Spec Sits Research

Yü Group Plc

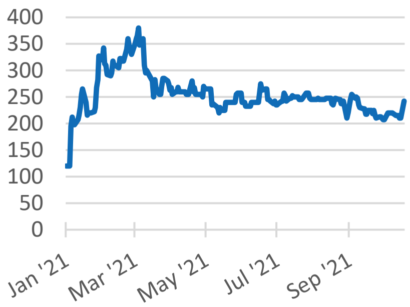
Non-Independent Research
MiFID II Exempt: Marketing Material
SP Angel acts as Nomad and Broker

9 November, 2021

Stock Data

Ticker (AIM)	YU. LN
Share Price	242.5p
Market Cap	£39.6M
EV	£28.4M
Yr High/Yr Low	380/82.50p
Price Target	500p
Rating	Buy

Price Chart



SOURCE: Bloomberg

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YUG: SOLR for Ampower's Customers

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 to 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.

YUG appointed as SOLR for Ampower customers: YUG has been appointed by Ofgem as the Supplier of Last Resort (SOLR) for Ampoweruk Ltd (Ampower).

- YUG has agreed to immediately take on Ampower's gas and electricity book.
- Ampower's business book of 8,158 meter points was predominantly for the supply of electricity to UK businesses, but included gas and some households.
- This immediately enhances YUG's revenue/earnings and potentially increases YUG's portfolio of meter points by 38% and revenue by up to £7.5m/mth.

Ampoweruk Ltd. announced a cease of trading on 6 November 2021: Note that in late September Elexon expelled Ampower from the Balancing and Settlement Code (BSC) because they were in default on their credit coverage. On top of this, Ofgem revoked Ampower's electricity license after the company failed to make payments on its outstanding renewable obligation credits (ROCs) by 31 October 2021.

Still more to come: Also in early November 2021, three other casualties of the surge in wholesale gas prices, Omni Energy, Zebra Power and MA Energy, ceased to trade. Two more, CNG Energy and Bluegreen Energy, have also ceased trading since then. An estimated total of 22 suppliers, mostly smaller companies, have ceased trading since prices became volatile in August. This trend is expected to continue to consolidate the supplier market, as we enter the winter months in tight supply.

YUG has already onboarded the customers and began hedging their supply: Ampower customers are already on YUG's digital platform and are being notified of the change. While YUG's target market is SMEs, the Group does have the ability to service the small number of domestic customers in Ampower's book. Most importantly, YUG has already taken steps to hedge the forecasted increase in demand of gas & electricity for these customers.

Forecasts: We previously increased our 2021E forecasts with better-than-expected H1 2021 NCC, bad debt, Adj. EBITDA and net profit. While revenue remained unchanged at £128.4m, 2021E we increased NCC to 7.1%, decreased bad debt to 1.3%, increased Adj EBITDA and net profit to £0.9m and £1.3m respectively. The addition of the Ampower book should drive 2021E results well ahead of these revised forecasts. However, we are maintaining our current forecasts until the SOLR period is over and there is certainty over the volume of conversion of customers longer-term to YUG.

Notably the impacts of an increase in YUG's customer base from these Ampower customers will be greater in F2022E and F2023, as most customers renew for extended periods – YUG's current average contract is 30 months for new bookings. As such we expect our forward forecasts are also much lower than what could/would be achieved.

Outlook: YUG's strategy is on track to drive sustainable and profitable growth. The use of technology and the Group's digital portal to drive customer penetration while maintaining customer satisfaction can reduce the overall cost to acquire and serve a customer, increasing YUG's competitive positioning. Recall, that YUG is protected by its mature and stable hedging program, mitigating the impact of fluctuating commodity prices that is forcing the demise of many competitors. As a result, we believe YUG will be one of the few strong remaining suppliers in the aftermath of these turbulent market conditions. This is further underscored by the selection of YUG by Ofgem as a SOLR, recognising YUG's capabilities in serving its customers.

YUG trades at 10.9x and 7.3x 2022E and 2023E EBITDA forecasts – which we believe are very conservative.

YUG appointed as SOLR for Ampower customers

YUG has been appointed by Ofgem as the Supplier of Last Resort (SOLR) for Ampoweruk Ltd (Ampower). As such, YUG has agreed to take on the gas and electricity book from Ampower immediately. Ampower's business book of 8,158 meter points was predominantly for the supply of electricity to UK businesses, but included gas and some household supply. This represents an approximate 38% increase in YUG's portfolio of meter points and a revenue contribution by as much as £7.5m/mth. While these customers have the choice to select a different supplier within six months of having been moved over, we believe that a majority of them are likely to stay with YUG on longer-term contracts. YUG has demonstrated its ability to efficiently onboard clients with ease, has an excellent customer service track record, and remains competitively priced. Furthermore, there are fewer and fewer stable and reliable suppliers still in business, and after a move to a new supplier, making a second move in a short-term has its challenges.

Ampoweruk – A bit of background

Ampoweruk Ltd. ceased trading on 6 November 2021. With offices in Milton Keynes and London, Ampower has supplied its customers across the UK with electricity and gas since 2017. The surge in wholesale gas prices that began in August left the Company exposed on supply agreements rendering them unable to deliver gas to customers on the agreed pricing set out in their contracts. It simply became prohibitively costly to supply gas at the market prices, when those prices could not be passed through to the end-user/customers.

Note that in late September Elexon expelled Ampower from the Balancing and Settlement Code (BSC) because they were in default on their credit coverage. Elexon oversees the day-to-day management of the Balancing and Settlement Code (BSC) which means it ensures that supply of electricity matches demand, and any differences are settled and paid for. The BSC is one of the eleven major codes that govern the energy system in the UK. It contains the rules and commercial arrangements that make trading possible in balancing the supply and demand. After being expelled from the BSC Ampower became unable to take on any new customers.

Ofgem then revoked Ampower's electricity license after the company failed to make payments on its outstanding renewable obligation credits (ROCs) by 31 October 2021. Ampower initially failed to meet its ROC requirements by the industry deadline of 1 September and could not provide security to Ofgem's enquiries that ensued in the days after. The total amount outstanding was about £3.3m which was to be paid no later than 31 October 2021.

Note that if a supplier fails to discharge its renewable obligations (ROs) on time, a shortfall remains in the Renewable Obligation Scheme. We expect that this is likely the case for many of the suppliers that have ceased trading. The amount of shortfall is either absorbed into the scheme funds, or the amount is mutualised amongst those suppliers who remain. I.e., the remaining suppliers need to make further payments to make up the shortfall. The mutualised funds are then redistributed to the suppliers who presented the ROCs.

Still more to come

Also on 6 November 2021, three other casualties of the surge in wholesale gas prices, Omni Energy, Zebra Power and MA Energy, ceased trading. Two more, CNG Energy and Bluegreen Energy, have ceased to trade since the 6th. An estimated total of 22 suppliers, mostly smaller companies, have ceased trading since prices became volatile in August. This trend is expected to continue to consolidate the supplier market, as we enter the winter months in an already tight supply environment.

The bright side of this for those still standing in the aftermath is that all of these customers will be looking for new suppliers. While there are unlikely to be many deals in the market given sustained higher than normal commodity prices, customers will still be searching for their best option – a big opportunity for YUG.

Ofgem's SOLR process

This process has been established to protect customer accounts and their energy supply. Initially following a competitive process, Ofgem selects a new alternative electricity/gas supplier for customers (called the SOLR) and protects a customer's energy supply in the interim for a period of up to 6 months. The selection of an alternative supplier is based on an assessment that the supplier has the ability to supply the additional customers without negatively impacting the supply of its existing customers or the ability to fulfil its contractual obligations to supply gas or electricity. Once selected the SOLR takes over the supply to the customer on a deemed contract rate (variable tariff that reflects current market conditions), until a replacement contract rate with the SOLR or other supplier of choice is established, or a six-month period expires. The SOLR must also transfer customers and notify them of the change. Ofgem has a price cap in place for domestic customers paying standard variable rates, limiting the price a supplier can charge per unit of electricity/gas per year, as well as a maximum daily standing charge (the price to deliver to the home). This has put further pressures on domestic suppliers as gas prices have been much higher than the price cap level. However, non-domestic customers do not have the same protections – funds paid into accounts (accounts in credit) are not protected, and there is no price cap protection when a business customer is switched to a new supplier. This also puts significant unexpected financial pressures on business customers.

YUG has already onboarded the customers

Ampower customers have already been seamlessly onboarded to YUG's digital platform and are now being notified of the change and process that will ensue. While YUG's target market is SMEs in the UK, the Group does have the ability to service the small number of domestic customers in Ampower's book. As such, YUG has taken them on. We do not expect YUG to begin adding more domestic customers to its book in future.

Most importantly, YUG has already taken steps to hedge the forecasted increase in demand of gas and electricity for these customers.

Forecasts

We previously increased our 2021E forecasts with better-than-expected H1 2021 NCC, bad debt, Adj. EBITDA and net profit. While our revenue forecasts remained unchanged at £128.4m, we increased NCC to 7.1%, decreased bad debt to 1.3%, increased Adj EBITDA and Net Profit to £0.9m and £1.3m respectively. In our view, the addition of the Ampower book should drive 2021E results well ahead of these revised forecasts. We expect YUG will convert a large majority of these customers onto longer-term contracts and retain them as a customer. However, we are maintaining our current forecasts until the SOLR period is over and there is certainty over the volume of conversion of customers longer-term to YUG.

Notably the impacts of an increase in YUG's customer from the addition of the Ampower book will be greater in F2022E and F2023. There are only 2 months left in F2021E but more importantly, most customers renew for extended periods – YUG's current average contract length for new bookings is 30 months. As such, we expect our forward forecasts are also likely to be very low. Though, again, we will maintain our current forecasts until we have some greater certainty on conversions.

Outlook:

YUG's strategy is on track to drive sustainable and profitable growth. The use of technology and the Group's digital portal to drive customer penetration while maintaining customer satisfaction can reduce the overall cost to acquire and serve a customer, increasing the competitive positioning of the Group.

The YUG Team has really positioned the company well to navigate turbulent market conditions and we expect will be one of the few remaining in the aftermath. Recall, that YUG is protected by its mature and stable hedging program that serves to mitigate the impact of fluctuating commodity prices. By matching supply at a fixed forward price to the expected demand in its contracts, YUG is well positioned to weather this storm.

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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