UP Global Sourcing

Beldray leads the way

14th December 2020

Beldray's strong performance and better than expected online and supermarket sales were the salient features of UPGS's latest unscheduled trading statement. With continuing momentum in the order book and increasing resilience due to balanced distribution across its trading channels, we upgrade our full year FY2021 forecasts and argue that, at the current price of 98p, the shares would have to rise a full 50% to reach our 150p fair value.

UPGS anticipates that underlying EBITDA in FY2021 will be above the market's current expectations, a stance supported by a strong order book, its relentless focus on productivity enhancements, and increased operating efficiencies. The company is achieving a more even distribution balance across its key routes to market as its brands continue to make headway in engaging with end-customers.

Online and supermarkets performed particularly well in the first four months of FY2021, which is an important endorsement of the company's brand portfolio. As we highlighted in our 3rd November FY2020 preliminary results report Equity Development - Ultimately there's brand value, success in these channels tends to reflect underlying brand strength because they offer a level playing field between competitors in key categories.

Beldray, which last year generated 28% of group sales revenue and is the largest brand, has been the standout performer so far in FY2021. The brand encapsulates the company's ability to deliver beautiful products for every home, which has been particularly critical during Covid-19 related lockdowns. Consumers welcomed domestic "feel good" products this calendar year.

Online should be increasingly important going forward. In the second half of FY2020 the channel was close to hitting its longer-term target of 20% of group sales. Aside from the channel's growing overall importance with consumers, UPGS's strength in online confirms the company's ability to invest appropriately. The work done in recent years is clearly reaping rewards as the platform grows.

UPGS's ability to adapt to changing circumstances is evident in its successful roll-out of the company's virtual showroom, which has allowed trade customers to engage with sales staff on a distanced basis, while still appreciating the look and quality of the products. **International** is a growing part of the business and an ability to communicate directly with customers online should sustain business momentum overseas.

Today's revenue and earnings upgrade makes UPGS's valuation look even more attractive. Our 150p fair value for the shares would put EV/sales on 1.0x, EV/EBITDA 10.7x and the P/E ratio 15.6x. The ratios they currently sit at don't reflect a fair value for a business which has repeatedly upgraded numbers and has the proven execution capabilities to continue to deliver.

Key Financials

Year to 31st July	2018A	2019A	2020A	2021E	2022E
Revenue (£'000)	87,571	123,257	115,684	130,515	138,280
Revenue growth (%)	-20.4%	40.8%	-6.1%	12.8%	5.9%
EBITDA (£'000) (adj)	6,280	10,720	10,363	12,390	13,231
EPS adjusted (p)	5.0	8.1	7.9	9.6	10.3
DPS (p)	2.7	4.1	4.0	4.8	5.2
EV/EBITDA (x)	14.4	8.4	8.7	7.3	6.8
P/E ratio (x)	19.7	12.1	12.4	10.2	9.5
Yield (%)	2.8%	4.2%	4.0%	4.9%	5.3%

Source: Company Historic Data, ED estimates

Company Data

EPIC	UPGS
Price (last close)	98p
52 weeks Hi/Lo	119p/28p
Market cap £m	£81m
ED Fair Value/share	150p
Net debt	£10m

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.

Chris Wickham (Analyst)
0207 065 2690
chris@equitydevelopment.co.uk

Hannah Crowe
0207 065 2692
hannah@equitydevelopment.co.uk

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Following UPGS's strong order book performance in the first four months of the current financial year, the notable progress made by Beldray, and growth in the online and supermarket channel's growth, we upgrade our forecasts in this report.

Beldray is important in our view, not only because it is the company's largest, and proprietorial, brand, but also because it supports the case for UPGS's status as **a brand manager**. The company has developed a brand portfolio – exemplified by Beldray's laundry, floorcare, heating and cooling offering – which resonates with end-customers.

Beldray engages customers with both its "feel good" factor and affordability. Importantly, what works for Beldray should be replicable across the portfolio which includes the licensed brands Salter and Russell Hobbs, as well as the smaller owned names with good potential i.e. Kleeneze, Progress and Intempo.

This report includes our upgraded sales and earnings forecasts. In addition, we reiterate our positive view on the company's more balanced distribution base and the implications for profitability and growth before highlighting the importance of its virtual showroom in more detail.

Forecast upgrade

Higher than expected sales growth so far in FY2021 is the key driver behind our forecast upgrade. We raise our sales revenue growth expectation to 13% from the 6% envisaged previously. With online growing as a portion of overall business we expect gross margins to increase from 23.0% reported in FY2020 to 23.3% in FY2021 with corresponding gains in EBITDA, pre-tax profits, and EPS. The key data are summarised in Figure 1 and are shown in more detail in Figures 4 to 6.

Figure 1 – Forecast revisions for FY2021

All figures in £m	Old	New	Increase
Sales revenue	122.7	130.5	6.4%
EBITDA (adjusted)	11.1	12.4	12.1%
Pre-tax profit (adjusted)	8.7	10.0	15.1%
EPS (adjusted)	8.4	9.6	14.5%

Source: ED estimates

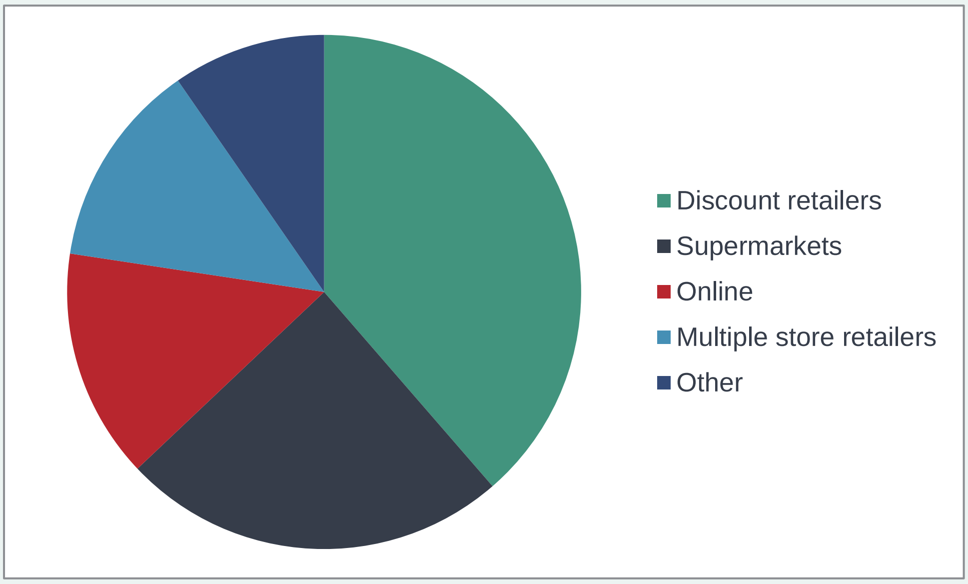
Online and supermarkets' growth in importance

In Figure 2 we summarise last year's distribution of UPGS's sales across the company's key pillars. The supermarket and online channels grew in importance in FY2020 as they increased as a portion of group sales from 16.3% to 24.3%, and from 9.2% to 14.5% respectively.

That they have performed particularly well so far in FY2021 implies an even more balanced distribution between the channels this year, which is positive both for gross margins and longer term sustained growth. A broader distribution base implies greater scope for the brand portfolio to reach more customers.

Furthermore, the opening four months of FY2021 included a number of key trading days when the company experienced exceptionally strong growth. These included Amazon Prime Day, Black Friday and Cyber Monday. As we highlighted in our 3rd November report, the target for online being above 20% of sales was nearly reached in the second half of FY2020 when the channel generated £9m in revenue out of a £48m total.

Figure 2 - Sales by distribution channel in FY2020



Source: Company data

Virtual showroom expands customer reach

UPGS appears to have made good use of its showroom in recent months, which proved not only vital during the more severe months of Covid19 related lockdown across the UK and Continental Europe but should also enhance growth prospects, notably international, going forward.

Equity Development showcased a virtual tour of the showroom for investors on 2nd December 2020. The tour included presentations and a Q&A session by CEO Simon Showman and Commercial Director Jenny Stewart. The virtual use of the showroom not only enables remote understanding of the company's products but also gives strong insight into the brands' ability to deliver on the key messages of "feel good" and "beautiful products for every home."

We include the following hyperlink to the virtual showroom tour: Equity Development - UPGS virtual showroom tour.

Valuation and financials

Relative valuation

We include a relative valuation for UPGS based on our upgraded sales and revenue forecasts in Figure 3. What the upwardly revised numbers do is make our fair value assessment of 150p per share look even more reasonable than it did at the time of FY2020 results on 3rd November 2020.

Moreover, the latest upgrade to expectations occurred only four months into the financial year. While the company (in our view rightly) highlights that market conditions remain uncertain in the short-term, there is a clear case that apparent brand strength and a broader distribution base reduces operational risk and increases the possibility of further future upgrades.

At 150p, price target EV/sales would be 1.0x, EV/EBITDA 10.7x and the P/E ratio 15.6x, all or which seem reasonable in the context of UPGS's peer group. These multiples are all currently beneath peer group average.

Figure 3 - Relative Valuation

	Share price (p)	Shares (m)	Mkt cap (£m)	Net debt (£m)	EV (£m)	Sales 2021 (£m)	EV/ sales (x)	EBITDA 2021 (£m)	EV/ EBITDA (x)	EPS 2021 (p)	P/E 2021 (x)	DPS 2021 (p)	Yield
Accrol Group	52	311	162	4	165	146	1.1	14.2	11.7	n/a	n/a	n/a	n/a
Gear4Music	685	21	144	8	151	148	1.0	13.0	11.7	22.0	31.1	n/a	n/a
Luceco	226	154	348	12	361	183	2.0	37.9	9.5	n/a	n/a	6.0	2.7%
Portmeirion Group**	459	14	64	2	66	90	0.7	10.7	6.2	n/a	n/a	14.0	3.1%
UPGS	**98**	**82**	**81**	**10**	**90**	**131**	**0.7**	**12.4**	**7.3**	**9.6**	**10.2**	**4.8**	**4.9%**
Warpaint	74	77	57	-4	52	49	1.1	6.2	8.4	n/a	n/a	4.0	5.4%
Average							**1.1**		**9.1**		**20.7**		**4.0%**

Share prices are as at close 11th December 2020

Source: ADVFN, MarketScreener and Equity Development estimates

Financial forecasts

Figures 4 to 6 include our income statement, balance sheet and free cash flow projections. In FY2021 we project a 13% advance in sales revenue with all major geographies – UK, Germany and Rest of Europe – experiencing similar growth.

We revert to a 6% projected advance in FY2022, which may yet prove conservative. Net debt is forecast to rise from £4m to £10m. However, that includes £3m higher dividend payments than in FY2020 (boosted by the impact of the deferred interim dividend) and a £2m increase in investment in property, plant and equipment.

Figure 4 - Income statement

All figures in £'000s	**2019A**	**2020A**	**2021E**	**2022E**
Year to 31st July	(re-stated)			
Revenue	123,257	115,684	130,515	138,280
Change in revenue	40.8%	-6.1%	12.8%	5.9%
Gross profit	27,244	26,600	30,402	32,211
Gross margin	22.1%	23.0%	23.3%	23.3%
EBITDA - underlying	10,720	10,363	12,390	13,231
EBITDA margin - underlying	8.7%	9.0%	9.5%	9.6%
Net financial expense	-810	-753	-808	-808
Pre-tax profit - reported	8,130	8,362	9,276	10,482
Pre-tax profit - adjusted	8,387	8,163	10,008	10,749
Taxation - adjusted	-1,720	-1,659	-2,102	-2,257
Tax rate - adjusted	20.5%	20.3%	21.0%	21.0%
Net income - adjusted	6,667	6,504	7,906	8,492
EPS - basic adjusted (p)	8.1	7.9	9.6	10.3
Dividend per share (pence)	4.1	4.0	4.8	5.2

Source: ED estimates, Company historic data

Figure 5 - Balance Sheet				
All figures in £'000s Year to 31st July	**2019A**	**2020A**	**2021E**	**2022E**
Assets				
Intangible assets	98	86	86	86
Property, plant and equipment	4,993	5,065	6,003	5,141
Deferred tax	130	106	106	106
Total non-current assets	5,221	5,257	6,195	5,333
Inventories	20,399	16,022	19,000	19,830
Trade and other receivables	18,644	18,495	21,900	23,203
Derivatives	1,335	53	-	-
Current tax				
Cash and cash equivalents	122	329	329	329
Total current assets	40,500	34,899	41,229	43,363
Total assets	45,721	40,156	47,424	48,696
Liabilities				
Share capital	205	205	205	205
Share premium account	2	2	2	2
Share-based payment reserve	529	796	1,063	1,330
Hedging reserve and other reserves	1,238	961	1,813	1,799
Retained earnings	11,227	15,527	18,146	22,322
Total equity	11,552	13,414	17,603	22,060
Trade and other payables	15,284	17,614	17,000	16,111
Derivative financial instruments	54	1,342		
Current tax	812	280		
Borrowings	14,567	3,903	9,968	8,421
Lease liabilities	793	710	710	710
Total current liabilities	31,510	23,849	27,678	25,243
Long term borrowings		89	89	89
Lease liabilities	2,659	2,804	2,054	1,304
Total non-current liabilities	2,659	2,893	2,143	1,393
Total equity and liabilities	45,721	40,156	47,424	48,696

Source: ED estimates, Company historic data

Figure 6 - Cash Flow

All figures in £'000s	2019A	2020A	2021E	2022E
Year to 31st July				
Profit for the period	6,410	6,615	7,174	8,225
Adjustments for:				
Finance costs (net)	816	753	808	808
Gain on disposal of non-current assets	-	-	-	-
Income tax expense	1,720	1,747	2,102	2,257
Depreciation and impairment	1,512	1,417	1,562	1,662
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	-2,382	-2,257
Total	9,538	8,898	9,531	10,962
Working capital adjustments				
(Increase)/decrease in inventories	-3,932	4,377	-2,978	-830
Decrease/(increase) in receivables	-3,933	150	-3,405	-1,303
(Decrease)/increase in payables	2,947	2,339	-614	-889
Total	-4,918	6,866	-6,997	-3,022
Net cash from operations	4,620	15,764	2,534	7,940
Cash flows used in investing activities				
Purchase of intangible assets	-9			
PP&E	-711	-601	-2,500	-800
Proceeds from P, P & E disposals	18	12	14	14
Finance income	6			
Repayment of lease liabilities		0	-750	-750
Total	-696	-589	-3,236	-1,536
Free cash flow before financing	3,924	15,175	-703	6,404
Interest paid	-702	-753	-808	-808
Free cash flow before dividends etc	3,222	14,422	-1,511	5,596
Dividends paid	-2,428	-2,307	-4,554	-4,050
Purchase of own shares (EBT)	-1,649	-506	0	0
Free cash flow after dividends etc	-855	11,609	-6,065	1,547

Source: ED estimates, Company historic data

Contacts

Andy Edmond
Direct: 020 7065 2691
Tel: 020 7065 2690
andy@equitydevelopment.co.uk

Hannah Crowe
Direct: 0207 065 2692
Tel: 0207 065 2690
hannah@equitydevelopment.co.uk

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More information is available on our website www.equitydevelopment.co.uk

Equity Development, 15 Eldon Street, London, EC2M 7LD

Contact: info@equitydevelopment.co.uk | 020 7065 2690