Spec Sits Research

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

14 March 2023

Yü Group Plc

Stellar 2022 Results + New Dividend Policy

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.

Stock Data

Stock Data	
Ticker (AIM)	YU. LN
Share Price	720p
Market Cap	£120M
Yr High/Yr Low	800p/162.6p
Target Price	1,015p (fr/940p)
Rating	Strong Buy

Price Chart

SOURCE: yugroupplc.com

Key Performance Indicators:

- **Average Monthly New Bookings** increased to £24.5m at the end of 2022, compared to £13.8m in 2021, +78% y/y.
- **Net Customer Contribution (NCC)** for 2022 was 8.2%, an increase of 1.5% from 2021 at 6.7%.
- **General overheads** for 2022 were 4.9%, down from 5.6% for the year 2021 (2019: 6.3% and 2018: 7.4%). In addition, general overheads for Yü Smart were 0.4% of revenue.
- **Contracted Revenue** as at 31 Dec 2022 contracted revenue for delivery in F2023E stood at £247m (+57% y/y). This is still expected to increase for the year as new bookings are added monthly.
- **Meters:** 25,500 meter points for 2022 (2021: 31,900) and 1,033 Smart Meter installations completed (2021: 0).

Full year 2022 Financial Results:

- **Revenue**: 2022 revenue was £278.6m, up 79% over 2021 revenue of £155.4m. This material increase was driven by strong organic growth, the result of integrations from the SoLR books added, and the increased contribution from customers who remain uncontracted.
- **Bad Debt:** Bad debt provisions increased to 7.7% of revenue in 2022 from 3.1% for 2021, given higher commodity prices and the appointment as SoLR in late 2021 & early 2022. A significant reduction is targeted for 2023.
- **Profit/Loss and Adj. EBITDA:** Adj. EBITDA for 2022 was £7.9m, compared to £1.7m reported for 2021. Net profit for the period was £4.4m or £0.26/shr including a £0.9m non-cash loss, compared to net profit in 2021 of £4.45m or £0.27/shr, with a £3.3m non-cash gain – a £4m swing.
- **Cash:** YUG had net cash of £18.8m at the end of 2022, with no debt. Cash resources remain solid and are expected to increase further in 2023.
- **Dividend recommended:** 3p/shr final dividend to be paid 20 June 2023.

Forecasts: We previously revised our forecasts for 2023 and 2024 upward with revenue of £335m (previously £323m) in 2023E and £405.7m (previously £384m) in 20224E. This results in positive adjusted EBITDA in each year of £10.1m (from £7.2m) in 2023E and £14.9m (from £11.2m) in 2024E. Net profits for 2023E are £9.5m or £0.57/shr, and for 2024E are £13.7m or £0.83/shr. With positive EBITDA and positive net profits, we expect cash at year-end to be ~£27.2m in 2023E. While the performance in 2023 so far has continued on track, we maintain these recently revised forecasts pending further update.

Significant upside in Valuation: We use a DCF (9.9% WACC; 4.5% TG) to derive a price target for YUG. We have accounted for higher interest rates and increasing inflation, but this has been offset by lower relative company risks. The result is an equity value of ~£167.7m, or a share value of 1,015p.

Outlook: YUG delivered results well ahead of expectations for 2022 and continues to build on this momentum as we look to 2023+. Management has established a strong core business, able to weather the uncertainty of current macro markets. The new Yü Smart division is expected to add new growth drivers, as well as deliver additional cost controls and data insights. We continue to believe in the upside potential that this stock presents to shareholders, particularly with the announcement of a new dividend policy.

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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

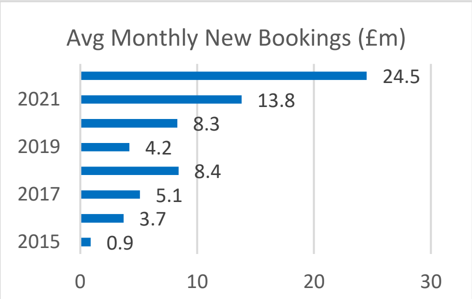
Abigail Wayne
abigail.wayne@spangel.co.uk

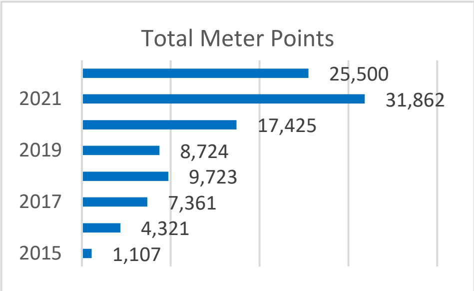
Richard Parlons
richard.parlons@spangel.co.uk

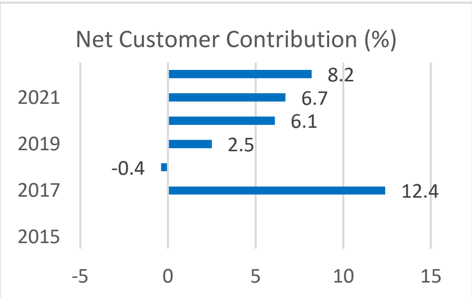
Outlook

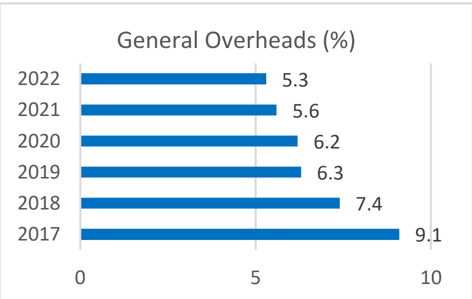
Overall, the Group reported outstanding results for the full year 2022, beating our forecasts which had already been revised three times throughout the year. The announcement of a progressive dividend policy underscores the confidence of the Board and Management in the business, its strategy for growth and in its risk management capabilities, against a macro backdrop of uncertainty and turbulence. The Group's core business 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. The addition of the Yu Smart, smart metering business, is expected to drive new growth opportunities, as well as secure improved efficiencies across the Group. We believe there is still upside for investors in this stock, with its stable risk profile, strong growth potential and now a progressive annual dividend yield.

Key Performance Indicators – Ongoing Measures of Success



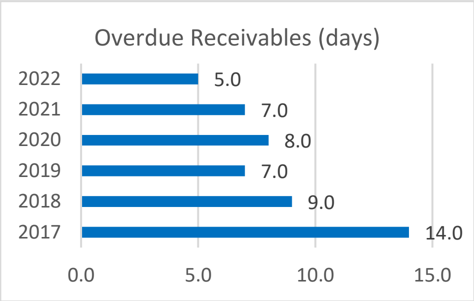


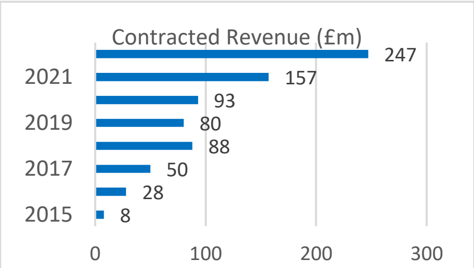




While there are a number of operating metrics and procedural controls that are regularly tracked and monitored in order to drive profitability of the business, the key performance indicators that have been identified include the following:

- **Average Monthly New Bookings** – This is the annualised value of contracts secured during a period. The monthly average bookings during 2022 reached £24.5m, +78% over 2021 monthly average bookings of £13.8m. The momentum is expected to continue into 2023 with average monthly bookings already ahead of 2022. The Group's continued focused on developing its digital platform which improves efficiencies in quoting, onboarding and supplying to business customers is driving growth in new digital sales channels.
- **Total Meter Points:** Rather than tracking customer numbers, YUG tracks total meter points, as one customer can have multiple meters (multiple locations/multiple utility services) and each meter can have different volume demands/loads. Not all meter connections are the same. At the end of 2022 total meter points reached 25,500, down 20% from 2021 meter points of 31,900. The decline from year-end 2021 was due to churn from the contracted Ampower book under the SoLR programme. Meter points so far in 2023 are again on an upward trajectory.
- **Net Customer Contribution (NCC):** This KPI measures the profit contribution from customer contracts in terms of gross margin, less bad debt and expected credit losses charged in overhead expenses. NCC for 2022 was 8.2%, 1.5% higher than that reported for 2021. Enhancing the life cycle value of customers, improvements to the credit control cycle and a focus on higher margin, stable contracts are contributing to continuous improvements.
- **General Overheads (%)**: The percentage of revenue that is charged to adjusted EBITDA on a normalised, recurring basis is included in this metric. This excludes non-cash items, any bad debt write-downs (which are included in NCC) and share based payments (in 2022). General overheads for 2022 were 4.9%, a significant reduction from 2021 of 5.6% which management notes is due to investment in digital. Continued investment in sales and marketing, which is currently sized to handle the current growth plans, is key to continued reduction of overheads. This being achieved by enhancing the Group's digital platform – creating growth in digital sales channels while sustaining high levels of customer service and using data analytics to identify opportunities for value creation. General overheads for Yü Smart were 0.4% of revenue in 2022.





- **Receivables:** Overdue receivables from customers, net of provisions, beyond the standard one-month billing cycle is an indicator of risks to the income statement. A target of ten days, the industry benchmark, has been set as a maximum goal for overdue receivables. In 2022 this KPI was reduced to 5 days, from 7 days, a substantial improvement considering the macro environment during the year.

- **Contracted Revenue:** This represents revenue that is expected to be generated from signed customer contracts over the next financial year. As at 31 December 2022 the 2023E contracted revenue book stood at £247m, ~57% higher than it stood at the same time last year. This is still expected to increase for the year as new bookings are added monthly.

2022Financial Results - Ahead of Expectations

YUG is well positioned to execute is corporate strategy, despite increased volatility in commodity markets. The Group remains a key player in the B2B energy supply market, with an experienced team in place to successfully execute core strategies, driving growth for shareholders. YUG reported financials for the full year ended 31 December 2022:

- **Revenue:** 2022 revenue was £278.6m, up 79% over 2021 revenue of £155.4m. Contracted revenue reached £208.6m in the period, with uncontracted revenue (from 'non-firm' customers) of £70m, or 25% of total revenue. There was no revenue attributable to Yü Smart in the period. Strong organic growth is supported by high monthly bookings, the addition of customers from the SoLR books added in 2021 and earlier in 2022, and increased contribution from customers who have remained on variable tariffs. The non-firm volume on supply at 31 Dec 2022 represented annualised revenue of £59m. Note, no individual customer represents more than 10% of revenue.

- **Gross margin:** 2022 gross margin was 15.8%, a significant improvement over 2021 of 9.8%. The increase reflects the Group's strong hedging book and a larger than normal uncontracted customer base. The bottom end of the contracted range is mid-single digits for very high volume and bundled contracts while the top end of the range is low-to-mid double digits for more tailored and specialized contracts, whilst uncontracted margins are typically higher. The Board continues to focus the Group's strategy on smaller and medium sized businesses which strategically provide a greater value opportunity, while diversifying exposure to bad debt.

- **General Overheads:** 2022 total general overheads were 5.3% of revenue, well below that of 2021 of 5.6%. However, in 2022 this also includes general overheads related to Yu Smart of 0.4% (2021:0%). Improvements are related to economies of scale driving cost of service and administrative expenses lower, and investments in digital platforms with advanced technology and streamlined processes. There are plans to further automate processes across the digital platform reducing the chances for error and creating additional efficiencies in sales and marketing. Management's target is to achieve 3.7% general overheads at revenue of £500 million and £8m Adj. EBITDA. This means lower G&A, lower costs to acquire customers and lower costs to serve customers.

- **Bad Debts:** Provisions for bad debts have been increased to 7.7% during the period to reflect the increasing energy tariffs faced by customers, increasing inflation and general macro uncertainty. YUG has a provision in trade receivables for doubtful debts and expected credit losses closing balance for the year of £19.5m which includes £21.1m provisions recognised in 2022, less £7.6m of provision used during the year. The net impairment losses on financial and contract assets of £21.4m in 2022 (2021: £4.8m) includes £0.35m provision for expected credit loss on accrued income and the £21.1m provision for bad debts and credit loss on trade receivables. Management is keenly focused on reducing bad debt exposure in 2023+. We expect the Energy Relief Scheme, a 'clean' customer book after having worked through the SoLR process, and the Group's drive to install additional smart meters will help lower the bad debt expenses into 2023.

- **Profit and EBITDA:** Adjusted EBITDA for 2022 was £7.9m (2.8% margin), well ahead of management expectations and forecasts and ahead of 2021 Adj. EBITDA of £1.7m or 1.1% margin. Net profits after tax were £4.8m or £0.29/shr, compared to net profits in 2021 of £4.45m or £0.27/shr. 2022 profits also include the extra costs (~£1.1m) associated with the start-up of the Yü Smart division, which were not present in 2021.
- **Non-cash Items:** In 2022 an unrealised loss in derivative contracts for the hedge book was recorded in the amount of £0.9m. This compares to an unrealised gain on derivative contracts for the hedge book recorded in 2021 of £3.3m from higher energy prices – a swing of over £4m in non-cash impacts to net profits.. These non-cash items are excluded from the Adj. EBITDA calculation.
- **Taxes:** A charge of £1.1m of deferred tax was recorded in 2022 (2021: £1.1m) with the carry forward of large trading loss allowances valued at ~£4.7m. These tax losses will be set against the Group's future taxable profits. The 2021 credit resulted from an increase in the corporate tax rate announced, enhancing the value of tax loss carry forwards allowed. This is a net £2.2m swing in non-cash tax impacts in 2022, reducing Net Profits.
- **Cash and Equivalents:** Cash at the end of 2022 was £18.8m, with no debt. This compares to cash holdings at the end of 2021 of £7.0m. The Group's current cash position remains robust and is tracking ahead of expectations.
- **Yü Smart division**: The launch of the Yü Smart Division is expected to drive additional long-term growth for the Group, improving debtor control and margins. This business unit will provide metering services to the Group's energy supply business and others, with additional growth opportunities provided by the certification from the Retail Energy Code (REC) as well as the ability to operate as a Meter Equipment Manager (MEM) and Meter Installer (MI) for gas and electricity customers. This first 1,000 smart meters were installed during H222 with significantly more installations expected during 2023, unlocking new growth opportunities for the Group.
- **Proposed dividend:** Given the strength of the Group's balance sheet, a dividend of 3p per share has been proposed to be paid on 20 June 2023. The Board is establishing a progressive dividend policy, aligned with the growth trajectory of the Group. At 3p/shr or £0.5m return to shareholders, the dividend is currently sized to allow for investment in growth opportunities to further develop the business. This includes maintaining or enhancing credit lines for hedging, investment in sales and marketing to support organic growth, investment in the Digital by Default strategy to drive cost efficiencies, investment in smart meters, and targeted acquisitions.
- **Energy Bill Relief Scheme:** During the year YUG assisted with the delivery of various government business customer support schemes, one of which was the Energy Bill Relief Scheme. This has provided a large proportion of business customers with a reduction in their energy bills from 1 October 2022 to 31 March 2023. These benefits have been promptly passed through to business customers during this period of high volatility and high energy commodity prices. As this support scheme comes to an end at the start of Q2 2023 we would expect the number of non-firm or variable customers to decrease, with continued expected volatility in energy commodity prices.

Table 1: Reported vs Revised Forecasts

Income Statement YE Dec (£000s)	2022A	Forecasts 2022E	% change 2022E
Revenue	278,587.00	276,875.77	0.6%
Cost of sales	(234,462.00)	(233,960.03)	0.2%
Gross Profit	**44,125.00**	**42,915.75**	**2.8%**
	15.84%	15.50%	
Total operating costs	**(38,195.00)**	**(37,136.66)**	**2.8%**
NCC	8.39%	8.05%	4.2%
Profit/(Loss) from operations	**5,930.00**	**5,779.08**	**2.6%**
Non-recurring operational costs	-	-	
Non-recurring mutualisation costs	-	-	
Impact of first-time adoption of IFRS 9	-	-	
Unrealised loss on derivative contracts	926.00	900.00	
Equity-settled share based payment charge	-	-	
Depreciation of property plant and equipment	405.00	335.00	
Amortisation of intangibles	648.00	350.00	
Adjusted EBITDA	**7,909.00**	**7,364.08**	**7.4%**
Finance Income	1.00	-	
Finance costs	(91.00)	-	
Profit/(Loss) before tax	**5,840.00**	**5,779.08**	**1.1%**
Taxation	(1,071.00)	(1,098.03)	
Profit/(Loss) after tax	**4,769.00**	**4,681.06**	**1.9%**
Earnings/(Loss) per share (GBp)			
Basic	0.29	0.28	1.9%
Adjusted Basic	0.29	0.28	1.9%
Diluted	0.26	0.26	1.9%
Weighted Average Shares	16,316.22	16,316.22	
Effect of shares issued in the year	180.82	180.82	
Ordinary shares for basic earnings calculation	**16,497.03**	**16,497.03**	
Dilutive effect of outstanding options	1,722.63	1,722.63	
Ordinary shares for diluted earnings calculation	**18,219.67**	**18,219.67**	
Dividend/share	0.03	-	

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Financial Summary

Current Forecasts Financials (£000)	2019	2020	2021	2022	2023E	2024E	2025E
Revenue	111,613.0	101,527.0	155,423.0	278,587.0	335,131.7	405,707.5	470,047.0
Gross Margin (%)	4.9%	7.6%	9.8%	15.8%	15.3%	15.5%	16.0%
Operating Income	(5,898.0)	(1,574.0)	3,488.0	5,930.0	9,457.1	14,354.0	19,175.0
Operating Margin (%)	-5.3%	-1.6%	2.2%	2.1%	2.8%	3.5%	4.1%
Adjusted EBITDA	(4,242.0)	(1,714.0)	1,724.0	7,909.0	10,139.1	14,964.0	19,727.0
Net Income	(4,968.0)	(1,165.0)	4,451.0	4,769.0	9,458.1	13,701.8	13,728.7
Earnings per Share (£) basic	(0.305)	(0.072)	0.273	0.289	0.573	0.831	0.832
Adjusted Net Income	(3,950.0)	(1,725.0)	4,451.0	4,769.0	9,458.1	13,701.8	13,728.7
Adj. EPS (£) diluted	(0.29)	(0.07)	0.26	0.26	0.52	0.75	0.75
Diluted Shares (000s)	17,065.2	17,210.9	17,398.8	18,219.7	18,219.7	18,219.7	18,219.7
Net Cash in/(Out)-flow	(12,235.0)	9,363.0	(4,691.0)	11,921.0	8,275.3	11,822.8	10,755.0
Debt	-	-	-	121.0	242.0	363.0	484.0

Growth Rates (%)	2019	2020	2021	2022	2023E	2024E	2025E
Revenue	38.4%	-9.0%	53.1%	79.2%	20.3%	21.1%	15.9%
EBITDA	32.5%	59.6%	200.6%	358.8%	28.2%	47.6%	31.8%
Net Income	20.7%	76.5%	482.1%	7.1%	98.3%	44.9%	0.2%
Adjusted Net Income	28.9%	56.3%	358.0%	7.1%	98.3%	44.9%	0.2%

Financial Health	2019	2020	2021	2022	2023E	2024E	2025E
Working Capital (£000)	187.00	(1,423.00)	(2,253.00)	1,278.00	12,360.69	29,094.38	47,102.28
Current Ratio	(1.01)	(1.0)	(1.0)	(1.0)	(1.3)	(1.6)	(2.0)
Long-term Debt (£m)	-	-	-	121	242	363	484
Total Equity (£m)	5.30	4.5	9.3	14.8	24.0	37.0	50.0
LT Debt/Assets	-	-	-	0.00	0.00	0.00	0.00
LT Debt/Equity	-	-	-	(0.00)	(0.00)	(0.00)	(0.00)

Financial Position (£000)	2019	2020	2021	2022	2023E	2024E	2025E
Cash	2,377.0	11,740.0	7,049.0	18,970.0	27,245.3	39,068.1	49,823.1
Inventory	-	-	-	-	-	-	-
Debtors	25,886.0	18,267.0	40,441.0	56,168.0	34,512.2	39,792.0	45,962.7
Creditors	(28,076.0)	(31,430.0)	(49,743.0)	(73,860.0)	(49,396.8)	(49,765.7)	(48,683.5)
Total Assets	33,822.0	37,052.0	59,569.0	88,865.0	73,494.0	86,703.8	98,489.5
Total Liabilities	(28,524.0)	(32,539.0)	(50,284.0)	(74,066.0)	(49,481.8)	(49,729.7)	(48,526.5)
Total Equity	5,298.0	4,513.0	9,285.0	14,799.0	24,012.2	36,974.1	49,963.0

Profitability	2019	2020	2021	2022	2023E	2024E	2025E
ROE	-93.8%	-25.8%	47.9%	32.2%	39.4%	37.1%	27.5%
ROA	-14.7%	-3.1%	7.5%	5.4%	12.9%	15.8%	13.9%

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