

UP Global Sourcing Holdings PLC



Satisfying customer demand

8th June 2020

UPGS released an unscheduled trading statement this morning which confirms better than expected numbers for FY2020 sales revenue, profitability, and net debt. A more encouraging outcome than previously envisaged when the company reported its interim results on 30th April.

A commitment to being sufficiently flexible to ensure employee safety while still satisfying customer demand is clearly working well. Accordingly, we make positive adjustments to our own forecasts.

UPGS expects sales revenue to be above the level previously envisaged. Total invoiced revenue at close of business on the 5th June 2020 was £97.2m and there was a further £10.6m of orders for the remainder of the current fiscal year. As a result, we raise our own forecast for the year **from £93m to £105m** which allows scope for £3m in the event of any slippage in the order book.

Revenue continues to benefit from the strength of online and robust sales at those outlets which have stayed open during lockdown, including the supermarkets.

Higher sales revenue should translate into higher underlying profits. In particular, there is no reason to believe that gross margins should have deteriorated materially. With overheads being broadly similar to what we expected prior to the sales upgrade, we add around £2m to our forecast for underlying EBITDA. Investors should note that underlying EBITDA excludes any benefits from the UK Government's Coronavirus Job Retention Scheme.

Financially, UPGS remains in healthy shape. **The latest net debt figure stood at a relatively modest £2.6m.** A summary of the company's headroom facilities was included in our 30th April report "UPGS - Benefits of Underlying Strengths."

Looking ahead, UPGS's investment case has not only remained intact, but once again proven itself resilient and flexible. Despite lockdown, demand for the company's "feel good" brands, which include Beldray, Russell Hobbs' non-electrical products, and Salter (excluding scales), was robust in the first five months of the calendar year.

Moreover, the company's management should be commended for simultaneously continuing to source product out of China, whilst sustaining end-market distribution and ensuring safe working practices for all employees. The Heron Mill warehouse facility in Oldham, Greater Manchester is functioning efficiently.

Valuation

UPGS's shares performed well in the past two months, indeed since the end of March they have rallied by over 50%. However, based on our revised FY2020 sales estimate and current projections for end-year net debt, the implied EV/sales ratio at current levels is still only 0.6x

Company Data

EPIC	UPGS
Price (last close)	62p
52 week Hi/Lo	99p / 32p
Market cap	£51m
Net debt	£3m

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, a sourcing office and showroom in Guangzhou, as well as a showroom in Germany.

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Today's update appears to reflect a company which is capable of delivering on its message despite the twin challenges of sourcing product from China and distributing into a UK retail system which has faced significant closures. Furthermore, sales revenue may receive an incremental benefit once non-essential retailers are able to open – perhaps as early as in July 2020.

Our revised forecasts are summarised in Figure 1. We raise our FY2020 sales expectation from £93m to £105m and EBITDA from £5.7m to £7.9m, which gives some indication of the operationally geared nature of the business. Finance costs remain relatively low – we assume a net figure of £0.6m.

Figure 1 - New forecasts

£'000s	H1 FY2019	H1 FY2020	Change
	Old	New	
Sales Revenue	93,000	105,000	12.9%
EBITDA (underlying)	5,721	7,874	37.6%
Pre-tax profit (underlying)	3,613	5,852	62.0%
EPS basic adjusted (pence)	3.5	5.6	60.3%

Source: Company data, ED estimates

Relative valuation

We include a relative EV/sales valuation for UPGS in Figure 2 which is based on our revised expectations. The inferred FY2020 EV/sales ratio for UPGS is comfortably beneath peer group average. Note that the EV refers to our expectations for end-year net debt rather than at the time of the trading statement.

Figure 2 – Relative valuation

£m	Share price (p)	Shares (m)	Mkt cap	Net debt	EV	Sales 2020	EV/sales x
Gear4Music	288	21	52	9	61	122	0.5
Luceco	123	161	198	18	216	138	1.6
UPGS	62	82	51	13	54	105	0.6
Warpaint	67	77	52	-4	48	51	0.9
Average rating							0.9

Source: ADVFN, MarketScreener and Equity Development estimates



Investor Access

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