

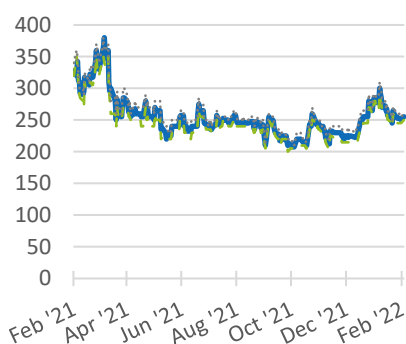
Yü Group Plc

22 February, 2022

Stock Data

Ticker (AIM)	YU. LN
Share Price	255p
Market Cap	£41.6M
EV	£30.4M
Yr High/Yr Low	380/187.5p
Price Target	500p
Rating	Buy

Price Chart



SOURCE: Bloomberg

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YUG Again Appointed Supplier of Last Resort

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.

- YUG has been appointed by Ofgem as Supplier of Last Resort (SOLR) to take-on both the gas and electricity customers from Whoop Energy and Xcel Power Ltd. YUG has agreed to the take-on with immediate effect.
- The total contribution to group revenue is ~£150,000/month or £1.8m/year.
- This was a competitive process run by Ofgem to get the best deal for customers affected by the cease trading of these two companies. Recall that the priority for Ofgem is to protect customers, particularly through the colder winter months.
- Under the Ofgem SOLR process, business customers (non-domestic) transfer to a new supplier on a variable tariff that reflects current market conditions.
- This follows on from the successful integration of Ampower customers in November 2021, where YUG was also appointed SOLR by Ofgem.
- The small number of domestic customers in this take-on are protected by the energy price cap, the limit set by Ofgem on how much energy firms can charge domestic customers per unit of energy including standing charges.

Whoop Energy was a supplier of gas and electricity to 262 unique customer accounts, 50 of which were domestic and the remaining non-domestic. This is ~401 meter points.

Xcel Power supplied gas to 274 customer accounts, all of which were non-domestic.

These are the latest casualties from soaring wholesale gas costs since late last year. Many energy suppliers, at least those without hedged positions and those exposed to the B2C market, have found themselves in the precarious position of having to pay higher costs for gas than what they are receiving from customers. The energy price cap prevents domestic energy suppliers from passing on the increased costs to customers.

YUG remains in a position of strength: Recall that YUG's hedging program with its partner SmartestEnergy limits its exposure to fluctuations in wholesale prices. Typically, a large proportion of the contracted volume is fully hedged at contract sale, with the gap being closed in subsequent hedges as the contract rolls forward resulting in a hedged position of 90-110% of demand. The Board Risk Mandate also helps control financial risk, and internal systems and controls continuously monitor demand against this type of risk exposure ensuring risk parameters are tightly controlled.

YUG primarily services the SME corporate market: YUG's business model has been to supply gas and electricity to SME businesses across the UK (B2B)- ~35% gas and ~65% electricity. More than 90% of these SME customers are on fixed term (up to 3 years), fixed price contracts. The remaining variable contracts are hedged monthly, and the B2B customer is exposed to monthly price fluctuations. However, after having been appointed SOLR by Ofgem, YUG has taken on a proportionately small number of domestic customers who are subject to the price cap. We do not view this as a change in business model. With its hedging program and scalable operating platform, YUG should be able to readily manage these domestic contracts.

The appointment as SOLR by Ofgem is clear recognition of the strength of YUG's business model, proven platform and robust hedging strategy. During 2021 YUG management delivered on its strategic growth plans with better-than-expected financial performance through what was a very challenging year. YUG has been an acquirer of customers through this period, both organically and as a supplier of last resort appointed by Ofgem and strategically protected by its mature and stable hedging program. We expect this stability to support growth through 2022E+ resulting in increased profitability.

Given this recent performance and continued strength into 2022, we believe the stock price should be trading at much higher levels.

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