

Yü Group Plc

31 May 2023

Stock Data

Ticker (AIM)	YU. LN
Share Price	460p
Market Cap	£76.65M
Yr High/Yr Low	800p/162.6p
Target Price	1,040p (fr/1,015p)
Rating	Strong Buy

Price Chart



SOURCE: yugroupplc.com

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

Trading Update: Increasing Forecasts Again

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.

Highlights: YUG's Management and Board provided a trading update with respect to its half year results for the period ending 30 June 2023:

- Revenue, profitability, and cash flow generation have demonstrated continued strong growth for H1 2023 and are now expected to be 'substantially' ahead of current market expectations for the full year 2023.
- The growth in average monthly new bookings in Q4 2022 has continued into H1 2023. Recall that average monthly new bookings increased to £48.8m during Q4 2022, compared to £13.1m for the year 2021.
- Softening commodity prices have resulted in customers moving to term contracts, from out-of-contract positions, providing additional revenue visibility for 2023+.
- YUG's Digital by Default strategy combined with the Smart Metering roll-out is supporting increased cost-efficiencies and scalability benefits, with reduced levels of bad debt and increased cash collections.
- YUG's H1 2023 interim results are expected to be reported late July 2023.

Forecasts revised again: Based on this trading update, we believe we must again increase our forecasts for 2023E+ as follows.

- Revenue:** Previously increased to £335m for 2023E and £405.7m in 2024E we are increasing our forecasts again to £392.4m (+17.1%) and £447.3m (+10.2%) respectively. This increase is being driven by strong organic growth from customers converting to term contracts in this lower commodity price environment.
- Profit from Operations:** With the combined impact of higher growth along with efficiency and scale benefits from the Group's Digital by Default strategy and the Smart Metering roll-out, bad debt estimates decrease to ~6.4% in 2023E and 2024E (from 6.75% and 6.5% resp.). This results in increased Net Customer Contribution of 9.35% and 9.45% in 2023E and 2024E (from 8.5% and 9% resp.), and also increased profit from operations in 2023E of £11.9m (from £9.5m) and £17.7m in 2024E (from £14.4m). Note we have written down the financial derivative assets in 2023E (non-cash), reflecting lower commodity prices this year.
- EBITDA:** Adj. EBITDA for 2023E increases to ~4% of 2023E revenue (from 3%), and to 4.1% of 2024E revenue (from 3.7%).
- Cash:** YUG had net cash of £18.8m at the end of 2022, with no debt. Cash resources remain solid, and we now expect cash holdings to reach over £30m in 2023E, after accounting for the payment of the annual dividend.

Further upside in the Valuation: We use a DCF (10.5% WACC; 4.5% TG) to derive a price target for YUG. We updated our WACC derivation to include a higher UK risk free rate, and slightly higher market risk premium. The result is an equity value of ~£171m, or a per share value of 1,040p, up from 1,015p.

Outlook: YUG continues to deliver results well ahead of expectations and is now on target to achieve its goal of £500m in revenue by the end of 2025E. With cash of over £30m and no debt, the equity value of the Group is just under £200m using a multiple of ~10x EBITDA. We continue to believe in the upside potential that this stock presents to shareholders, particularly with the new dividend policy and rate it a Strong Buy.

Outlook

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 and new Yu Smart Division. H1 2023 is set to represent the 9th consecutive half-year improvement in the Group's interim results, according to the CEO. The 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 volatility. We believe there is still upside for investors in this stock, with its stable risk profile, strong growth potential and progressive annual dividend yield.

Table 1: Forecast Revisions

Income Statement YE Dec (£000s)	2023E			2024E			2025E		
	2023E	2024E	2025E	2023E	2024E	2025E	2023E	2024E	2025E
Revenue	392,444.06	447,278.59	501,587.34	335,131.65	405,707.49	470,046.99	17.1%	10.2%	6.7%
Cost of sales	(330,634.12)	(376,384.93)	(421,333.36)	(284,024.07)	(342,822.83)	(394,839.47)	16.4%	9.8%	6.7%
Gross Profit	61,809.94	70,893.66	80,253.97	51,107.58	62,884.66	75,207.52	20.9%	12.7%	6.7%
	15.75%	15.85%	16.00%	15.25%	15.50%	16.00%			
Total operating costs	(49,893.95)	(53,191.60)	(59,738.51)	(41,650.50)	(48,530.63)	(56,032.52)	19.8%	9.6%	6.6%
Bad debt	(25,116.42)	(28,625.83)	(32,603.18)	(22,621.39)	(26,370.99)	(30,553.05)	11.0%	8.6%	6.7%
general overhead	(20,799.53)	(23,705.77)	(26,333.34)	(18,097.11)	(21,299.64)	(24,677.47)	14.9%	11.3%	6.7%
Gross operating costs	11.87%	11.84%	11.86%	12.35%	11.90%	11.87%	-3.9%	-0.5%	-0.1%
Bad debt (%)	6.40%	6.40%	6.50%	6.75%	6.50%	6.50%	-5.2%	-1.5%	0.0%
General overhead	5.30%	5.30%	5.25%	5.40%	5.25%	5.25%	-1.9%	1.0%	0.0%
GM-bad debt	36,693.52	42,267.83	47,650.80	28,486.19	36,513.67	44,654.46	28.8%	15.8%	6.7%
NCC	9.35%	9.45%	9.50%	8.50%	9.00%	9.50%	10.0%	5.0%	0.0%
Profit/(Loss) from operations	11,915.98	17,702.06	20,515.46	9,457.08	14,354.03	19,175.00	26.0%	23.3%	7.0%
Non-recurring operational costs	-	-	-	-	-	-			
Non-recurring mutualisation costs	-	-	-	-	-	-			
Impact of first-time adoption of IFRS 9	-	-	-	-	-	-			
Unrealised loss on derivative contracts	3,046.00	-	-	-	-	-			
Equity-settled share based payment charge	-	-	-	-	-	-			
Depreciation of property plant and equipment	278.00	206.00	148.00	278.00	206.00	148.00			
Amortisation of intangibles	404.00	404.00	404.00	404.00	404.00	404.00			
Adjusted EBITDA	15,643.98	18,312.06	21,067.46	10,139.08	14,964.03	19,727.00	54.3%	22.4%	6.8%
Finance Income	1.00	1.00	1.00	1.00	1.00	1.00			
Finance costs	-	-	-	-	-	-			
Profit/(Loss) before tax	11,916.98	17,703.06	20,516.46	9,458.08	14,355.03	19,176.00	26.0%	23.3%	7.0%
Taxation	(2,383.40)	(4,425.77)	(5,129.12)	-	(653.28)	(5,447.28)			
Profit/(Loss) after tax	9,533.59	13,277.30	15,387.35	9,458.08	13,701.75	13,728.72	0.8%	-3.1%	12.1%
Earnings/(Loss) per share (GBP)									
Basic	0.58	0.80	0.93	0.57	0.83	0.83	0.8%	-3.1%	12.1%
Adjusted Basic	0.58	0.80	0.93	0.57	0.83	0.83	0.8%	-3.1%	12.1%
Diluted	0.52	0.73	0.84	0.52	0.75	0.75	0.8%	-3.1%	12.1%
Weighted Average Shares	16,497.03	16,497.03	16,497.03	16,497.03	16,497.03	16,497.03			
Effect of shares issued in the year	-	-	-	-	-	-			
Ordinary shares for basic earnings calculation	16,497.03	16,497.03	16,497.03	16,497.03	16,497.03	16,497.03			
Dilutive effect of outstanding options	1,722.63	1,722.63	1,722.63	1,722.63	1,722.63	1,722.63			
Ordinary shares for diluted earnings calculation	18,219.67	18,219.67	18,219.67	18,219.67	18,219.67	18,219.67			
Dividend/share	0.06	0.06	0.06	0.06	0.06	0.06			

SOURCE: Company reports & SP Angel forecasts

Table 2: Revised Balance Sheet & Cash Flow Summary

Balance Sheet			
YE Dec (£000s)	2023E	2024E	2025E
CURRENT ASSETS	85,976.38	96,892.66	110,348.26
NON CURRENT ASSETS	10,155.60	7,685.00	8,189.00
TOTAL ASSETS	96,131.99	104,577.66	118,537.26
CURRENT LIABILITIES	(70,475.31)	(64,995.35)	(59,299.31)
NON CURRENT LIABILITIES	(85.00)	36.00	157.00
TOTAL LIABILITIES	(70,560.31)	(64,959.35)	(59,142.31)
Net Assets	25,571.68	39,618.31	59,394.95
EQUITY	25,571.68	39,618.31	59,394.95
LIABILITIES +EQUITY	(96,131.99)	(104,577.66)	(118,537.26)

Previous Forecasts		
2023E	2024E	2025E
61,757.49	78,860.07	95,785.80
11,736.48	7,843.72	2,703.72
73,493.97	86,703.79	98,489.52
(49,396.80)	(49,765.69)	(48,683.52)
(85.00)	36.00	157.00
(49,481.80)	(49,729.69)	(48,526.52)
24,012.17	36,974.10	49,963.00
24,012.17	36,974.10	49,963.00
(73,493.97)	(86,703.79)	(98,489.52)

Cash Flow Statement			
Year End December (£'000)	2023E	2024E	2025E
Net cash from operating activity	13,346.32	12,166.35	15,972.22
Net cash from investing activities	(1,055.00)	(1,055.00)	(1,055.00)
Net cash from financing activities	(615.91)	(1,110.82)	(1,110.82)
Net increase in cash and cash equivalents	11,675.41	10,000.53	13,806.40
Cash and cash equivalents at start of the period	18,970.00	30,645.41	40,645.94
Cash and cash equivalents at end of the period	30,645.41	40,645.94	54,452.34

Previous Forecasts		
2023E	2024E	2025E
9,946.20	13,238.63	12,070.82
(1,055.00)	(305.00)	(205.00)
(615.91)	(1,110.82)	(1,110.82)
8,275.28	11,822.81	10,755.00
18,970.00	27,245.28	39,068.09
27,245.28	39,068.09	49,823.10

SOURCE: Company reports & SP Angel forecasts

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	392,444.1	447,278.6	501,587.3
Gross Margin (%)	4.9%	7.6%	9.8%	15.8%	15.8%	15.9%	16.0%
Operating Income	(5,898.0)	(1,574.0)	3,488.0	5,930.0	11,916.0	17,702.1	20,515.5
Operating Margin (%)	-5.3%	-1.6%	2.2%	2.1%	3.0%	4.0%	4.1%
Adjusted EBITDA	(4,242.0)	(1,714.0)	1,724.0	7,909.0	15,644.0	18,312.1	21,067.5
Net Income	(4,968.0)	(1,165.0)	4,451.0	4,769.0	9,533.6	13,277.3	15,387.3
Earnings per Share (£) basic	(0.305)	(0.072)	0.273	0.289	0.578	0.805	0.933
Adjusted Net Income	(3,950.0)	(1,725.0)	4,451.0	4,769.0	9,533.6	13,277.3	15,387.3
Adj. EPS (£) diluted	(0.29)	(0.07)	0.26	0.26	0.52	0.73	0.84
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	11,675.4	10,000.5	13,806.4
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%	40.9%	14.0%	12.1%
EBITDA	32.5%	59.6%	200.6%	358.8%	97.8%	17.1%	15.0%
Net Income	20.7%	76.5%	482.1%	7.1%	99.9%	39.3%	15.9%
Adjusted Net Income	28.9%	56.3%	358.0%	7.1%	99.9%	39.3%	15.9%

Financial Health	2019	2020	2021	2022	2023E	2024E	2025E
Working Capital (£000)	187.00	(1,423.00)	(2,253.00)	1,278.00	15,501.07	31,897.31	51,048.95
Current Ratio	(1.01)	(1.0)	(1.0)	(1.0)	(1.2)	(1.5)	(1.9)
Long-term Debt (£m)	-	-	-	121	242	363	484
Total Equity (£m)	5.30	4.5	9.3	14.8	25.6	39.6	59.4
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	30,645.4	40,645.9	54,452.3
Inventory	-	-	-	-	-	-	-
Debtors	25,886.0	18,267.0	40,441.0	56,168.0	55,331.0	56,246.7	55,895.9
Creditors	(28,076.0)	(31,430.0)	(49,743.0)	(73,860.0)	(70,475.3)	(64,995.4)	(59,299.3)
Total Assets	33,822.0	37,052.0	59,569.0	88,865.0	96,132.0	104,577.7	118,537.3
Total Liabilities	(28,524.0)	(32,539.0)	(50,284.0)	(74,066.0)	(70,560.3)	(64,959.4)	(59,142.3)
Total Equity	5,298.0	4,513.0	9,285.0	14,799.0	25,571.7	39,618.3	59,395.0

Profitability	2019	2020	2021	2022	2023E	2024E	2025E
ROE	-93.8%	-25.8%	47.9%	32.2%	37.3%	33.5%	25.9%
ROA	-14.7%	-3.1%	7.5%	5.4%	9.9%	12.7%	13.0%

DISCLAIMER: Non-independent research

This note has been issued by SP Angel Corporate Finance LLP ("SP Angel") in order to promote its investment services and is a marketing communication for the purposes of the European Markets in Financial Instruments Directive (MiFID) and FCA's Rules. It has not been prepared in accordance with the legal requirements designed to promote the independence or objectivity of investment research and is not subject to any prohibition on dealing ahead of its dissemination.

SP Angel considers this note to be an acceptable minor non-monetary benefit as defined by the FCA which may be received without charge. In summary, this is because the content is either considered to be commissioned by SP Angel's clients as part of our advisory services to them or is short-term market commentary. Commissioned research may from time to time include thematic and macro pieces. For further information on this and other important disclosures please see the Legal and Regulatory Notices section of our website [Legal and Regulatory Notices](#)

While prepared in good faith and based upon sources believed to be reliable SP Angel does not make any guarantee, representation or warranty, (either express or implied), as to the factual accuracy, completeness, or sufficiency of information contained herein.

The value of investments referenced herein may go up or down and past performance is not necessarily a guide to future performance. Where investment is made in currencies other than the base currency of the investment, movements in exchange rates will have an effect on the value, either favourable or unfavourable. Securities issued in emerging markets are typically subject to greater volatility and risk of loss. The investments discussed in this note may not be suitable for all investors and the note does not take into account the investment objectives and policies, financial position or portfolio composition of any recipient. Investors must make their own investment decisions based upon their own financial objectives, resources and appetite for risk.

This note is confidential and is being supplied to you solely for your information. It may not be reproduced, redistributed or passed on, directly or indirectly, to any other person or published in whole or in part, for any purpose. If this note has been sent to you by a party other than SPA the original contents may have been altered or comments may have been added. SP Angel is not responsible for any such amendments.

Neither the information nor the opinions expressed herein constitute, or are to be construed as, an offer or invitation or other solicitation or recommendation to buy or sell investments. Opinions and estimates included in this note are subject to change without notice. This information is for the sole use of Eligible Counterparties and Professional Customers and is not intended for Retail Clients, as defined by the rules of the Financial Conduct Authority ("FCA").

Publication of this note does not imply future production of notes covering the same issuer(s) or subject matter.

SP Angel, its partners, officers and or employees may own or have positions in any investment(s) mentioned herein or related thereto and may, from time to time add to, or dispose of, any such investment(s).

SPA has put in place a number of measures to avoid or manage conflicts of interest with regard to the preparation and distribution of research. These include (i) physical, virtual and procedural information barriers (ii) a prohibition on personal account dealing by analysts and (iii) measures to ensure that recipients and persons wishing to access the research receive/are able to access the research at the same time.

SP Angel Corporate Finance LLP definition of research ratings: Expected performance over 12 months: Buy - Expected return of greater than +15%, Hold - Expected return from -15% to +15%, Sell - Expected return of less than -15%.