

28 November 2022

Stock Data

Ticker (AIM)	YU. LN
Share Price	336p
Market Cap	£56M
Yr High/Yr Low	345/165p
Target Price	635p fr/610p
Rating	Strong Buy

Price Chart



SOURCE: Yü Group website

Special Sits Research

Tania Maciver

tania.maciver@spangel.co.uk
+44 7551444787

Equity Sales

Rob Rees

rob.rees@spangel.co.uk

Grant Barker

Grant.barker@spangel.co.uk

Abigail Wayne

abigail.wayne@spangel.co.uk

Richard Parlons

richard.parlons@spangel.co.uk

Spec Sits Research

Yü Group Plc

Trading Update – Well Ahead of 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 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.

Trading Update:

- **Revenue:** 2022 revenue is expected to reach ~£260m, representing y/y growth of 67%. Recall H122 revenue was £129.2m (96% y/y), implying H222 revenue of ~£130.8M. This better-than-expected revenue was driven by record average monthly bookings from new & renewed customer contracts.
- **EBITDA:** 2022 EBITDA margins are expected to exceed the 2.1% reported in H122 (or £2.7m) as a result of this strong demand, but further augmented by the efficiencies from the digital by default strategy.
- **Operating cash flow:** Strength in 2022E operating cash flow results from increased EBITDA, strong customer collections and stable overdue customer receivables. Net cash at 31 Dec 2022 is expected to be well ahead of expectations. Recall that H122 cash was £15.7m, with no debt for the Group.

Forecasts – Upward Revisions Again

This unexpected trading update for the full year 2022 (ended 31 December 2022) guiding to significantly better than expected results means that we are increasing our forecasts once again. We have revised our revenue and EBITDA estimates for 2022 to £260.3m and £6.46m (2.48% margin) respectively. This is based on our revised assumptions for gross margin of 16% (up from ~14%) and general overhead expenses of 5.7% (up from 4.8%) driven by investment in sales and marketing, as well as continued investment in the digital by default strategy. We continue to assume that bad debt levels are likely to remain higher than average this year (7.72% up from 7%) given current market conditions. However, we recognise the Group has significant controls in place to ensure bad debt levels remain under control.

Finally, we expect cash at year to be about £16.4m, up from £15.7m reported at the end of H122. This is net of cash invested in the Yü Smart division, the digital by default strategy, and sales and marketing.

With increased customer contract revenue in 2022E, this increase naturally flows through to 2023E, 2024E and beyond with average contract terms of ~2 years and then renewal rate assumptions beyond that point. Without revising any other factors in our model at this stage, the flow-through effect increases our 2023E and 2024E revenue forecasts to £323m (from £302m) and £384m (from £368m) respectively. EBITDA increases to £7.2m in 2023E (from £6.8m) and £11.2m in 2024E (from £10.7m). We do expect to revise our forward-looking forecasts again with the final full year 2022 results in March 2023.

Additional Upside in Valuation: We use a DCF (10% WACC; 4.0% TG) to derive a price target for YUG. We have accounted for higher interest rates and higher inflation, but this has been offset by lower relative company risks. The result is an equity value per share of 635p from 610p.

Outlook: Overall, Yu Group is stronger than ever and still improving, driven by the strength of its commodity hedging position and the positive impact on margins by the Digital by Default strategy. While operational performance remains strong, YUG is closely monitoring macro conditions and the volatility in energy markets against customers' ability to afford their energy bills. The first payment under the Energy Bill Relief Scheme (EBRS) has been received, in line with the Government's plan, which should help support customers through the winter months.

Management has established a strong core business, which will be augmented by the new Yü Smart division, driving revenue higher and reducing bad debt. Recall the Board previously announced a review for the potential to initiate a regular dividend payment, given increasing levels of profitability. We believe there is still significant upside potential in this stock for investors.

FINANCIAL SUMMARY

Income Statement				Previous forecasts			% change		
YE Dec (£000s)	2022E	2023E	2024E	2022E	2023E	2024E	2022E	2023E	2024E
Revenue	260,284.71	323,827.92	384,818.44	239,224.71	302,241.42	368,144.03	8.8%	7.1%	4.5%
Cost of sales	(218,639.15)	(291,445.13)	(344,604.91)	(206,032.28)	(272,017.28)	(329,672.98)	6.1%	7.1%	4.5%
Gross Profit	41,645.55	32,382.79	40,213.53	33,192.43	30,224.14	38,471.05	25.5%	7.1%	4.5%
	16.00%	10.00%	10.45%	13.88%	10.00%	10.45%			
Operating costs before exceptionals and IFRS 2	(35,615.21)	(25,288.79)	(29,200.18)	(28,793.90)	(23,632.03)	(27,953.77)	23.7%	7.0%	4.5%
Operating costs- non-recurring items	-	-	-	-	-	-	-	-	-
Operating costs- unrealised losses on derivative cont	1,700.00	-	-	3,355.00	-	-	-	-	-
Operating costs - exceptional IPO costs	-	-	-	-	-	-	-	-	-
Operating Costs - IFRS 2 share option charge	(250.00)	(250.00)	(250.00)	(250.00)	(250.00)	(250.00)	0.0%	0.0%	0.0%
Total operating costs	(34,165.21)	(25,538.79)	(29,450.18)	(25,688.90)	(23,882.03)	(28,203.77)	33.0%	6.9%	4.4%
Bad debt	(20,093.98)	(9,714.84)	(11,063.53)	(16,745.73)	(9,067.24)	(10,584.14)	20.0%	7.1%	4.5%
general overhead	(14,836.23)	(15,138.96)	(17,701.65)	(11,363.17)	(14,129.79)	(16,934.63)	30.6%	7.1%	4.5%
Gross operating costs	13.68%	7.81%	7.59%	12.04%	7.82%	7.59%	13.7%	-0.1%	-0.1%
Bad debt (%)	7.72%	3.00%	2.88%	7.00%	3.00%	2.88%	10.3%	0.0%	0.0%
General overhead	5.70%	4.68%	4.60%	4.75%	4.68%	4.60%	20.0%	0.0%	0.0%
GM-bad debt	21,551.57	22,667.95	29,150.00	16,446.70	21,156.90	27,886.91	31.0%	7.1%	4.5%
NCC	8.28%	7.00%	7.58%	6.88%	7.00%	7.58%	20.4%	0.0%	0.0%
Profit/(Loss) from operations	7,480.35	6,844.00	10,763.35	7,503.53	6,342.11	10,267.28	-0.3%	7.9%	4.8%
Non-recurring operational costs	-	-	-	-	-	-	-	-	-
Non-recurring mutualisation costs	-	-	-	-	-	-	-	-	-
Impact of first-time adoption of IFRS 9	-	-	-	-	-	-	-	-	-
Unrealised loss on derivative contracts	(1,700.00)	-	-	(3,355.00)	-	-	-	-	-
Equity-settled share based payment charge	-	-	-	-	-	-	-	-	-
Depreciation of property plant and equipment	335.00	335.00	335.00	335.00	335.00	335.00	-	-	-
Amortisation of intangibles	350.00	100.00	100.00	350.00	100.00	100.00	-	-	-
Adjusted EBITDA	6,465.35	7,279.00	11,198.35	4,833.53	6,777.11	10,702.28	33.8%	7.4%	4.6%
Finance Income	-	-	-	-	-	-	-	-	-
Finance costs	-	-	-	-	-	-	-	-	-
Profit/(Loss) before tax	7,480.35	6,844.00	10,763.35	7,503.53	6,342.11	10,267.28	-0.3%	7.9%	4.8%
Taxation	-	-	(339.92)	-	-	(96.23)	-	-	-
Profit/(Loss) after tax	7,480.35	6,844.00	10,423.43	7,503.53	6,342.11	10,171.05	-0.3%	7.9%	2.5%
Earnings/(Loss) per share (GBP)									
Basic	0.45	0.42	0.64	0.46	0.39	0.62	-0.3%	7.9%	2.5%
Adjusted Basic	0.45	0.42	0.64	0.46	0.39	0.62	-0.3%	7.9%	2.5%
Diluted	0.43	0.39	0.60	0.43	0.36	0.58	-0.3%	7.9%	2.5%
Weighted Average Shares	16,316.22	16,316.22	16,316.22	16,316.22	16,316.22	16,316.22	-	-	-
Effect of shares issued in the year	125.00	-	-	125.00	-	-	-	-	-
Ordinary shares for basic earnings calculation	16,441.22	16,316.22	16,316.22	16,441.22	16,316.22	16,316.22			
Dilutive effect of outstanding options	1,099.15	1,099.15	1,099.15	1,099.15	1,099.15	1,099.15	-	-	-
Ordinary shares for diluted earnings calculation	17,540.37	17,415.37	17,415.37	17,540.37	17,415.37	17,415.37			

Balance Sheet			
YE Dec (£000s)	2022E	2023E	2024E
CURRENT ASSETS	52,641.68	56,412.41	73,707.45
NON CURRENT ASSETS	11,873.91	10,327.91	7,552.08
TOTAL ASSETS	64,515.59	66,740.32	81,259.52
CURRENT LIABILITIES	(46,958.25)	(42,088.98)	(45,934.75)
NON CURRENT LIABILITIES	(541.00)	(541.00)	(541.00)
TOTAL LIABILITIES	(47,499.25)	(42,629.98)	(46,475.75)
Net Assets	17,016.35	24,110.34	34,783.77
EQUITY	17,016.35	24,110.34	34,783.77
LIABILITIES +EQUITY	(64,515.59)	(66,740.32)	(81,259.52)

2022E	2023E
49,212.70	53,015.49
11,868.12	10,447.59
61,080.82	63,463.08
(43,500.30)	(39,290.44)
(541.00)	(541.00)
(44,041.30)	(39,831.44)
17,039.53	23,631.64
17,039.53	23,631.64
(61,080.82)	(63,463.08)

Cash Flow Statement			
Year End December (£'000)	2022E	2023E	2024E
Net cash from operating activity	11,494.87	814.23	10,339.69
Net cash from investing activities	(2,100.00)	(600.00)	(350.00)
Net cash from financing activities	1.00	-	-
Net increase in cash and cash equivalents	9,395.87	214.23	9,989.69
Cash and cash equivalents at start of the period	7,049.00	16,444.87	16,659.10
Cash and cash equivalents at end of the period	16,444.87	16,659.10	26,648.79

2022E	2023E
7,300.96	4,027.89
(2,100.00)	(600.00)
1.00	-
5,201.96	3,427.89
7,049.00	12,250.96
12,250.96	15,678.84

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