

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

## Yü Group Plc

26 February 2024

### Stock Data

Ticker (AIM)	YU. LN
Share Price	1300p
Market Cap	£219m
Yr High/Yr Low	1310/460p
Target Price	1430p
Rating	Buy

### Price Chart



Source: hl.co.uk

### New counterparty

Yu Group has entered into a new counterparty agreement with Shell Energy Europe Ltd, replacing its old facility with SmartestEnergy with immediate effect. The new agreement carries no obligation to deposit cash as collateral which releases a material amount of working capital back to the Group. With a cash rich, debt free balance sheet, Yu Group is in a position to consider how to optimally allocate its capital base. We believe this could include M&A activity and other growth initiatives, but also cash returns to shareholders.

#### Shell Energy Europe agreement – key points:

- **Structured trading agreement.** The new Hedging Facility will immediately enable Yu Group to procure gas and electricity at fixed prices without posting collateral. Shell shoulders the credit risk in this agreement in return for exclusive access to Yu Group's flow of business. We believe the fee structure is comparable to prior arrangements.
- **Headroom for growth.** Yu Group was exceeding its available credit under the prior arrangement with SmartestEnergy obliging it to post cash on deposit to support its hedging strategy. Cash collateral as at 31<sup>st</sup> December 2023 amounted to £49.8m.
- **Working capital release.** The cash collateral held with SmartestEnergy is expected to be fully repaid to Yu Group by the end of March.

#### No change to forecasts

January's trading update flagged the likely return of this capital to the company. Our forecasts incorporated this movement last month and are consequently unchanged. This new trading facility was entered into by Shell after, we understand, a very lengthy due diligence process. Yu Group will now have sufficient available credit to execute its growth plans and provide for a revenue base into the billions.

#### Outlook

We upgraded our forecasts in January in light of a very positive trading update. FY23E revenue and adjusted EBITDA forecasts were increased by 7% and 15% to £452m (+62% YoY) and adjusted EBITDA to £38m (+381% YoY) respectively. Our FY24E forecasts were upgraded too, with revenues increased by 17% to £668m (+48% YoY) and adjusted EBITDA increased by 17% to £40.5m (+7% YoY). We continue to forecast net cash by the end of FY24E of over £100m (+213% YoY). 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 FY24E EV/adjusted EBITDA multiple of 4.6x, the stock is materially undervalued relative to the broader market.

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## 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>	<b>1.1%</b>	<b>2.8%</b>	<b>8.4%</b>	<b>6.1%</b>
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	2025E
Sales (£m)	155.4	278.6	452.0	668.0	715.8
Adj. EBITDA (£m)	1.7	7.9	38.0	40.5	42.0
PBT (£m)	3.4	5.8	32.9	39.3	40.8
Basic EPS (p)	27.3	28.9	150.6	173.1	177.2
Dividend (p)	0.0	3.0	6.0	6.0	6.0
EV/Sales (x)	1.2	0.7	0.4	0.3	0.3
EV/adj. EBITDA (x)	108.2	23.6	4.9	4.6	4.4
P/e (x)	47.5	44.9	8.6	7.5	7.3
Yield (%)	0.0	0.2	0.5	0.5	0.5

Source: Company Accounts, SP Angel estimates

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