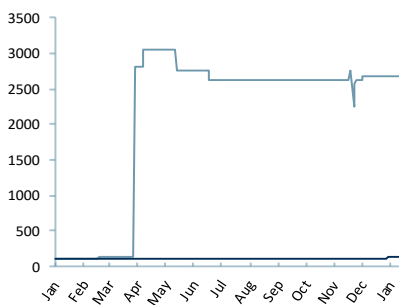


PRE-RESULTS

VALUE RANGE

GBP 115 – 121



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

Wednesday, 24 January 2018

Intrinsic Price	118p
Value Range Low	115p
Value Range High	121p
Implied MCAP (m)	£47.41
Implied EV (m)	£63.35
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 1H18E

Net income exchanged for growth

Our value range has ticked up marginally after ACE Liberty & Stone (ALSP ISD) confirmed its commitment to growth after raising a 10m CLN at 6% and identifying new rental revenue properties. We are supportive of the company's new inferred greater ambition. Our pre-results expectations reflect our revenue uplift assumptions but we have cut net income expectations to reflect the cost of new financing to spur that revenue growth; underlying opex remains broadly unchanged (but with a 10% flex), making revenues more important to investors than net income at this stage in ALSP's investment and growth cycle. Below we provide our key estimates.

- Revenues 1H18E £1,175k up 18.78.62% y/y;
- Investment property 1H18E £41.8m up 46.7% y/y (up 42% vs. 2H17A);
- Rental income annualised 2Q18E £3,127k up 18.8% vs. 4Q17A;
- EBITDA 1H18E £347.8k vs. £507.75k y/y reflecting growth investment;
- EPS 1H18E 0.104 vs. 0.948 y/y reflecting focus on growth.

ACF est. GBP (k)	Revenue	EBITDA	FCF	EPS	EPS (diluted)
2017A	2,632	1,065	997	2.45	2.22
2018E	3,127	925	1,087	0.28	0.19

Multiples	EV/ Revenue	EV/ EBITDA	EV/ FCF	P/ EPS	P/ EPS (diluted)
2017A	22.43x	55.44x	62.88x	43.87x	48.44x
2018E	18.88x	63.81x	54.33x	387.88x	555.60x

24/01/2018		No. of Shares	Fully diluted
Share Price History			
NoSh (m)	40.1	57	
Implied Intrinsic Price	118p	83p	
Value Range Low	115p	81p	
Value Range High	121p	85p	
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)			57
Key Metrics			
MCAPI (m)	£43.1	£43.1	adj.
Net Debt (Cash) (m)	£15.94	£15.94	
EV (m)	£59.0	£59.0	
52 Wk Hi	125p	87p	
52 Wk Lo	100p	70p	
Free Float	33%	33%	
*Key Metrics FCF adj.			
	2017A	2018E	
CPS (GBp)	2.49	2.71	
CPS (Exp D) (GBp)	1.72	1.87	
CPS (FD) (GBp)	1.74	1.89	
P/CPS	47.56x	30.46x	
P/CPS (Exp D)	68.87x	44.10x	
P/CPS (FD)	68.13x	43.63x	

Above we show full dilution (FD) and expected dilution (Exp D). ALSP shares in issue at the date of this note are 40,073,825. 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 account 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, irrespective of the lack of the much-vaunted recession expected post the vote. However, the commercial property market has, in general, stabilised after initial panic from investors following the Brexit vote outcome. Deals are still 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 has largely reversed since the Brexit referendum, with GBP down 3.4% vs. USD, however the EUR remains strong vs. GBP at 87p meaning the UK property market remains attractive to international buyers, at least in the EUR zone.

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

● Balance sheet key events 1H18E

Purchase of Grosvenor Casino, Manchester for GBP 4m (annual rental GBP 400k); Purchase of Princess House, Barnstaple for GBP 2.33m (annual rental 190k) and purchase of College Square, Margate for GBP 8.3m (annual rental 630k). 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 1H18E

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, asset appreciation is no longer a significant element of the model.

No property development, makes ALSP significantly de-risked.

- **Rental income** – ACE’s revenue line is dominated by rental income.

ACE’s strategy is to acquire 100% of properties that then 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**

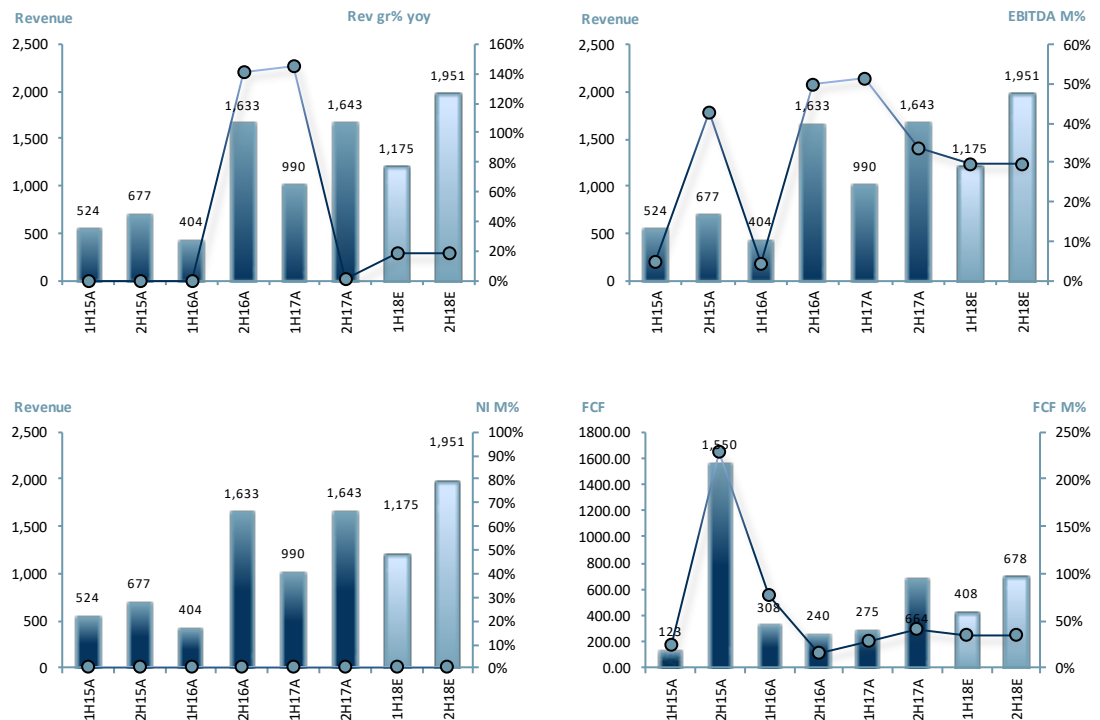
GBP (k)	YE15A	1H16A	YE16A	1H17A	YE17A
Investment property	23,964.4	20,164.4	29,488.4	28,499.4	29,453.3
gr% sequential		-15.86%	46.24%	-3.35%	3.35%
gr% y/y			23.05%	41.34%	-0.12%
Annual rental income	2,231.0	2,261.0	2,336.8	2,310.4	2,632.0
gr% sequential		1.34%	3.35%	-1.13%	13.92%
gr% y/y			4.74%	2.18%	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;

Forecasts semi-annual

ACF est. GBP (k)	1H15A	2H15A	1H16A	2H16A	1H17A	2H17A	1H18E	2H18E
Revenue	524.33	676.85	404.49	1,632.81	989.57	1,642.65	1,175.41	1,951.14
Rev gr% (Sequential)		29.09%	-40.24%	303.67%	-39.39%	66.00%	-28.44%	66.00%
Rev gr% yoy		0.00%	0.00%	141.24%	144.64%	0.60%	18.78%	18.78%
Rev Seasonal Mix	43.65%	56.35%	19.85%	80.15%	37.59%	62.41%	37.59%	62.41%
EBITDA	25.19	288.57	18.02	817.64	507.75	557.01	347.80	577.34
EBITDA M%	4.80%	42.63%	4.45%	50.08%	51.31%	33.91%	29.59%	29.59%
EBITDA Seasonal Mix %	8.03%	91.97%	2.16%	97.84%	47.69%	52.31%	37.59%	62.41%
Net Income	63.67	695.35	222.59	37.40	411.27	551.40	41.76	69.33
NI M%	12.14%	102.73%	55.03%	2.29%	41.56%	33.57%	3.55%	3.55%
NI gr%		992%	-68%	-83%	1000%	34%	-92%	66%
EPS	0.009	0.100	0.513	0.086	0.948	1.271	0.104	0.173

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.

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