.6)	10.6	(6.2)	(4.0)	(13.6)	(7.1)
Exceptional & other		0.6	5.1	(6.3)	3.2	(4.4)	(1.7)	(10.9)	(47.2)	0.0
Tax		(4.7)	(4.1)	(6.1)	(4.1)	(4.5)	(3.3)	(4.2)	0.6	(9.7)
Net operating cash flow		21.0	27.9	29.7	26.7	46.2	45.6	36.4	1.3	53.4
Capex		(5.4)	(6.8)	(10.1)	(15.0)	(16.3)	(14.9)	(21.9)	(28.0)	(23.0)
Acquisitions/disposals		(8.3)	0.1	(18.3)	(35.4)	0.0	(0.5)	0.0	(32.8)	0.0
Net interest		(0.1)	(0.2)	(0.2)	(1.5)	(2.7)	(1.3)	(0.9)	(2.0)	(2.0)
Equity financing		0.0	0.2	(0.2)	0.6	0.5	3.5	0.6	0.0	0.0
Dividends		(12.2)	(13.1)	(14.2)	(15.6)	(17.2)	(7.3)	(18.4)	(18.6)	(19.0)
Other		0.2	0.0	0.0	0.0	(1.5)	(1.7)	(1.7)	(1.7)	(1.7)
Net Cash Flow		(4.8)	8.1	(13.3)	(40.2)	9.0	23.4	(5.9)	(81.8)	7.6
Opening net debt/(cash)		(1.3)	3.7	(3.7)	9.0	52.0	41.3	17.9	24.6	106.4
FX		(0.2)	(0.5)	0.6	(2.7)	1.7	0.0	(0.8)	0.0	0.0
Other non-cash movements		0.1	(0.2)	0.0	(0.1)	0.0	0.0	0.0	0.0	0.0
Closing net debt/(cash)		3.7	(3.7)	9.0	52.0	41.3	17.9	24.6	106.4	98.7

Source: XP Power, Edison Investment Research

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