

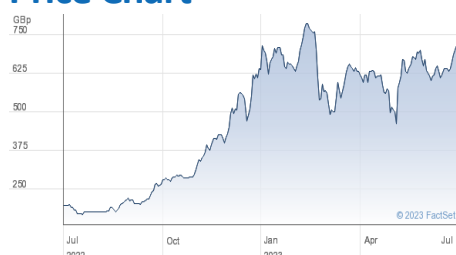
## Yü Group Plc

25 July 2023

### Stock Data

Ticker (AIM)	YU. LN
Share Price	750p
Market Cap	£124.3M
Yr High/Yr Low	795p/165p
Target Price	1,300p (fr/1,040p)
Rating	Strong Buy

### Price Chart



SOURCE: yugroupplc.com

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### Trading Update: Forecasts Raised 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 another trading update with respect to its half year results for the period ending 30 June 2023, which read through to higher full year results ending 30 Dec 2023 than current forecasts:

- Revenue growth has accelerated through H123, with the number of meter points up 56% to 39,700 (from 26,100 in H122).
- Average monthly new bookings reached £51.3m in H123 (+109% over F2022 and over 3.5x H122). This is supported by more customers taking advantage of softening commodity prices by fixing longer-term contracts.
- EBITDA margins are higher than expected in H123 with the Group benefitting from the Digital by Default strategy, as well as good hedging, solid customer lifecycle performance and improved bad debt levels.
- Cash generation is better than expected with cash conversion from billings of 98%, implying a bad debt level of ~2%. Net cash excluding leases was £36.6m at the end of H123 vs. £19m ending F2022 and £15.7m ending H122. This is again the result of careful operational management and efficiencies from the Digital by Default strategy. Net cash for the year is expected to increase further despite the ROC payments due annually in August.
- The Yü Smart division has a currently monthly smart meter installation run rate of ~700 and increasing. The Group is now transitioning to use its own meters as Kensington Meter Asset Ltd (KMAL), rather than third-party meters, creating a future recurring revenue model.
- Interim results are expected 26 September 2023.

**Forecasts revised upwards again:** The Group still expects to exceed current market expectations for the year based on performance so far, despite the forecast upgrade made earlier in May 2023. As such, we are increasing our forecasts for the year again, as follows:

- Revenue:** Increased to £405m from £392m for 2023E and £485m from £447m in 2024E. This increase is 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 ~4.9% from 6.4% in 2023E and 2024E. This results in increased Net Customer Contribution of 10.85% and 10.95% in 2023E and 2024E (from 9.35% and 9.45% resp.), and also increased profit from operations in 2023E of £13.9m (from £11.9m) and £22.9m in 2024E (from £17.7m). Note we have also written down the financial derivative assets in 2023E (non-cash), reflecting lower commodity prices.
- EBITDA:** Adj. EBITDA for 2023E increases to ~4.6% of revenue (from 4%), and to 5% of 2024E revenue (from 4.1%), achieving the 5% management target a year earlier than expected.

**Further upside in the Valuation:** We use a DCF (11% WACC; 4.5% TG) to derive a price target for YUG. We updated our WACC derivation to include the higher UK risk free rate, and slightly higher market risk premium. The result is an equity value of ~£217m, or a per share value of 1,300p, up from 1,040p.

**Outlook:** YUG continues to deliver results well ahead of expectations and is now on target to achieve its goal of £500m in revenue and 5% EBITDA margin earlier than expected. We continue to believe in the upside potential that this stock presents to shareholders, particularly with the new progressive dividend policy and strong balance sheet. This makes the stock a Strong Buy.

## Outlook

Management expects full year 2023 results to be substantially ahead of current market expectations. This confidence has been driven by record monthly bookings, margin expansion supported by the Group's Digital by Default strategy, and the roll-out of smart meters in the Yü Smart division which is driving strong operating performance. Cash collections have been strong, and bad debt levels remain under control and better than expected. As such, management now expects to achieve its £500m revenue target with a sustainable EBITDA margin of 5% much earlier than expected. The mid-term goal of 4% EBITDA margin has already been exceeded by the end of H1 2023.

The commitment to a progressive dividend policy underscores the confidence of the Board and Management in the business, its strategy for growth and its risk management capabilities, against a current macro backdrop of uncertainty and volatility. Cash balances have forged ahead of expectations supported by overall margin expansion, despite continued investment in Yü Smart and the Digital by Default strategy. Cash at the end of H1 2023 was reported to be £36.6m and is expected to increase further through H2 2023 despite the annual ROC payments to be made in August. We continue to believe there is additional upside for investors in this stock, with its stable risk profile, strong growth potential and progressive annual dividend yield. As a result, we have increased our forecasts for 2023E once again, and introduced H1 2023E forecasts, which are expected to be reported in September 2023.

**Table 1: Forecast Revisions**

Income Statement YE Dec (£000s)	H123	H223	2023E	2024E	2025E	Previous Forecasts			% change		
						2023E	2024E	2025E	2023E	2024E	2025E
Revenue	195,123.71	210,227.68	405,351.39	485,689.23	532,264.59	392,444.06	447,278.59	501,587.34	3.3%	8.6%	6.1%
Cost of sales	(164,391.73)	(177,116.82)	(341,508.55)	(408,707.49)	(447,634.52)	(330,634.12)	(376,384.93)	(421,333.36)	3.3%	8.6%	6.2%
<b>Gross Profit</b>	<b>30,731.98</b>	<b>33,110.86</b>	<b>63,842.84</b>	<b>76,981.74</b>	<b>84,630.07</b>	<b>61,809.94</b>	<b>70,893.66</b>	<b>80,253.97</b>	<b>3.3%</b>	<b>8.6%</b>	<b>5.5%</b>
			15.75%	15.85%	15.90%	15.75%	15.85%	16.00%			
<b>Total operating costs</b>	<b>(25,374.74)</b>	<b>(24,542.97)</b>	<b>(49,917.71)</b>	<b>(54,129.08)</b>	<b>(59,101.22)</b>	<b>(49,893.95)</b>	<b>(53,191.60)</b>	<b>(59,738.51)</b>	<b>0.0%</b>	<b>1.8%</b>	<b>-1.1%</b>
Bad debt	(9,561.06)	(10,301.16)	(19,862.22)	(23,798.77)	(26,080.96)	(25,116.42)	(28,625.83)	(32,603.18)	-20.9%	-16.9%	-20.0%
general overhead	(11,990.35)	(12,918.49)	(24,908.84)	(28,655.66)	(31,403.61)	(20,799.53)	(23,705.77)	(26,333.34)	19.8%	20.9%	19.3%
Gross operating costs	11.39%	11.39%	11.39%	11.09%	11.06%	11.87%	11.84%	11.86%	-4.1%	-6.3%	-6.8%
Bad debt (%)	4.90%	4.90%	4.90%	4.90%	4.90%	6.40%	6.40%	6.50%	-23.4%	-23.4%	-24.6%
General overhead	6.1%	6.1%	6.1%	5.9%	5.9%	5.30%	5.30%	5.25%	15.9%	11.3%	12.4%
GM-bad debt	21,170.92	22,809.70	43,980.63	53,182.97	58,549.10	36,693.52	42,267.83	47,650.80	19.9%	25.8%	22.9%
NCC	10.85%	10.85%	10.85%	10.95%	11.00%	9.35%	9.45%	9.50%	16.0%	15.9%	15.8%
<b>Profit/(Loss) from operations</b>	<b>5,357.25</b>	<b>8,567.89</b>	<b>13,925.14</b>	<b>22,852.66</b>	<b>25,528.85</b>	<b>11,915.98</b>	<b>17,702.06</b>	<b>20,515.46</b>	<b>16.9%</b>	<b>29.1%</b>	<b>24.4%</b>
Non-recurring operational costs	-	-	-	-	-	-	-	-			
Non-recurring mutualisation costs	-	-	-	-	-	-	-	-			
Impact of first-time adoption of IFRS 9	-	-	-	-	-	-	-	-			
Unrealised loss on derivative contracts	3,000.00	500.00	3,500.00	-	-	3,046.00	-	-			
Equity-settled share based payment charge	-	-	-	-	-	-	-	-			
Depreciation of property plant and equipment	496.32	496.32	992.65	1,020.65	962.65	278.00	206.00	148.00			
Amortisation of intangibles	202.00	202.00	404.00	404.00	404.00	404.00	404.00	404.00			
<b>Adjusted EBITDA</b>	<b>9,055.57</b>	<b>9,766.21</b>	<b>18,821.78</b>	<b>24,277.31</b>	<b>26,895.49</b>	<b>15,643.98</b>	<b>18,312.06</b>	<b>21,067.46</b>	<b>20.3%</b>	<b>32.6%</b>	<b>27.7%</b>
			4.64%	5.00%	5.05%						
Finance Income	48.05	48.05	96.09	147.15	181.87	1.00	1.00	1.00			
Finance costs	-	(104.18)	(104.18)	(176.58)	(250.40)	-	-	-			
<b>Profit/(Loss) before tax</b>	<b>5,405.29</b>	<b>8,511.75</b>	<b>13,917.05</b>	<b>22,823.23</b>	<b>25,460.32</b>	<b>11,916.98</b>	<b>17,703.06</b>	<b>20,516.46</b>	<b>16.8%</b>	<b>28.9%</b>	<b>24.1%</b>
Taxation	(1,243.22)	(1,957.70)	(3,200.92)	(5,705.81)	(6,365.08)	(2,740.91)	(4,425.77)	(5,129.12)			
<b>Profit/(Loss) after tax</b>	<b>4,162.08</b>	<b>6,554.05</b>	<b>10,716.13</b>	<b>17,117.42</b>	<b>19,095.24</b>	<b>9,176.08</b>	<b>13,277.30</b>	<b>15,387.35</b>	<b>16.8%</b>	<b>28.9%</b>	<b>24.1%</b>
<b>Earnings/(Loss) per share (GBP)</b>											
Basic	0.25	0.38	0.64	1.01	1.12	0.56	0.80	0.93	15.6%	26.1%	19.6%
Adjusted Basic	0.38	0.41	0.80	1.01	1.12	0.56	0.80	0.93	43.9%	26.1%	19.6%
Diluted	0.22	0.35	0.58	0.92	1.01	0.50	0.73	0.84	15.7%	26.3%	20.0%
Weighted Average Shares	16,497.03	16,497.03	16,497.03	16,672.03	16,872.03	16,497.03	16,497.03	16,497.03			
Effect of shares issued in the year	175.00	175.00	175.00	200.00	250.00	-	-	-			
<b>Ordinary shares for basic earnings calculation</b>	<b>16,847.03</b>	<b>17,047.03</b>	<b>16,672.03</b>	<b>16,872.03</b>	<b>17,122.03</b>	<b>16,497.03</b>	<b>16,497.03</b>	<b>16,497.03</b>			
Dilutive effect of outstanding options	1,723.00	1,723.00	1,722.63	1,722.63	1,722.63	1,722.63	1,722.63	1,722.63			
<b>Ordinary shares for diluted earnings calculation</b>	<b>18,570.03</b>	<b>18,770.03</b>	<b>18,394.67</b>	<b>18,594.67</b>	<b>18,844.67</b>	<b>18,219.67</b>	<b>18,219.67</b>	<b>18,219.67</b>			
Dividend/share	0.03	0.03	0.06	0.06	0.06	0.06	0.06	0.06			

SOURCE: Company reports & SP Angel forecasts

**H1 2023 Forecasts:** In addition to revised fiscal year forecasts, we have introduced forecasts for the 2023 interim results. This includes revenue of £195m, representing ~48% of full year revenue as H2 is typically stronger than H1 in any year. With bad debt of 4.9% and net customer contribution of 10.85%, general overhead costs are estimated to be ~6.1%, resulting in an H1 2023 forecast for Adjusted EBITDA of ~£9.1m, again ~48% of full year expected Adj. EBITDA.

**Yü Smart:** We have also included the roll-out of smart meters by Yü Smart’s own group, Kensington Meter Asset Ltd. (KMAL) with ~7,000 meters expected to be installed in 2023E. We believe this will generate a rental revenue stream for the Group, reflecting a payback period of just under 5 years. At about £200 per meter cost basis, we expect the Group to spend £1.3m per year in capex, which will be repaid from an annual rental cost to a customer of £40-50 per year, indexed to inflation. While the capex is not exceptionally large and the Group can easily manage it, it is possible to access some form of debt to support the expected growth in this division while still leaving room for margin attribution. As such, we have included a forecast for a small debt financing facility to support the purchase of these smart meters.

**Table 2: Revised Balance Sheet & Cash Flow Summary**

<b>Balance Sheet</b>			
<b>YE Dec (£000s)</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
CURRENT ASSETS	95,617.54	120,605.79	134,043.00
NON CURRENT ASSETS	8,168.43	5,699.71	5,388.06
<b>TOTAL ASSETS</b>	<b>103,785.97</b>	<b>126,305.49</b>	<b>139,431.06</b>
CURRENT LIABILITIES	(79,027.01)	(85,447.58)	(81,749.33)
NON CURRENT LIABILITIES	(85.00)	36.00	1,363.24
<b>TOTAL LIABILITIES</b>	<b>(79,112.01)</b>	<b>(85,411.58)</b>	<b>(80,386.10)</b>
Net Assets	24,673.96	40,893.91	59,044.96
EQUITY	24,673.96	40,893.91	59,044.96
<b>LIABILITIES +EQUITY</b>	<b>(103,785.97)</b>	<b>(126,305.49)</b>	<b>(139,431.06)</b>
<b>Cash Flow Statement</b>			
<b>Year End December (£'000)</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
Net cash from operating activities	23,038.70	24,282.56	17,852.64
Net cash from investing activities	(2,356.88)	(2,486.84)	(2,630.48)
Net cash from financing activities	81.63	133.93	(1,014.48)
<b>Net increase in cash and cash equivalents</b>	<b>20,763.44</b>	<b>21,929.66</b>	<b>14,207.68</b>
Cash and cash equivalents at start of the period	18,970.00	39,733.44	61,663.10
<b>Cash and cash equivalents at end of the period</b>	<b>39,733.44</b>	<b>61,663.10</b>	<b>75,870.78</b>

SOURCE: Company reports & SP Angel forecasts

## Financial Summary

<b>Current Forecasts</b>							
<b>Financials (£000)</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
Revenue	111,613.0	101,527.0	155,423.0	278,587.0	405,351.4	485,689.2	532,264.6
Gross Margin (%)	4.9%	7.6%	9.8%	15.8%	15.8%	15.9%	15.9%
Operating Income	(5,898.0)	(1,574.0)	3,488.0	5,930.0	13,925.1	22,852.7	25,528.8
Operating Margin (%)	-5.3%	-1.6%	2.2%	2.1%	3.4%	4.7%	4.8%
Adjusted EBITDA	(4,242.0)	(1,714.0)	1,724.0	7,909.0	18,821.8	24,277.3	26,895.5
Net Income	(4,968.0)	(1,165.0)	4,451.0	4,769.0	10,716.1	17,117.4	19,095.2
Earnings per Share (£) basic	(0.305)	(0.072)	0.273	0.289	0.643	1.015	1.115
Adjusted Net Income	(3,950.0)	(1,725.0)	4,451.0	4,769.0	13,341.1	17,117.4	19,095.2
Adj. EPS (£) diluted	(0.29)	(0.07)	0.26	0.26	0.58	0.92	1.01
Diluted Shares (000s)	17,065.2	17,210.9	17,398.8	18,219.7	18,394.7	18,594.7	18,844.7
Net Cash in/(Out)-flow	(12,235.0)	9,363.0	(4,691.0)	11,921.0	20,763.4	21,929.7	14,207.7
Debt	-	-	-	121.0	242.0	363.0	1,690.2

<b>Growth Rates (%)</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
Revenue	38.4%	-9.0%	53.1%	79.2%	45.5%	19.8%	9.6%
EBITDA	32.5%	59.6%	200.6%	358.8%	138.0%	29.0%	10.8%
Net Income	20.7%	76.5%	482.1%	7.1%	124.7%	59.7%	11.6%
Adjusted Net Income	28.9%	56.3%	358.0%	7.1%	179.7%	28.3%	11.6%

<b>Financial Health</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
Working Capital (£000)	187.00	(1,423.00)	(2,253.00)	1,278.00	16,590.53	35,158.20	52,293.66
Current Ratio	(1.01)	(1.0)	(1.0)	(1.0)	(1.2)	(1.4)	(1.6)
Long-term Debt (£m)	-	-	-	121	242	363	1,690
Total Equity (£m)	5.30	4.5	9.3	14.8	24.7	40.9	59.0
LT Debt/Assets	-	-	-	0.00	0.00	0.00	0.01
LT Debt/Equity	-	-	-	(0.00)	(0.00)	(0.00)	(0.01)

<b>Financial Position (£000)</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
Cash	2,377.0	11,740.0	7,049.0	18,970.0	39,733.4	61,663.1	75,870.8
Inventory	-	-	-	-	-	-	-
Debtors	25,886.0	18,267.0	40,441.0	56,168.0	55,884.1	58,942.7	58,172.2
Creditors	(28,076.0)	(31,430.0)	(49,743.0)	(73,860.0)	(79,027.0)	(85,447.6)	(81,749.3)
Total Assets	33,822.0	37,052.0	59,569.0	88,865.0	103,786.0	126,305.5	139,431.1
Total Liabilities	(28,524.0)	(32,539.0)	(50,284.0)	(74,066.0)	(79,112.0)	(85,411.6)	(80,386.1)
Total Equity	5,298.0	4,513.0	9,285.0	14,799.0	24,674.0	40,893.9	59,045.0

<b>Profitability</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
ROE	-93.8%	-25.8%	47.9%	32.2%	43.4%	41.9%	32.3%
ROA	-14.7%	-3.1%	7.5%	5.4%	10.3%	13.6%	13.7%

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