

POST RESULTS

VALUE RANGE

GBp 94 – 99



ALSP ISD 12m Price Rel (light) Chart vs. FTSE AIM (dark)

Wednesday, 29 April 2020

Intrinsic Price	97p
Value Range Low	94p
Value Range High	99p
Implied MCAP (m)	£56.56
Implied EV (m)	£110.09
AQSE Index	ALSP LN
Financial YE	30-Apr
Currency	GBP

Business Activity

Commercial & retail property investment

Key Metrics

Close Price	105p
MCAP (m)	£61.39
Net Debt (Cash) (m)	£53.53
EV (m)	£114.92
52 Wk Hi	125p
52 Wk Lo	85p
NAV FD YE20E	32.80p

Key Ratios

S/P premium to NAV	220.16%
% LTV ALSP adj.	51.46%
Net Debt / Shareholder Equity %	421.86%

Real Estate Sector Research

AQSE Growth Market Index

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Covid-19 ACE Update

Strategy shows its robust character

ACE Liberty & Stone (ALSP ISD), an Aquis (ex NEX) growth market listed property trading company provided a trading update with a lot to recommend it in the current conditions. £4.55m has been raised via warrant sales. We estimate a dividend yield to fully diluted NAV of 7.6%, which suggests a share price premium to NAV is justified particularly when combined with the growth and trading company characteristics of ACE. For the March quarter 82% of rents have been collected and 750k deferred (not lost) to 2021. The share overhang has been further reduced since the 1H19/20 results (hence our lower value range). We expect cash funds to be used for further property investment. The overall strategy to grow the business remains in place and ACE has the resources to execute this strategy.

- Rental revenue 82% collected for March and £750k deferred;
- 59% of rental revenue is from government properties;
- Dividend yield to full diluted FY20E NAV estimated at 7.6%;
- Cash of £4.5m for acquisitions equating to £10m property at 7% yield;
- Cash balance £7.3m and relevant government fiscal stimuli adopted.

ACF est. GBP (k)	Revenue	EBITDA	FCF	EPS	EPS (diluted)
2020E	5,883	4,807	2,777	1.28	0.93
2021E	6,483	5,361	4,848	3.51	2.56

Multiples	EV/ Revenue	EV/ EBITDA	EV/ FCF	P/ EPS	P/ EPS (diluted)
2020E	19.53x	23.90x	41.38x	81.95x	112.37x
2021E	17.73x	21.44x	23.70x	29.92x	41.03x

29/04/2020

Share Price History	No. of Shares in issue	Fully diluted
NoSh (m)	58.5	80.2
Implied Intrinsic Price	97p	71p
Value Range Low	94p	69p
Value Range High	99p	72p
NEX Growth Market	ALSP	
Financial YE	30-Apr	
Reporting Currency	GBP	
NoSh (m)		58.5
NoSh (m) expected dilution (Exp D)		80.2
NoSh (m) full dilution (FD)		80.2
Key Metrics		adj.
MCAP (m)	£61.4	£61.4
Net Debt (Cash) (m)	£53.53	£53.53
EV (m)	£114.9	£114.9
52 Wk Hi	125p	91p
52 Wk Lo	85p	62p
Free Float	33%	33%
*Key Metrics FCF adj.	2019A	2020E
CPS (GBP)	6.59	4.75
CPS (Exp D) (GBP)	4.80	3.46
CPS (FD) (GBP)	4.80	3.46
P/CPS	14.69x	14.85x
P/CPS (Exp D)	20.14x	20.36x
P/CPS (FD)	20.14x	20.36x

ALSP's trading company status and active asset management continues to generate value.

Investment Case

Competitive background

ACE (ALSP) acquires and rents secondary assets largely in regional cities in the UK. HM government and city councils' contribution to rental income accounted for 58% of rental revenues 1H20A vs. 59% FY19A. Major industrial and commercial companies account for the balance of revenues. Of the remaining non-government income 41% is from AAA rated commercial rental revenues vs. 45% yoy. Therefore, AAA rental income accounts for 99% of total ALSP revenues. Even during the Covid crisis, 82% of rental revenues have been collected on time during the march quarter and the balance of £750k has been deferred to 2021. ACE traditionally 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 2) longer-term tenancies (weighted average life of tenancy agreements is greater than 8 years) to underpin cash flows. This year ALSP has announced that it is also looking for entire portfolios to buy post Brexit, signalling a potential nuancing of strategy.

The UK property market (commercial, retail and residential) has slowed in terms of the rate at which transactions are completed after the Brexit vote and this is now part of the landscape and may intensify once the UK leaves the EU 'aegis' in 2020/21. We don't expect any panic in the commercial property market (compared to the vote announcement, which was a market shock). In our view, property portfolios (as opposed to individual properties) attractive to ALSP may become available, as a result of Brexit. Management again performed very well operationally during 1H20A, raising margins and continuing a strong track record.

● Progressive Dividend Policy

Three dividend pay-outs p.a.. 1H20A dividend 0.83p Div pay-out 2.5p FY19A.

● Post Balance Sheet Events 1H20A - Funding

In light of Covid-19 ACE has offered is 7% loan holders' conversion to equity at 50p cutting debt by £3.2m, interest payments by £224k and reducing the stock overhang by a further 6.43m shares (reflected in our reduced value range per share). The Company had previously raised GBP 4.55m of new cash through the exercise of warrants at an average option price of 65 pence. It is our current expectation that these new funds will be used for property acquisitions to grow rental income. Based on ALSP's leverage capability, GBP 4.55m equates to ~GBP 10m of property acquisition at an average >7% yield, leading to another potential GBP 700k of run rate income. During FY19A ACE's eight new properties yielded 7.6% rental income of £2.5m on £32.95m of acquisition cost.

Catalysts

Further funding activity via significant equity raise; Acquisition of new portfolios; uplift in rental yield through active management; Re-rating of the property sector; defensive investment environment due to Brexit or threats to global GDP growth; removal of share overhang.

Operational Strategy

ACE (ALSP) is a property investment company focussed exclusively on the UK property market and almost entirely invested in the commercial property segment, with rental income dominated by gilt-edged government or government backed and AAA company entities. The **value generator is** – rental income supported in turn by financing and asset appreciation.

- **Rental income** – ACE’s revenue line is entirely rental income derived 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 that create a balanced portfolio of opportunities with short unexpired tenancies and longer-term leases. Over 50% of rental income is from tenants 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 near future in order to maximise the property value. The longer-term tenancies underpin future cash flows. ACE does not engage in property development and therefore is significantly de-risked compared with many property investment vehicles.

The dividend policy remains “progressive” with ACE paying out three times p.a., according to annual performance.

Key results metrics and Covid adjusted forecasts

Exhibit 1: Trailing annual performance - actuals vs. ACF forecasts

A series of strong forecast beats for the full year 2019. We are looking for further beats and improved EBITDA margin FY20E

Dividend / Fully Diluted NAV YE20E 7.6%

ACF est. GBP (k)	2020E
Revenue	5,883
Forecast Delta	-300
Delta %	-4.9%
EBITDA	4,807
Forecast Delta	673
Delta %	16.3%
Net Income	749
Forecast Delta	-916
Delta %	-55.0%
FCF	2,777
Forecast Delta	1,112
Delta %	66.8%
CPS (diluted)	3.464
Forecast Delta	0.585
Delta %	20.3%

Source: ACF Estimates; Company Reports.

Exhibit to the left shows the delivery by the company compared to our forecasts. The forecast delta describes how far the actual numbers based upon the reported numbers are above or below our forecasts. The delta % expresses the forecast delta in percentage terms.

Note that **variances in our EBITDA, FCF and CPS** forecasts are heavily subjected to changes in working capital, itself influenced by finance charges and the sale or purchase of properties and so lumpy timing differences.

Exhibit 2: Covid-19 Adj EBITDA, EBT, NI, EPS, adjusted fully diluted EPS

Adj. Metrics GBP (k)	2017A	2018A	2019A	2020E	2021E
EBITDA Adjusted	1,447	2,830	3,886	5,136	5,698
%Growth		96%	37%	32%	11%
%Margin	55%	81%	73%	87%	88%
EV/EBITDA adj.	79x	41x	30x	22x	20x
EV/EBITDA	108x	46x	33x	24x	21x
EBT Adjusted	1,505	571	1,973	1,265	2,901
%Growth		-62%	245%	-36%	129%
%Margin	57%	16%	37%	21%	45%
NI Adjusted	859	541	2,036	1,078	2,389
%Growth		-37%	277%	-47%	122%
%Margin	33%	16%	38%	18%	37%
EPS Adjusted	2.19	1.27	4.79	1.84	4.09
%Growth		-42%	277%	-62%	122%
PE adj.	48x	83x	22x	57x	26x
PE	87x	243x	27x	82x	30x
EPS FD Adjusted	1.98	0.94	2.70	1.34	2.98
%Growth		-53%	189%	-50%	122%
PE adj.	53x	112x	39x	78x	35x
PE	96x	331x	47x	112x	41x

Source: ACF Estimates; Company Reports.

Covid-19 adj. forecasts 2-year annual

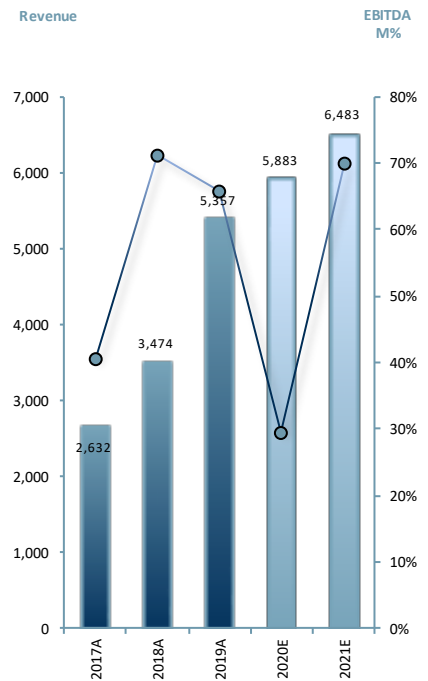
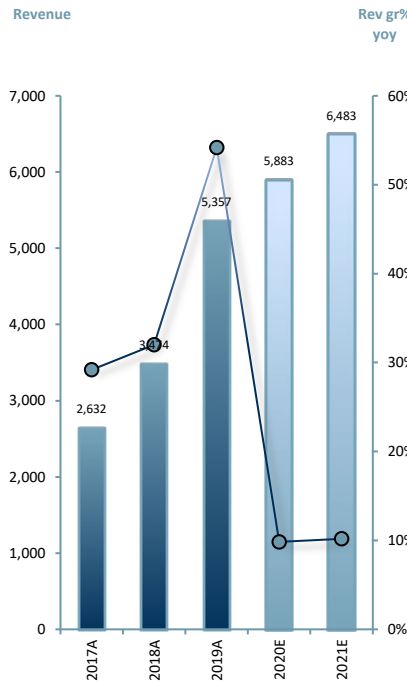
Darker bars represent historical numbers.
Lighter bars represent forecast numbers.

Exhibit 3: Annual Revenue, EBITDA, FCF and Efficiency

Revenue growth rate rises and declines aggressively in line with the lumpy nature of capital raising to expand the property portfolio and so rental income. Our long run rental growth rate base case assumes rents grow over time in line with long-run UK GDP growth.

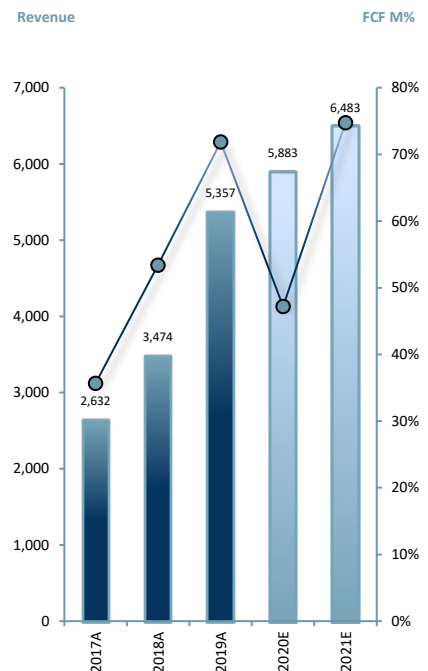
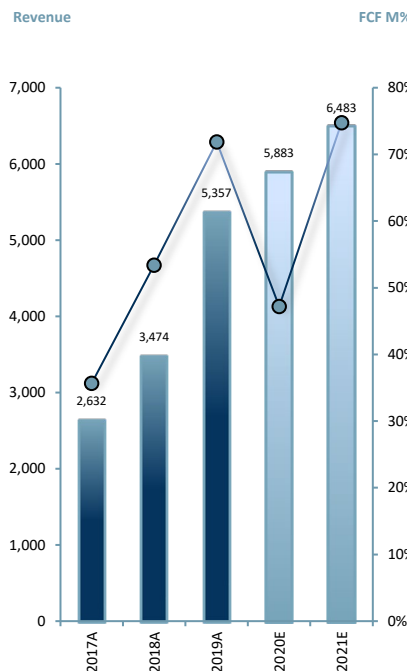
Note lines represent margins or growth in %.

Bars represent actual for forecast values for line item e.g. Revenues.



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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

P&L GBP (k)	2018A	2019A	2020E	2021E	2022E
Revs	3,474	5,357	5,883	6,483	7,198
gr%	32%	54%	10%	10%	11%
SGA	1,002	1,828	1,076	1,122	1,171
EBITDA	2,472	3,529	4,807	5,361	6,027
% Revs	71%	66%	82%	83%	84%
FV adj.	0	927	0	0	0
% Revs	0%	17%	0%	0%	0%
EBIT	2,472	4,456	4,807	5,361	6,027
EBT	214	1,616	936	2,565	3,175
% Revs	6%	30%	16%	40%	44%
ETR	14%	-1%	20%	20%	20%
NI	184	1,679	749	2,052	2,540
% Revs	5%	31%	13%	32%	35%
Adj EPS (p)	1.27	4.79	2.54	5.62	6.79
Basic EPS (p)	0.43	3.95	1.76	4.83	5.98
Diluted EPS (p)	0.32	2.23	0.99	2.72	3.37
Balance Sheet GBP (k)	2018A	2019A	2020E	2021E	2022E
Investments	50,488	79,538	79,823	94,823	119,823
Rev Yield	6.88%	6.73%	7.37%	6.84%	6.01%
Rev Yield 1 yr fwd	10.61%	7.40%	8.12%	7.59%	6.30%
Total Fixed Assets	50,488	79,538	79,823	94,823	119,823
Current assets	934	510	0	0	0
Assets held for sale	7,734	8,785	8,580	0	0
Cash	5,180	1,957	5,816	8,731	12,133
Total Current Assets	13,849	11,252	14,396	8,731	12,133
Total Assets	64,337	90,790	94,219	103,554	131,956
Creditors	1,240	4,833	7,130	7,857	8,724
Liabs held for sale	2,587	1,440	1,395	0	0
Deferred Tax	215	116	116	0	0
Loans	40,694	64,272	59,100	44,100	44,100
Total Liabilities	44,897	70,759	67,927	51,958	52,824
Net Assets	19,439	20,032	26,293	51,596	79,132
Share Capital	10,066	10,608	11,165	11,165	11,165
Accum. Profit/(loss)	1,152	775	1,524	3,576	6,116
Total Equity	19,439	20,032	26,293	51,596	79,132
Total Equity & Liabilities	64,337	90,790	94,219	103,554	131,956
Basic NAV (p)	33.2	34.3	45.0	88.2	135.3
Diluted NAV (p)	24.2	25.0	32.8	64.4	98.7
% LTV ALSP adj.	74.3%	57.4%	51.5%	30.7%	24.3%
Cash Flow GBP (k)	2018A	2019A	2020E	2021E	2022E
EBT Profit/(loss)	214	1,616	936	2,565	3,175
Finance costs	2218	2492	3009	1934	1990
FV adj. + Other adj.	0	-927	0	0	0
Cash Taxes	-337	-157	-1,050	350	228
WCap change	-280	1,983	-118	0	0
Net CFO	2,192	4,865	3,827	4,498	5,164
% Revs	1	1	1	1	1
FCFE	1,855	4,708	2,777	4,848	5,392
uFCF	3,374	6,151	5,719	6,782	7,382
Capex/Prprty Assets %	38%	36%	7%	16%	21%
CF from Financing	23,776	22,407	9,860	15,000	25,000
Net Cash In/(Out)	4,829	-3,223	3,860	2,914	3,402
Cash previous YE	351	5,180	1,957	5,816	8,731
Cash & CE	5,180	1,957	5,816	8,731	12,133

Source: Company reports; ACF Estimates.

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