

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

Yü Group Plc

23 July 2024

Stock Data

Ticker (AIM)	YU. LN
Share Price	1885p
Market Cap	£317m
Yr High/Yr Low	1970/711p
Target Price	2100p
Rating	Buy

Price Chart



Source: hl.co.uk

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Continued momentum

Despite the seasonally warmer weather this spring, Yu Group is expected to deliver c60% revenue growth in H1E. Cash balances are up significantly after the working capital release post the commencement of new hedging facilities. The company is on track to meet consensus estimates and we leave our trading forecasts unchanged. Trading on a p/e relative of 67 to the UK market, we continue to rate the stock as Buy.

H1 2023E – key points:

- **Revenues +60% YoY.** Interim revenues are likely to be in the region of £310m driven by an expansion of meter points and volume growth. Meter points have grown to 72,300 as at June, representing an annual increase of 82% (+35% sequentially). Monthly average bookings declined 9% YoY to £46.9m reflecting the lower price environment. This will have an impact on reported operating margins. A 'normal' Spring could have seen revenues higher by up to £9m in H1E in our estimations.
- **Hedged.** The new hedging arrangement with Shell provides the headroom for material expansion but also enabled the release of £49.8m of cash collateral back on to Yu Group's balance sheet from its historical wholesale provider.
- **£87m net cash.** Yu Group ended the half year with £86.8m of net cash, more than double the year end cash balance of £32m, reflecting the above working capital release. A cancellation of the share premium account has increased distributable reserves by over £12m and the company also bought back £4m of stock, at £17 per share, in H1E. Yu Group has stated its intention to pay a progressively higher dividend which could ultimately be reduced to 3x cover (from over 4x currently).

Forecasts unchanged

Anticipated revenue growth of c60% in H1E exceeds our 50% growth rate assumption for FY24E. We are conservatively leaving our trading forecasts unchanged (FY24E adj. EBITDA £44.1m) which factors in a softening of operating margins by 200bp to 6.3%. We believe this fully accommodates any possible margin impact from the spring weather. We factor into our cash flow forecast the share buy-back and associated cash outflow and now forecast £94m of net cash by the year end.

Outlook

On current momentum, supplied meter points could reach over 100k by the year end or shortly thereafter. Smart meter roll-outs continue with Yu Smart having installed 9,000 smart meters (+125% YoY) in H1E with aggregated ownership of 13,100 providing an index-linked annuity revenue base now of £0.6m. We continue to see scope for Yu Group to grow its revenue base to in excess of £1.4bn within a couple of years. With the stock trading on a FY24E P/E rating of <10x, a 33% discount to the market, we continue to rate the stock as Buy.

Financial Statements

Table 1: Income Statements (2021-2025E)

YE Dec (£000s)	2021A	2022A	2023A	2024E	2025E
Revenue	155,423	278,587	460,001	668,005	715,808
<i>growth YoY</i>	-	79.2%	65.1%	45.2%	7.2%
Cost of sales	-140,180	-234,462	-376,959	-560,830	-601,278
Gross Profit	15,243	44,125	83,042	107,175	114,529
<i>gross margin</i>	9.8%	15.8%	18.1%	16.0%	16.0%
Operating costs	-14,206	-15,565	-26,347	-42,752	-45,812
Share option charge	-249	-284	-1,258	-2,000	-2,000
Net impairment losses	3,344	-21,420	-14,309	-20,040	-21,474
Gain / (loss) on derivatives	-644	-926	-3,046	0	0
Total operating costs	-11,755	-38,195	-44,960	-64,792	-69,286
Adjusted EBITDA	1,475	7,909	42,616	44,106	47,061
Operating profit	3,488	5,930	38,082	42,382	45,243
<i>operating margin</i>	2.2%	2.1%	8.3%	6.3%	6.3%
Finance Income	0	1	1,722	2,400	3,727
Finance costs	-96	-91	-105	-243	-353
Profit/(Loss) before tax	3,392	5,840	39,699	44,539	48,618
Taxation	1,059	-1,071	-8,839	-11,135	-12,154
Profit/(Loss) after tax	4,451	4,769	30,860	33,405	36,463
Earnings/(Loss) per share (GBp)					
Basic	27.3	28.9	184.9	196.1	210.9
Adjusted Basic	19.7	32.1	197.8	204.9	219.6
Basic diluted	25.6	26.2	169.4	178.1	191.8
Weighted Average Shares	16,281	16,316	16,650	16,838	17,038
Effect of shares issued in the year	19	181	37	200	250
Ordinary shares for basic earnings calculation	16,300	16,497	16,686	17,038	17,288
Dilutive effect of outstanding options	1,099	1,723	1,533	1,723	1,723
Ordinary shares for diluted earnings calculation	17,399	18,220	18,220	18,760	19,010
Dividend/share (£)	0.00	0.03	0.40	0.42	0.44
Interim	0.00	0.00	0.03	0.14	0.15
Final	0.00	0.03	0.37	0.28	0.29

Source: Company Accounts, SP Angel estimates

Table 2: Cash Flow Statements (2021-2025E)

Year End December (E'000)	2021A	2022A	2023A	2024E	2025E
Cash Flow from operating activities					
Profit/(Loss) for the financial period	4,451	4,769	30,860	33,405	36,463
Adjustments for:					
Depreciation of property, plant and equipment	255	325	400	596	650
Depreciation of right of use assets	80	80	408	408	408
Amorisation of intangible assets	352	648	680	720	760
Unrealised loss (gain) on derivative contracts	-3,344	926	3,046	0	0
Change in stock	0	-345	-201	0	0
Change in trade and other receivables	-19,700	-17,000	-27,848	-25,644	-9,168
Increase in cash collateral deposits lodged with tradin	0	0	-49,820	49,800	0
Change in trade and other creditors	17,468	23,889	49,584	16,461	3,576
Employee costs & benefits provisions	0	0	-108	0	0
Net finance income	0	-1	-444	2,400	3,727
Finance costs	96	91	105	-243	-353
Taxation	-1,059	1,071	8,839	11,135	12,154
Corporation tax paid	0	0	-627	-11,135	-12,154
Share based payment charge	249	284	1,258	300	300
Cash received on customer contracts	378	0	0	0	0
Net cash from operating activities	-774	14,737	16,132	78,203	36,364
Cash flows from investing activities					
Purchase of property, plant and equipment	-2,629	-215	-1,372	-500	-500
Payment of software development costs	-1,079	-2,210	-130	-1,000	-1,000
Purchase of Smart Meters	0	0	0	-2,025	-2,328
Acquisitions	0	-216	0	0	0
Net cash from investing activities	-3,708	-2,641	-1,502	-3,525	-3,828
Cash flows from financing activities					
Net proceeds from issue of new shares	-12	22	125	-3,995	0
Net interest	-77	-76	-106	-243	-353
Equity dividends paid	0	0	-1,002	-8,689	-7,376
Debt facility Smart Meters - drawdown	0	0	0	2,025	2,328
Net change in borrowings & lease obligations	-120	-121	-140	0	0
Net cash from financing activities	-209	-175	-1,123	-10,902	-5,401
Net increase in cash and cash equivalents	-4,691	11,921	13,507	63,776	27,135
Gross cash and cash equivalents at start of the period	11,740	7,049	18,970	32,477	96,253
Gross cash and cash equivalents at end of the period	7,049	18,970	32,477	96,253	123,388
Net cash (debt)	7,049	18,970	32,125	93,876	118,684
Free cash flow	-4,559	12,020	14,524	74,435	32,183
Free cash flow margin	-2.9%	4.3%	3.2%	11.1%	4.5%

Source: Company Accounts, SP Angel estimates

Table 3: Balance Sheets (2021-2025E)

YE Dec (£000s)	2021A	2022A	2023A	2024E	2025E
CURRENT ASSETS					
Stock	0	345	546	546	546
Trade & other receivables	37,359	54,339	127,222	152,866	162,034
Financial derivative assets	3,102	1,484	0	0	0
Trade and other receivables	40,461	55,823	127,222	152,866	162,034
Cash and cash equivalents	7,049	18,970	32,477	102,117	121,289
Total Current Assets	47,510	75,138	160,245	255,529	283,869
NON CURRENT ASSETS					
Property, plant and equipment	3,751	3,641	4,613	4,517	4,367
Right-of-use asset	193	113	1,676	1,268	860
Intangible assets	1,333	3,111	2,561	2,281	2,041
Deferred tax	5,932	5,300	1,969	1,969	1,969
Financial derivative/other asset	870	1,562	5,231	5,231	5,231
TOTAL NON CURRENT ASSETS	12,079	13,727	16,050	15,266	14,468
TOTAL ASSETS	59,589	88,865	176,295	270,795	298,337
CURRENT LIABILITIES					
Trade payables	-3,690	-4,636	-6,492	-22,953	-26,529
Accrued expenses and deferred income	-34,545	-55,281	-88,737	-86,841	-76,949
Other payables	-11,508	-13,943	-32,635	-16,581	-17,393
TOTAL CURRENT LIABILITIES	-49,743	-73,860	-127,864	-126,375	-120,871
Trades & other payables	-541	-206	-1,281	-158	-158
Borrowings	0	0	-352	-2,377	-4,705
NON CURRENT LIABILITIES	-541	-206	-1,633	-2,535	-4,863
TOTAL LIABILITIES	-50,284	-74,066	-129,497	-128,910	-125,734
NET ASSETS	9,305	14,799	46,798	141,885	172,603

Source: Company Accounts, SP Angel estimates

Table 4: Valuation

Valuation YE Sept	2021A	2022A	2023A	2024E	2025E
Sales (£m)	155.4	278.6	460.0	668.0	715.8
Adj. EBITDA (£m)	1.5	7.9	42.6	44.1	47.1
PBT (£m)	3.4	5.8	39.7	44.5	48.6
Basic EPS (p)	27.3	28.9	184.9	196.1	210.9
Dividend (p)	0.0	3.0	40.0	42.0	44.0
EV/Sales (x)	1.4	0.8	0.5	0.3	0.3
EV/adj. EBITDA (x)	149.6	27.9	5.2	5.0	4.7
P/e (x)	69.0	65.2	10.2	9.6	8.9
Yield (%)	0.0	0.2	2.1	2.2	2.3

Source: Company accounts, SP Angel estimates

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