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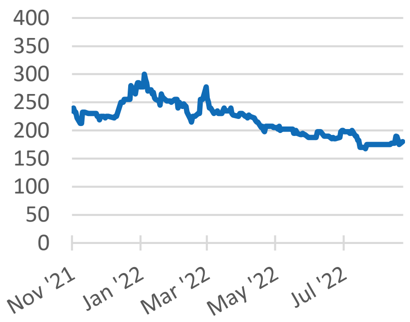
Non-Independent Research
MiFID II Exempt: Marketing Material
SP Angel provides research to YUG

13 September 2022

Stock Data	
Ticker (AIM)	YU. LN
Share Price	180p
Market Cap	£29.9M
Yr High/Yr Low	320/165p
Target Price	590p
Rating	Strong Buy

Price Chart



SOURCE: Bloomberg

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Yü Group Plc

Reconfirming Stronger than Expected H122

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 £50b+ UK B2B utility market.

Recall in July YUG's trading update announced better than expected H122 financials. YUG is currently reconfirming this position:

- Adj. EBITDA margin is expected to be in excess of £4.7m
- Cash is ahead of expectations, after the ROC payments made in August
- Profit has significantly exceeded management expectations
- Strong performance is expected to continue in H222

Points from the July trading update:

- These results represent the 4th consecutive period of revenue growth and margin improvement, and consistency in generating positive Adj. EBITDA.
- **Revenue** for H122 is expected to exceed £125m, a very strong performance, increasing +90% y/y and +39% consecutively from H221. Management indicated that revenue for 2022 will be ~50% higher than the £155.4m reported in 2021, or more than £230m on current trajectories.
- **Average monthly bookings** increased to £14.3m for H122, compared to £13m +81% in the first four months of the year. This is 49% higher than H121 of £9.6m, and ahead of the full year average for 2021 of £13.8m.
- **Cash** at 30 June 2022 was £15.7m, +36.5% higher than the £11.5m held at 30 June 2021, and more than double the £7m held at year end 2021.
- **Adjusted EBITDA** is continuing to track positively, driven by improved net customer contribution, strong operational leverage and careful management of debtors. Adj. EBITDA doubled through 2021, reaching 0.7% for H122 and 1.4% for H221. Management anticipates a 50% uplift in Adj. EBITDA for the year to over 1.65% - now this is to exceed 2%.
- **Meter points** continue to increase, reaching 26.1k in H122 or +25.5% y/y. This includes reduced non-firm customers acquired in the SoLR process.
- The smart metering division, Yü Smart, is expected to launch in H222, with the first smart meters expected to be installed during Q422.

Forecasts: Our current forecasts for 2022E revenue call for £215.5m, increasing to £257.8m in 2023E and £294.9 in 20224E. This results in positive adjusted EBITDA in each year of £3.7m in 2022E, £5.7m in 2023E and £8.1m in 2024E. Net profits for the year 2022E are £2.98m or £0.18/shr, for 2023E are £4.99m or £0.31/shr, and for 2024E are £7.4m or £0.46/shr. With positive EBITDA and positive net profits we expect cash to increase at year-end to £9.1m in 2022E, £12.6m in 2023E.

The current trajectory of results indicated in these two trading updates confirm that our revenue forecasts are at least ~8% too low and Adj. EBITDA ~ 27% too low. As such, we will increase our forecasts significantly with the detailed results for H122 when they are released.

Significant upside in Valuation: We use a DCF (11.7% WACC; 3.5% TG) to derive a price target for YUG. We have accounted for higher market risks and higher inflation, but this has been offset by lower relative company risks. The result is an equity value of ~£96m, translating to a share value of 590p, ~3x higher than the current share price. This is prior to revising our forecasts.

Outlook: YUG is continuing to build on the outstanding results reported for 2021, with better-than-expected H122 results. With what is a strong core business, the addition of the Yü Smart division is expected to support additional value creation from the customer base, driving revenue higher and reducing bad debt. **This stock is undervalued and warrants a Strong Buy.**

A Closer Look at 2022 Forecasts

- **Revenue**: 2022 forecast of £215.5m
  Management indicated that revenue for 2022 will be ~50% higher than the £155.4m reported in 2021. This translates to ~£233m on current trajectories which is 8% higher than our current forecasts.
- **Adjusted EBITDA**: 2022 forecast of £3.66m or margin of 1.7%
  Management has just indicated that the Adj. EBITDA margin is expected to be in excess of £4.7m or greater than a 2% margin on revenue of £233m. That is 27% higher than our forecasts.
- **Cash**: 2022 forecast of £9.1m
  Management stated that cash at the end of H122 was £15.7m and was still ahead of expectations even after the ROC payment that was due in August.

The continuous improvement in financials through such a challenging period in recent months, really suggests that the operational changes management and the Board have made since 2018 are working well for Yü Group. The team is closely monitoring macro conditions and the volatility in energy markets against customers' ability to afford their energy bills. The second half of the year, ahead of the winter season, is a time when customers typically renew their energy contracts and enter into longer term contracts if they have not been locked in. YUG is committed to supporting its customers and the Department for Business, Energy and Industrial Strategy (BEIS) as it moves to implement a support package for businesses.

Just last week, the BEIS announced that a new 6-month scheme for businesses and other non-domestic energy users would be offered some support, similar to what has been provided to domestic/household energy users. Most of the UK's non-domestic customers are on fixed price energy contracts. However, for those not on fixed priced contracts or those with expiring contracts this support is timely. However, the details of what the support is for businesses, is yet to be announced.

Additional initiatives to alleviate supply issues and lower prices include increasing supply to become an energy exporter by 2040. This is intended to be achieved in a number of ways including:

- Issuing new oil and gas licenses (over 100 new licences)
- Lifting the moratorium on UK shale gas production (gas could flow within 6 months)
- Accelerating the development of new sources of energy supply from North Sea oil and gas, nuclear, wind and solar
- Progressing nuclear development of up to 24GW by 2050
- Reforming the structure and regulation of the UK energy market
- Launching a review to ensure net zero 2050 is achieved

The BEIS has also formed a new Energy Supply Taskforce which has already begun negotiations with domestic and international suppliers to agree long-term contracts to reduce energy prices and increase security of supply. The HM Treasury are announcing a joint scheme with the Bank of England to address the liquidity requirements that energy firms face while operating in wholesale gas and electricity markets. This will ultimately provide short term financial support as a last resort.

Overall, the Group is stronger than ever and still improving, driven by the strength of its commodity hedging position and the positive impact on margins of its Digital by Default strategy. As such, investors should be seriously looking at the potential of an investment in this stock, with its stable risk profile and strong growth potential. **This strong is truly undervalued and warrants a Strong Buy.**

YUG will report the full results for H122 on 27 September 2022, following which we expect to revise our forecasts.

FINANCIAL SUMMARY

Current Forecasts Financials (£000)	2019	2020	2021	2022E	2023E	2024E	2025E
Revenue	111,613.0	101,527.0	155,423.0	215,493.0	257,770.0	294,885.0	335,815.2
Gross Margin (%)	4.9%	7.6%	9.8%	9.9%	9.9%	10.0%	10.1%
Operating Income	(5,898.0)	(1,574.0)	3,488.0	2,978.4	4,985.9	7,424.3	8,885.7
Operating Margin (%)	-5.3%	-1.6%	2.2%	1.4%	1.9%	2.5%	2.6%
Adjusted EBITDA	(4,242.0)	(1,714.0)	1,724.0	3,663.4	5,670.9	8,109.3	9,570.7
Net Income	(4,968.0)	(1,165.0)	4,451.0	2,978.4	4,985.9	7,424.3	8,749.1
Earnings per Share (£) basic	(0.305)	(0.072)	0.273	0.183	0.306	0.456	0.537
Adjusted Net Income	(3,950.0)	(1,725.0)	4,451.0	2,978.4	4,985.9	7,424.3	8,749.1
Adj. EPS (£) diluted	(0.29)	(0.07)	0.26	0.17	0.29	0.43	0.50
Diluted Shares (000s)	17,065.2	17,210.9	17,398.8	17,380.2	17,380.2	17,380.2	17,380.2
Net Cash in/(Out)-flow	(12,235.0)	9,363.0	(4,691.0)	2,050.9	3,544.9	14,100.2	15,592.2
Debt	-	-	-	-	-	-	-

Growth Rates (%)	2019	2020	2021	2022E	2023E	2024E	2025E
Revenue	38.4%	-9.0%	53.1%	38.6%	19.6%	14.4%	13.9%
EBITDA	32.5%	59.6%	200.6%	112.5%	54.8%	43.0%	18.0%
Net Income	20.7%	76.5%	482.1%	-33.1%	67.4%	48.9%	17.8%
Adjusted Net Income	28.9%	56.3%	358.0%	-33.1%	67.4%	48.9%	17.8%

Financial Health	2019	2020	2021	2022E	2023E	2024E	2025E
Working Capital (£000)	187.00	(1,423.00)	(2,253.00)	54.98	6,372.40	15,987.82	27,393.39
Current Ratio	(1.01)	(1.0)	(1.0)	(1.0)	(1.2)	(1.4)	(1.7)
Long-term Debt (£m)	-	-	-	-	-	-	-
Total Equity (£m)	5.30	4.5	9.3	12.5	17.7	25.4	34.4
LT Debt/Assets	-	-	-	-	-	-	-
LT Debt/Equity	-	-	-	-	-	-	-

Financial Position (£000)	2019	2020	2021	2022E	2023E	2024E	2025E
Cash	2,377.0	11,740.0	7,049.0	9,099.9	12,644.8	26,745.0	42,337.2
Inventory	-	-	-	-	-	-	-
Debtors	25,886.0	18,267.0	40,441.0	33,598.9	32,701.7	29,001.4	25,893.5
Creditors	(28,076.0)	(31,430.0)	(49,743.0)	(42,643.8)	(38,974.0)	(39,758.5)	(40,837.3)
Total Assets	33,822.0	37,052.0	59,569.0	55,698.2	57,264.3	65,723.2	75,801.1
Total Liabilities	(28,524.0)	(32,539.0)	(50,284.0)	(43,184.8)	(39,515.0)	(40,299.5)	(41,378.3)
Total Equity	5,298.0	4,513.0	9,285.0	12,513.4	17,749.3	25,423.7	34,422.8

Profitability	2019	2020	2021	2022E	2023E	2024E	2025E
ROE	-93.8%	-25.8%	47.9%	23.8%	28.1%	29.2%	25.4%
ROA	-14.7%	-3.1%	7.5%	5.3%	8.7%	11.3%	11.5%

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