

Utilitywise

New initiatives and corporate targets

UTW has developed a range of new strategic initiatives and set itself demanding targets for future growth. The plan will be implemented in the period FY18-21 and evidence of progress towards the targets will be required before any valuation uplift associated with this new growth trajectory is likely to be awarded. However, the current rating remains modest and we suggest it does not yet reflect the current prospects.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
07/15	69.1	16.7	17.9	5.0	9.8	2.9
07/16	84.4	17.8	19.4	6.5	9.0	3.7
07/17e	97.1	19.1	20.0	7.5	8.8	4.3
07/18e	110.2	22.2	23.2	8.5	7.5	4.9

Note: *PBT and EPS (fully diluted) are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

Priorities, initiatives and targets

At its capital markets day on 2 March 2017, UTW set out a number of new strategic initiatives and established targets for growth. "Optimising the Core" focuses on the approach to market (sales channels), improvements in the operating model and productivity, some of which is already evident (H117 order book +25%, headcount +7%). A "Digital Initiative" will seek to exploit the untapped market of 1.5m SME customers (84% of the market) that have never switched energy supplier. The "Multi-Utility" initiative is designed to allow businesses to manage all their interactions with utilities on a single platform (UTW's research suggests that 70% of customers want a multi-utility service). The "Service Proposition" will seek to drive recurring revenue from developing customer service plans using UTW's IoT "Wiselife" platform which is scheduled for rollout in the summer of 2017. "Energy Services" is seen as an opportunity for developing UTW's internet-enabled control devices while "International Expansion" remains a medium-term objective.

Quantifying the targets

To monitor its progress UTW has set itself some challenging targets. UTW aims to increase SME customer numbers to 130,000 by July 2021, equivalent to a market share of 7% of the micro SME and SME market combined. To put these targets into context, UTW had 30,000 SME customers at the end of FY16 (c 2% of the market) and therefore UTW will need to achieve a CAGR in customer numbers of 33% in the period 2016-21. The target for revenue from the corporate energy controls of 5% (ie £75m), of the £1.5bn UK market by 2021, appear similarly ambitious.

Valuation: Current prospects not reflected

We leave our forecasts unchanged ahead of the interim figures. The market is likely to require UTW to demonstrate progress (expected to be non-linear) towards its long-term targets before awarding additional incremental valuation. However, we believe that the current rating of the shares appears undemanding (CY17e P/E of 8.2x) for a company with UTW's financial record and prospect of continuing growth.

Capital markets day

Industrial support services

3 March 2017

Price 175.0p
Market cap £137m

Net debt (£m) at 31 January 2017	4.1
Shares in issue	78.3m
Free float	83%
Code	UTW
Primary exchange	AIM
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	1.9	(3.2)	(1.8)
Rel (local)	(1.5)	(11.6)	(17.5)
52-week high/low	202.0p		118.2p

Business description

Utilitywise is an independent cost management consultancy offering energy procurement and management products to the business market in the UK.

Next events

H117 results	4 April 2017
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Analysts

Graeme Moyse	+44 (0)20 3077 5700
Roger Johnston	+44 (0)20 3077 5722

industrials@edisongroup.com

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Research Limited**

Exhibit 1: Financial summary

	2014	2015	2016	2017e	2018e
31 July	IFRS	IFRS	IFRS	IFRS	IFRS
	£'000	£'000	£'000	£'000	£'000
PROFIT & LOSS					
Revenue	48,947	69,106	84,428	97,061	110,217
Cost of Sales	(26,586)	(38,810)	(51,638)	(58,237)	(66,130)
Gross Profit	22,361	30,296	32,791	38,824	44,087
EBITDA	14,467	17,785	18,268	19,424	22,247
Operating Profit (before amort and except)	13,751	16,920	17,511	18,519	21,226
Intangible Amortisation	(946)	(1,297)	(1,940)	(1,963)	(1,611)
Exceptionals	(22)	(570)	3,192	0	0
Share Based Payments	(737)	(695)	(639)	(756)	(794)
Other	0	0	0	0	0
Operating Profit	12,046	14,357	18,124	15,800	18,821
Net Interest	(373)	(235)	289	628	947
Profit Before Tax (norm)	13,379	16,685	17,799	19,147	22,172
Profit Before Tax (FRS 3)	11,673	14,123	18,412	16,429	19,767
Tax	(2,170)	(2,927)	(2,592)	(3,286)	(3,756)
Profit After Tax (norm)	11,208	13,758	15,208	15,862	18,417
Profit After Tax (FRS 3)	9,503	11,196	15,821	13,143	16,012
Average Number of Shares Outstanding (m)	72.5	75.3	77.4	78.1	78.1
EPS - normalised (p)	15.4	18.3	19.7	20.3	23.6
EPS - normalised fully diluted (p)	14.6	17.9	19.4	20.0	23.2
EPS - (IFRS) (p)	13.0	14.9	20.5	16.8	20.5
Dividend per share (p)	4.0	5.0	6.5	7.5	8.5
Gross Margin (%)	45.7	43.8	38.8	40.0	40.0
EBITDA Margin (%)	29.6	25.7	21.6	20.0	20.2
Operating Margin (before GW and except.) (%)	28.1	24.5	20.7	19.1	19.3
BALANCE SHEET					
Fixed Assets	36,975	66,048	69,475	71,122	75,165
Intangible Assets	21,926	37,171	34,234	32,272	30,660
Tangible Assets	4,838	5,899	5,591	5,350	5,505
Investments & Other	10,211	22,978	29,650	33,500	39,000
Current Assets	30,436	23,075	33,200	40,362	44,201
Stocks	98	643	559	630	715
Debtors	13,958	15,939	19,657	23,500	26,685
Cash	15,823	6,492	12,985	16,232	16,800
Other	557	0	0	0	0
Current Liabilities	(18,315)	(18,420)	(23,495)	(23,110)	(25,750)
Creditors	(18,315)	(18,420)	(23,495)	(23,110)	(25,750)
Short term borrowings	0	0	0	0	0
Long Term Liabilities	(15,494)	(24,581)	(19,791)	(20,942)	(16,015)
Long term borrowings	(6,000)	(13,175)	(13,175)	(13,175)	(7,175)
Other long term liabilities	(9,494)	(11,406)	(6,616)	(7,767)	(8,840)
Net Assets	33,602	46,121	59,389	67,432	77,600
CASH FLOW					
Operating Cash Flow	11,615	(2,537)	12,487	11,918	16,675
Net Interest	(373)	(250)	(434)	628	947
Tax	(1,910)	(2,208)	(1,814)	(3,286)	(3,756)
Capex	(631)	(1,897)	(786)	(665)	(1,175)
Acquisitions/disposals	(835)	(6,398)	0	0	0
Financing	101	149	1,258	0	0
Dividends	(2,158)	(3,365)	(4,218)	(5,349)	(6,122)
Net Cash Flow	5,810	(16,506)	6,492	3,247	6,569
Opening net debt/(cash)	(4,013)	(9,823)	6,683	190	(3,057)
HP finance leases initiated	0	0	0	0	0
Other	0	0	0	0	0
Closing net debt/(cash)	(9,823)	6,683	190	(3,057)	(9,625)

Source: Edison Investment Research

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