

UP Global Sourcing Holdings plc



23rd August 2021

Another year of good growth delivered

UPGS's pre-close FY2021 trading statement confirmed a strong end to the financial year with most key financial measures beating market expectations. Moreover, FY2022 appears to have started well despite ongoing headwinds. Sustainable growth is built on a focused brand portfolio (which now includes the whole Salter range), stronger distribution online and into supermarkets, plus further international progress. We upgrade our FY2022 profit forecasts.

Better than expected sales revenue, EBITDA, pre-tax profits, and net debt position were the salient features of UPGS's statement, released today. In addition, the company confirmed that it had in mid-July completed the £34m acquisition of Salter, which it expects to be "significantly earnings enhancing in FY2022" and that the integration was proceeding according to plan.

Given the better margin experience in FY2021 we upwardly adjust our profit forecasts for the FY2022 financial year. At this stage, we leave our sales revenue forecast for FY2022 unchanged. However, it may be worth noting that this is based on an underlying organic sales growth expectation of just 6% which would be well beneath the 11.5% compound growth rate which the company achieved in the 5 years to FY2021.

Today's statement confirmed growth across all four strategic pillars - international, supermarkets, online channels, and discount retailers - in FY2021. This occurred despite challenging conditions due to Covid-19 related disruptions to operations and shipping. In February 2021 UPGS raised its long-term target for online distribution as a portion of the total from 20% to 30%, despite online being only 4.2% as recently as FY2017. Within the important growth driver of international, Germany remains the largest contributor and appears to have performed strongest.

Brisk sales growth reflects effective brand management. Recent success with Beldray, Salter and licensed brand Russell Hobbs enhances our enthusiasm for the Salter acquisition and the company's outright ownership of the scales and measuring led business. We highlighted key features of the Salter acquisition in our 25th June 2021 report [UPGS acquires UK's oldest housewares brand](#).

In the aftermath of the Salter acquisition, we raised our fair value for UPGS from 200p to 275p. This not only reflected the company's increased consumer reach due to Salter and a higher portion of owned brands but also the hidden "option value" implied by its ability to make opportunistic and value enhancing strategic acquisitions.

We retain that fair value, at which the implied FY2022 EV/sales and P/E ratios would be 1.6x and 19.5x respectively.

Key Financials					
Year to 31st July	2018A	2019A	2020A	2021E	2022E
Revenue (£'000)	87,571	123,257	115,684	136,400	161,709
Revenue growth	-20.4%	40.8%	-6.1%	17.9%	18.6%
EBITDA (£'000) (adj)	6,280	10,720	10,363	13,302	18,797
EPS adjusted (p)	5.0	8.1	7.9	10.4	14.1
DPS (p)	2.7	4.1	4.0	5.0	7.0
EV/EBITDA (x)	33.4	19.6	20.2	15.8	11.2
P/E ratio (x)	43.0	26.4	27.1	20.6	15.2
Yield	1.3%	1.9%	1.8%	2.3%	3.3%

Source: ED estimates, company historic data

Company Data

EPIC	UPGS
Price (last close)	214p
52 weeks Hi / Lo	238p / 82p
Market cap	£191m
ED Fair Value / share	275p

Share Price, p



Source: ADVFN

Description

UP Global Sourcing Holdings plc (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.

Key owned brands include Beldray, Intempo, Kleeneze, Progress and Salter. The company also markets non-electrical Russell Hobbs products under licence.

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Another year of good growth delivered

Despite the headwinds of Covid19 which included not only lockdown, but also disruption to shipping (exacerbated by the 2021 Suez Canal blockage), UPGS recorded another year of brisk sales growth and profit improvement in FY2021. Furthermore, the company demonstrates clear financial strength.

FY2022 appears to have started well with the company's order book, excluding the impact of the Salter acquisition, being ahead of last year. With a firmly established 4-pillar distribution strategy, focused brand management and an added kicker from international, the company reiterates its expectation of growth this year - both from the core business and through the acquisition of Salter.

Trading statement highlights

We summarise the highlights from today's trading statement in Figure 1. Importantly, sales revenue and key profit measures beat market expectations. Moreover, the end-FY2021 net debt outcome was £6m more favourable than Equity Development's recent forecast of £25m. The increase in net debt during the financial year was attributable to the company's £34m outright acquisition of Salter, for which the £32m initial payment was funded through an £15m equity issue and the remainder from existing cash resources and debt.

We summarise trading statement highlights in Figure 1.

Figure 1 - Trading statement highlights			
All figures in £m	FY2020	FY2021	Change
Group revenues	115.7	136.4	17.9%
EBITDA	10.4	13.3	28.3%
Net bank debt	3.8	18.9	15.1
Funding headroom	21.3	16.2	-5.1
Net debt/EBITDA	0.4	1.4	

Source: Company data

Upgrades to forecasts

A combination of better than expected profit margins in FY2021 and an overall optimistic statement regarding the early stages of FY2022 prompts us to upgrade our profit forecasts for FY2022. However, we make no change to our underlying assumption of 6% organic growth in key geographic regions and leave our sales forecast unchanged. Our revised forecasts are summarised in Figure 2.

The impact of the Salter acquisition on FY2022 sales revenue and EBITDA is expected to be £16.7m and £4.6m respectively. The positive impact of the acquisition on group EPS – i.e. the earnings enhancement – and its ability to deliver an uplift to economic profit were discussed in detail in our 25th June 2021 report [UPGS acquires UK's oldest housewares brand](#), and highlighted on the front page of this report.

Encouragingly, upward revisions to UPGS forecasts have been an underlying feature of company updates since guidance was resumed towards the end of the initial Covid-19 related lockdown in the UK.

The driver behind our EBITDA upgrade is improved margin experience arising from scale benefits and the ability to constrain overheads effectively. The faster growth in pre-tax profits and EPS reflects a £0.1m reduction in our finance costs forecast due to a better than expected debt outcome in FY2021.

Figure 2 - Changes to FY2022 forecasts

All figures in £m	FY2022		Change
	Old	New	
Group revenues	161.7	161.7	0.0%
EBITDA - adjusted	18.5	18.8	1.5%
EBITDA margin (%)	11.5%	11.6%	10 bps
Pre-tax profit - adjusted	15.5	15.9	2.4%
EPS (p) - basic adjusted	13.7	14.1	2.4%

Source: Equity Development estimates

Brands, channels and international

Today's statement includes no discrete data for sales revenue by distribution channel, brand or country. Importantly, all distribution channels expanded in FY2021 which we assume reflects ongoing strength in the company's three largest brands – **Beldray, Russell Hobbs** and **Salter** – with useful back-up from the key smaller brands, notably **Intempo, Kleeneze** and **Progress**.

Growth in the online channel's importance within the group as a distribution channel remains important. During the course of the financial year this channel's targeted portion of group sales was raised from 20% to 30% and highlighted in the 16th February 2021 [Capital Markets Day Presentation](#).

The achievement of this goal should be facilitated by greater focus on the group's core brands in addition to the outright ownership of Salter and the ability to promote that company's leadership status in household measuring devices – notably kitchen and bathroom scales.

International adds a useful fillip to core UK growth, with Germany currently the largest contributor. In the first half of FY2021 Germany was 9.8% of group sales compared with 8.7% a year earlier and appears to have remained strong in the second half. Furthermore, the company's statement highlighted that the Salter acquisition provides "further opportunities for future growth both domestically and internationally."

Financials and valuation

Relative valuation

We include a relative valuation for UPGS in Figure 3. The company's shares currently trade at beneath the average for the chosen peer group using EV/sales, EV/EBITDA and P/E ratio based on our FY2022 forecasts. Even at our 275p fair value the same would apply to EV/sales and P/E while EV/EBITDA would be one and a half points above this selected peer group's average.

As a result, we believe that the UPGS share price reflects little in the way of a number of changing and favourable dynamics. These include the recent tendency for sales and profits to surprise positively relative to expectations, the demonstrable ability to make opportunistic acquisitions (not only Salter in the UK in FY2021 but also the smaller acquisition of Petra in Germany) and the ongoing optimisation of the distribution channel breakdown – notably online and supermarkets.

International also represents an important opportunity for further incremental growth.

Figure 3: Relative Valuation

	Share price	Shares	Mkt cap	Net debt	EV	Sales	EV/sales	EBITDA	EV/EBITDA	EPS	P/E	DPS	YLD
	(p)	(m)	(£m)	(£m)	(£m)	2022 (£m)	(x)	2022 (£m)	(x)	2022 (p)	(x)	2022 (p)	(%)
Accrol Group	50	311	156	21	177	190	0.9	25.7	6.9	n/a	n/a	1.0	2.0
Gear4Music	999	21	210	5	215	160	1.3	14.0	15.3	28.0	35.7	n/a	n/a
Luceco	459	154	707	-4	703	233	3.0	49.6	14.2	21.0	21.9	7.0	1.5
Portmeirion	620	14	85	-5	81	99	0.8	14.2	5.7	58.0	10.7	19.0	3.1
UPGS	214	89	191	18	210	162	1.3	18.8	11.2	14.1	15.2	7.0	3.3
Warpaint	195	77	150	-6	143	49	2.9	7.3	19.6	n/a	n/a	5.0	2.6
Average							1.7		12.1		20.9		2.5

Source: ADVFN, MarketScreener and Equity Development estimates. Prices as at close 20 August 2021

Financial forecasts

Our income statement projections are based on 6% underlying sales growth for all regions, which we apply in both FY2022 and FY2023. The UK benefits from the addition of £16.7m of sales in FY2022 arising from Salter.

At this stage we make no assumption for Salter accelerating the underlying sales growth rate, arguably conservatively, for either the UK or overseas. We assume a similar tax charge to FY2020 in FY2021, but that this drops slightly in FY2022 and thus we look for EPS to grow faster than pre-tax profits.

Balance sheet strength arising from robust free cash flow generation should remain a feature of UPGS's financial statements going forward. Closing net debt:EBITDA is forecast to be 1.0x in FY2022 and probably to drop to beneath that level in FY2023.

Cash flow having been positive to the tune of £12m in FY2020 and forecast to be negative by £15m in FY2021 due to the cash and debt component of the £34m Salter acquisition, we expect it to return to being positive by around £0.5m in FY2022. Figures 4, 5 and 6 summarise our financial forecasts.

Figure 4 - Income statement

All figures in £'000s	2019A	2020A	2021E	2022E
	re-stated			
Revenue	123,257	115,684	136,400	161,709
change in revenue	40.8%	-6.1%	17.9%	18.6%
Gross profit	27,244	26,600	30,826	39,619
Gross margin	22.1%	23.0%	22.6%	24.5%
EBITDA - adjusted	10,720	10,363	13,302	18,797
EBITDA margin - adjusted	8.7%	9.0%	9.8%	11.6%
Net financial expense	-810	-753	-500	-1,100
Pre-tax profit - reported	8,130	8,362	10,496	15,631
Pre-tax profit - adjusted	8,387	8,163	11,228	15,898
Taxation	-1,720	-1,747	-2,415	-3,338
Tax rate - adjusted	20.5%	21.4%	21.5%	21.0%
Net income - adjusted	6,667	6,504	8,585	12,559
EPS - basic adjusted (p)	8.1	7.9	10.4	14.1
Dividend per share (pence)	4.1	4.0	5.0	7.0

Source: ED estimates, Company historic data

Figure 5 - Balance Sheet

All figures in £'000s	2019A	2020A	2021E	2022E
Assets				
Intangible assets	98	86	30,586	30,586
Property, plant and equipment	4,993	5,065	6,003	5,316
Deferred tax	130	106	106	106
Total non-current assets	5,221	5,257	36,695	36,008
Inventories	20,399	16,022	17,000	21,054
Trade and other receivables	18,644	18,495	22,300	24,938
Derivatives	1,335	53	-	-
Cash and cash equivalents	122	329	329	329
Total current assets	40,500	34,899	39,629	46,321
Total assets	45,721	40,156	76,324	82,329
Liabilities				
Share capital	205	205	223	223
Share premium account	2	2	12,984	12,984
Employee benefit trust reserve	-1,649	-2,155	-2,155	-2,155
Share-based payment reserve	529	796	1,063	1,330
Hedging reserve and other reserves	1,238	-961	-1,158	-2,141
Retained earnings	11,227	15,527	18,987	26,285
Total equity	11,552	13,414	29,944	36,526
Trade and other payables	15,284	17,614	24,400	25,067
Derivative financial instruments	54	1,342		
Current tax	812	280		
Borrowings	14,567	3,903	4,127	4,632
Lease liabilities	793	710	710	710
Total current liabilities	31,510	23,849	29,237	30,410
Long term borrowings		89	15,089	14,089
Lease liabilities	2,659	2,804	2,054	1,304
Total non-current liabilities	2,659	2,893	17,143	15,393
Total equity and liabilities	45,721	40,156	76,324	82,329

Source: ED estimates, Company historic data

Figure 6 - Free Cash Flow

All figures in £'000s	2019A	2020A	2021E	2022E
Profit for the period	6,410	6,615	8,081	12,292
Adjustments for:				
Finance costs (net)	816	753	500	1,100
Income tax expense	1,720	1,747	2,415	3,338
Depreciation and impairment	1,512	1,417	1,562	1,787
Amortisation	11	12		
Loss on disposal of a current asset		18		
Derivative financial instruments	132	324		
Share based payments	257	267	267	267
Income taxes paid	-1,314	-2,255	-2,695	-3,338
Operating free cash flow	9,538	8,898	10,130	15,446
Working capital adjustments				
(Increase)/decrease in inventories	-3,932	4,377	-978	-4,054
Decrease/(increase) in receivables	-3,933	150	-3,805	-2,638
(Decrease)/increase in payables	2,947	2,339	6,786	667
Total	-4,918	6,866	2,003	-6,025
Net cash from operations	4,620	15,764	12,133	9,421
Cash flows used in investing activities				
Acquisition of a business	0	0	-32,000	-1,000
Purchase of intangible assets	-9			
PP&E	-711	-601	-2,500	-1,100
Proceeds from P, P & E disposals	18	12	14	17
Finance income	6			
Repayment of lease liabilities			-750	-750
Total	-696	-589	-35,236	-2,833
Free cash flow before financing	3,924	15,175	-23,102	6,588
Interest paid	-702	-753	-500	-1,100
Free cash flow before dividends etc	3,222	14,422	-10,602	5,488
Dividends paid	-2,428	-2,307	-4,622	-4,993
Purchase of own shares (EBT)	-1,649	-506		
Free cash flow after dividends etc	-855	11,609	-15,224	495

Source: ED estimates, company historic data



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