

XP Power

Q1 IMS

Order intake supports growth outlook

XP's IMS confirms that the improved order environment seen in H213 and early 2014 has continued through Q114. Q114 revenues grew 7% year-on-year with margin improvement over the same period. The company continues to pay down its debt and has announced a Q1 dividend in line with our expectations. As management continues to expect revenue growth in FY14, we leave our forecasts unchanged. The stock continues to trade at a discount to peers despite its profitability and dividend yield.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
12/12	93.9	20.2	81.3	50.0	19.0	3.2
12/13	101.1	22.9	95.1	55.0	16.3	3.6
12/14e	104.5	24.4	99.8	59.0	15.5	3.8
12/15e	110.2	26.5	108.5	63.0	14.2	4.1

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

Q114 trading in line

In Q114, XP saw 7% y-o-y growth in revenues (+11% in constant currency) and margin improvement as factory utilisation improved. Order intake was robust, continuing the growth trend from H213. Cash generation was strong; the company ended the quarter with net debt of £1.6m, down from £3.5m at the end of FY13 and £10.4m a year ago. A dividend of 12p was announced for Q1 (+9% y-o-y), in line with our forecast.

Growth still on track

The Q1 order intake supports management's view that the company will show revenue growth in FY14. We forecast growth of 3.4% for the year and consequently leave our forecasts unchanged. We note that currency headwinds could affect the top line further, but at the net income level currency moves have much less impact due to the high level of natural hedging.

Valuation: Not reflecting cash and margin generation

The stock has gained 27% over the last 12 months (although is down 13% from its February high) as it has become evident that the economic environment for XP's customers is improving and XP is experiencing a better order trend. XP now trades on a P/E of 15.5x FY14e and 14.2x FY15e adjusted EPS, with a forecast dividend yield of 3.8% in FY14 and 4.1% in FY15. Based on XP's superior margins, the company is undervalued versus peers: competitor power converter companies trade at c 19x FY14e EPS on EBITDA margins of 17-22% versus XP's 26.6% forecast EBITDA margin and the UK distributors trade at c 15.5x FY14e EPS, on a c 11% EBITDA margin. Strong forecast cash generation should enable the company to invest in further growth, either through internal product development or through the bolt-on acquisitions it is currently considering.

Tech hardware & equipment

11 April 2014

Price 1,545p
Market cap £294m

Net debt (£m) at end Mar 2014	1.6
Shares in issue	19.0m
Free float	79%
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 and Vietnam; and design, service and sales teams across Europe, the US and Asia.

Next events

IMS	8 July
FY14 interims	28 July

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Exhibit 1: Financial summary

	£m	2011	2012	2013	2014e	2015e
Year end 31 December		IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS						
Revenue		103.6	93.9	101.1	104.5	110.2
Cost of Sales		(52.7)	(49.0)	(51.5)	(52.9)	(55.6)
Gross Profit		50.9	44.9	49.6	51.6	54.6
EBITDA		27.5	23.3	26.0	27.8	29.9
Operating Profit (before am. acq. Intang & except.)		25.3	21.0	23.3	24.6	26.6
Amortisation of acquired intangibles		0.0	0.0	0.0	0.0	0.0
Exceptionals		0.0	0.0	0.0	0.0	0.0
Other		0.0	0.0	0.0	0.0	0.0
Operating Profit		25.3	21.0	23.3	24.6	26.6
Net Interest		(1.0)	(.8)	(.4)	(.2)	(.1)
Profit Before Tax (norm)		24.3	20.2	22.9	24.4	26.5
Profit Before Tax (FRS 3)		24.3	20.2	22.9	24.4	26.5
Tax		(3.6)	(4.5)	(4.5)	(5.1)	(5.6)
Profit After Tax (norm)		20.7	15.7	18.4	19.3	20.9
Profit After Tax (FRS 3)		20.7	15.7	18.4	19.3	20.9
Average Number of Shares Outstanding (m)		18.9	19.0	19.0	19.0	19.0
EPS - normalised (p)		107.1	81.7	95.8	100.6	109.3
EPS - normalised fully diluted (p)		106.4	81.3	95.1	99.8	108.5
EPS - FRS 3 (p)		107.1	81.7	95.8	100.6	109.3
Dividend per share (p)		45.0	50.0	55.0	59.0	63.0
Gross Margin (%)		49.1	47.8	49.1	49.4	49.6
EBITDA Margin (%)		26.5	24.8	25.7	26.6	27.2
Operating Margin (before GW and except.) (%)		24.4	22.4	23.0	23.6	24.2
BALANCE SHEET						
Fixed Assets		52.7	52.8	53.3	56.3	57.2
Intangible Assets		37.7	38.1	39.1	39.8	40.5
Tangible Assets		12.9	13.2	12.7	15.0	15.2
Investment in associates		2.1	1.5	1.5	1.5	1.5
Current Assets		46.9	39.3	42.2	42.2	50.2
Stocks		22.0	19.8	20.4	20.9	22.0
Debtors		16.0	14.2	15.4	15.9	16.8
Cash		6.3	4.1	5.0	4.0	10.0
Other		2.6	1.2	1.4	1.4	1.4
Current Liabilities		(28.2)	(20.2)	(22.4)	(17.1)	(16.8)
Creditors		(14.8)	(12.9)	(13.9)	(14.3)	(15.0)
Short term borrowings		(13.4)	(7.3)	(8.5)	(2.8)	(1.8)
Long Term Liabilities		(15.6)	(10.6)	(3.7)	(3.7)	(3.7)
Long term borrowings		(11.5)	(7.4)	0.0	0.0	0.0
Other long term liabilities		(4.1)	(3.2)	(3.7)	(3.7)	(3.7)
Net Assets		55.8	61.3	69.4	77.7	86.8
CASH FLOW						
Operating Cash Flow		21.2	27.9	25.2	27.2	28.6
Net Interest		(0.8)	(0.5)	(0.3)	(0.2)	(0.1)
Tax		(5.0)	(4.3)	(5.0)	(5.1)	(5.6)
Capex		(7.7)	(4.7)	(3.2)	(6.2)	(4.2)
Acquisitions/disposals		(0.1)	(1.6)	0.1	0.0	0.0
Financing		(0.8)	(0.5)	0.1	0.0	0.0
Dividends		(7.8)	(9.1)	(10.1)	(11.0)	(11.8)
Other		0.8	0.5	0.2	0.0	0.0
Net Cash Flow		(0.2)	7.7	7.0	4.7	7.0
Opening net debt/(cash)		18.4	18.6	10.6	3.5	(1.2)
HP finance leases initiated		0.0	0.0	0.0	0.0	0.0
Other		(0.0)	0.3	0.1	0.0	0.0
Closing net debt/(cash)		18.6	10.6	3.5	(1.2)	(8.2)

Source: XP Power accounts, Edison Investment Research

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