

UP Global Sourcing Holdings plc



EBITDA margin sustains profit growth

10 February 2020

Despite slower than expected sales growth, UPGS reconfirmed FY2020 profit guidance in a trading statement released today. Other features of H1 included extension of UPGS's bank facilities and a 10-year addition to the Manor Mill lease. The company continues to monitor the effect of coronavirus closely, and its potential impact on sourcing from China. The central long-term growth message remains in place.

UPGS's interim FY2020 trading statement reported 2.8% sales growth to £67.7m, which was beneath the forecast 5.0% run rate for the full year published in our 5th November 2019 report "Execution Strength Fuels Growth." FY2020 sales guidance has been reduced accordingly, so as to be in line with the first half. We adjust our sales estimate downwards by 2% to £127m, which is consistent with 2.8% growth for the full year.

Yet the company reconfirms its FY2020 profit guidance, which implies that adjusted EBITDA margins will be slightly higher at 8.1% compared with 7.9% envisaged previously. These measures refer to pre-IFRS16 data, the adoption of which standard is in itself is expected to have an overall neutral impact on pre-tax profits this year.

Non-trading items that occurred in FY2020 H1 read positively. UPGS's group banking facilities, that gave £13.2m headroom at end-January were extended until 2024. Moreover, a 10-year lease extension was secured at its Manor Mill premises in Oldham, Greater Manchester, which houses both Head Office and distribution, in anticipation of further sales growth related investment in the site. The group's exclusive non-electrical products licence agreement with Russell Hobbs now lasts until at least 2023.

With the majority of its manufactured product sourced from China, UPGS's Board is closely monitoring coronavirus developments and highlights that the extension to the Chinese New Year holiday of 9 days will cause production delays. That said, the company will take necessary steps to mitigate any disruption and highlights its extensive experience of managing supply chain disruptions in China, including virus related ones.

Importantly, despite slower expected sales expansion in FY2020, we maintain both our full year profit forecasts and confidence in the group's long-term growth rate. Notably, UPGS's trading proved more resilient than a number of UK consumer-facing companies in recent months. **As a result, we continue to argue for a 100p share price, which would imply 9.6x FY2020 EV/EBITDA and an 11.8x P/E ratio.**

Company Data

EPIC	UPGS
Price (last close)	65.5p
52 week Hi/Lo	99p/54p
Market cap	£62m

Share Price, p



Source: ADVFN

Description

UP Global Sourcing Holding (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.

Key Financials

	2017A	2018A	2019A	2020E	2021E
Revenue (£'000)	109,953	87,571	123,257	126,708	133,044
Revenue growth	39.1%	-20.4%	40.8%	2.8%	5.0%
EBITDA (adj)	11,512	6,472	9,928	10,231	10,786
EPS basic adj (p)	10.9	5.4	8.2	8.5	8.9
DPS (p)	5.1	2.7	4.1	4.3	4.5
EV/EBITDA (x)	6.0	10.7	6.9	6.7	6.4
P/E ratio (x)	6.0	12.0	8.0	7.8	7.3
Yield	7.8%	4.1%	6.2%	6.5%	6.8%

Source: Company Historic Data, ED estimates

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Margin expansion sustains profit growth

Summary

Sales revenue data and a comment on profit guidance were released in today’s trading statement, along with a few general updates. Revenue is up 2.8% from £65.8m to £67.7m. Importantly, while sales revenue growth in the full year at 2.8% is expected to be slower than the 5.0% originally envisaged, profit guidance remains unchanged.

The implied uplift to EBITDA margin expectations at 8.1%, compared with 7.9% in our previous forecast, appears modest. Moreover, it is entirely credible that UPGS’s underlying margin trends should be positive given the execution strength which we highlighted in our most recent comment (5th November 2019), referred to on the front page of this report.

Interim FY2020 results are due for release on 30th April 2020.

Changes to Financial Forecasts

The salient reduction to our financial forecasts in FY2020 is lower sales revenue than originally envisaged, which we mention in the paragraph above. Estimates for all profit measures remain unchanged. Importantly, the company will report its FY2020 results on an IFRS16 basis. Implementation of the standard is expected to have a broadly neutral impact on adjusted profit before tax this year.

We adjust our forecasts to take into consideration slower sales growth in FY2020. We assume that the pace accelerates to 5.0% in FY2021. In terms of offsetting efficiency improvements, we reduce our administration expenses forecasts from £19.2m to £18.6m in FY2020 and from £20.1m to £19.5m in FY2021.

Changes to FY2020 Forecasts			
	Old	New	Change
All figures in £'000s			
Sales Revenue	129,420	126,708	-2.1%
EBITDA-adjusted	10,231	10,231	unchanged
Pre-tax profit-adjusted	8,768	8,768	unchanged
EPS basic adj (pence)	8.5	8.5	unchanged

Source: Equity Development estimates

Relative Valuation

We include an updated relative valuation below. Given UPGS's unusual execution focused business model, which combines sourcing, brand management and distribution, it is hard to find direct UK listed comparisons.

However, a 100p price level, which implies 0.8x EV/sales, 9.5x FY2020 EV/EBITDA, an 11.8x P/E ratio and around 4.2% dividend yield, continues to appear reasonable in our view.

Relative Valuation													
	Share price	Shares	Mkt cap	Net debt	EV	Sales	EV/sales	EPS	EPS	P/E	P/E	DPS	Yield
	(p)	(m)	(£m)	(£m)	(£m)	2020 (£m)	(x)	2020 (p)	2021 (p)	2020 (x)	2021 (x)	2020 (p)	(%)
Gear4Music	231	21	48	8	56	138	0.4	5.7	12.7	40.5	18.2		
Luceco	143	161	230	78	316	164	1.9	0.9	0.9	158.7	158.7		
UPGS	66	82	54	14	69	127	0.6	8.5	8.9	7.7	7.3	4.2	6.5%
Warpaint	83	77	64	5	69	49	1.4	12.6	14.7	6.6	5.7	6.6	7.9%
Average							1.1			53.4	47.5		7.2%

Source: ADVFN, FT Markets and Equity Development (close 7th Feb)



Investor Access

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