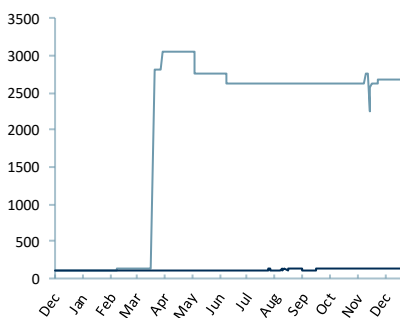


FLASH NOTE

VALUE RANGE

GBP 114 – 120

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



Monday, 08 January 2018

Intrinsic Price	117p
Value Range Low	114p
Value Range High	120p
Implied MCAP (m)	£46.77
Implied EV (m)	£62.71
NEX Index	ALSP ISD
Financial YE	30-Apr
Currency	GBP

Business Activity

Commercial & retail property investment

Key Metrics

Close Price	108p
MCAP (m)	£43.09
Net Debt (Cash) (m)	£15.940
EV (m)	£59.03
52 Wk Hi	125p
52 Wk Lo	100p
NAV trailing	45.24p

Key Ratios

S/P premium to NAV	137.64%
LTV	55.31%
Net Debt /	151.51%

Shareholder Equity %

Real Estate Sector Research

NEX Growth Market Index

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ACE Liberty & Stone 3Q Activity

Bingo!...

ACE Liberty & Stone (ALSP ISD) has issued a convertible loan note (CLN) with a target of up to £4.85m and minimum subscription of £2m. We fully expect the minimum subscription to be reached. The funds will be used, in the most part, to buy additional investment properties, thereby growing rental income. ALSP has already purchased another gaming property – Majestic Bingo Hall - since our last note. We remain comfortable with our YE18 revenue forecasts. Our perpetuity FCF analysis suggests a valuation between 128p and 131p. Post the YE17A balance sheet close ALSP bought Grosvenor Casino and Princess house and raised GBP 10m through a CLN. The new £4,85m CLN and rental revenues from Majestic Hall suggest a step toward the FCF perpetuity value range..

- ALSP aims to raise another 4.85m via a CLN;
- YE18E forecasts look underpinned by Majestic and other pipe items;
- CLNs, if converted to equity, will lead to a greater than 20% dilution;
- CLN sweetener – potential 4.85m warrants at 1:1 conversion to ords;
- Successful use of CLN funds could lead us to raise our estimates;

ACF est. GBP (k)	Revenue	EBITDA	FCF	EPS	EPS (diluted)
2017A	2,632	1,065	997	2.45	2.22
2018E	3,112	1,953	937	2.38	2.16

Multiples	EV/ Revenue	EV/ EBITDA	EV/ FCF	P/ EPS	P/ EPS (diluted)
2017A	22.04x	54.49x	61.80x	42.85x	47.32x
2018E	18.64x	29.71x	61.89x	44.07x	48.66x

05/01/2018

No. of
Shares

in Fully
issue diluted

Share Price History

NoSh (m)	40.1	53
Implied Intrinsic Price	117p	88p
Value Range Low	114p	86p
Value Range High	120p	90p
NEX Growth Market	ALSP	
Financial YE	30-Apr	
Reporting Currency	GBP	

NoSh (m) 40.1

NoSh (m) expected dilution (Exp D) 58

NoSh (m) full dilution (FD) 53

Key Metrics

adj.

MCAP (m)	£43.1	£43.1
Net Debt (Cash) (m)	£15.94	£15.94
EV (m)	£59.0	£59.0
52 Wk Hi	125p	94p
52 Wk Lo	100p	76p
Free Float	33%	33%

*Key Metrics FCF adj. 2017A 2018E

CPS (GBP)	2.49	2.34
CPS (Exp D) (GBP)	1.72	1.61
CPS (FD) (GBP)	1.88	1.77

P/CPS	46.92x	37.68x
P/CPS (Exp D)	67.93x	54.55x
P/CPS (FD)	62.13x	49.89x

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. FY17E should see ACE's property assets reach GBP 50m by FY2020E up from 28.5m FY16A. This could be achieved without the need for further equity raises, and so dilution (ex-options), however we would encourage management to work toward optimising balance sheet gearing by aiming for 40/60 debt to equity vs. the current 55% debt to equity. ALSP's cost of equity is 4.1%, whilst cost of debt is we estimate, 5.4% pre-tax and 4.3% after-tax.

The UK property market (commercial, retail and residential) has slowed in terms of the rate at which transactions are completed after the unexpected UK vote to leave the EU. However, the commercial property market has, in general, stabilised after initial panic from investors following the Brexit vote outcome. Deals are taking longer to execute. In spite of this challenging environment, ALSP's management has performed well with a host of post balance sheet events enhancing the company's outlook. The greater than 20% drop in the value of Sterling continues to support the UK property market as assets look cheap to foreign investors.

ALSP's active asset management strategy continues to prove value-generating in the current bull market.

● Post balance sheet events (PBSE) YE17A

Purchase of Grosvenor Casino, Manchester for GBP 4m (annual rental GBP 400k); Purchase of Princess House, Barnstaple for GBP 2.33m (annual rental 190k); purchase of College Square, Margate for GBP 8.3m (annual rental 630k) and purchase of Majestic Bingo Hall, Middlesbrough for GBP 4.15m (annual rental 313k). ALSP disposed of declining outlook assets Silverdale Worldwide and ACE Barnsley for GBP 3.25m booking a loss of approximately GBP 600k before rental income of GBP 1m over 10 years.

● Funding PBSEs

GBP 10m funding via a convertible loan note at 6%. ACE Issued 80k shares at 75p per share to Bijan Daneshmand, who now owns 5.16% of ALSP. Announcement of 1p interim dividend bringing the dividend yield to around 4%.

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 (ALSP) is a property investment company focussed exclusively on the UK property market and largely invested in the commercial segment. The **value generator is** – rental income supported in turn by financing and asset appreciation.

- **Rental income** – ACE’s revenue line is dominated by rental income from its wholly owned subsidiaries.

ACE’s strategy is to acquire properties that deliver high yield combined with the opportunity to create or capture capital value. The management team identify properties available for acquisition with short unexpired tenancies. 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. The short remaining tenancy periods lower acquisition prices commensurately, whilst providing the opportunity for change-of-use (rental uplift) in the nearish future in order to maximise the property value.

ACE does not engage in property development and therefore the company is significantly de-risked compared to many property investment vehicles.

Historically ALSP was dominated by debt funding (debt/equity ratio FY17A 55% vs. FY15A 70%. The GBP convertible note at 6% is quasi equity and would currently convey a 26% equity stake (14.035m shares) to the holder if converted.). ACE plans to continue to fund future growth via debt and equity and we expect the company to target a debt/equity ratio of 40% over the medium term. The dividend policy remains “progressive” with ACE paying out according to annual performance.

Exhibit 1: ACE Liberty & Stone key operational metrics

GBP (k)	YE15A	1H16A	YE16A	1H17A	YE17A
Investment property	23,964.4	20,164.4	29,488.4	28,499.4	29,453.3
gr% sequential		-15.86%	46.24%	-3.35%	3.35%
gr% y/y			23.05%	41.34%	-0.12%
Annual rental income	2,231.0	2,261.0	2,336.8	2,310.4	2,632.0
gr% sequential		1.34%	3.35%	-1.13%	13.92%
gr% y/y			4.74%	2.18%	12.63%
Rental income Qtrly	300.3	494.8	509.3	591.9	658
gr% sequential		64.77%	2.94%	16.21%	11.17%
gr% y/y			69.61%	19.62%	29.19%
EAT Qtrly	189.8	205.6	65.0	243.6	240.7
gr% sequential		8.37%	-68.39%	274.83%	-1.21%
gr% y/y			-65.75%	18.48%	270.28%
Equity to owners	12,410.4	13,768.6	17,946.6	18,251.6	18,132.7
gr% sequential		10.94%	30.34%	1.70%	-0.65%
gr% y/y			44.61%	32.56%	1.04%

Source: Company Reports;

The sale of Colebrook Court, (announced 21st November, 2016), 1H17A created a temporary decline of 3.5% in the investment property line, however the post-close purchase of 1-5 Upper Market Square, Hanley for GBP 9m, (announced 5th October, 2016), has reinstated the positive sequential growth trend. If we include the post balance sheet purchases, growth y/y was over 30%.

Valuation

ACF est. GBP (k)	2016A	2018E	2019E	2020E	2021E
Revenue	2,632	3,112	4,041	5,572	6,594
EBITDA	1,065	1,953	2,823	4,298	5,261
Net Income	963	937	1,416	2,393	3,219
FCF	997	937	1,662	2,889	3,714
CPS (diluted)	2.30	1.77	3.13	5.44	7.00

Note: FY19E revenues decline due to forecast asset sales that lead to a rise in EBITDA and FCF.

ALSP ISD WACC Calc	*ERP Global
Pre-tax cost of debt	5.4%
ETR	20.0%
After-tax cost of debt	4.3%
Current Leverage	
Debt	37.8%
Equity	43,091
Target Leverage	
D / (D+E)	40.0%
ACF β adj levered	0.61
rf	0.80%
Rm	6.2%
ERP	5.4%
Cost of equity	4.09%
Risk adj.	0.95%
WACC	5.13%

Note: We assume the conservative Debt / Equity target mix 40%. However, in the current interest rate environment 50-60% is more likely.

*Bloomberg ticker indicates ACF market ERP

Valuation Range

NPV FCF (k)	9,393
NPV TV FCF (k)	53,313
EVF (k)	62,705
TV Multiple	18.0x
% TV of total NPV	85.02%
Net Debt (k)	15,940
Fair Value (k)	46,766
NoSh (m)	40.08
NoSh (diluted) (m)	53.08
Intrinsic Value Per Share	116.67
Close Price £	107.50
VR (low - high)	113.75 119.53
VR Spread	5.00%
Implied VR Return (low - high)	5.8% 11.2%

Note: Close price on front page of this ACF research note is based on shares in issue (NoSh) on 05/01/2018 of 40,084,625 following the 25:1 share consolidation 31st March 2017 and further issue of equity post balance sheet close.

We have raised our cost of debt expectations by 1.2 % to around 5.4% to reflect both the balance sheet D/E mix and interest rate trends.

Financial Projections

Exhibit 2: ACE Liberty & Stone P&L and forecasts

P&L GBP (k)	2016A	2017A	2018E	2019E	2020E
Revs	2,037	2,632	3,112	4,041	5,572
gr%	70%	29%	18%	30%	38%
GP	2,037	2,632	3,112	4,041	5,572
% Revs	100%	100%	100%	100%	100%
SGA	1,202	1,567	1,159	1,218	1,274
% Revs	59%	60%	37%	30%	23%
EBITDA	836	1,065	1,953	2,823	4,298
% Revs	41%	40%	63%	70%	77%
FV adj.	283	-391	0	0	0
% Revs	14%	-15%	0%	0%	0%
EBIT	1,119	674	1,953	2,823	4,298
EBT	612	1,122	1,172	2,078	3,612
% Revs	30%	43%	38%	51%	65%
ETR	58%	14%	20%	20%	20%
Tax	352	160	234	416	722
NI	260	963	938	1,662	2,889
% Revs	13%	37%	30%	41%	52%
Basic EPS (p)	0.66	2.45	2.39	4.23	7.35
Diluted EPS (p)	0.60	2.22	2.16	3.83	6.66

Source: Company reports; ACF Estimates.

Financial Projections

Exhibit 3: ACE Liberty & Stone Balance Sheet and forecasts

Balance Sheet GBP (k)	2016A	2017A	2018E	2019E	2020E
Tangible Assets	0	0	0	0	0
Investments	21,788	29,453	38,153	46,853	55,553
Rev Yield	9.35%	8.94%	8.16%	8.63%	10.03%
Rev Yield 1 yr fwd	12.08%	10.57%	10.59%	11.89%	11.87%
Total Fixed Assets	21,788	29,453	38,153	46,853	55,553
Current assets	134	178	11,474	14,899	20,544
Assets held for sale	7,700	9,526	0	0	0
Cash	518	351	1,563	2,480	4,683
Total Current Assets	8,352	10,055	13,037	17,379	25,226
Total Assets	30,140	39,508	51,190	64,232	80,780
Creditors	1,395	788	932	1,211	1,669
Liabs held for sale	2,400	3,436	0	0	0
Accruals	0	563	0	0	0
Deferred Tax	212	298	0	0	0
Loans	8,187	16,291	8,700	17,400	26,100
Total Liabilities	12,194	21,376	9,632	18,611	27,769
Net Assets	17,947	18,133	41,558	45,622	53,011
Share Capital	9,822	9,822	9,822	9,822	9,822
Reserves	479	479	479	479	479
Share Premium	7,133	7,133	29,140	31,541	36,041
Accum. Profit/(loss)	513	1,180	2,118	3,780	6,669
Other	0	-481	0	0	0
Total Equity	17,947	18,133	41,558	45,622	53,011
Total Equity & Liabilities	30,140	39,508	51,190	64,232	80,780

Source: Company reports; ACF Estimates.

Financial Projections

Exhibit 4: ACE Liberty & Stone Cash Flow and forecasts

Cash Flow GBP (k)	2016A	2017A	2018E	2019E	2020E
CFO					
EBT Profit/(loss)	612	1,122	1,172	2,078	3,612
% Revs	30%	43%	38%	51%	65%
Finance costs	506	570	0	0	0
FV adj.	-283	391	0	0	0
Other adjustments	69	-1,019	0	0	0
Cash Taxes	-27	-22	-234	-416	-722
Net Ip / (Irr)	386	631	781	746	687
WCap change	-37	-104	0	0	0
Net CFO	454	308	157	916	2,203
% Revs	22.3%	11.7%	5.0%	22.7%	39.5%
Capex maintenance	0	0	0	0	0
FCFE	454	308	157	916	2,203
% Revs	22%	12%	5%	23%	40%
uFCF	840	939	938	1,662	2,889
% Revs	41%	36%	30%	41%	52%
Capex growth net	5,143	8,809	10,000	10,000	10,000
Capex/Prprty Assets %	24%	30%	26%	21%	18%
CF from Financing	3,259	8,334	11,056	10,000	10,000
Net Cash In/(Out)	-1,430	-167	1,213	916	2,203
Cash previous YE	1,947	518	351	1,563	2,480
Cash & CE	518	351	1,563	2,480	4,683

Source: Company reports; ACF Estimates.

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