UP Global Sourcing Holdings PLC

Further positive surprises – growing well!

17 July 2019

UPGS looks to end FY2019 on an extremely positive note. Its trading statement issued today indicates that sales revenue will be above both our own and market expectations. Moreover, profits (EBITDA and pre-tax) should also beat our estimates. With sales growth outperforming across the group, management strategy appears on track. After recent share price weakness, valuation metrics look supportive for the share price.

UPGS announced today that the company has continued to trade positively since its interim results that were announced on 29th April 2019, when we upgraded our sales forecasts for FY2019. The board now anticipates that full year sales revenue will be between £121.5m and £122.0m. We raise our FY2019 estimate accordingly from £119.5m to the lower end of the new target range. However, we highlight that our original forecast for FY2019 sales revenue when we initiated coverage of UPGS on 25th September 2018 was only £95.4m. Our bias has been conservative so far.

In light of higher than expected sales, we raise our adjusted EBITDA forecasts in FY2019 and FY2020 from £9.0m to £9.7m and from £9.4m to £10.1m, respectively. We envisage that the company sustains a higher EBITDA margin of around 7.9% in both years compared with 7.4% in FY2018. We raise our FY2019 adjusted pre-tax profit forecast from £7.4m to £8.3m, and lift adjusted EPS from 7.2p to 7.9p.

All four of UPGS's strategic pillars - *Discounters, UK supermarkets, Online Platforms* and *International Customers* - performed strongly with better than expected revenue growth. That the whole group is surprising positively tends to vindicate a positive view on management and strategy, as well as confirming the quality of growth. The past two years' sales growth CAGR – almost all organic – was 5%, which is impressive for a predominantly Western European consumer goods company.

UPGS will report its next trading update on 9th September 2019. The current financial year is due to end in two weeks' time on 31st July.

In terms of valuation, we remain firmly of the view that 100p is a reasonable near term share price. Based on our revised numbers that would imply 0.8x EV/sales and an undemanding 12.7x P/E ratio, dropping to a 12.0x P/E in FY2020. Investors may be tempted by recent share price weakness.

Key Financials

	2016A	2017A	2018A	2019E	2020E
Revenue (£'000)	**79,028**	**109,953**	**87,571**	**121,500**	**127,575**
Revenue growth (%)	23.3%	39.1%	-20.4%	38.7%	5.0%
EBITDA (adj)	8,226	11,512	6,472	9,658	10,125
EPS basic adjusted (p)	**8.0**	**10.9**	**5.4**	**7.9**	**8.3**
DPS (p)	3.3	5.1	2.7	3.9	4.2
EV/EBITDA (x)	9.1	6.5	11.6	7.8	7.4
P/E ratio (x)	**8.9**	**6.5**	**13.0**	**9.0**	**8.5**
Yield (%)	4.7%	7.2%	3.8%	5.6%	5.9%

Source: Company Historic Data, ED estimates

Company Data

EPIC	UPGS
Price (last close)	71p
52 week Hi/Lo	30p/90.9p
Market cap	58.3m

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, offices plus a showroom in Guangzhou, and a showroom in Germany.

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