

12 April 2010

XP Power

Year End	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
12/08	69.3	8.0	34.8	21.0	13.8	4.4
12/09	67.3	8.7	40.8	22.0	11.8	4.6
12/10e	75.0	10.7	46.9	24.0	10.2	5.0
12/11e	82.2	12.4	54.4	25.0	8.8	5.2

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

Investment summary: Strong start to the year

XP Power's Q110 IMS highlights robust trading with the potential for accelerating growth in Q2. We raise our forecasts marginally to reflect stronger than expected growth. We also raise our dividend forecasts to reflect the Q1 dividend. Despite XP trading at 12 month highs, we believe there could be further upside as the stock looks undervalued versus peers.

Customer confidence increasing

Q1 trading was robust showing 17% growth y-o-y in constant currency and 10% reported growth (in Q1 sterling strengthened 8.5% y-o-y against the US dollar). Bookings have remained strong with order schedules lengthening, moving from monthly to 6-12 month forecasts. A second healthcare customer successfully audited the China manufacturing facilities.

Forecasts nudged up

With FX rates looking more stable in Q210 versus Q209 and the company expecting growth to accelerate in Q210, we increase our revenue forecast by 1% for FY10 and FY11. H110e annual revenue growth now stands at 11.8% (up from 10%). EPS (normalised) increases from 45.9p to 46.9p (FY10e) and 53.5p to 54.4p (FY11e).

Change to dividend policy

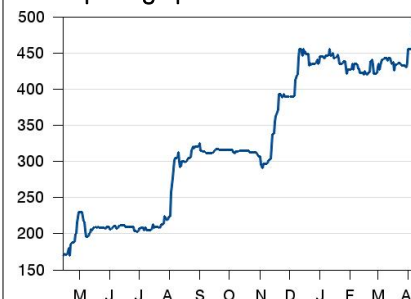
XP is moving from a half-yearly to a quarterly payout schedule, with a Q110 dividend of 6p (up 20% y-o-y on a pro-rated basis). Assuming flat dividends for the remaining three quarters, we increase our FY10 dividend forecast from 23p to 24p (payout ratio of 51%) and FY11 from 24p to 25p (payout ratio 46%).

Valuation: Undervalued versus peers

XP has traded up 15% since results in February and is now trading on 10.2x FY10 and 8.8x FY11 EPS. UK electronic component distributors are trading at 16-18x FY10 EPS on lower margins than XP, while international power component manufacturers are trading in a range of 17-23x FY10 EPS, giving scope for the stock to trade up to nearer 15x FY10 EPS in our view.

Price 480p
Market Cap £92m

Share price graph



Share details

Code XPP
Listing FULL/OTC
Sector Electronic & Electrical Equipment
Shares in issue 19.24m

Price

52 week High 490.0p Low 168.5p

Balance Sheet as at 31 December 2009

Debt/Equity (%) 58
NAV per share (p) 168.9
Net cash (£m) 18.7

Business

XP Power is a developer and designer of power control solutions with a production facility in China and design, service and sales teams across Europe, the US and Asia.

Valuation

	2009	2010e	2011e
P/E relative	81%	89%	93%
P/CF	5.5	7.9	6.8
EV/Sales	1.7	1.5	1.3
ROE	24%	24%	24%

Geography based on revenues (2009)

	US	Asia
Europe	47%	7%
	46%	

Analyst

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Exhibit 1: Financials

Year end 31 December	£m	2005	2006	2007	2008	2009	2010e	2011e
		UK GAAP	UK GAAP	UK GAAP	IAS	IAS	IAS	IAS
PROFIT & LOSS								
Revenue		69.5	78.7	66.3	69.3	67.3	75.0	82.2
Cost of Sales		(44.7)	(49.5)	(38.3)	(38.7)	(37.0)	(41.1)	(44.9)
Gross Profit		24.8	29.2	28.0	30.6	30.3	33.9	37.3
EBITDA		9.0	11.0	10.2	10.9	11.2	13.1	14.8
Operating Profit (before GW and except.)		8.4	10.3	9.4	9.5	9.9	11.7	13.3
Amortisation of acquired intangibles		0.0	0.0	(0.3)	(0.2)	(0.3)	(0.3)	(0.3)
Exceptionals		0.0	(1.0)	(2.4)	0.0	0.0	0.0	0.0
Other		0.3	0.1	0.1	2.4	0.0	0.0	0.0
Operating Profit		8.7	9.4	6.7	11.7	9.6	11.4	13.0
Net Interest		(0.8)	(1.3)	(1.7)	(1.5)	(1.2)	(1.0)	(.9)
Profit Before Tax (norm)		7.9	9.1	7.7	8.0	8.7	10.7	12.4
Profit Before Tax (FRS 3)		7.9	8.1	5.0	10.2	8.4	10.4	12.1
Tax		(1.7)	(2.0)	(1.4)	(1.2)	(0.8)	(1.6)	(1.9)
Profit After Tax (norm)		5.9	7.0	6.3	6.8	7.9	9.1	10.5
Profit After Tax (FRS 3)		6.2	6.1	3.6	9.0	7.6	8.8	10.2
Average Number of Shares Outstanding (m)		19.6	18.9	17.8	18.9	18.8	18.8	18.8
EPS - normalised (p)		30.1	37.0	31.6	35.0	41.0	47.4	54.9
EPS - normalised fully diluted (p)		30.1	37.0	31.4	34.8	40.8	46.9	54.4
EPS - FRS 3 (p)		31.6	32.3	19.1	46.6	39.4	45.8	53.3
Dividend per share (p)		16.0	18.0	20.0	21.0	22.0	24.0	25.0
Gross Margin (%)		35.7	37.1	42.3	44.2	45.0	45.3	45.4
EBITDA Margin (%)		12.9	14.0	15.4	15.7	16.6	17.4	18.0
Operating Margin (before GW and except.) (%)		12.1	13.1	14.2	13.7	14.7	15.6	16.1
BALANCE SHEET								
Fixed Assets		33.6	36.6	36.7	43.1	45.6	47.0	49.2
Intangible Assets		30.2	32.7	32.8	33.5	35.5	36.7	37.9
Tangible Assets		3.0	3.2	3.4	6.7	7.1	7.3	8.3
Investment in associates		0.4	0.7	0.5	2.9	3.0	3.0	3.0
Current Assets		30.1	32.6	30.3	35.8	26.9	29.2	32.7
Stocks		8.1	11.1	10.5	17.5	10.7	11.9	13.1
Debtors		17.2	17.2	16.2	12.1	11.0	12.3	13.4
Cash		4.8	4.2	3.6	3.4	4.0	3.8	4.9
Current Liabilities		(32.0)	(21.5)	(13.2)	(22.7)	(15.8)	(15.0)	(15.0)
Creditors		(12.1)	(13.9)	(10.5)	(15.4)	(11.9)	(13.0)	(14.0)
Short term borrowings		(19.9)	(7.6)	(2.7)	(7.3)	(3.9)	(2.0)	(1.0)
Long Term Liabilities		(4.5)	(18.3)	(24.0)	(27.2)	(24.2)	(24.2)	(24.2)
Long term borrowings		0.0	(14.4)	(20.3)	(23.9)	(18.8)	(18.8)	(18.8)
Other long term liabilities		(4.5)	(3.9)	(3.7)	(3.3)	(5.4)	(5.4)	(5.4)
Net Assets		27.2	29.4	29.8	29.0	32.5	37.0	42.6
CASH FLOW								
Operating Cash Flow		8.0	7.8	8.3	9.5	16.8	11.6	13.5
Net Interest		(0.8)	(1.3)	(1.7)	(1.5)	(1.1)	(1.0)	(0.9)
Tax		(0.7)	(2.5)	(1.4)	(1.0)	(.5)	(1.6)	(1.9)
Capex		(0.8)	(1.2)	(1.9)	(4.5)	(3.2)	(3.0)	(4.0)
Acquisitions/disposals		(4.2)	(1.8)	(1.4)	(1.0)	0.0	0.0	0.0
Financing		(3.7)	(.5)	0.4	(4.8)	1.0	0.0	0.0
Dividends		(2.8)	(3.2)	(3.8)	(4.2)	(4.1)	(4.3)	(4.6)
Net Cash Flow		(5.0)	(2.7)	(1.5)	(7.5)	8.9	1.7	2.1
Opening net debt/(cash)		10.1	15.1	17.8	19.4	27.8	18.7	17.0
HP finance leases initiated		0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other		0.0	(0.0)	(0.1)	(.9)	0.2	0.0	0.0
Closing net debt/(cash)		15.1	17.8	19.4	27.8	18.7	17.0	14.9

Source: Edison Investment Research, XP Power accounts

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