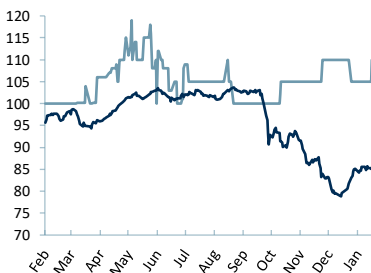


POST RESULTS

VALUE RANGE

GBP 126 – 133



ALSP 12m Price Relative Chart vs. FTSE AIM (darker)

Thursday, 31 January 2019

Intrinsic Price	130p
Value Range Low	126p
Value Range High	133p
Implied MCAP (m)	£53.92
Implied EV (m)	£95.13
NEX Index	ALSP NEX
Financial YE	30-Apr
Currency	GBP

Business Activity

Commercial & retail property investment

Key Metrics

Close Price	110p
MCAP (m)	£45.75
Net Debt (Cash) (m)	£41.21
EV (m)	£86.96
52 Wk Hi	115p
52 Wk Lo	100p
NAV trailing	46.74p

Key Ratios

S/P premium to NAV	135.36%
% LTV ALSP adj.	48.57%
Net Debt /	285.11%

Shareholder Equity %

Real Estate Sector Research

NEX Growth Market Index

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ACE Liberty & Stone 1H19A

Another round of beats and growth

ACE Liberty & Stone (ALSP NEX) 1H19A results beat our estimates for total revenues, EBITDA and FCF. We maintain our full year forecasts and remodelled our NAV expectations based upon conversion of GBP 15m of CLNs and using equity rather than debt to fund further growth - leading to a significant jump in NAV during FY20E. Note that we maintain our expectation that 2H19E will be stronger than 1H19A. Investment properties 1H19A exceeded GBP 61m and our expectation is that they will exceed GBP 70m within the next 12 months. Total revenues in the half reached GBP 2.45m. The Company added four new properties to the portfolio and we expect further activity in property sales and acquisitions 2H19A.

- Rental revenues 1H19A £1.946m up 32.2% vs. £1,472 y/y;
- EBITDA underlying 1H19A £1.414m up 83.9% y/y;
- Net Income unadjusted 1H19A £271k up 24% y/y;
- EPS 1H19A 0.584p up 24.3% y/y;
- Sale of Hume House for £3.9m – total return 307%.

ACF est. GBP (k)	Revenue	EBITDA	FCF	EPS	EPS (diluted)
2018A	3,515	2,472	1,855	0.87	0.61
2019E	5,175	4,073	1,711	1.55	1.12

Multiples	EV/ Revenue	EV/ EBITDA	EV/ FCF	P/ EPS	P/ EPS (diluted)
2018A	24.74x	35.17x	46.88x	125.87x	178.96x
2019E	16.80x	21.35x	50.84x	70.81x	98.42x

31/01/2019	No. of Shares	
	in issue	Fully diluted
Share Price History		
NoSh (m)	41.6	57.8
Implied Intrinsic Price	130p	93p
Value Range Low	126p	91p
Value Range High	133p	96p
NEX Growth Market	ALSP	
Financial YE	30-Apr	
Reporting Currency	GBP	
NoSh (m)		41.6
NoSh (m) expected dilution (Exp D)		57.8
NoSh (m) full dilution (FD)		57.8
Key Metrics		
MCAP (m)	£45.8	£45.8
Net Debt (Cash) (m)	£41.21	£41.21
EV (m)	£87.0	£87.0
52 Wk Hi	115p	83p
52 Wk Lo	100p	72p
Free Float	33%	33%
*Key Metrics FCF adj.		
	2018A	2019E
CPS (GBp)	4.46	4.11
CPS (Exp D) (GBp)	3.21	2.96
CPS (FD) (GBp)	3.21	2.96
P/CPS	29.07x	22.67x
P/CPS (Exp D)	40.40x	31.52x
P/CPS (FD)	40.40x	31.52x

Above we show full dilution (FD) and expected dilution (Exp D). ALSP shares in issue at the date of this note are 41,343,368. Dilutive elements are convertibles and options totalling 17,436,196 (options 10,800). For our Exp. dilution we assume the exercise of options is averaged over 2 years respectively. We assume convertibles are exercised during 2019.

Investment Case – “Safe” Growth

Competitive background

ACE (ALSP) acquires and rents secondary assets largely in regional cities in the UK with over 50% of rental income from gilt-edged tenants. HM government and city councils accounted for 51% of rental revenues FY18A vs. 60% y/y. Major industrial and commercial companies accounted for 45% of revenues vs. 33% FY17A. We expect government rentals to rise again as a proportion of revenue mix during FY19E. ACE looks for two types of core opportunities – 1) end of life tenancies to provide rental uplift via change of use and, in time, capital appreciation and longer-term tenancies to underpin cash flows. ALSP does not undertake development work, thereby de-risking its revenues compared to many of its listed peer group.

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. Although the commercial property market stabilised relatively quickly after an initial panic from investors following the Brexit vote outcome, deals are now taking longer to execute and commercial debt arrangements have become a more laborious process. In spite of this environment.

ALSP’s active asset management strategy continues to prove value-generating in current market conditions, whilst political uncertainties between the UK and Europe are providing potential opportunities for ALSP.

• Dividend and balance sheet growth

Dividend pay-out of 0.83p p/s, to be paid out three times p.a. for a total of 2.49p per share. During 1H19A ALSP Purchased of four properties for a total of GBP 14.796m driving its investment property portfolio to on the balance sheet to 61.8m and we see GBP 70m within 12m as the next milestone target. During 1H19A completed purchases include of Mecca Bingo Hall, Chesterfield for GBP 3.999m and the sale of Hume House for GBP 3.9m, acquired in 2014 for GBP 1.67m; including rental revenue ALSP “booked” a 307% return on Hume.

• Funding

ALSP can continue to fund using commercial debt or equity. It is well supported by its commercial bankers. Adjusted LTV 48.6% captures GBP 15m in CLNs and assets and liabilities held for sale. If ALSP uses equity to fund future growth we see potential for a significant uptick in NAV to 122p FY2020E, based upon current full dilution. Nevertheless, this is a company with the characteristics of a strong growth entity (that also pays a dividend).

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 almost entirely invested in the commercial segment. ALSP revenues are dominated by rental income from gilt-edged government or government backed entities. The tenants have “gilt edged” credit ratings. Tenants are dominated by organisations such as HMRC (UK tax authority and collection agency) and local authorities.

Exhibit 1: ACE Liberty & Stone adjusted metrics, EPS, NAV, LTV

Adj. Metrics GBP (k)	2016A	2017A	2018A	2019E	2020E
EBITDA Adjusted	1,328	1,447	2,830	4,439	5,409
%Growth		9%	96%	57%	22%
%Margin	65%	55%	80%	86%	87%
EV/EBITDA adj.	66x	60x	31x	20x	16x
EV/EBITDA	104x	82x	35x	21x	21x
EBT Adjusted	1,104	1,505	571	1,174	3,356
%Growth		36%	-62%	105%	186%
%Margin	54%	57%	16%	23%	54%
NI Adjusted	752	1,345	718	1,012	2,940
%Growth		79%	-47%	41%	190%
%Margin	37%	51%	20%	20%	48%
EPS Adjusted	1.91	3.42	1.74	2.43	7.07
%Growth		79%	-49%	40%	190%
PE adj.	57x	32x	63x	45x	16x
PE	166x	45x	126x	71x	27x
EPS FD Adjusted	1.73	3.10	1.22	1.75	5.09
%Growth		79%	-61%	43%	190%
PE adj.	63x	35x	90x	63x	22x
PE	184x	50x	179x	98x	38x
Total Equity & Liabilities	39,508	64,337	76,238	86,502	111,251
Basic NAV (p)	43.6	46.7	46.3	111.0	170.1
Diluted NAV (p)	31.4	33.6	33.3	79.8	122.4
% LTV	55.3%	80.6%	76.7%	45.3%	34.9%
% LTV ALSP adj.	50.6%	48.6%	53.9%	27.5%	21.2%

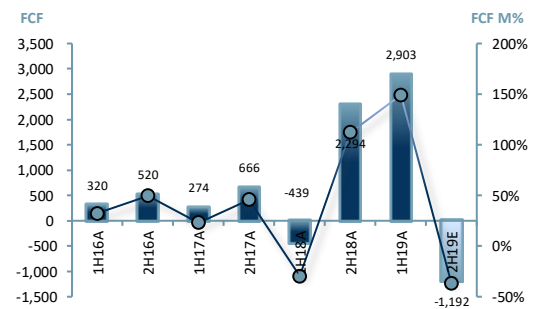
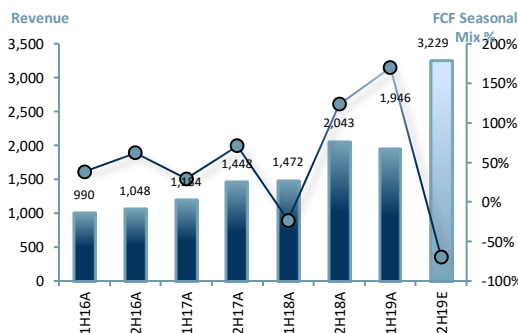
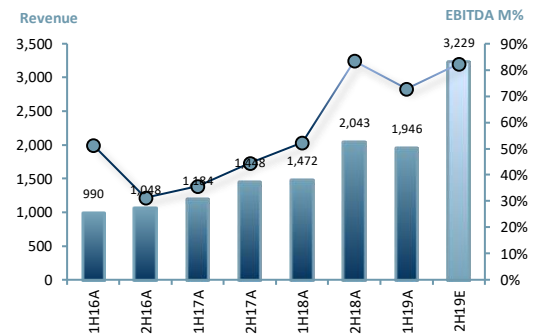
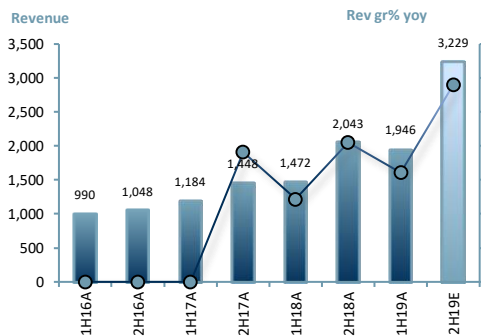
Our adjusted LTV captures assets and liabilities held of sale and an adjustment for the 10m and 5m CLNs, both of which management expects to be converted to equity.

Source: ACF Estimates, Company Reports.

Forecasts semi-annual

ACF est. GBP (k)	1H17A	2H17A	1H18A	2H18A	1H19A	2H19E
Revenue	1,183.73	1,448.49	1,472.19	2,042.90	1,945.86	3,229.08
Rev gr% (Sequential)			1.64%	38.77%	-4.75%	65.95%
Rev gr% yoy			24.37%	41.04%	32.17%	58.06%
Rev Seasonal Mix	44.97%	55.03%	41.88%	58.12%	37.60%	62.40%
EBITDA	421.69	643.06	768.59	1,703.89	1,414.85	2,658.51
EBITDA M%	35.62%	44.40%	52.21%	83.41%	72.71%	82.33%
EBITDA Seasonal Mix %	39.60%	60.40%	31.09%	68.91%	34.73%	65.27%
Net Income	487.26	475.42	218.05	143.24	270.78	375.39
NI M%	41.16%	32.82%	14.81%	7.01%	13.92%	11.63%
NI gr%		-2%	-54%	-34%	89%	39%
EPS	1.123	1.096	0.371	0.244	0.584	0.969

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)	2017A	2018A	2019E	2020E	2021E
Revs	2,632	3,515	5,175	6,183	6,633
gr%	29%	34%	47%	19%	7%
SGA	1,567	1,043	1,102	2,049	2,700
EBITDA	1,065	2,472	4,073	4,134	3,933
% Revs	40%	70%	79%	67%	59%
FV adj.	-391	0	0	0	0
% Revs	-15%	0%	0%	0%	0%
EBIT	674	2,472	4,073	4,134	3,933
EBT	1,122	214	808	2,081	2,046
% Revs	43%	6%	16%	34%	31%
ETR	14%	-69%	20%	20%	20%
NI	963	361	646	1,665	1,637
% Revs	37%	10%	12%	27%	25%
Adj EPS (p)	3.42	1.83	2.58	5.19	5.15
Basic EPS (p)	2.45	0.87	1.56	4.03	3.96
Diluted EPS (p)	2.22	0.61	1.10	2.83	2.78
Balance Sheet GBP (k)	2017A	2018A	2019E	2020E	2021E
Investments	29,453	50,488	69,270	84,270	109,270
Rev Yield	8.94%	6.96%	7.47%	7.34%	6.07%
Rev Yield 1 yr fwd	11.93%	10.25%	8.93%	7.87%	6.92%
Total Fixed Assets	29,453	50,488	69,270	84,270	109,270
Current assets	178	934	0	0	0
Assets held for sale	9,526	7,734	4,349	0	0
Cash	351	5,180	2,620	2,232	1,982
Total Current Assets	10,055	13,849	6,969	2,232	1,982
Total Assets	39,508	64,337	76,238	86,502	111,251
Creditors	788	1,240	1,825	2,181	2,340
Liabs held for sale	3,436	2,587	1,560	0	0
Deferred Tax	298	215	278	0	0
Loans	16,291	40,694	53,157	38,157	38,157
Total Liabilities	21,376	44,897	56,983	40,338	40,497
Net Assets	18,133	19,439	19,256	46,163	70,754
Share Capital	9,822	10,066	10,299	10,299	10,299
Accum. Profit/(loss)	1,180	1,152	1,798	3,463	5,100
Total Equity	18,133	19,439	19,256	46,163	70,754
Total Equity & Liabilities	39,508	64,337	76,238	86,502	111,251
Basic NAV (p)	43.6	46.7	46.3	111.0	170.1
Diluted NAV (p)	31.4	33.6	33.3	79.8	122.4
% LTV ALSP adj.	50.6%	48.6%	53.9%	27.5%	21.2%
Cash Flow GBP (k)	2017A	2018A	2019E	2020E	2021E
EBT Profit/(loss)	1,122	214	808	2,081	2,046
Finance costs	570	2218	1168	0	0
FV adj. + Other adj.	391	0	0	0	0
Cash Taxes	-22	-337	-162	-416	-409
WCap change	-104	-280	-103	0	0
Net CFO	961	2,192	1,872	2,081	2,046
% Revs	0	1	0	0	0
FCFE	939	1,855	1,711	1,665	1,637
uFCF	1,570	3,374	3,911	3,718	3,524
Capex/Prprty Assets %	30%	38%	11%	18%	23%
CF from Financing	8,334	23,776	5,325	15,000	25,000
Net Cash In/(Out)	-167	4,829	-2,560	-388	-250
Cash previous YE	518	351	5,180	2,620	2,232
Cash & CE	351	5,180	2,620	2,232	1,982

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