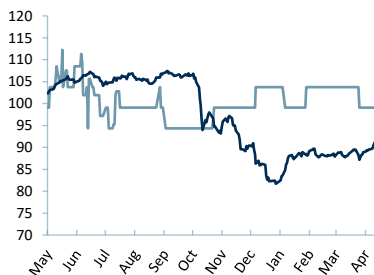


FLASH NOTE

VALUE RANGE

GBP 123 – 129



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

Monday, 15 April 2019

| | |
|------------------|----------|
| Intrinsic Price | 126p |
| Value Range Low | 123p |
| Value Range High | 129p |
| Implied MCAP (m) | £53.57 |
| Implied EV (m) | £94.78 |
| NEX Index | ALSP NEX |
| Financial YE | 30-Apr |
| Currency | GBP |

Business Activity

Commercial & retail property investment

Key Metrics

| | |
|---------------------|--------|
| Close Price | 105p |
| MCAP (m) | £44.56 |
| Net Debt (Cash) (m) | £41.21 |
| EV (m) | £85.77 |
| 52 Wk Hi | 115p |
| 52 Wk Lo | 100p |
| NAV trailing | 45.81p |

Key Ratios

| | |
|------------------------|---------|
| S/P premium to NAV | 129.20% |
| % LTV ALSP adj. | 48.57% |
| Net Debt / Shareholder | 285.11% |
| Equity % | |

Real Estate Sector Research

NEX Growth Market Index

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ACE 2nd Interim Dividend

Growth with yield 19E >2%

ACE Liberty & Stone (ALSP NEX) delivers second interim dividend 0.83p for YE April 19E. ALSP has been active calendar 2019, so far it has announced a new broker, released its 1H19A, acquired two more properties and issued additional equity as its CLN programme converts as expected. We maintain our full year forecasts. In our previous note we showed remodelled NAV expectations based upon conversion of GBP 15m of CLNs (now below GBP 5m) and using equity rather than debt to fund further growth. Thus our underlying NAV trend points up toward our growth stock DCF valuation. The issue of additional shares through the CLN conversion programme leads to share price dilution reflected in our lower share price range but leaves our EV at GBP 95m.

- Interim Dividend, 2nd of Y19E 0.83p, Yield YE19E 2%;
- EV £95m as growth continues apace;
- CLNs continue to convert to equity and new cash;
- Underlying upward NAV trend reflects growth company character;
- Balance sheet fixed assets heading north of £70m YE19E.

| ACF est. GBP (k) | Revenue | EBITDA | FCF | EPS | EPS (diluted) |
|------------------|---------|--------|-------|------|---------------|
| 2018A | 3,515 | 2,472 | 1,855 | 0.87 | 0.61 |
| 2019E | 5,246 | 4,144 | 1,730 | 1.57 | 1.15 |

| Multiples | EV/ Revenue | EV/ EBITDA | EV/ FCF | P/ EPS | P/ EPS (diluted) |
|-----------|----------------|---------------|------------|-----------|------------------------|
| 2018A | 24.40x | 34.69x | 46.24x | 120.15x | 170.83x |
| 2019E | 16.35x | 20.69x | 49.57x | 66.79x | 90.91x |

15/04/2019

| Share Price History | No. of Shares in issue | Fully diluted |
|-------------------------|------------------------|---------------|
| NoSh (m) | 42.4 | 57.8 |
| Implied Intrinsic Price | 126p | 93p |
| Value Range Low | 123p | 90p |
| Value Range High | 129p | 95p |
| NEX Growth Market | ALSP | |
| Financial YE | 30-Apr | |
| Reporting Currency | GBP | |

NoSh (m) 42.4

NoSh (m) expected dilution (Exp D) 57.8

NoSh (m) full dilution (FD) 57.8

| Key Metrics | | adj. |
|---------------------|--------|--------|
| MCAP (m) | £44.6 | £44.6 |
| Net Debt (Cash) (m) | £41.21 | £41.21 |
| EV (m) | £85.8 | £85.8 |
| 52 Wk Hi | 115p | 84p |
| 52 Wk Lo | 100p | 73p |
| Free Float | 33% | 33% |

| *Key Metrics FCF adj. | 2018A | 2019E |
|-----------------------|--------|--------|
| CPS (GBp) | 4.37 | 4.08 |
| CPS (Exp D) (GBp) | 3.21 | 3.00 |
| CPS (FD) (GBp) | 3.21 | 3.00 |
| P/CPS | 28.88x | 22.74x |
| P/CPS (Exp D) | 39.31x | 30.96x |
| P/CPS (FD) | 39.31x | 30.96x |

Above we show full dilution (FD) and expected dilution (Exp D). ALSP shares in issue at the date of this note are 42,433,368. Dilutive elements are convertibles and options/warrants (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 vs. its listed peers.

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 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 6m 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). Northampton and Bolton were funded by an additional GBP 4m in commercial debt representing 65% of the purchase price.

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; equity funding closing NAV - DCF valuation gap.

Financial Projections Annual

| P&L GBP (k) | 2017A | 2018A | 2019E | 2020E | 2021E |
|---------------------------------------|---------------|---------------|---------------|---------------|----------------|
| Revs | 2,632 | 3,515 | 5,246 | 6,183 | 6,633 |
| gr% | 29% | 34% | 49% | 18% | 7% |
| SGA | 1,567 | 1,043 | 1,102 | 2,049 | 2,700 |
| EBITDA | 1,065 | 2,472 | 4,144 | 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 | 4,144 | 4,134 | 3,933 |
| EBT | 1,122 | 214 | 834 | 2,081 | 2,046 |
| % Revs | 43% | 6% | 16% | 34% | 31% |
| ETR | 14% | -69% | 20% | 20% | 20% |
| NI | 963 | 361 | 667 | 1,665 | 1,637 |
| % Revs | 37% | 10% | 13% | 27% | 25% |
| Adj EPS (p) | 3.42 | 1.83 | 2.63 | 5.19 | 5.15 |
| Basic EPS (p) | 2.45 | 0.87 | 1.61 | 4.03 | 3.96 |
| Diluted EPS (p) | 2.22 | 0.61 | 1.13 | 2.83 | 2.78 |
| Balance Sheet GBP (k) | 2017A | 2018A | 2019E | 2020E | 2021E |
| Investments | 29,453 | 50,488 | 69,426 | 84,426 | 109,426 |
| Rev Yield | 8.94% | 6.96% | 7.56% | 7.32% | 6.06% |
| Rev Yield 1 yr fwd | 11.93% | 10.39% | 8.91% | 7.86% | 6.91% |
| Total Fixed Assets | 29,453 | 50,488 | 69,426 | 84,426 | 109,426 |
| Current assets | 178 | 934 | 0 | 0 | 0 |
| Assets held for sale | 9,526 | 7,734 | 4,349 | 0 | 0 |
| Cash | 351 | 5,180 | 2,594 | 2,207 | 1,956 |
| Total Current Assets | 10,055 | 13,849 | 6,943 | 2,207 | 1,956 |
| Total Assets | 39,508 | 64,337 | 76,369 | 86,633 | 111,382 |
| Creditors | 788 | 1,240 | 1,850 | 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 | 57,008 | 40,338 | 40,497 |
| Net Assets | 18,133 | 19,439 | 19,362 | 46,294 | 70,885 |
| Share Capital | 9,822 | 10,066 | 10,299 | 10,299 | 10,299 |
| Accum. Profit/(loss) | 1,180 | 1,152 | 1,819 | 3,484 | 5,121 |
| Total Equity | 18,133 | 19,439 | 19,362 | 46,294 | 70,885 |
| Total Equity & Liabilities | 39,508 | 64,337 | 76,369 | 86,633 | 111,382 |
| Basic NAV (p) | 43.0 | 46.1 | 45.9 | 109.8 | 168.1 |
| Diluted NAV (p) | 31.4 | 33.6 | 33.5 | 80.1 | 122.6 |
| % LTV ALSP adj. | 50.6% | 48.6% | 53.8% | 27.4% | 21.2% |
| Cash Flow GBP (k) | 2017A | 2018A | 2019E | 2020E | 2021E |
| EBT Profit/(loss) | 1,122 | 214 | 834 | 2,081 | 2,046 |
| Finance costs | 570 | 2218 | 1168 | 0 | 0 |
| FV adj. + Other adj. | 391 | 0 | 0 | 0 | 0 |
| Cash Taxes | -22 | -337 | -167 | -416 | -409 |
| WCap change | -104 | -280 | -105 | 0 | 0 |
| Net CFO | 961 | 2,192 | 1,897 | 2,081 | 2,046 |
| % Revs | 0 | 1 | 0 | 0 | 0 |
| FCFE | 939 | 1,855 | 1,730 | 1,665 | 1,637 |
| uFCF | 1,570 | 3,374 | 3,976 | 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 | -2,586 | -388 | -250 |
| Cash previous YE | 518 | 351 | 5,180 | 2,594 | 2,207 |
| Cash & CE | 351 | 5,180 | 2,594 | 2,207 | 1,956 |

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