

Yü Group Plc

January 26, 2021

Stock Data

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|----------------|---------------|
| Ticker (AIM) | YU. LN |
| Share Price | 115.20p |
| Market Cap | £19.5M |
| EV | £2.2M |
| Rating | Buy |
| Price Target | 207p (+79.7%) |
| Yr High/Yr Low | 142.50/52.50p |

Price Chart



SOURCE: Bloomberg

Special Sits Research

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2020 Trading Update: Solid Performance

Yü Group Plc (YU. LN) listed on the AIM Exchange in London is a multi-utility provider to small and medium sized business, as well as larger corporate customers across the UK. As a direct supplier of electricity, gas, water and other solutions such as electric vehicle (EV) charge points, smart meter installations and green energy solutions, Yü Group (YUG) provides a simple approach to a business's 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 rapidly solidifying YUG as a trusted supplier in the £35b UK B2B utility market.

Event: YUG announced its trading update for the year-end 2020 with better-than-expected results.

Key Performance Indicators:

- **Average Monthly New Bookings** during H220 reached £10.3m vs. the £6.2m during H120, 2.5x that of 2019 of £4.2m.
- **Net Customer Contribution (NCC)** has not yet been disclosed for 2020. However, the lower margin legacy contracts have now been replaced with good margin, high quality agreements, and customer volume demand was at 94% of pre-COVID levels. With better-than-expected top line performance during H220, EBITDA is now expected to be well ahead of forecasts.
- **General overhead** has not yet been disclosed for 2020. Management is focused on maintaining a 70%+ customer retention rate and supporting additional sales growth channels in 2021E, including digital channels that were launched in 2020.
- **Contracted Revenue** year-end for 2021E stood at £93m, +30% over the level contracted for in August 2020 (£71.7m). Meter points are now approaching 18,000 in total compared to 8,724 in 2019, including the two customer book acquisitions completed during H220.

2020 Financial Results:

- **Revenue:** For the full year, revenue is reported to be over £100m vs. our forecast of £92.5m, a difference of at least 8%. Recall H120 revenue was £45.9m, implying H220 revenue of at least £54.1m or sequential growth of at least 18%.
- **Adj. EBITDA:** As a result of the strong top line performance in H220 with higher quality margins under contract, adjusted EBITDA for 2020 was reported to be significantly ahead of market expectations. Recall that our forecasts for the year were for Adj. EBITDA losses of £2.7m. Note that H120 Adj. EBITDA was £(1.7)m, and our Adj EBITDA forecasts for H220 were £(1.0)m.
- **Cash:** At year-end, cash balances were £11.7m compared to cash at the end of 2019 of £2.9m, up about 4x over the year. This demonstrates the benefit of the new trading agreement with Smartest Energy that grows with the business and the resilience of the business model in response to COVID.

Forecasts: Increasing our 2020E top line estimates to ~£100m, brings forecasted EBITDA to a loss of £2.39m (from a loss of £2.7m). Losses per share decrease to £0.14 from £0.16. Cash at Dec 31 was £11.7m, ~75% higher than our estimate of £6.7m. While we expect this now implies that our 2021E and 2022E estimates are too low, we have left them untouched for now, pending the release of full 2020E financial results in March. Note, we have also now rolled forward the base valuation year in the DCF to 2021E and so our valuation remains 207p, +79.7% return to the current share price.

COVID Impacts: Management took decisive action early in the COVID lockdown to reset hedging policies to mitigate trading losses and used government schemes to help reduce discretionary overhead spending. The measures implemented during H120 appear to have limited any potential adverse impacts from COVID during H220, as customer demand recovered to 94% of pre-COVID levels. This demonstrates resilience of the sector and efficacy of customer diversification strategies.

Outlook: Management has successfully rebased the business model and has demonstrated the ability to drive sustainable operational growth. The smooth and efficient integration of the B2B customer books in H220 is another testament to the strength of the solid platform that has been established. Management continues to expect further improvements in 2021E, supported by the strong momentum building through 2020, which we expect are likely to materially surpass our current forecasts.

Outlook

Notably, previous expectations were such that the performance for H220 would show improvement over the first half, assuming there would be limited further disruption to the economy from a COVID lockdown. Monthly new bookings for H220 were also expected to be well ahead of H120, with revenues trending in the same direction. However, this trading update indicates a much stronger performance for the period than our forecasts and these prior expectations would have implied. 2020 revenue for the full year reported to be greater than £100m beats our forecasts by at least 8% driven by a recovery in customer demand, increased organic growth, and the acquisition and integration of the two B2B customer books. This has translated to better than forecast performance at the operating line with adjusted EBITDA better than our forecasts and higher cash balances at year-end. Overall, this trading update implies a very strong operating performance by the company in a rather difficult trading year. Management had previously indicated an expectation for further improvements during 2021E, which we now believe are likely to materially surpass our current forecasts.

YUG's operational strategy is working, as demonstrated by these results, and appears to be on track to drive sustainable and long-term profitable growth. YUG is well positioned to take advantage of additional acquisitions, augmenting its organic growth strategy. We firmly believe it is worthwhile for investors to take a closer look at a YUG investment as part of a long-term growth story for their portfolios.

2020 Trading Update Highlights

- Revenue ahead of market expectations at over £100m vs. our forecasts of £92.5m.
- Adj. EBITDA ahead of market expectations vs. our forecasts of £(2.7)m.
- Strong cash position of £11.7m vs. our forecasts of £6.7m, and up about 4x over year-end 2019 of £2.9m.
- Bill to cash ratio at 99%.
- Meter points of 18,000 at year-end.
- Monthly new bookings for H220 were £10.3m on average, vs. £4.2m in 2019, and £6.2m in H120.
- The first digital sales channel went live during H120 and has exceeded expectations generating £21.5m of annualised booked revenue during H220 (+£2.9m compared to H120).
- Legacy contracts have been fully replaced with higher margin, higher quality customer contracts; and
- 2021E contracted revenue of £93m, or ~79.5% of our forecasted revenue of £116.95m for 2021E.

Forecasts

As a result of the Trading Update, we have modified our 2020E estimates to account for better-than-expected revenue performance. This increases our revenue estimate to £100.2m from £92.45m. Feeding this through our model, our Adj. EBITDA forecasts improve to a loss of £2.39m from a loss of £2.7m. Admittedly, there could be additional improvements in this line in the reported full year results as gross margins could be better than expected – we previously anticipated that some legacy contracts could still be in the mix for H220, bad debt estimates were likely better than expected, and trading hedges performed better than expected.

Table 1: Financial Forecast Update

| Current Forecasts | | | | | | Previous Forecasts | |
|------------------------------|-----------|-----------|-----------|------------|-----------|--------------------|--------------|
| Financials (£000) | 2016 | 2017 | 2018 | 2019 | 2020E | 2020E | % difference |
| Revenue | 16,264.0 | 45,631.0 | 80,635.0 | 111,613.0 | 100,152.7 | 92,452.7 | 8.3% |
| Gross Margin (%) | 21.2% | 14.9% | 4.0% | 4.9% | 6.6% | 6.6% | |
| Operating Income | (1,518.0) | 784.0 | (9,595.0) | (5,898.0) | (3,052.7) | (3,370.3) | |
| Operating Margin (%) | -9.3% | 1.7% | -11.9% | -5.3% | -3.0% | -3.6% | |
| Adjusted EBITDA | (1,518.0) | 1,537.0 | (6,283.0) | (4,242.0) | (2,393.7) | (2,711.3) | -11.7% |
| Net Income | (1,359.0) | 711.0 | (6,267.0) | (4,968.0) | (2,350.7) | (2,668.3) | |
| Earnings per Share (£) basic | (0.1029) | 0.0506 | (0.4223) | (0.3) | (0.1445) | (0.1640) | |
| Adjusted Net Income | 136.0 | 1,413.0 | (5,555.0) | (3,950.0) | (2,350.7) | (2,668.3) | -11.9% |
| Adj. EPS (£) basic | 0.0103 | 0.1005 | (0.3743) | (0.2426) | (0.1445) | (0.1640) | -11.9% |
| Basic Shares (000s) | 13,212.2 | 14,054.1 | 14,841.4 | 16,278.7 | 16,267.6 | 16,267.6 | |
| Net Cash in/(Out)-flow | 5,150.0 | (1,822.0) | 9,725.0 | (12,235.0) | 9,282.3 | 4,362.3 | |
| Debt | - | - | - | - | - | - | |

SOURCE: Company reports and SP Angel forecasts

We have left our forecasts for 2021E and 2022E pending additional insight expected from the full year financial reporting update for 2020 expected in March. As a result, our valuation based on a DCF calculation of 207p is currently not impacted. However, we do believe that barring any further negative change to the current macro environment, these trading results suggest that YUG performance is much better than originally expected and that the forecasts for 2021E and 2022E are likely too low.

Table 2: Financial Forecasts

| Financials (£000) | H1 2019 | H2 2019 | H1 2020 | H2 2020E | 2016 | 2017 | 2018 | 2019 | 2020E | 2021E | 2022E |
|------------------------------|-----------|------------|-----------|-----------|-----------|-----------|-----------|------------|-----------|-----------|-----------|
| Revenue | 56,561.0 | 55,052.0 | 45,873.0 | 54,279.7 | 16,264.0 | 45,631.0 | 80,635.0 | 111,613.0 | 100,152.7 | 116,946.7 | 150,049.7 |
| Gross Margin (%) | 3.2% | 6.7% | 5.7% | 7.4% | 21.2% | 14.9% | 4.0% | 4.9% | 6.6% | 7.6% | 7.8% |
| Operating Income | (3,248.0) | (2,650.0) | (2,062.0) | (990.7) | (1,518.0) | 784.0 | (9,595.0) | (5,898.0) | (3,052.7) | (1,106.5) | 777.6 |
| Operating Margin (%) | -5.7% | -4.8% | -4.5% | -1.8% | -9.3% | 1.7% | -11.9% | -5.3% | -3.0% | -0.9% | 0.5% |
| Adjusted EBITDA | (2,674.0) | (1,568.0) | (1,709.0) | (684.7) | (1,518.0) | 1,537.0 | (6,283.0) | (4,242.0) | (2,393.7) | (668.5) | 1,215.6 |
| Net Income | (2,716.0) | (2,252.0) | (1,711.0) | (639.7) | (1,359.0) | 711.0 | (6,267.0) | (4,968.0) | (2,350.7) | (963.9) | 694.1 |
| Earnings per Share (£) basic | (0.1669) | (0.1383) | (0.1051) | (0.0393) | (0.1029) | 0.0506 | (0.4223) | (0.3) | (0.1445) | (0.0593) | 0.0427 |
| Adjusted Net Income | (2,411.0) | (1,539.0) | (1,711.0) | (639.7) | 136.0 | 1,413.0 | (5,555.0) | (3,950.0) | (2,350.7) | (963.9) | 694.1 |
| Adj. EPS (£) basic | (0.1481) | (0.0945) | (0.1051) | (0.0393) | 0.0103 | 0.1005 | (0.3743) | (0.2426) | (0.1445) | (0.0593) | 0.0427 |
| Basic Shares (000s) | 16,276.3 | 16,278.7 | 16,278.7 | 16,267.6 | 13,212.2 | 14,054.1 | 14,841.4 | 16,278.7 | 16,267.6 | 16,267.6 | 16,267.6 |
| Net Cash in/(Out)-flow | 2,809.0 | (15,044.0) | 15,509.0 | (6,226.7) | 5,150.0 | (1,822.0) | 9,725.0 | (12,235.0) | 9,282.3 | 329.3 | 96.9 |
| Debt | - | - | - | - | - | - | - | - | - | (1,476.0) | (1,313.5) |

| Growth Rates (%) | H1 2019 | H2 2019 | H1 2020 | H2 2020E | 2017 | 2018 | 2019 | 2020E | 2021E | 2022E |
|---------------------|---------|---------|---------|----------|--------|---------|-------|--------|-------|--------|
| Revenue | - | - | -18.9% | -1.4% | 180.6% | 76.7% | 38.4% | -10.3% | 16.8% | 28.3% |
| EBITDA | - | - | 36.1% | 56.3% | 201.3% | -508.8% | 32.5% | 43.6% | 72.1% | 281.8% |
| Net Income | - | - | 37.0% | 71.6% | 152.3% | -981.4% | 20.7% | 52.7% | 59.0% | 172.0% |
| Adjusted Net Income | - | - | -29.0% | -58.4% | 939.0% | -493.1% | 28.9% | 40.5% | 59.0% | 172.0% |

| Financial Health | H1 2019 | H2 2019 | H1 2020 | H2 2020E | 2016 | 2017 | 2018 | 2019 | 2020E | 2021E | 2022E |
|------------------------|----------|---------|------------|------------|----------|----------|----------|--------|------------|------------|------------|
| Working Capital (£000) | 2,967.00 | 187.00 | (2,498.00) | (6,682.70) | 4,748.00 | 7,021.00 | 6,664.00 | 187.00 | (6,682.70) | (6,075.14) | (5,090.15) |
| Current Ratio | (1.10) | (1.01) | (0.92) | (0.76) | (1.89) | (1.65) | (1.31) | (1.01) | (0.8) | (0.8) | (0.8) |
| Long-term Debt (£m) | - | - | - | - | - | - | - | - | - | (1,476) | (1,314) |
| Total Equity (£m) | 7.35 | 5.30 | 3.75 | 3.27 | 5.41 | 8.81 | 10.44 | 5.30 | 3.3 | 2.4 | 3.2 |
| LT Debt/Assets | - | - | - | - | - | - | - | - | - | (0.05) | (0.04) |
| LT Debt/Equity | - | - | - | - | - | - | - | - | - | 0.05 | 0.04 |

| Financial Position (£000) | H1 2019 | H2 2019 | H1 2020 | H2 2020E | 2016 | 2017 | 2018 | 2019 | 2020E | 2021E | 2022E |
|---------------------------|------------|------------|------------|------------|-----------|------------|------------|------------|------------|------------|------------|
| Cash | 17,421.0 | 2,377.0 | 17,886.0 | 11,659.3 | 5,197.0 | 4,887.0 | 14,612.0 | 2,377.0 | 11,659.3 | 11,988.6 | 12,085.5 |
| Inventory | - | - | - | - | - | - | - | - | - | - | - |
| Debtors | 16,139.0 | 25,886.0 | 10,985.0 | 9,234.7 | 4,891.0 | 13,011.0 | 13,569.0 | 25,886.0 | 9,234.7 | 9,337.0 | 9,538.8 |
| Creditors | (30,593.0) | (28,076.0) | (31,369.0) | (27,576.7) | (5,340.0) | (10,877.0) | (21,517.0) | (28,076.0) | (27,576.7) | (27,400.7) | (26,714.4) |
| Total Assets | 38,405.0 | 33,822.0 | 35,496.0 | 31,169.0 | 10,821.0 | 20,061.0 | 31,955.0 | 33,822.0 | 31,169.0 | 31,605.2 | 31,550.5 |
| Total Liabilities | (31,059.0) | (28,524.0) | (31,743.0) | (27,900.7) | (5,412.0) | (11,248.0) | (21,517.0) | (28,524.0) | (27,900.7) | (29,200.8) | (28,352.0) |
| Total Equity | 7,346.0 | 5,298.0 | 3,753.0 | 3,268.3 | 5,409.0 | 8,813.0 | 10,438.0 | 5,298.0 | 3,268.3 | 2,404.4 | 3,198.5 |

| Profitability | H1 2019 | H2 2019 | H1 2020 | H2 2020E | 2016 | 2017 | 2018 | 2019 | 2020E | 2021E | 2022E |
|---------------|---------|---------|---------|----------|--------|------|--------|--------|--------|--------|-------|
| ROE | -37.0% | -42.5% | -45.6% | -19.6% | -25.1% | 8.1% | -60.0% | -93.8% | -71.9% | -40.1% | 21.7% |
| ROA | -7.1% | -6.7% | -4.8% | -2.1% | -12.6% | 3.5% | -19.6% | -14.7% | -7.5% | -3.0% | 2.2% |

SOURCE: Company reports and SP Angel forecasts

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