UP Global Sourcing Holdings

Debt reduction confirms financial strength

17th July 2023

UPGS announced a significantly better-than-expected improvement in its debt position today. Net FY2023 year-end bank borrowings are expected be in the region of £15m compared with current market expectations of closer to £21m. In our view, the financial benefits of lower net debt in the current climate of rising interest rates are clear. UPGS's cash generation capabilities not only underpin its generous dividend policy (50% of net profits) but also enhance strategic flexibility. We reiterate our 250p fair value for the shares.

UPGS's ability to announce better-than-expected FY2023 net debt guidance in today's statement is consistent with effective working capital management and overall trading health of the business, notably the second half of FY2023's sales revenue. A £15m net debt figure represents a sharp reduction from £24m at the end of FY2022. A lower net debt outcome clearly reduces potential interest costs for the group where overall financial risk was already reduced by UPGS's prudent hedging strategy – i.e. through its use of interest rate caps and swaps.

Strong cash generation and debt reduction puts UPGS in a robust position both in terms of financial strategy and business opportunities. The company is not only able to weigh up the relative benefits of increased pay-outs to shareholders (e.g. a higher dividend pay-out ratio or share buybacks) but also to take advantage of potential acquisition targets on offer, like the successful acquisition of the Salter brand outright in its core markets and with Petra in Germany.

Today's announcement reinforces confidence in both our own and consensus FY2023 forecasts being achieved. Our 29th March 2023 report (Well placed for sales growth acceleration in H2) commented that a £163m full year revenue figure would require double-digit growth in the second half. Given that UPGS expects its end-year FY2023 net debt:EBITDA to be 0.7x compared with 1.3x a year earlier, we infer that the company itself shares our confidence. Second half sales growth clearly accelerated sharply.

Significant potential upside to our 250p fair value

We argue that a combination of strong sales growth and associated financial strength is central to the investment case for UPGS's shares as the company strives to deliver affordable "feel good" branded products for every home. UPGS's ongoing upskilling as a brand manager was discussed in our 14th June 2023 report (Innovating for growth) in the aftermath of its Salter re-brand presentation at the Exclusively trade fair in London. **As a result, we reinforce our view that fair value for UPGS's shares is 250p.** This valuation implies 1.4x EV/sales and 11.7x EV/EBITDA using an improved £15m end-FY2023 net debt estimate.

Key Financials

Year to 31st July	2020A	2021A	2022A	2023E	2024E
Revenue (£'000)	**115,684**	**136,367**	**154,191**	**163,442**	**173,249**
Revenue growth	-6.1%	17.9%	13.1%	6.0%	6.0%
EBITDA adjusted (£'000)	**9,915**	**13,291**	**18,750**	**20,176**	**21,680**
EPS adjusted (p)	8.3	11.1	14.7	15.1	15.4
DPS (p)	**4.0**	**5.0**	**7.1**	**7.5**	**7.7**
EV/EBITDA (x)	12.4	9.3	6.6	6.1	5.7
P/E ratio (x)	**14.7**	**11.0**	**8.3**	**8.1**	**7.9**
Yield	3.2%	4.1%	5.8%	6.2%	6.3%

Source: Equity Development estimates, Company historic data

Company Data

EPIC	UPGS
Price (last close)	122p
52 weeks Hi/Lo	174p/90p
Market cap	£109m
ED Fair Value / 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 China and a further showroom in Continental Europe.

Key owned brands include **Salter, Beldray, Progress, Kleeneze, Petra and Intempo**. The company also markets non-electrical Russell Hobbs products under licence, now on a rolling four-year basis.

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