

24 January 2023

Stock Data

Ticker (AIM)	YU. LN
Share Price	640p
Market Cap	£107M
Yr High/Yr Low	650p/163p
Target Price	940p fr/635p
Rating	Strong Buy

Price Chart



SOURCE: Yü Group website

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Spec Sits Research

Yü Group Plc

Follow-on Update: A Record-Breaking Year

Yü Group Plc (YU. LN) listed on the London AIM Exchange is a multi-utility provider to SMEs and larger UK corporates. As a direct supplier of electricity, gas, water, and other solutions such as EV charge points and smart meter installations 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.

Post Year-end Trading Update ahead of market expectations again:

- **Revenue:** 2022E revenue is expected to exceed £275m, up from previous guidance of ~£260m +76% y/y rather than +67% y/y. Recall H122 revenue was £129.2m (+96% y/y), implying H222E revenue of at least £145.8m instead of ~£130.8M. This, much better-than-expected revenue, was driven by record average monthly bookings (£24.5m vs. £13.8m in F2021) from new & renewed customer contracts. Note: Q422 avg. monthly bookings were £48.6m
- **Adj. EBITDA:** 2022E EBITDA margins are expected to significantly exceed the 2.1% reported in H122 (or £2.7m) due to this strong demand, and 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 was £18.8m, ahead of our estimate of £16.4m, and well above H122 cash of £15.7m, with no debt, and net of cash invested in the Yü Smart division, the Digital by Default strategy, and sales and marketing. Non-cash derivative gains in H122 are likely to have turned to non-cash losses in H222E with energy price softening.
- **Dividend declared:** Given the Group's expected strong cash generation and growth prospects, the Board has declared its intent to pay a modest dividend.
- **Yü Smart in now fully operational:** National coverage of smart metering services has begun and is expected to help scale profitability in 2023E.

Forecasts – Upward Revisions Once Again

We were already expecting better than expected results for 2022E. However, these are now even better than expected. As such, we are increasing our 2022E forecasts once again. We have revised our revenue and EBITDA estimates for 2022E to £276.9m from £260.3m and £7.36m from £6.46m (2.66% margin instead of a 2.48% margin) respectively. This is based on gross margin of ~15.5% and general overhead expenses of 5.3% 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 (~7.5%) given current market conditions, though the recent softening of energy prices has somewhat mitigated the impacts. We also recognise the Group has significant controls in place to ensure bad debt levels remain under control.

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 the renewal rate assumptions beyond that point. Without revising other revenue factors in our model at this stage, the flow-through effect increases our 2023E and 2024E revenue forecasts to £335.1m (from £323m) and £405.7m (from £384m) respectively. In future years we increase gross margin and bad debt to be more in line with this year's performance. This results in increased Adj. EBITDA to £10.1m from £7.2m in 2023E and £14.9m in 2024E (from £11.2m).

Additional Upside in Valuation: We use a DCF (10% WACC; 4.0% TG) to derive a price target accounting for higher interest rates and inflation, which is offset by lower relative Group risks. The result is an equity value of 940p/shr from 635p/shr.

Outlook: Overall, Yu Group is stronger than ever and still driving operational efficiencies across its business divisions, supported 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. The now operational Yü Smart Division is expected to support additional revenue growth and scale future profitability. Initiating a dividend is a strong indication of growth in future cash flow generation by the Board. Overall, we believe there is still significant upside potential in this stock for investors, on a de-risked basis.

FINANCIAL SUMMARY: Forecasts Revised Upwards Again

Income Statement				Previous forecasts			% change		
YE Dec (£000s)	2022E	2023E	2024E	2022E	2023E	2024E	2022E	2023E	2024E
Revenue	276,875.77	335,131.65	405,707.49	260,284.71	323,827.92	384,818.44	6.4%	3.5%	5.4%
Cost of sales	(233,960.03)	(284,024.07)	(342,822.83)	(218,639.15)	(291,445.13)	(344,604.91)	7.0%	-2.5%	-0.5%
Gross Profit	42,915.75	51,107.58	62,884.66	41,645.55	32,382.79	40,213.53	3.1%	57.8%	56.4%
	15.50%	15.25%	15.50%	16.00%	10.00%	10.45%			
Operating costs before exceptionals and IFRS 2	(35,986.66)	(41,153.50)	(48,105.63)	(35,615.21)	(25,288.79)	(29,200.18)	1.0%	62.7%	64.7%
Operating costs- non-recurring items	-	-	-	-	-	-			
Operating costs- unrealised losses on derivative cont	(900.00)	-	-	1,700.00	-	-			
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	(37,136.66)	(41,403.50)	(48,355.63)	(34,165.21)	(25,538.79)	(29,450.18)	8.7%	62.1%	64.2%
Bad debt	(20,627.25)	(22,621.39)	(26,370.99)	(20,093.98)	(9,714.84)	(11,063.53)	2.7%	132.9%	138.4%
general overhead	(14,674.42)	(18,097.11)	(21,299.64)	(14,836.23)	(15,138.96)	(17,701.65)	-1.1%	19.5%	20.3%
Gross operating costs	13.00%	12.28%	11.86%	13.68%	7.81%	7.59%	-5.0%	57.2%	56.3%
Bad debt (%)	7.45%	6.75%	6.50%	7.72%	3.00%	2.88%	-3.5%	125.0%	126.1%
General overhead	5.30%	5.40%	5.25%	5.70%	4.68%	4.60%	-7.0%	15.5%	14.1%
GM-bad debt	22,288.50	28,486.19	36,513.67	21,551.57	22,667.95	29,150.00	3.4%	25.7%	25.3%
NCC	8.05%	8.50%	9.00%	8.28%	7.00%	7.58%	-2.8%	21.4%	18.8%
Profit/(Loss) from operations	5,779.08	9,704.08	14,529.03	7,480.35	6,844.00	10,763.35	-22.7%	41.8%	35.0%
Non-recurring operational costs	-	-	-	-	-	-			
Non-recurring mutualisation costs	-	-	-	-	-	-			
Impact of first-time adoption of IFRS 9	-	-	-	-	-	-			
Unrealised loss on derivative contracts	900.00	-	-	(1,700.00)	-	-			
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	7,364.08	10,139.08	14,964.03	6,465.35	7,279.00	11,198.35	13.9%	39.3%	33.6%
Finance Income	-	-	-	-	-	-			
Finance costs	-	-	-	-	-	-			
Profit/(Loss) before tax	5,779.08	9,704.08	14,529.03	7,480.35	6,844.00	10,763.35	-22.7%	41.8%	35.0%
Taxation	(1,098.03)	-	(1,224.30)	-	-	(339.92)			
Profit/(Loss) after tax	4,681.06	9,704.08	13,304.73	7,480.35	6,844.00	10,423.43	-37.4%	41.8%	27.6%
Earnings/(Loss) per share (GBP)									
Basic	0.28	0.59	0.81	0.45	0.42	0.64	-37.6%	40.2%	26.2%
Adjusted Basic	0.28	0.59	0.81	0.45	0.42	0.64	-37.6%	40.2%	26.2%
Diluted	0.26	0.53	0.73	0.43	0.39	0.60	-39.8%	35.5%	22.0%
Weighted Average Shares	16,316.22	16,497.03	16,497.03	16,316.22	16,316.22	16,316.22			
Effect of shares issued in the year	180.82	-	-	125.00	-	-			
Ordinary shares for basic earnings calculation	16,497.03	16,497.03	16,497.03	16,441.22	16,316.22	16,316.22			
Dilutive effect of outstanding options	1,722.63	1,722.63	1,722.63	1,099.15	1,099.15	1,099.15			
Ordinary shares for diluted earnings calculation	18,219.67	18,219.67	18,219.67	17,540.37	17,415.37	17,415.37			
Dividend/share	0.03	0.06	0.06	-	-	-			

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