UP Global Sourcing Holdings plc

Reinforcing the online offering

22nd June 2022

UPGS today announces two important steps forward in relation to the company's direct to consumer and online offering. UPGS has purchased the Salter.com domain name for Salter measuring devices and will soon complete an overhaul of the Beldray.com web portal. Arguably, both steps will help the company to achieve its objective of transacting 30% of sales online. Moreover, the moves support the view that UPGS has the flexibility and skillset to grow sales despite the clear headwinds associated with the current cost of living crisis.

UPGS's announcement is an important step forward in its ability to distribute the products of its two largest brands Salter and Beldray, which in the first half of the current financial year represented 30% and 28% of group sales respectively. Salter.com will be an easier web address for customers to remember as well as improving the brands' Search Engine Optimisation (SEO) rankings.

Online purchases are estimated to be around 27% of non-food retail sales in the UK, according to Office for National Statistics data, with the potential to reach close to 50% as soon as 2025 based on research by Metapack in its "Ecommerce Delivery Benchmark Report 2022." As a result, it appears essential that UPGS should not only be prioritising this channel but also optimising all aspects of the company's online offer.

UPGS retains its 30% target for online sales, which compares with 15% in the first half of FY2022. Today's announcement is consistent with growth towards that goal. Moreover, the company has a dual approach to e-commerce. Its online offering includes both the owned Direct to Consumer (DTC) channels and the use of third-party party multichannel platforms such as Amazon and e-Bay, which are currently the segment's largest contributors.

Today's announcement is consistent with UPGS's ability to embrace technological change and be adaptable when it needs to be. In addition, there should be margin benefits within online driven by increased investment in robotics announced at the time of H1 2022 results. These were discussed in our 29 April 2022 report Shareholder valuation at the core,

Being adaptable to changes outside of its control enabled UPGS to navigate significant headwinds in the past two years – notably COVID-19 and prolonged lockdowns. The company continues to manage supply chain complexities associated with Chinese manufacturing and occasional import bottlenecks at UK ports. UPGS's ability to counter such headwinds without issuing any profit warnings should also be noted, setting it apart from some of the peers listed in our comparable valuation, and seen as positive for valuation. We base our 250p fair value assumption on an EV/sales ratio of 1.6x and 13.4x EV/EBITDA.

Key Financials

Year to 31st July	2019A	2020A	2021A	2022E	2023E
Revenue (£'000)	123,257	115,684	136,367	159,000	168,540
Revenue growth (%)	40.8%	-6.1%	17.9%	16.6%	6.0%
EBITDA (£'000) (adj)	10,720	10,363	13,291	18,800	20,181
EPS adjusted (p)	8.1	7.9	10.6	13.9	14.5
DPS (p)	4.1	4.0	5.0	7.0	7.2
EV/EBITDA (x)	11.6	12.0	9.4	6.6	6.2
P/E ratio (x)	13.3	13.6	10.2	7.7	7.5
Yield (%)	3.8%	3.7%	4.6%	6.5%	6.7%

Source: ED estimates, company historic data

Company Data

EPIC	UPGS
Price (last close)	108p
52 weeks Hi/Lo	237p/105p
Market cap £m	£96m
ED Fair Value per share	250p

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 **Salter, Beldray, Progress, Kleeneze, Petra and Intempo**. The company also markets non-electrical Russell Hobbs products under licence.

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

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

Valuation and financial forecasts

Relative valuation

A relative valuation for UPGS based on 20 June 2022 closing prices is shown below. The company trades in line with this peer group's average on both EV/sales and EV/EBITDA. However, there are clear discounts in terms of P/E ratio and dividend yield which arguably reflects UPGS's superior profitability and cash generating capabilities. The company specifically targets a 50% dividend pay-out ratio or 2x cover.

Furthermore, as *Equity Development* noted in a number of reports from April 2020 through April 2022, UPGS management has consistently demonstrated competence when facing exogenous headwinds such as COVID-19 and lockdown periods, logistics bottlenecks at UK ports, COVID-19 restrictions in China and weakened consumer confidence. Yet despite this, UPGS was raising guidance post the lockdown period.

The earnings and economic value accretive Salter acquisition has also never been rewarded with any multiple accretion which is surprising. Ownership of Salter outright increased the portion of business done by wholly owned brands as well as broadening the company's potential retail customer reach. These arguments were addressed in a 25 June 2021 report UPGS acquires UK's oldest housewares brand.

The potential to expand more rapidly in Europe should also be given more valuation credit in our view.

Figure 1 - Relative valuation

	Share price (p)	Mkt cap (£m)	Net debt (£m)	EV (£m)	Sales 2022 (£m)	EV/ Sales (x)	EBITDA 2022 (£m)	EV/ EBITDA (x)	EPS 2022 (p)	P/E 2022 (x)	DPS 2022 (p)	Yield (%)
Accrol (ACRL)	25	79	33	112	159	0.7	9.0	12.4	0.3	89.9	0.1	0.3%
Gear4Music (G4M)	172	36	17	53	148	0.4	11.0	4.9	17.3	9.9	0.0	0.0%
Luceco (LUCE)	102	151	42	193	232	0.8	39.9	4.8	15.6	6.5	6.3	6.2%
Portmeirion (PMP)	417	57	1	58	110	0.5	15.0	3.9	56.6	7.4	18.8	4.5%
Procook (PROC)	40	41	14	55	69	0.8	14.5	3.8	6.8	5.9	1.4	3.5%
UPGS (UPGS)	108	96	28	124	159	0.8	18.8	6.6	13.9	7.7	7.0	6.5%
Warpaint (W7L)	118	91	-4	87	58	1.5	9.4	9.2	8.8	13.4	6.1	5.2%
Average						**0.8**		**6.5**		**20.1**		**3.7%**

Source: ADVFN (prices),MarketScreener (debt, sales, EBITDA), Stockopedia (EPS, dividends) and Equity Development estimates (UPGS forecasts)
Share prices are as at 20th June 2022 close

Financial forecasts

The FY2022 sales revenue, EBITDA, EPS and dividend per share data which appear in Figure 1 are based on our current financial forecasts for UPGS which appeared in our 29 April 2022 report Shareholder value creation at its core. FY2022 sales revenue forecasts growth of 16.6% to £159m, an 11.8% adjusted EBITDA margin and 13.9p adjusted EPS. In FY2023 and FY2024 we expect sales growth to return to an underlying pace of 6%.

The main external influences include higher interest rates and increases to UK corporation tax rates. In addition, as German sales increase as a portion of business more profits will be taxed at that country's higher rate of business taxation. Balance sheet and free cash flow forecasts are consistent with a financially robust company capable of generating positive cash returns.

As a result, we see little threat to UPGS's dividend pay-out policy of 50% of underlying EPS. Our projected net debt /EBITDA ratio is 1.5x at end-FY2022, which we expect to fall to 1.4x in FY2023, with scope for a further decline to 1.1x in FY2024.

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, 2nd Floor, Park House, 16-18 Finsbury Circus, London EC2M 7EB

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