

Yü Group Plc

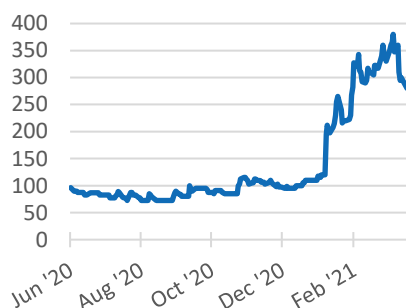
8 July 2021

H121: Surpassing Expectations

Stock Data

Ticker (AIM)	YU. LN
Share Price	260p
Market Cap	£42.3M
EV	£31.0M
Yr High/Yr Low	380/71p
PRICE TARGET	500p
RATING	Buy

Price Chart



SOURCE: Bloomberg

Yü Group Plc (YU. LN) listed on the AIM Exchange in London is a multi-utility provider to small and medium sized business, as well as larger corporate customers across the UK. As a direct supplier of electricity, gas, water and other solutions such as electric vehicle (EV) charge points, smart meter installations and green energy solutions, Yü Group (YUG) provides a simple approach to a business's energy management, offering competitive fixed-price, bundled utility plans. The certainty of utility costs supported by a strong commitment to customer service and product innovation is rapidly solidifying YUG as a trusted supplier in the £35b UK B2B utility market.

Highlights of Preliminary Trading Results for H1 2021:

- Average monthly bookings reached £9.7m for H1 2021, up 56.5% from the £6.2m average in H1 2020. A new record high was achieved in June 2021 with average bookings for the month of £18.4m, up 33% over the previous high of £13.3m recorded for July 2020.
- Revenue is expected to be ~£65m for H1 2021, a 41.6% increase over H120 revenue of £45.9m. Aggregate contracted revenue is 40% higher y/y. 2021E revenue is expected to be materially higher than the £101.5m reported for 2020.
- Adjusted EBITDA for H1 2021 is expected to continue its sequential improvement from £0.1m profit in H2 2020, and £1.8m loss in H1 2020.
- Cash balances remain flat from year-end at £11.5m (from £11.7m at 31 Dec 2020) following the final investment for the new sales and innovation office in Leicester, additional investment in technology developments of the YUG sales/customer platform, as well as an early part payment of the ROC payments due in August.

Commentary:

- **Average Monthly Bookings:** YUG has already almost achieved our forecast assumptions for average monthly bookings for 2021E of ~£11m. With significant year/year performance so far in 2021E it is reasonable to expect that performance is likely to improve further and surpass our forecasts, particularly given the record new high reached in June. Commodity prices have continued to stabilise at higher levels which we expect will continue driving customers to select fixed contract pricing terms, with higher volume usage this year.
- **Revenue:** Our revenue forecast for the full year 2021E is £128.4m. H1 2021 revenue of ~£65m represents ~50.6% of this forecast amount. Typically, H2 revenue performance is higher than H1 in any given year, which suggests that our 2021E revenue forecast is likely to be too low. Also, organic growth is tracking to +40% y/y, further supporting an expected beat of our forecasts.
- **Adjusted EBITDA:** Our full year forecast for adj. EBITDA of £0.45m is driven by margin improvements and improved net customer contribution from higher quality contracts against a relatively fixed proportion of general overhead costs. This aligns with continued sequential improvement in adj. EBITDA through the year. We anticipate that this forecast may also be low given the revenue performance in H1 2021.
- **Cash balances:** Considering the investments made so far this year in improving operations, and the early payment of a portion of the ROC credits that become due in August each year, cash balances are strong at £11.5m. There are certainly sufficient funds available to make the balance of the ROC payment due in August and to continue investment in operational growth plans through year-end.

Valuation: We use a DCF valuation to derive a price target for YUG. In this calculation, we remain somewhat conservative as the country comes out of lockdown with post-COVID impacts still relatively unknown (WACC: 13.6%; TG: 3.5%). The result is an equity value of ~£81m, translating to a share value of 500p, ~92% higher than the current share price. With this type of potential return, the stock warrants a Buy rating.

Outlook: Highlights of YUG's H1 2021 performance are better than expected with the trend continuing into H2 2021E. The Board has stated that the Group will meet market expectations for the year, with further improvement expected in 2022E. Though with typically better results in H2 compared to H1, it would appear that our forecasts are more likely to be surpassed. We believe there remains significant upside in the stock for investors as the Group outperforms expectations and continues to drive growth.

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FINANCIAL SUMMARY

Current Forecasts										
Financials (£000)	2016	2017	2018	2019	2020	2021E	2022E	2023E	2024E	2025E
Revenue	16,264.0	45,631.0	80,635.0	111,613.0	101,527.0	128,397.1	159,852.1	188,361.4	210,670.9	231,931.2
Gross Margin (%)	21.2%	14.9%	4.0%	4.9%	7.6%	9.2%	9.4%	9.5%	9.5%	9.5%
Operating Income	(1,518.0)	784.0	(9,595.0)	(5,898.0)	(1,574.0)	(27.6)	2,080.6	3,384.4	4,157.8	4,625.5
Operating Margin (%)	-9.3%	1.7%	-11.9%	-5.3%	-1.6%	0.0%	1.3%	1.8%	2.0%	2.0%
Adjusted EBITDA	(1,518.0)	1,537.0	(6,283.0)	(4,242.0)	(1,714.0)	449.4	2,557.6	3,861.4	4,634.8	5,102.5
Net Income	(1,359.0)	711.0	(6,267.0)	(4,968.0)	(1,165.0)	37.6	2,154.6	3,458.4	4,231.8	4,699.5
Earnings per Share (£) basic	(0.1029)	0.0506	(0.4223)	(0.3)	(0.0716)	0.0023	0.1323	0.2124	0.2599	0.2886
Adjusted Net Income	136.0	1,413.0	(5,555.0)	(3,950.0)	(1,725.0)	37.6	2,154.6	3,458.4	4,231.8	4,699.5
Adj. EPS (£) basic	0.0103	0.1005	(0.3743)	(0.2426)	(0.1060)	0.0023	0.1323	0.2124	0.2599	0.2886
Basic Shares (000s)	13,212.2	14,054.1	14,841.4	16,278.7	16,281.1	16,281.1	16,281.1	16,281.1	16,281.1	16,281.1
Net Cash in/(Out)-flow	5,150.0	(1,822.0)	9,725.0	(12,235.0)	9,363.0	(589.0)	4,832.3	11,225.3	8,192.6	8,621.4
Debt	-	-	-	-	-	-	-	-	-	-
Growth Rates (%)										
	2017	2018	2019	2020	2021E	2022E	2023E	2024E	2025E	
Revenue	180.6%	76.7%	38.4%	-9.0%	26.5%	24.5%	17.8%	11.8%	10.1%	
EBITDA	201.3%	-508.8%	32.5%	59.6%	126.2%	469.1%	51.0%	20.0%	10.1%	
Net Income	152.3%	-981.4%	20.7%	76.5%	103.2%	5634.1%	60.5%	22.4%	11.1%	
Adjusted Net Income	939.0%	-493.1%	28.9%	56.3%	102.2%	5634.1%	60.5%	22.4%	11.1%	
Financial Health										
	2016	2017	2018	2019	2020	2021E	2022E	2023E	2024E	2025E
Working Capital (£000)	4,748.00	7,021.00	6,664.00	187.00	(1,423.00)	(3,673.61)	(906.60)	3,411.91	8,650.71	14,446.09
Current Ratio	(1.89)	(1.65)	(1.31)	(1.01)	(1.0)	(0.9)	(1.0)	(1.1)	(1.1)	(1.2)
Long-term Debt (£m)	-	-	-	-	-	-	-	-	-	-
Total Equity (£m)	5.41	8.81	10.44	5.30	4.5	4.7	6.9	10.5	14.8	19.6
LT Debt/Assets	-	-	-	-	-	-	-	-	-	-
LT Debt/Equity	-	-	-	-	-	-	-	-	-	-
Financial Position (£000)										
	2016	2017	2018	2019	2020	2021E	2022E	2023E	2024E	2025E
Cash	5,197.0	4,887.0	14,612.0	2,377.0	11,740.0	11,151.0	15,983.4	27,208.6	35,401.3	44,022.7
Inventory	-	-	-	-	-	-	-	-	-	-
Debtors	4,891.0	13,011.0	13,569.0	25,886.0	18,267.0	21,797.9	26,806.1	31,345.2	34,897.3	38,282.3
Creditors	(5,340.0)	(10,877.0)	(21,517.0)	(28,076.0)	(31,430.0)	(36,622.6)	(43,696.0)	(55,142.0)	(61,647.8)	(67,858.9)
Total Assets	10,821.0	20,061.0	31,955.0	33,822.0	37,052.0	41,882.1	51,210.2	66,214.6	77,052.2	88,062.7
Total Liabilities	(5,412.0)	(11,248.0)	(21,517.0)	(28,524.0)	(32,539.0)	(37,231.6)	(44,305.0)	(55,751.0)	(62,256.8)	(68,467.9)
Total Equity	5,409.0	8,813.0	10,438.0	5,298.0	4,513.0	4,650.6	6,905.2	10,463.6	14,795.4	19,594.9
Profitability										
	2016	2017	2018	2019	2020	2021E	2022E	2023E	2024E	2025E
ROE	-25.1%	8.1%	-60.0%	-93.8%	-25.8%	0.8%	31.2%	33.1%	28.6%	24.0%
ROA	-12.6%	3.5%	-19.6%	-14.7%	-3.1%	0.1%	4.2%	5.2%	5.5%	5.3%

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