

Non-Independent Research

MiFID II Exempt: Marketing Material

SP Angel provides research to YUG

24 September 2024

## Stock Data

Ticker (AIM)	YU.LN
Share Price	1550p
Market Cap	£259m
Yr High/Yr Low	1970/950p
Target Price	2100p
Rating	Buy

## Price Chart



Source: [hl.co.uk](https://www.hl.co.uk)

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## Research

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# Yü Group Plc

## 60% organic growth

Energy prices have normalised and their drag effect on interim revenues (+60% YoY) and reported bookings should wash through going forward. This should help Yu Group report much stronger metrics in H2E and our implied second half sequential revenue growth forecast of +13% feels cautious. The valuation of the stock is materially below fair value. We retain our Buy recommendation and 2100p price target.

### Interim results – key points:

- **60% organic growth.** Revenues grew 60% YoY to £312.7m. Underlying volumes of energy sold grew 110% YoY despite the warm spring which dampened demand. Supplied meter points rose 82% YoY to 72.3m. The return of energy prices to pre-Covid levels led average pricing to decline 25% to £297 per MWh over this period, partly offsetting the volume gain.
- **Lower prices washing through.** Average monthly bookings of new business softened 9% YoY to £46.9m reflecting the same movement in pricing. Lower variable tariffs for out-of-contract customers (c10% revenues) and higher industry specific costs for distribution and generation softened gross margins (-350bp to 13.7%). The impact of smart meter deployments, together with good credit control, has been responsible for a much lower provision charge for bad debtors of 2% (H1 2023: 4.1%). Net of these charges, net customer contribution margin fell only 140bp to 11.7%.
- **+49% ad. EBITDA.** Adjusted EBITDA growth of 49% YoY to £20.4m, a net working capital inflow of £2.1m and the £49.8m working capital release from SmartestEnergy contributed to an operating cash inflow of £68.3m (+265% YoY). Net cash ended the half year at £59.4m and material rise in the interim dividend to 19p reflects the strength of the balance sheet.

### Trading forecasts unchanged

We adjust our forecasts for non-trading items only: i) an advance payment of £9m for a Renewables Obligation Certificate, ii) higher capex on smart meters (+£2.5m to £5.5m), and iii) dividend upgrade (FY24E: +35% to 57p). Our FY24E adjusted EBITDA forecast of £44.1m is unchanged but net cash reduces to £80.5m in light of the above changes.

### Outlook

With prices stabilising, and the prospect of rising prices through H2E, monthly bookings value is likely to revert into positive growth YoY. Smart meter roll-outs are accelerating with 9k smart meters installed in H1A (+125% YoY). The estate of smart meters is now producing a very high quality, index-linked annualised recurring income stream of £0.6m. Yu Group has booked £945m of contracted income that will be recognised over the next four years (+70% YoY). Of this, £417m will be recognised over the next financial year and will build for the rest of FY24E. A stated target of 100k meters in FY25E could produce over £800m of revenue based on this year's run rate metrics. Our FY24E revenue forecast of £668m implies sequential growth of 13% which feels cautious in light of recent performance metrics. With the stock trading on FY24E EV/adj. EBITDA of 4.0x and p/e of 7.9x, a very material discount to the UK market on 14.6x, we continue to rate the stock as Buy. Our 2100p price target values the stock on 6x FY24E adj. EBITDA.

## Valuation and financial statements

Table 1: Valuation metrics

YE December (£m)	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	57.0	60.0
<b>EV/Sales (x)</b>	<b>1.1</b>	<b>0.6</b>	<b>0.4</b>	<b>0.3</b>	<b>0.2</b>
<b>EV/adj. EBITDA (x)</b>	<b>120.8</b>	<b>22.5</b>	<b>4.2</b>	<b>4.0</b>	<b>3.8</b>
<b>P/e (x)</b>	<b>56.8</b>	<b>53.6</b>	<b>8.4</b>	<b>7.9</b>	<b>7.3</b>
Yield (%)	0.0	0.2	2.6	3.7	3.9

Source: Company Accounts, SP Angel estimates

Table 1: Income statements

YE December (£000s)	2021A	2022A	2023A	2024E	2025E
<b>Revenue</b>	<b>155,423</b>	<b>278,587</b>	<b>460,001</b>	<b>668,005</b>	<b>715,808</b>
<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
<b>Gross Profit</b>	<b>15,243</b>	<b>44,125</b>	<b>83,042</b>	<b>107,175</b>	<b>114,529</b>
<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
<b>Adjusted EBITDA</b>	<b>1,475</b>	<b>7,909</b>	<b>42,616</b>	<b>44,106</b>	<b>47,061</b>
<b>Operating profit</b>	<b>3,488</b>	<b>5,930</b>	<b>38,082</b>	<b>42,382</b>	<b>45,243</b>
<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
<b>Profit/(Loss) before tax</b>	<b>3,392</b>	<b>5,840</b>	<b>39,699</b>	<b>44,539</b>	<b>48,618</b>
Taxation	1,059	-1,071	-8,839	-11,135	-12,154
<b>Profit/(Loss) after tax</b>	<b>4,451</b>	<b>4,769</b>	<b>30,860</b>	<b>33,405</b>	<b>36,463</b>
<b>Earnings/(Loss) per share (GBp)</b>					
<b>Basic</b>	<b>27.3</b>	<b>28.9</b>	<b>184.9</b>	<b>196.1</b>	<b>210.9</b>
<b>Adjusted Basic</b>	<b>19.7</b>	<b>32.1</b>	<b>197.8</b>	<b>204.9</b>	<b>219.6</b>
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	<b>16,300</b>	<b>16,497</b>	<b>16,686</b>	<b>17,038</b>	<b>17,288</b>
Dilutive effect of outstanding options	1,099	1,723	1,533	1,723	1,723
Ordinary shares for diluted earnings calculation	<b>17,399</b>	<b>18,220</b>	<b>18,220</b>	<b>18,760</b>	<b>19,010</b>
<b>Dividend/share (£)</b>					
<b>Interim</b>	<b>0.00</b>	<b>0.03</b>	<b>0.40</b>	<b>0.57</b>	<b>0.60</b>
<b>Final</b>	<b>0.00</b>	<b>0.03</b>	<b>0.37</b>	<b>0.38</b>	<b>0.40</b>

Source: Company Accounts, SP Angel estimates

Table 1: Cash flow statements

YE December (£'000)	2021A	2022A	2023A	2024E	2025E
<b>Cash Flow from operating activities</b>					
Profit/(Loss) for the financial period	4,451	4,769	30,860	33,405	36,463
<b>Adjustments for:</b>					
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	-34,644	-9,168
Increase in cash collateral deposits lodged with trading counterparties	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
<b>Net cash from operating activities</b>	<b>-774</b>	<b>14,737</b>	<b>16,132</b>	<b>69,203</b>	<b>36,364</b>
<b>Cash flows from investing activities</b>					
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	-5,525	-5,828
Acquisitions	0	-216	0	0	0
<b>Net cash from investing activities</b>	<b>-3,708</b>	<b>-2,641</b>	<b>-1,502</b>	<b>-7,025</b>	<b>-7,328</b>
<b>Cash flows from financing activities</b>					
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	-9,541	-10,027
Debt facility Smart Meters - drawdown	0	0	0	2,025	2,328
Net change in borrowings & lease obligations	-120	-121	-140	0	0
<b>Net cash from financing activities</b>	<b>-209</b>	<b>-175</b>	<b>-1,123</b>	<b>-11,754</b>	<b>-8,052</b>
<b>Net increase in cash and cash equivalents</b>	<b>-4,691</b>	<b>11,921</b>	<b>13,507</b>	<b>50,424</b>	<b>20,984</b>
Gross cash and cash equivalents at start of the period	11,740	7,049	18,970	32,477	82,901
<b>Gross cash and cash equivalents at end of the period</b>	<b>7,049</b>	<b>18,970</b>	<b>32,477</b>	<b>82,901</b>	<b>103,885</b>
<b>Net cash (debt)</b>	<b>7,049</b>	<b>18,970</b>	<b>32,125</b>	<b>80,524</b>	<b>99,181</b>
<b>Free cash flow</b>	<b>-4,559</b>	<b>12,020</b>	<b>14,524</b>	<b>61,935</b>	<b>28,683</b>
<b>Free cash flow margin</b>	<b>-2.9%</b>	<b>4.3%</b>	<b>3.2%</b>	<b>9.3%</b>	<b>4.0%</b>

Source: Company Accounts, SP Angel estimates

Table 1: Balance sheets

YE December (£000s)	2021A	2022A	2023A	2024E	2025E
<b>CURRENT ASSETS</b>					
Stock	0	345	546	546	546
Trade & other receivables	37,359	54,339	127,222	161,866	171,034
Financial derivative assets	3,102	1,484	0	0	0
Trade and other receivables	40,461	55,823	127,222	161,866	171,034
Cash and cash equivalents	7,049	18,970	32,477	82,901	103,885
<b>Total Current Assets</b>	<b>47,510</b>	<b>75,138</b>	<b>160,245</b>	<b>245,313</b>	<b>275,465</b>
<b>NON CURRENT ASSETS</b>					
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
<b>TOTAL NON CURRENT ASSETS</b>	<b>12,079</b>	<b>13,727</b>	<b>16,050</b>	<b>15,266</b>	<b>14,468</b>
<b>TOTAL ASSETS</b>	<b>59,589</b>	<b>88,865</b>	<b>176,295</b>	<b>260,579</b>	<b>289,933</b>
<b>CURRENT LIABILITIES</b>					
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
<b>TOTAL CURRENT LIABILITIES</b>	<b>-49,743</b>	<b>-73,860</b>	<b>-127,864</b>	<b>-126,375</b>	<b>-120,871</b>
Trades & other payables	-541	-206	-1,281	-158	-158
Borrowings	0	0	-352	-2,377	-4,705
<b>NON CURRENT LIABILITIES</b>	<b>-541</b>	<b>-206</b>	<b>-1,633</b>	<b>-2,535</b>	<b>-4,863</b>
<b>TOTAL LIABILITIES</b>	<b>-50,284</b>	<b>-74,066</b>	<b>-129,497</b>	<b>-128,910</b>	<b>-125,734</b>
<b>NET ASSETS</b>	<b>9,305</b>	<b>14,799</b>	<b>46,798</b>	<b>131,670</b>	<b>164,199</b>

Source: Company Accounts, SP Angel estimates

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