Non-Independent Research
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September 29, 2021

Spec Sits Research

Yü Group Plc

H1 2021 Outperforms Expectations

Yü Group Plc (YU. LN) listed on the AIM Exchange in London is a multi-utility provider to SMEs, as well as larger corporates across the UK. As a direct supplier of electricity, gas, water and other solutions such as EV charge points, smart meter installations and green energy solutions, Yü Group (YUG) provides a simple approach 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 solidifying YUG as a trusted supplier in the £35b UK B2B utility market.

Event: YUG announced its H1 2021 financial results, demonstrating the success of its operational strategy supported by a solid hedging program.

Key Performance Indicators:

- **Average Monthly New Bookings** during H121 reached £9.6m, +54.9% over H120 monthly average bookings of £6.2m and roughly triple that of H119 of £3.2m.
- **Net Customer Contribution (NCC)** for H121 was 6.9%, up 0.8% over the full year 2020 at 6.1%. H221E NCC is expected to improve further.
- **General overheads** for H122 were 6.2%, in line with 2020 (2019: 6.3% and 2018: 7.4%). In order to drive growth, YUG is investing in sales and marketing, which is sized to handle the current growth plans.
- **Contracted Revenue** as at August 31, 2021 for delivery in F2022E stood at £90.5m. This is still expected to increase for the year as new bookings are added monthly.

H121 Financial Results:

- **Revenue**: H121 revenue was £65.8m, up 43.3% over H120 revenue of £45.9m. This significant increase was driven by strong organic growth and recovery in customer demand as markets re-open following pandemic lockdowns.
- **General Overheads/Bad Debt:** H121 general overheads were 6.2% of revenue, in line with H120. Economies of scale are expected to drive cost of service and administrative expenses lower, particularly given tight controls in place, streamlined processes and further investment in the Group's digital platform. Bad debt has decreased to 0.9% vs. 3.4% in H120, with strong cash collections.
- **Profit/Loss and Adj. EBITDA:** Adjusted EBITDA for H121 was £0.5m, compared to losses in H120 of £1.8m. Net profit for the period was £0.9m or £0.05/shr, compared to net losses in H120 of £1.7m or £(0.10)/shr.
- **Cash:** Net cash at the end of H121 was £11.5m, with no debt. This includes a £2.4m investment in the Leicester Innovation Centre. Following the payment for YUG's Renewable Obligation made in August, cash resources remain solid.

Forecasts: With better than expected H1 2021 results, we have made minor changes to our 2021E forecasts. While YUG is fully hedged against energy market turbulence, customer behaviour can be impacted, creating some uncertainty and potentially impacting renewal rates (YUG consistently achieves ~45%). In line with strategic priorities, YUG has also negotiated the exit of a low margin gas contract in H2 2021, impacting revenue by ~£4m. As such, we have left our revenue forecasts for 2021E at £128.4m. However, we increased our 2021E forecasts with better than expected NCC, bad debt, Adj. EBITDA and net profit reported in H1 2021. Thus, 2021E NCC increases to 7.1% from 6.45%; bad debt decreases to 1.3% from 2.75%; Adj EBITDA increases to £0.9m from £0.045m, and net profit increases to £1.3m from £0.045m.

Outlook: YUG's strategy is on track to drive sustainable and long-term profitable growth. Revenue for 2021E is expected to be in line with market forecasts, with strong organic growth continuing into H2 2021E. However, Adj. EBITDA for the year is expected to be ahead of expectations with improving net customer contribution. Forward revenue visibility is strong with nearly 60% of forecasted revenue under contract for 2022E at 31 August 2021. Given the turbulent wholesale energy markets, we expect market consolidation opportunities to arise in the near-term. YUG intends to opportunistically acquire growth against strict criteria to drive shareholder value. Overall, we believe it is worthwhile for investors to take a fresh look at this Company as part of a long-term growth story for their portfolios.

Stock Data

Ticker (AIM)	YU. LN
Share Price	250p
Market Cap	£40.8M
EV	£29.4M
Yr High/Yr Low	380/80p
Price Target	500p
Rating	Buy

Price Chart

SOURCE: Bloomberg

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Outlook

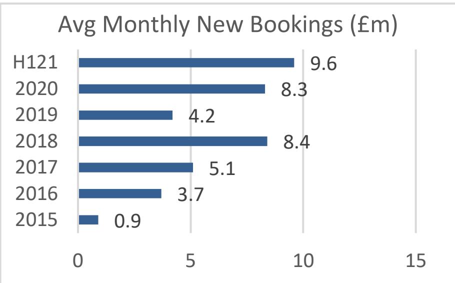
The balance of the year is expected to continue in line with expectations with revenues achieving market forecasts. However, profitability levels are expected to beat market expectations as the Group focuses on gross margin enhancements by prioritising higher margin contracts. Monthly bookings for the year are expected to be well ahead of H121, following exceptional performance in July and August. Improvements are driven by a recovery in customer demand, operational discipline driving strong organic growth, and a keen focus on the Group's digital platform development.

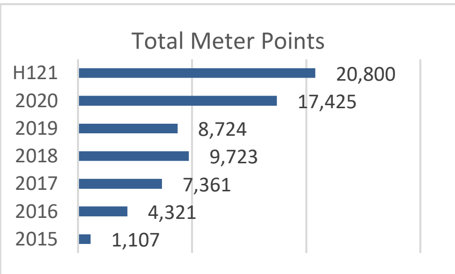
YUG has a solid hedging strategy in place that mitigates the impact of volatility in commodity prices. The risk position within this hedging strategy is pro-actively managed by management and the Board continuously to ensure seamless coverage between contracts secured with customers and the hedging strategy/position. As a B2B supplier, YUG is not exposed to the same regulatory constraints as the B2C suppliers in the domestic retail market, many of which are now failing because of exposure to unhedged positions in wholesale energy prices. Overall, it is important to note that there has been no impact to YUG from the recent energy price fluctuations so far this year. There is the possibility of some exposure to industry mutualisation costs because of these domestic B2C retail failures if they have not paid their regulatory fees prior to failure. While the potential impacts are currently unquantifiable, YUG's exposure is likely not material given they would be mutualised based on market share (YUG has about 0.2% of the overall market).

YUG's revised strategy is working and is on track to drive sustainable and long-term profitable growth for its shareholders. We do expect consolidation in the sector through next year; YUG is well positioned to take advantage of acquisition opportunities that meet its strategic criteria, augmenting its organic growth trajectory. With a keen focus on driving operational strength and driving long-term growth, we believe it is worthwhile for investors to take a fresh look at this Company as part of a stable, growth story for their portfolios. Our DCF valuation derives a price per share of 500p, supporting a Buy rating for the stock. With continued execution of its core business strategy, we believe YUG has the ability to consistently beat expectations and achieve this valuation potential.

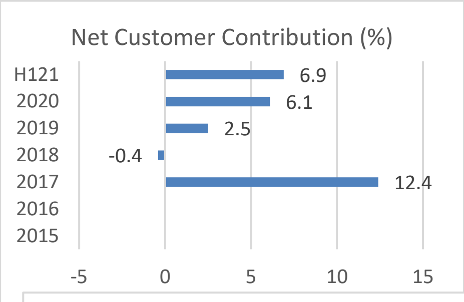
Key Performance Indicators – Ongoing Measures of Success

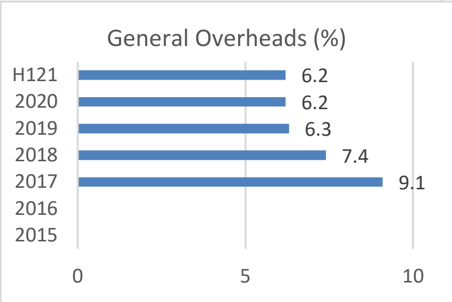
While there are a number of operating metrics and procedural controls that are regularly tracked and monitored in order to drive profitability of the business, the key performance indicators that have been identified include the following:

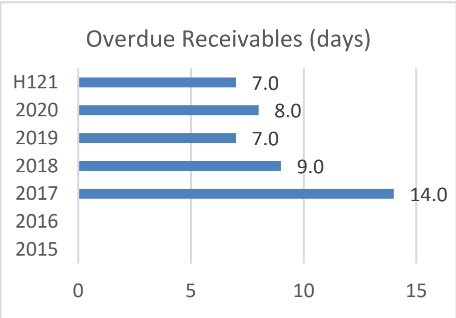


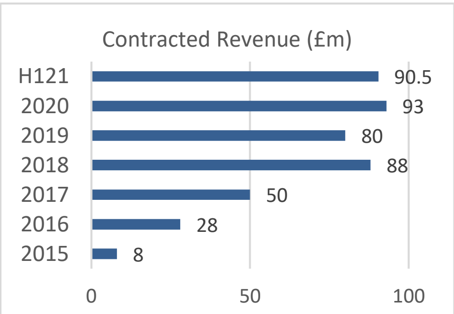


- **Average Monthly New Bookings** – This is the annualised value of contracts secured during a period. The monthly average bookings during H121 reached £9.6m, +26.2% over H120 monthly average bookings of £6.2m. Strong bookings in July and August are evidence of continuing momentum through the balance of the year, supporting high organic growth rates. H2 bookings are typically ~66% higher than H1. The Group's continued focused on developing its digital platform to support efficiency in quoting, onboarding and supplying to business customers seeking greater control from a more self-service platform, is driving growth in new digital sales channels.
- **Total Meter Points:** Rather than tracking customer numbers, YUG tracks total meter points, as one customer can have multiple meters (multiple locations/multiple utility services) and each meter can have different volume demands/loads. Not all meter connections are the same. At the end of H1 2021 total meter points reached 20,800, up 19% from year-end 2020, and more than double the number at the end of 2019. Organic growth since the acquisitions of the 2 customer books in 2020 is ~48.5%. With roughly 3.5m meter points for gas and electricity across the UK business market, there clearly remains significant opportunity for additional market share capture. We expect there to be additional opportunities to acquire customer books in the near-term, with the Group going after only those that meet its strict criteria to drive growth.









- **Net Customer Contribution (NCC):** This is a newer KPI which measures the profit contribution from customer contracts in terms of gross margin, less bad debt and expected credit losses charged in overhead expenses. NCC for H121 was 6.9%, up 0.8% over H120 at 6.1%. Since establishing NCC as a KPI and the restructuring of processes and procedures in 2018/19 there has been marked improvement in this metric, reaching about 4.9% pre-COVID. Enhancing the life cycle value of customers, improvements to the credit control cycle and the expiry of low margin legacy contracts are contributing to continuous improvements. H221E NCC is expected to improve further.
- **General Overheads (%)**: The percentage of revenue that is charged to adjusted EBITDA on a normalised, recurring basis is included in this metric. This excludes exceptional/one-time items, as well as non-cash items and any bad debt write-downs (which are included in NCC). General overheads for H121 were 6.2%, in line with 2020. In order to drive growth, YUG is investing in sales and marketing, which is currently sized to handle the current growth plans. Sales and marketing represent about a third of the overheads spent, with the balance split between the cost to serve customers and general admin costs which are typically fixed costs. One of the targets for the company is to reduce the ratio of general overheads in support of driving increased economies of scale. This being achieved by enhancing the Group's digital platform – creating growth in digital sales channels while sustaining high levels of customer service; driving cost efficiencies and reducing overheads; and using data analytics to identify opportunities for value creation.
- **Receivables:** Overdue receivables from customers, net of provisions, beyond the standard one-month billing cycle is an indicator of risks to the income statement. A target of ten days, the industry benchmark, has been set as a maximum goal for overdue receivables. In H1 2021 there was a one-day improvement to 7 days over 2020, supported by very strong cash conversion levels for the period.
- **Contracted Revenue:** This represents revenue that is expected to be generated from signed customer contracts over the next financial year. As at August 31, 2021 the 2022E contracted revenue book stood at £90.5m, ~26% higher than it stood at the same time last year. This is still expected to increase for the year as new bookings are added monthly. At year-end 2020, there was £93m expected for contracted revenue during the 2021 period. During regular market environments this metric can vary by up to +/-10m. The contracted revenue at the end of 2021 will be impacted any organic growth that has been achieved through 2021 (both contracted and other revenue), as well as from acquisition growth.

H1 2021 Financial Results

YUG is well positioned to execute is corporate strategy, despite increased volatility in commodity markets. The Group remains a key player in the B2B energy supply market, with an experienced team in place to successfully execute core strategies, driving growth for shareholders. YUG reported financials for the half-year ended 30 June 2021:

- **Revenue:** H121 revenue was £65.8m, up 43.3% over H120 revenue of £45.9m. This increase reflects recovery in energy demand since the first lockdown related to COVID-19 amounting to ~£8m, as well as an additional ~£3m from the two customer books acquired in H2 2020. The balance reflects strong organic growth - average monthly bookings from H2 2020 were a key driver of ~16.5% of the organic growth achieved in H1 2021.
- **Gross margin:** H121 gross margin was 7.8%, a significant improvement over H1 2020 of 5.7%. The increase reflects the Group's core strategy to achieve a target average gross margin of mid-to-high single digits. The bottom end of the range is mid-single digits for very high volume and bundled contracts while the top end of the range is low-to-mid double digits for more tailored and specialized contracts. The Board continues to focus the Group's strategy on smaller and medium sized businesses which strategically provide a greater value opportunity, while diversifying exposure to bad debt. This drove the decision to exit a low margin gas contract during H2 2021 that provided excess energy volatility risk.

- **General Overheads:** H121 general overheads were 6.2% of revenue, in line with H120. Economies of scale are expected to drive cost of service and administrative expenses lower, particularly given the reinvigorated platforms in place with advanced technology and streamlined processes that have been implemented. There are plans to further automate processes across the digital platform reducing the chances for error and creating additional efficiencies in sales and marketing.
- **Profit/Loss and EBITDA:** Adjusted EBITDA for H121 was £0.5m, well ahead of management expectations and forecasts. Net profits after tax were £0.9m or £0.05/shr, compared to net losses in H120 of £1.7m or £(0.10)/shr. This includes the non-cash benefit of gain on derivatives of ~£1.25m due to increases in commodity markets.
- **Cash and Equivalents:** Net cash at the end of H121 was £11.5m, with no debt. This compares to cash holdings at the end of 2020 of £11.7m. As at the end of August 2021, the payment to Ofgem for YUG's Renewable Obligation was completed. The Group's current cash position remains robust and in line with expectations.
- **Net Cash Flow:** Total cash inflow was £2.3m for H1 2021. This includes an investment in the Leicester Innovation Centre of £2.4m and the prepayment of certain industry obligations that were otherwise due in H2 2021. Working capital management remains solid and customer receivables are stable, governed by strict internal operating controls that are continuously monitored.

TABLE 1: FINANCIAL SUMMARY

Current Forecasts Financials (£000)	H1 2020	H2 2020	H2 2021	H2 2021E	2019	2020	2021E	2022E	2023E
Revenue	45,873.0	55,654.0	65,816.0	62,581.1	111,613.0	101,527.0	128,397.1	159,852.1	188,361.4
Gross Margin (%)	5.7%	9.1%	7.8%	8.9%	4.9%	7.6%	8.3%	9.4%	9.5%
Operating Income	(2,062.0)	488.0	1,168.0	452.9	(5,898.0)	(1,574.0)	1,620.9	2,050.6	3,354.4
Operating Margin (%)	-4.5%	0.9%	1.8%	0.7%	-5.3%	-1.6%	1.3%	1.3%	1.8%
Adjusted EBITDA	(1,846.0)	132.0	478.0	452.9	(4,242.0)	(1,714.0)	930.9	2,557.6	3,861.4
Net Income	(1,711.0)	546.0	920.0	415.9	(4,968.0)	(1,165.0)	1,335.9	1,699.7	2,742.7
Earnings per Share (£) basic	(0.105)	0.034	0.057	0.026	(0.305)	(0.072)	0.082	0.104	0.168
Adjusted Net Income	(1,711.0)	(14.0)	64.0	415.9	(3,950.0)	(1,725.0)	479.9	1,699.7	2,742.7
Adj. EPS (£) diluted	(0.10)	0.03	0.05	0.02	(0.29)	(0.07)	0.08	0.10	0.16
Diluted Shares (000s)	17,065.2	17,210.9	17,584.1	17,584.1	17,065.2	17,210.9	17,210.9	17,210.9	17,210.9
Net Cash in/(Out)-flow	15,509.0	(6,146.0)	(267.0)	(2,585.9)	(12,235.0)	9,363.0	(2,911.9)	3,933.6	7,770.4
Debt	-	-	-	-	-	-	-	-	-

Growth Rates (%)	H1 2020	H2 2020	H2 2021	H2 2021E	2019	2020	2021E	2022E	2023E
Revenue	-18.9%	1.1%	43.5%	12.4%	38.4%	-9.0%	26.5%	24.5%	17.8%
EBITDA	31.0%	108.4%	125.9%	243.1%	32.5%	59.6%	154.3%	174.8%	51.0%

Financial Health	H1 2020	H2 2020	H2 2021	H2 2021E	2019	2020	2021E	2022E	2023E
Working Capital (£000)	(2,498.00)	(1,423.00)	219.00	(1,275.10)	187.00	(1,423.00)	(1,275.10)	1,082.54	4,743.95
Current Ratio	(0.92)	(0.95)	(1.01)	(0.96)	(1.01)	(1.0)	(1.0)	(1.0)	(1.1)
Long-term Debt (£m)	-	-	-	-	-	-	-	-	-
Total Equity (£m)	3.75	4.51	5.59	6.00	5.30	4.5	6.0	7.8	10.6
LT Debt/Assets	-	-	-	-	-	-	-	-	-
LT Debt/Equity	-	-	-	-	-	-	-	-	-

Financial Position (£000)	H1 2020	H2 2020	H2 2021	H2 2021E	2019	2020	2021E	2022E	2023E
Cash	17,886.0	11,740.0	11,473.0	8,828.1	2,377.0	11,740.0	8,828.1	12,761.8	20,532.2
Inventory	-	-	-	-	-	-	-	-	-
Debtors	10,985.0	18,267.0	19,185.0	20,388.3	25,886.0	18,267.0	20,388.3	20,926.1	24,284.8
Creditors	(31,369.0)	(31,430.0)	(30,439.0)	(30,491.6)	(28,076.0)	(31,430.0)	(30,491.6)	(32,605.3)	(40,073.0)
Total Assets	35,496.0	37,052.0	39,592.0	39,730.5	33,822.0	37,052.0	39,730.5	43,644.0	53,954.4
Total Liabilities	(31,743.0)	(32,539.0)	(34,003.0)	(33,725.6)	(28,524.0)	(32,539.0)	(33,725.6)	(35,839.3)	(43,307.0)
Total Equity	3,753.0	4,513.0	5,589.0	6,004.9	5,298.0	4,513.0	6,004.9	7,804.6	10,647.3

SOURCE: Company reports

DISCLAIMER: Non-independent research

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