

Petra acquisition to enhance international business

15th February 2021

Today's announcement that UPGS has acquired German electrical kitchen brand Petra is a continuation of a strategy which has turned UPGS into a highly successful developer of brands. Petra not only adds to the company's German offering, but further ahead will enhance the company's international range of quality and affordable "feel good" household products. Brand management skills remain a key driver of UPGS's ability to continue to grow at a brisk pace in both the online and supermarket channels.

Petra – founded in Bavaria, Germany in 1968 – manufactured a range of kitchen electrical products, having originated as a specialist in coffee machines. UPGS plans to relaunch and refresh Petra with a range of electrical appliances within Germany before expanding the brand into the group's other regions. As the purchase is not classed as a significant transaction under chapter 10 of the listing rules, we assume this is another great example of UPGS looking to extract considerable value from inexpensive, unloved brands.

While Beldray remains UPGS's largest brand, and when combined with Russell Hobbs and Salter they accounted for 61% of revenue in FY2020, the company's proven ability to develop additional brands is also important. The repositioning and acceleration of smaller brands such as Progress, Kleeneze and Intempo adds a useful fillip to the company's sales growth which we already expect to be rapid - at an estimated 11% this year and 6% thereafter.

In our recent report [Brands Positioned for Sustainable Growth](#) we highlighted the advance of the online and supermarket strategic pillars as a portion of UPGS's sales revenue. We argued that success in these distribution channels, tends to confirm effective brand management. Now we can expect to see these channels benefiting from the addition of the Petra range to the UPGS brand portfolio. Between FY2017 and FY2020 these channels rose from 18% to 39% of total sales revenue.

Furthermore, International is an important source of growth for UPGS with Germany being the largest source of overseas business at 10% of overall sales in FY2020 and 26% of international sales revenue. It makes sense that Germany, which boasts UPGS's largest showroom abroad, is where Petra's initial relaunch will be prioritised. The company's plan to trade on Petra's German heritage and reputation for quality should help as it expands the brand into other territories.

Despite last week's 5% share price increase, UPGS' valuation appears undemanding. **Based on our current forecasts – which exclude any impact from Petra – it trades on just a 0.9x EV/sales ratio and a 14x prospective P/E ratio.** Moreover, given the company's growth credentials, a 3.5% yield also looks attractive. We continue to argue for a fair value of closer to 150p for the shares.

Key Financials					
Year to 31st July	2018A	2019A	2020A	2021E	2022E
Revenue (£'000)	87,571	123,257	115,684	136,848	144,992
Revenue change	-20.4%	40.8%	-6.1%	18.3%	6.0%
EBITDA (£'000) (adj)	6,280	10,720	10,363	12,800	13,669
EPS adjusted (p)	5.0	8.1	7.9	10.1	10.9
DPS (p)	2.7	4.1	4.0	5.1	5.4
EV/EBITDA (x)	20.2	11.8	12.2	9.9	9.3
P/E ratio (x)	28.9	17.7	18.2	14.3	13.2
Yield	1.9%	2.8%	2.7%	3.5%	3.8%

Source: Company Historic Data, ED estimates

Company Data

EPIC	UPGS
Price (last close)	144p
52 weeks Hi/Lo	149p/30p
Market cap	£118m
ED Fair Value/share	150p
Proforma net debt	£2m

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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