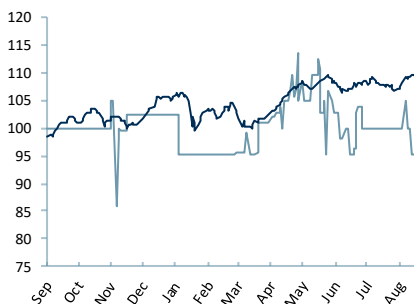


PRE-RESULTS

VALUE RANGE

GBp 120 – 126



ALSP ISD 12m Price Relative Chart vs. FTSE AIM AS

Monday, 10 September 2018

Intrinsic Price	124p
Value Range Low	121p
Value Range High	127p
Implied MCAP (m)	£50.23
Implied EV (m)	£86.94
NEX Index	ALSP ISD
Financial YE	30-Apr
Currency	GBP

Business Activity

Commercial & retail property investment

Key Metrics

Close Price	105p
MCAP (m)	£42.57
Net Debt (Cash) (m)	£36.71
EV (m)	£79.28
52 Wk Hi	115p
52 Wk Lo	100p
NAV trailing	48.23p

Key Ratios

S/P premium to NAV	117.70%
LTV	74.41%
Net Debt /	344.55%
Shareholder Equity %	

Real Estate Sector Research

NEX Growth Market Index

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ACE Liberty & Stone FY18 Expected

Focused on the growth

We expect ACE Liberty & Stone (ALSP ISD) to deliver in line with our most recent FY18E revenue forecast upgrade of 5th July. Following increased professional and transaction costs related to strong property acquisition activity, we expect FCF and Net Income to be below our original estimates for FY18E, however the company's growth has been accelerated as a result. (ALSP announced its interim dividend 6th July of 1.25 pence p/s or GBP 500,000 up 25% y/y and representing a progressive dividend policy over the last 5 years). On 16th July 55,000 shares were issued at 80p p/s in relation to a CLN to T Ghorayeb, a director, bringing his shareholding to 1.24%. [see ALSP post-results 1H18 note 14 Jun 18.](#)

- Revenues expected FY18 £3,127k up 18.8% y/y;
- Annualised rental income FY18E £4,650k up 48.7% y/y;
- Investment property FY18 £55m, strongly ahead of our £38m forecast;
- EBITDA FY18E £925k down 13% y/y reflecting growth investment costs;
- FY18 basic EPS expected down 88%, adjusted EPS expected up 11% .

ACF est. GBP (k)	Revenue	EBITDA	FCF	EPS	EPS (diluted)
2017A	2,632	1,065	939	2.45	2.22
2018E	3,127	925	800	0.28	0.24

Multiples	EV/ Revenue	EV/ EBITDA	EV/ FCF	P/ EPS	P/ EPS (diluted)
2017A	30.12x	74.46x	84.42x	42.85x	47.32x
2018E	25.36x	85.69x	99.13x	378.94x	441.72x

10/08/2018	No. of Shares	Fully diluted
Share Price History		
NoSh (m)	40.5	47.3
Implied Intrinsic Price	124p	106p
Value Range Low	121p	104p
Value Range High	127p	109p
NEX Growth Market	ALSP	
Financial YE	30-Apr	
Reporting Currency	GBP	
NoSh (m)		40.5
NoSh (m) expected dilution (Exp D)		47.3
NoSh (m) full dilution (FD)		47.3
Key Metrics		
MCAP (m)	£42.6	£42.6 adj.
Net Debt (Cash) (m)	£36.71	£36.71
EV (m)	£79.3	£79.3
52 Wk Hi	115p	99p
52 Wk Lo	100p	86p
Free Float	33%	33%
*Key Metrics FCF adj.		
	2017A	2018E
CPS (GBp)	2.32	1.97
CPS (Exp D) (GBp)	1.99	1.69
CPS (FD) (GBp)	1.99	1.69
P/CPS	53.54x	53.93x
P/CPS (Exp D)	62.41x	62.87x
P/CPS (FD)	62.41x	62.87x

Above we show full dilution (FD) and expected dilution (Exp D). ALSP shares in issue at the date of this note are 40,544,298. Dilutive elements are convertibles 14,035,088 and Options 10,800. For our Exp. dilution we assume the exercise of options is averaged over 2 years respectively. We assume no convertibles are exercised over the next 12m but that they are exercised during 2019.

Investment Case

Competitive background

ACE (ALSP) acquires and rents secondary assets largely in regional cities in the UK with reliable tenants. HM government and city councils accounted for 78% of rental revenues. ACE looks for opportunities primarily with end of life tenancies to provide rental uplift via change of use and, in time, capital appreciation. FY18E should see ACE's property assets reach GBP 55m ahead of our FY20E 50m property assets forecast and up from 28.5m FY16A. Recent asset growth has been funded by a mixture of CLNs and commercial debt from ACE's bankers. 1H18A net debt to shareholder equity ratio was 193%, though this should change if, as we expect, around GBP 15m of CLNs are converted to equity over our current 5-year horizon. We would continue to encourage management to keep focussed on optimisation of balance sheet gearing by aiming for 40/60 debt to equity, which in turn suggests equity is the next funding mechanism.

The UK property market (commercial, retail and residential) has slowed in terms of the rate at which transactions are completed and we expect continued Brexit uncertainty as we approach the "leave" deadline to weigh on the rate at which transactions can be completed. However, the commercial property market, in general, continues to function reasonably well. We see opportunities arising for ACE property acquisitions as technology changes drives change in commercial property use. Recent weakness in sterling is likely to continue to keep foreign investors interested in opportunities in the UK property market.

ALSP's active asset management strategy continues to deliver growth in the current bull market as well as a sustained dividend yield.

● Funding PBSEs 1H18A

ALSP closed a funding action issuing a GBP 5.2637m of CLNs at 5% and 5.263m warrants at 0.80p representing 22% of current share capital in exchange for GBP 4.7637m cash. ACE Issued 80k shares at 75p per share to Bijan Daneshmand, who now owns 5.16% of ALSP.

Catalysts

Acquisition of new properties and sale of existing properties; Uplift in rental yield through active management; Re-rating of the property sector; Further funding activity.

Operational Strategy

ACE's strategy is to acquire 100% of properties delivering 7-8% rental yields combined with the opportunity to create or capture capital value.

ACE (ALSP) is a property investment company focussed exclusively on the UK property market and largely invested in the commercial segment. The management team identify properties available for acquisition with short unexpired tenancies, providing the opportunity for change-of-use (rental uplift) in the nearish future in order to maximise the property value. The tenants have "gilt edged" credit ratings (pay on time and reliably) and are largely immune to the business cycle. Tenants are dominated by organisations such as HMRC (UK tax authority and collection agency) and local authorities.

Exhibit 1: ACE Liberty & Stone key operational metrics

GBP (k)	1H16A	YE16A	1H17A	YE17A	1H18A
Investment property	20,164.4	29,488.4	28,499.4	29,453.3	49,378.1
gr% sequential		46.24%	-3.35%	3.35%	67.65%
gr% y/y			41.34%	-0.12%	73.26%
Annual rental income	2,261.0	2,336.8	2,367.5	2,636.2	2,944.4
gr% sequential		3.35%	1.31%	11.35%	11.69%
gr% y/y			4.71%	12.81%	24.37%
Rental income Qtrly	565.3	584.2	591.9	659.1	736.1
gr% sequential		3.35%	1.31%	11.35%	11.69%
gr% y/y			4.71%	12.81%	24.37%
EAT Qtrly	205.6	65.0	243.6	240.7	109.0
gr% sequential		-68.39%	274.83%	-1.21%	-54.70%
gr% y/y			18.48%	270.28%	-55.25%
Equity to owners	13,768.6	17,946.6	18,251.6	18,132.7	19,554.8
gr% sequential		30.34%	1.70%	-0.65%	7.84%
gr% y/y			32.56%	1.04%	7.14%

The value generator is – rental income. ACE's revenue line is dominated by government underwritten rental income.

No property development, makes ALSP significantly de-risked.

We expect a debt to equity ratio of 40% over the longer term. The dividend policy remains "progressive" with ALSP paying out according to annual performance but equating to around a 4-4.5% yield.

Source: Company Reports.

Exhibit 2: ACE Liberty & Stone EPS, NAV, LTV

GBP	2016A	2017A	2018E	2019E	2020E
Adj EPS (p)	1.91	3.42	3.83	5.39	9.56
gr% y/y		78.9%	11.8%	40.8%	77.3%
Basic EPS (p)	0.66	2.45	0.29	4.32	8.47
gr% y/y		270.3%	-88.3%	1411.7%	95.9%
Diluted EPS (p)	0.60	2.22	0.26	3.91	7.67
gr% y/y		270.3%	-88.3%	1411.7%	95.9%
Basic NAV (p)	44.3	44.7	50.9	47.4	54.5
gr% y/y		1.0%	13.7%	-6.8%	14.9%
Diluted NAV (p)	38.0	38.4	43.6	40.7	46.7
gr% y/y		1.0%	13.7%	-6.8%	14.9%
LTV %	37.6	55.3	72.5	77.7	83.1
gr% y/y		47.2%	31.0%	7.3%	6.9%

Source: ACF Estimates, Company Reports.

Our adjusted EPS is based on the removal of certain one-off costs and adjustments related largely to transaction activities and professional fees.

Forecasts semi-annual

ACF est. GBP (k)	1H15A	2H15A	1H16A	2H16A	1H17A	2H17A	1H18A	2H18E
Revenue	404.49	796.69	989.57	1,047.74	1,183.73	1,448.49	1,472.19	1,654.36
Rev gr% (Sequential)		96.96%	24.21%	5.88%	12.98%	22.37%	1.64%	12.37%
Rev gr% yoy		0.00%	0.00%	31.51%	19.62%	38.25%	24.37%	14.21%
Rev Seasonal Mix	33.67%	66.33%	48.57%	51.43%	44.97%	55.03%	47.09%	52.91%
EBITDA	18.02	295.75	507.75	327.91	421.69	643.06	768.59	156.61
EBITDA M%	4.45%	37.12%	51.31%	31.30%	35.62%	44.40%	52.21%	9.47%
EBITDA Seasonal Mix %	5.74%	94.26%	60.76%	39.24%	39.60%	60.40%	83.07%	16.93%
Net Income	222.59	536.43	411.27	-151.28	487.26	475.42	218.05	-105.71
NI M%	55.03%	67.33%	41.56%	-14.44%	41.16%	32.82%	14.81%	-6.39%
NI gr%		141%	-23%	-137%	-422%	-2%	-54%	-148%
EPS	0.032	0.077	0.948	-0.349	1.123	1.096	0.130	0.147

Source: ACF Research Estimates; Companies reports; Factset.



Our forecasts are based upon management guidance and our own sensitivity analysis. We focus on cash proxies (EBITDA) and free cash flow (FCF). However, Net Income remains important in the property sector, nevertheless we are strongly of the view that only cash matters.

Financial Projections annual

P&L GBP (k)	2016A	2017A	2018E	2019E	2020E
Revs	2,037	2,632	3,127	4,650	6,183
gr%	70%	29%	19%	49%	33%
SGA	1,202	1,567	2,201	1,281	1,339
EBITDA	836	1,065	925	3,369	4,845
% Revs	41%	40%	30%	72%	78%
FV adj.	283	-391	0	0	0
% Revs	14%	-15%	0%	0%	0%
EBIT	1,119	674	925	3,369	4,845
EBT	612	1,122	140	2,123	4,158
% Revs	30%	43%	4%	46%	67%
ETR	58%	14%	20%	20%	20%
NI	260	963	112	1,698	3,326
% Revs	13%	37%	4%	37%	54%
Adj EPS (p)	1.91	3.42	3.83	5.39	9.56
Basic EPS (p)	0.66	2.45	0.29	4.32	8.47
Diluted EPS (p)	0.60	2.22	0.26	3.91	7.67
Balance Sheet GBP (k)	2016A	2017A	2018E	2019E	2020E
Investments	21,788	29,453	55,177	68,227	89,977
Rev Yield	9.35%	8.94%	5.67%	6.82%	6.87%
Rev Yield 1 yr fwd	12.08%	10.62%	8.43%	9.06%	7.99%
Total Fixed Assets	21,788	29,453	55,177	68,227	89,977
Current assets	134	178	0	0	0
Assets held for sale	7,700	9,526	5,980	0	0
Cash	518	351	3,224	5,423	8,749
Total Current Assets	8,352	10,055	9,204	5,423	8,749
Total Assets	30,140	39,508	64,381	73,649	98,726
Creditors	1,395	788	937	1,393	1,852
Liabs held for sale	2,400	3,436	2,500	0	0
Deferred Tax	212	298	335	0	0
Loans	8,187	16,291	39,986	53,036	74,786
Total Liabilities	12,194	21,376	43,758	54,429	76,638
Net Assets	17,947	18,133	20,623	19,220	22,088
Share Capital	9,822	9,822	9,822	9,822	9,822
Accum. Profit/(loss)	513	1,180	1,292	2,991	6,317
Total Equity	17,947	18,133	20,623	19,220	22,088
Total Equity & Liabilities	30,140	39,508	64,381	73,649	98,726
Basic NAV (p)	44.3	44.7	50.9	47.4	54.5
Diluted NAV (p)	38.0	38.4	43.6	40.7	46.7
LTV %	37.6	55.3	72.5	77.7	83.1
Cash Flow GBP (k)	2016A	2017A	2018E	2019E	2020E
EBT Profit/(loss)	612	1,122	140	2,123	4,158
Finance costs	506	570	500	0	0
FV adj. + Other adj.	-283	391	0	0	0
Cash Taxes	-27	-22	-28	75	-832
WCap change	-37	-104	-63	0	0
Net CFO	867	961	828	2,123	4,158
% Revs	0	0	0	0	1
FCFE	840	939	800	2,198	3,326
uFCF	1,226	1,570	1,585	2,944	4,013
Capex/Prprty Assets %	24%	30%	30%	22%	28%
CF from Financing	3,259	8,334	17,618	15,000	25,000
Net Cash In/(Out)	-1,044	465	1,856	2,198	3,326
Cash previous YE	1,947	904	1,368	3,224	5,423
Cash & CE	904	1,368	3,224	5,423	8,749

Notes – [Intentionally Blank]

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