

26 May 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	80.3	11.5	50.7	24.0	9.5	5.0
12/11e	86.5	13.1	57.7	25.0	8.3	5.2

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

Investment summary: Accelerating growth

XP Power today reported that trading has improved at a faster rate than anticipated only last month, and has raised its revenue guidance for FY10. We upgrade our revenue and earnings forecasts for FY10 and FY11. XP trades on 9.5x our revised FY10e normalised earnings with a dividend yield of 5%.

Trading continues to improve

XP has seen robust trading in Q2 and accelerating revenue growth. The company now expects revenue growth of 18-22% for FY10 (versus our previous 11.4% forecast), equating to a revenue range of £79.4-82.1m. The Technology segment is showing the strongest growth as the semiconductor equipment industry is in the midst of a strong recovery. The company is also seeing a pick-up in activity from Industrial customers and continued solid order intake from Healthcare customers.

Estimates upgraded again

Having upgraded estimates after XP's Q1 IMS in April, we are upgrading our estimates again to reflect the stronger than anticipated growth in demand. While the weakening of sterling against the dollar partially contributes to the higher sterling growth rate, XP has also seen stronger underlying business. At the net income level, recent currency moves have less impact as the company has a substantial amount of natural hedging. We upgrade our revenue forecasts for FY10 from £75.0m to £80.3m (+19.3% y-o-y) and for FY11 from £82.2m to £86.5m (+7.7% y-o-y). Normalised EPS forecasts increase 8% for FY10 (from 46.9p to 50.7p) and 6% for FY11 (from 54.4p to 57.7p).

Valuation: Further upside potential

XP is trading on 9.5x FY10e and 8.3x FY11e normalised earnings with a dividend yield of 5.0% in FY10 and 5.2% in FY11. For FY10, this compares to c 15x for UK electronics components distributors and 16-20x for international power component manufacturers. We believe this gives scope for the stock to trade up to nearer 15x FY10 EPS. Our DCF analysis values the company at 602p.

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 602p Low 200p

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	111%	82%	87%
P/CF	5.5	7.9	6.4
EV/Sales	1.7	1.4	1.2
ROE	24%	25%	25%

Geography based on revenues (2008)

Europe 47% US 46% Other 7%

Analysts

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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	80.3	86.5
Cost of Sales		(44.7)	(49.5)	(38.3)	(38.7)	(37.0)	(44.0)	(47.4)
Gross Profit		24.8	29.2	28.0	30.6	30.3	36.3	39.1
EBITDA		9.0	11.0	10.2	10.9	11.2	14.0	15.5
Operating Profit (before GW and except.)		8.4	10.3	9.4	9.5	9.9	12.5	14.0
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	12.2	13.7
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	11.5	13.1
Profit Before Tax (FRS 3)		7.9	8.1	5.0	10.2	8.4	11.2	12.8
Tax		(1.7)	(2.0)	(1.4)	(1.2)	(0.8)	(1.7)	(2.0)
Profit After Tax (norm)		5.9	7.0	6.3	6.8	7.9	9.8	11.1
Profit After Tax (FRS 3)		6.2	6.1	3.6	9.0	7.6	9.5	10.8
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	51.2	58.3
EPS - normalised fully diluted (p)		30.1	37.0	31.4	34.8	40.8	50.7	57.7
EPS - FRS 3 (p)		31.6	32.3	19.1	46.6	39.4	49.6	56.7
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	45.2	45.2
EBITDA Margin (%)		12.9	14.0	15.4	15.7	16.6	17.4	17.9
Operating Margin (before GW and except.) (%)		12.1	13.1	14.2	13.7	14.7	15.6	16.2
BALANCE SHEET								
Fixed Assets		33.6	36.6	36.7	43.1	45.6	47.4	49.6
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	7.7	8.7
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	30.3	34.2
Stocks		8.1	11.1	10.5	17.5	10.7	12.8	13.8
Debtors		17.2	17.2	16.2	12.1	11.0	13.1	14.1
Cash		4.8	4.2	3.6	3.4	4.0	3.2	5.1
Current Liabilities		(32.0)	(21.5)	(13.2)	(22.7)	(15.8)	(15.7)	(15.6)
Creditors		(12.1)	(13.9)	(10.5)	(15.4)	(11.9)	(13.7)	(14.6)
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	37.7	44.0
CASH FLOW								
Operating Cash Flow		8.0	7.8	8.3	9.5	16.8	11.6	14.4
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)	(1.7)	(2.0)
Capex		(0.8)	(1.2)	(1.9)	(4.5)	(3.2)	(3.5)	(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	1.1	2.9
Opening net debt/(cash)		10.1	15.1	17.8	19.4	27.8	18.7	17.6
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	17.6	14.7

Source: Edison Investment Research, XP Power accounts

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