

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

## Yü Group Plc

23 January 2024

### Stock Data

Ticker (AIM)	YU. LN
Share Price	1114p
Market Cap	£188m
Yr High/Yr Low	1310/460p
Target Price	1430p
Rating	Buy

### Price Chart



SOURCE: hl.co.uk

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### More upgrades

After multiple upgrades in 2023, Yü Group has confirmed again that trading is ahead of expectations and that last year will deliver a record level of earnings despite the turbulence seen in energy markets. Yü Group continues to take market share in the B2B market and we expect continued momentum going into FY24E. Market conditions are expected to normalise but the exit run rate of contract wins supports a materially higher revenue forecast going forward. The share price is not properly reflecting the growth opportunity in our view.

#### FY23E expected performance:

- **Group revenues are expected to exceed £450m.** This has been driven by a significant increase in meter points and volume growth. Average monthly bookings have grown over 120% YoY to > £55m. The expected revenue base implies organic growth of over 60% YoY and £520m of contracted revenues (+111% YoY) have been secured for recognition in FY24E.
- **EBITDA will be significantly ahead of expectations.** Given the operational leverage within the business and associated margin expansion, we believe adjusted EBITDA could reach £38m implying an adjusted EBITDA margin of over 8%. Bad debtors are reported to be materially lower.
- **Net cash of £31.9m.** This is a significant 70% advance on last year's net cash balance of £18.8m but is net of a near £50m prepayment to a trading counterparty.

#### Double digit forecasts upgraded

We have upgraded our FY23E revenue and adjusted EBITDA forecasts by 7% and 15% respectively, yielding revenue of £452m (+62% YoY) and adjusted EBITDA of £38m (+381% YoY). The growth in the contracted revenue base leads us to upgrade our FY24E revenue forecast too by 17% to £668m (+48% YoY). We recognised that the likely adjusted EBITDA margin for FY23E of 8% may have benefitted from some higher gross margin activities and that this may not be a sustainable medium-term return on sales. We therefore conservatively factor in a return to a 6% margin going forward. On an upgraded revenue base, a 6% adjusted EBITDA margin assumption still produces a 17% upgrade to our new forecast of £40.5m (+7% YoY). Notably, the cash counterparty prepayment will begin to unwind in FY24E which will materially enhance operating cash flow. We are forecasting net cash by the end of FY24E of over £100m (+213% YoY).

#### Outlook

The digital service strategy is instrumental in our view to the company's ongoing ability to take market share in the market for B2B utility supply. New initiatives such as Yu Smart, which has now installed 8,000 meters, is beginning to gain material traction and presents further scalable opportunities ahead. With the gas price in the UK back to pre-Covid levels we can expect more normalised trading conditions but our conservative forecasts factor this in and still project material growth. Yü Group's strong cash generation is expected to lead the Board to review capital allocation which may include materially increasing the payout to shareholders. Trading on an EV/adjusted EBITDA multiple of sub 4x the stock is materially undervalued relative to the broader market.

## Financial statements

### Income Statement

YE Dec (£000s)	2021A	2022A	2023E	2024E
<b>Revenue</b>	<b>155,423</b>	<b>278,587</b>	<b>452,041</b>	<b>668,005</b>
Cost of sales	-140,180	-234,462	-370,221	-560,830
<b>Gross Profit</b>	<b>15,243</b>	<b>44,125</b>	<b>81,819</b>	<b>107,175</b>
<i>gross margin</i>	<i>9.8%</i>	<i>15.8%</i>	<i>18.1%</i>	<i>16.0%</i>
Operating costs before exceptionals and IFRS 2	-14,206	-15,565	-36,767	-67,647
Operating costs- non-recurring items	-644	-926	-8,085	0
Operating costs- unrealised losses on derivative contr	3,344	-21,420	-3,500	0
Operating costs - exceptional IPO costs	0	0	0	0
Operating Costs - IFRS 2 share option charge	-249	-284	-600	-250
<b>Total operating costs</b>	<b>-11,755</b>	<b>-38,195</b>	<b>-48,952</b>	<b>-67,897</b>
<b>Profit/(Loss) from operations</b>	<b>3,488</b>	<b>5,930</b>	<b>32,867</b>	<b>39,278</b>
Non-recurring operational costs	644	0	0	0
Non-recurring mutualisation costs	0	0	0	0
Impact of first-time adoption of IFRS 9	0	0	0	0
Unrealised loss on derivative contracts	-3,344	926	3,500	0
Equity-settled share based payment charge	249	0	0	0
Depreciation of property plant and equipment	335	405	1,146	676
Amortisation of intangibles	352	648	504	504
<b>Adjusted EBITDA</b>	<b>1,724</b>	<b>7,909</b>	<b>38,017</b>	<b>40,458</b>
<b>margin</b>	<i>1.1%</i>	<i>2.8%</i>	<i>8.4%</i>	<i>6.1%</i>
Finance Income	0	1	192	294
Finance costs	-96	-91	-123	-243
<b>Profit/(Loss) before tax</b>	<b>3,392</b>	<b>5,840</b>	<b>32,936</b>	<b>39,329</b>
Taxation	1,059	-1,071	-7,575	-9,832
<b>Profit/(Loss) after tax</b>	<b>4,451</b>	<b>4,769</b>	<b>25,361</b>	<b>29,497</b>
Other comprehensive income	0	0	0	0
<b>Total comprehensive income/(Expense) for the year</b>	<b>4,451</b>	<b>4,769</b>	<b>25,361</b>	<b>29,497</b>
Non-recurring items after tax	0	0	0	0
Unrealised loss on derivative contracts after tax	0	0	2,695	0
Share based payments after tax	0	0	0	0
<b>Adjusted basic loss for the year</b>	<b>4,451</b>	<b>4,769</b>	<b>28,056</b>	<b>29,497</b>
<b>Earnings/(Loss) per share (GBP)</b>				
<b>Basic</b>	<b>27.3</b>	<b>28.9</b>	<b>150.6</b>	<b>173.1</b>
<b>Adjusted Basic</b>	<b>27.3</b>	<b>28.9</b>	<b>166.6</b>	<b>173.1</b>
<b>Diluted</b>	<b>25.6</b>	<b>26.2</b>	<b>136.6</b>	<b>157.2</b>
Weighted Average Shares	16,281	16,316	16,650	16,838
Effect of shares issued in the year	19	181	188	200
Ordinary shares for basic earnings calculation	<b>16,300</b>	<b>16,497</b>	<b>16,838</b>	<b>17,038</b>
Dilutive effect of outstanding options	1,099	1,723	1,723	1,723
Ordinary shares for diluted earnings calculation	<b>17,399</b>	<b>18,220</b>	18,560	18,760
Dividend/share (£)	<b>0.00</b>	<b>0.03</b>	<b>0.06</b>	<b>0.06</b>

Source: Company Accounts, SP Angel estimates

## Cash Flow Statement

Year End December (£'000)	2021A	2022A	2023E	2024E
<b>Cash Flow from operating activities</b>				
Profit/(Loss) for the financial period	4,451	4,769	25,361	29,497
<b>Adjustments for:</b>				
Depreciation of property, plant and equipment	255	325	788	596
Decpreciation of right of use assets	80	80	358	80
Amorisation of intangible assets	352	648	504	504
Finance income	0	-1	-192	-294
Finance costs	96	91	123	243
Taxation	-1,059	0	7,575	9,832
Share based payment charge	249	284	600	250
Unrealised gain on derivative contracts	-3,344	926	3,500	0
Increase in cash collateral deposits lodged with tradir	0	0	-49,800	49,800
Change in stock		-345	0	0
Change in trade and other receivables	-19,700	-17,000	16,296	-38,270
Change in trade and other creditors	17,468	23,889	14,429	29,605
Cash received on customer contracts	378	0	0	0
Increase in provisions for employee benefits	0	0	0	0
Cash taxes paid			-2,275	-9,832
<b>Net cash from operating activities</b>	<b>-774</b>	<b>13,666</b>	<b>17,267</b>	<b>72,011</b>
<b>Cash flows from investing activities</b>				
Purchase of property, plant and equipment	-2,629	-215	-419	-55
Payment of software development costs	-1,079	-2,210	-1,000	-1,000
Purchase of Smart Meters			-1,761	-2,025
Acquisitions	0	-216	0	0
<b>Net cash from investing activities</b>	<b>-3,708</b>	<b>-2,641</b>	<b>-3,180</b>	<b>-3,080</b>
<b>Cash flows from financing activities</b>				
Net proceeds from issue of new shares	-12	22	0	0
Interest received	-77	-76	-123	-243
Equity dividends paid	0	0	-1,000	-1,010
Debt facility Smart Meters - drawdown	0	0	500	2,025
Net change in borrowings	-120	-121	0	0
<b>Net cash from financing activities</b>	<b>-209</b>	<b>-175</b>	<b>-623</b>	<b>772</b>
<b>Net increase in cash and cash equivalents</b>	<b>-4,691</b>	<b>10,850</b>	<b>13,464</b>	<b>69,703</b>
Gross cash and cash equivalents at start of the period	11,740	7,049	18,970	32,434
<b>Gross cash and cash equivalents at end of the period</b>	<b>7,049</b>	<b>17,899</b>	<b>32,434</b>	<b>102,137</b>
<b>Net ccash (debt)</b>	<b>7,049</b>	<b>18,970</b>	<b>31,934</b>	<b>100,112</b>
<b>Free cash flow</b>	<b>-4,559</b>	<b>10,949</b>	<b>13,964</b>	<b>68,688</b>
<b>Free cash flow margin</b>	<b>-2.9%</b>	<b>3.9%</b>	<b>3.1%</b>	<b>10.3%</b>

Source: Company Accounts, SP Angel estimates

**Balance Sheet**

YE Dec (£000s)	2021A	2022A	2023E	2024E
<b>CURRENT ASSETS</b>				
<b>Stock</b>	0	345	345	345
Gross trade receivables	11,618	30,977	29,598	39,762
Provision for doubtful accounts & exp credit los	-6,007	-19,499	-10,847	-10,688
Net trade receivables	5,611	11,478	18,751	29,074
Accrued income - net of provision	21,972	31,842	16,047	38,076
Prepayments	4,183	3,065	52,865	3,065
Other receivables	5,573	7,954	179	6,097
Financial derivative assets	3,102	1,484	0	0
Amount due from subsidiary undertakings	0	0	0	0
Trade and other recievables	40,441	55,823	87,843	76,312
Cash and cash equivalents	7,049	17,899	32,434	102,137
<b>Total Current Assets</b>	<b>47,490</b>	<b>74,067</b>	<b>120,622</b>	<b>178,794</b>
<b>NON CURRENT ASSETS</b>				
Property, plant and equipment	3,751	3,641	4,022	4,231
Right-of-use asset	193	113	-245	-325
Intangible assets	1,333	3,111	2,403	2,149
Deferred tax	5,932	5,300	0	0
Financial derivative asset	870	1,562	0	0
<b>TOTAL NON CURRENT ASSETS</b>	<b>12,079</b>	<b>13,727</b>	<b>6,180</b>	<b>6,055</b>
<b>TOTAL ASSETS</b>	<b>59,569</b>	<b>87,794</b>	<b>126,802</b>	<b>184,849</b>
<b>CURRENT LIABILITIES</b>				
Trade payables	-3,690	-4,636	-5,436	-6,677
Accrued expenses and deferred income	-34,545	-55,281	-65,546	-86,841
Corporation tax	0	0	0	0
Lease liabilities & Smart Meter facility	-107	-112	-1,873	-3,897
Derivative financial liability	0	0	-449	-449
Other payables	-11,401	-13,831	-14,985	-20,030
Amounts due to subsidiary undertakings	0	0	0	0
Trade and other payables	-49,743	-73,860	-88,289	-117,893
<b>TOTAL CURRENT LIABILITIES</b>	<b>-49,743</b>	<b>-73,860</b>	<b>-88,289</b>	<b>-117,893</b>
			0	0
Loans & other payables	-381	-158	-158	-158
Lease liabilities	-160	-48	-48	-48
<b>NON CURRENT LIABILITIES</b>	<b>-541</b>	<b>-206</b>	<b>-206</b>	<b>-206</b>
<b>TOTAL LIABILITIES</b>	<b>-50,284</b>	<b>-74,066</b>	<b>-88,495</b>	<b>-118,099</b>
			0	0
<b>NET ASSETS</b>	<b>9,285</b>	<b>13,728</b>	<b>38,307</b>	<b>66,750</b>

Source: Company Accounts, SP Angel estimates

## Valuation

Valuation YE Sept	2021A	2022A	2023E	2024E
Sales (£m)	155.4	278.6	452.0	668.0
Adj. EBITDA (£m)	1.7	7.9	38.0	40.5
PBT (£m)	3.4	5.8	32.9	39.3
Basic EPS (p)	27.3	28.9	150.6	173.1
Dividend (p)	0.0	3.0	6.0	6.0
<b>EV/Sales (x)</b>	<b>1.0</b>	<b>0.6</b>	<b>0.3</b>	<b>0.2</b>
<b>EV/adj. EBITDA (x)</b>	<b>90.3</b>	<b>19.7</b>	<b>4.1</b>	<b>3.8</b>
<b>P/e (x)</b>	<b>40.8</b>	<b>38.5</b>	<b>7.4</b>	<b>6.4</b>
Yield (%)	0.0	0.3	0.5	0.5

Source: Company Accounts, SP Angel estimates

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