

UP Global Sourcing Holdings Plc



Sustaining strong growth momentum

8th January 2019

UPGS's positive trading update, released yesterday, prompts us to raise our key estimates by more than 10% for all of revenue, EBITDA and adjusted EPS. Importantly, the company distinguishes itself from the more troubled UK consumer facing businesses with 24% potential sales growth in FY2019. Despite yesterday's significant share price increase, valuation remains attractive in our view, which leaves headroom for further gains given current momentum.

UPGS's Monday 7th January 2019 RNS revealed that the positive momentum referenced in its last trading statement - issued 6th November 2018 - has continued. As a result, we upgrade our FY2019 forecasts only a couple of months later. We raise our FY2019 revenue forecast from £97.0m to £108.2m and EBITDA from £7.1m to £7.9m. Revenues are expected to grow by 24% in FY2019 compared with 11% previously envisaged, and that brings the company back close to its £110.0m FY2017 peak sales revenue number.

Every one of UPGS's strategic distribution pillars - **discounters, UK supermarkets, online and international customers** - is contributing positively to revenue growth. International continues to progress well and is increasing its share of the company's overall revenue. This represents a healthy diversification given apparent uncertainty in the UK consumer facing sector overall.

We raise our FY2019 basic adjusted EPS forecast by 12.5% to 6.3p, which assumes a 22.3% tax rate compared with 21.0% in FY2018 and a higher finance charge due to increased working capital requirements. The company's next update relates to the FY2019 half year and is due on 11th February 2019. UPGS's growth trends ahead of February and its recent ability to surprise the market positively are clearly encouraging.

In our view, the share price reaction to yesterday's news should not preclude further upside. Rather, the positive newsflow tends to confirm inherent sales growth and the strength of the UPGS business model under its resolute management team. Moreover, key valuation measures continue to look attractive. Based on a 46p price, the company's shares trade on 0.5x EV/sales, a 7.3x P/E ratio and boast an attractive 6.8% prospective dividend yield.

Company Data

EPIC	UPGS
Price	46p
52 week Hi / Lo	77p / 30p
Market cap	£38m

Share Price, p



Source: ADVFN

Description

UPGS develops new, innovative concepts and brings professional, sought-after products to the mass market. Their offices span two continents, with headquarters in the UK, offices plus a showroom in Guangzhou, and a showroom in Germany.

UPGS – Key Financials

	2016A	2017A	2018A	2019E	2020E
Revenue (£'000)	79,028	109,953	87,571	108,186	113,595
Revenue growth (%)	23.3%	39.1%	-20.4%	23.5%	5.0%
EBITDA (adj)	8,226	11,512	6,472	7,901	8,210
EPS basic adjusted (p)	8.0	10.9	5.4	6.3	6.7
DPS (p)	3.3	5.1	2.7	3.1	3.3
EV/EBITDA (x)	6.4	4.6	8.2	6.7	6.5
P/E ratio (x)	5.8	4.2	8.4	7.3	6.9
Yield (%)	7.2%	11.1%	5.9%	6.8%	7.2%

Source: Company Data and Equity Development estimates

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