HARDMAN&CO.

# THE MONTHLY

September 2020

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**Feature article priced at 24 August 2020.**

# Feature article: UK Utilities and COVID-19

## Executive summary

- The COVID-19 pandemic has had a significant impact globally in many areas. While primarily a health issue, it has had wide-ranging implications for stock markets, which have now rallied after the plunge in share prices in mid-March when the full severity of the emerging pandemic became more widely appreciated. Nonetheless, the FTSE 100 Index remains almost 20% off its late February 2020 figure.

- Traditional defensive sectors – food retailing, pharmaceuticals, utilities and tobacco – have, as expected, provided some real protection against falling prices, although Imperial Brands' share price has fallen sharply on the back of a much-reduced dividend.

- COVID-19 has proven to be very challenging for income funds as a raft of companies have either cut or suspended their dividend payments. Leading this group has been the banking sector, where no dividends are currently being paid by those in the FTSE 100 Index. However, the real headlines were made by Shell's historic decision to cut its dividend by two thirds, its first cut since the end of WWII – and a seminal moment for income funds.

- Some stocks have boomed on the back of COVID-19, most spectacularly the NASDAQ-quoted Zoom video-conferencing business, the share price of which has almost trebled since late February 2020. In the US, Apple, now capitalised at over $2,000bn, and Amazon have both prospered, with their shares up by more than 60% over the same six-month period. In the UK, AstraZeneca, at the forefront of the global quest for a COVID-19 vaccine, has performed well – up by 10% since late February 2020.

- Aside from the depressed banking sector, companies in the travel, hotel, leisure and retail sectors have all seen their share prices fall heavily – with a few exceptions. Shares in IAG, dominated by its British Airways component, have plunged by no less than 66% since late February 2020.

- On the utilities front, resilience has been the key feature; only Centrica has been an exception to this trend. Shares in National Grid, despite the ongoing – and pivotal – RIIO-T2 periodic review, Severn Trent, United Utilities and the smaller Renewable Energy Infrastructure Fund (REIF) sector have all held up well, as have their dividends.

- Looking to the future, COVID-19 will undoubtedly bring about profound changes to the UK's economy. A pronounced shift to an online economy, far more home-working – and therefore less demand for office space – and much reduced commuting numbers are obvious features. Consequently, the economics of many infrastructure schemes are sure to be reassessed, including HS2, the third runway at Heathrow Airport and future nuclear generation projects.

# Introduction

*The March 2020 share price plunge...*

The COVID-19 pandemic has inevitably had a major impact on financial markets, especially since the start of lockdown, which saw share prices plunge in March 2020. The FTSE 100 fell by around a third between late February 2020 and the low point of 4,994 on 23 March 2020.

*...and subsequent post-March rally*

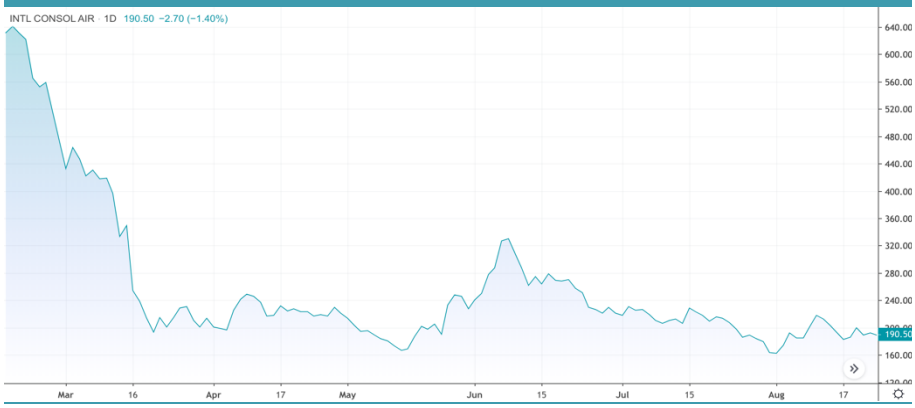
The subsequent recovery of the FTSE 100 Index has been pronounced, with almost half of the post-lockdown decline being regained, as the graph below shows.

**FTSE 100: six-month graph**


*Source: Refinitiv*

It should be emphasised, though, that many sectors are seriously struggling, with far higher net debt and much-reduced share prices. The leisure and travel sectors are obvious examples – IAG, the owner of British Airways, has seen its shares plunge by 66% since late February 2020, as the graph below indicates.

**IAG: six-month graph**




*Source: Refinitiv*

*Shell's historic dividend cut*

Oil and gas companies face real challenges, with crude prices being driven down – a trend that pre-dated COVID-19 but which has been accelerated by the far lower use of fossil fuels, due to widespread lockdowns. Furthermore, Shell's 2Q'20 results included a considerable ca.$16.5bn (post-tax) writedown on its oil and gas assets. Crucially, too, Shell has cut its dividend – from $0.47c to $0.16c per share – for the first time since WWII ended in 1945.

*BP embracing renewable energy*

As for BP, it has halved its dividend, due primarily to depressed oil and gas prices. Furthermore, it confirmed a very pronounced strategic shift towards renewable energy – a sharp move away from fossil fuels, which have driven its finances for more than a century.

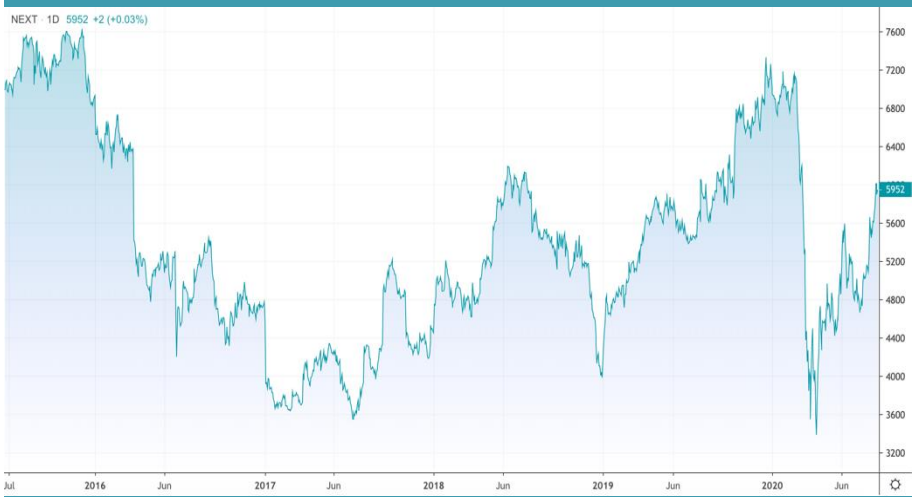
*Very low footfall*

Widespread doom and gloom on the High Street, especially within the non-food sector, has been apparent – with footfall, until very recently, at desperately low levels. With a few exceptions, leading retail names, such as Marks and Spencer, have seen their valuations plunge.

By contrast, some predominantly online retail businesses have fared better as this segment has taken off on the back of the COVID-19 pandemic. Most notably, Next's latest 2Q'20 trading statement was – given the pronounced impact of the pandemic – quite reassuring. 2Q full price sales were down by 28% on the comparative quarter in 2019, although – within this figure – online revenues increased by 9%.

The graph below shows how investors have responded to Next's impressive trading record over the past five years – at a time when many of its High Street competitors are in real financial trouble.

**Next: five-year graph**




*Source: Refinitiv*

*The Apple and Amazon phenomena*

While the UK market has seen few major stocks trading higher than six months ago as the COVID-19-driven lockdown destroyed economic growth projections, some leading US stocks has prospered in the past six months, most notably Apple and Amazon. Importantly, these two stocks and the other three FAANGs (Facebook, Netflix and Google/Alphabet) have been key in underpinning US stock market valuations, which have markedly outperformed those in most other first-world economies.

*$6,000bn FAANG valuation*

In fact, the FAANG quintet, which strangely excludes Microsoft, now commands a market valuation of ca.$6,000bn.

More specifically, the share prices of both Apple, now capitalised at over $2,000bn, and Amazon have risen by over 60% since late February 2020 in the face of the COVID-19 pandemic. These stand-out performances are highlighted in the graphs overleaf.

Apple: six-month graph


*Source: Refinitiv*

Amazon: six-month graph


*Source: Refinitiv*

*Zoom's sensational performance*

Other well-known US stocks have also done well, including Microsoft and PayPal. Their respective share price increases since late February 2020 are 25% and 70%. Even more remarkably, on the back of the recent boom in video conferencing, the NASDAQ-quoted Zoom has seen its shares virtually treble during the past six months.

# Defensive sectors

*When the going gets tough…*

Historically, investors have switched into defensive sectors at times of profound economic difficulty – a scenario that COVID-19 has undoubtedly created. Such defensive stocks are expected to outperform falling markets, since many of their products are categorised as being essential, rather than being just desirable. For decades, these sectors have been:

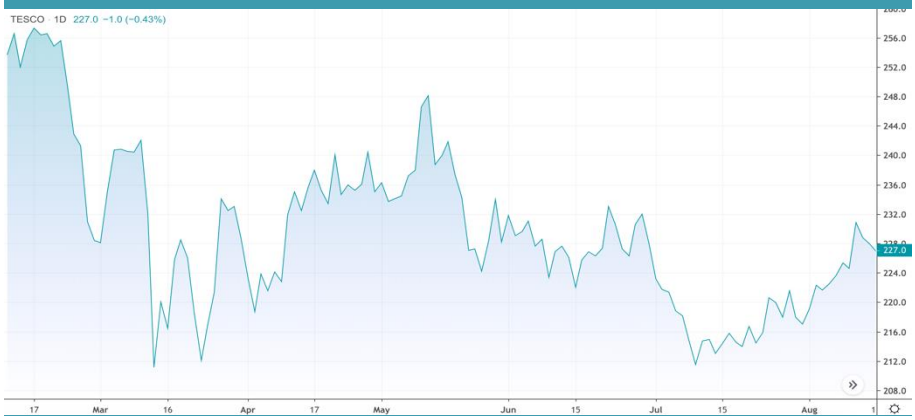
- Food retailing;
- Pharmaceuticals;
- Tobacco; and
- Utilities – we review this sector in more depth below.

*Tesco has delivered*

In the case of food retailing, online food sales in the UK are now estimated to account for ca.13% of all food sales compared with ca.7% prior to the COVID-19 pandemic. Tesco, in particular, has performed very creditably since the beginning of the pandemic when there was a significant increase in demand for some of its core products. Currently, Tesco accounts for ca.28% of the UK food retailing market, while its controversial Booker's deal has unquestionably boosted its supply chain capability of late.

The graph below shows Tesco's share price over the past six months and highlights how it has recovered from its low point in late March.

**Tesco: six-month graph**



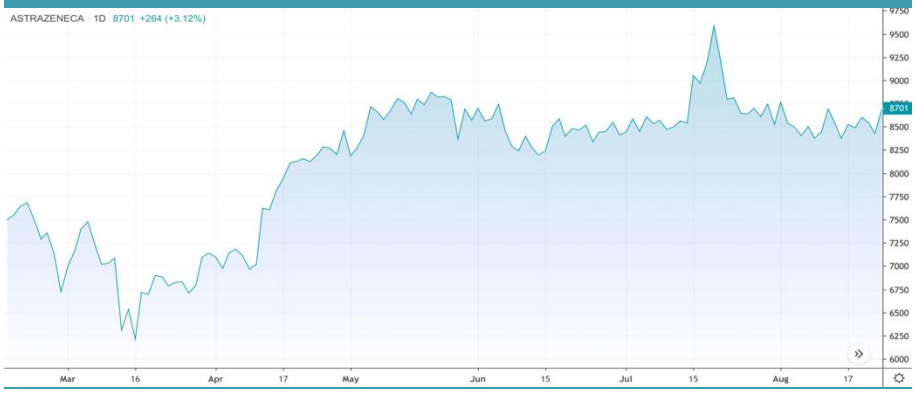

*Source: Refinitiv*

*AstraZeneca at the forefront in the quest for a vaccine*

The star on the UK pharmaceutical front has been AstraZeneca, which has been at the forefront of the quest, along with Oxford University, for a viable vaccine for COVID-19. There remains, despite encouraging trials, real doubt as to whether AstraZeneca will achieve its aim of developing an effective vaccine – and, if so, how such a scenario would affect its long-term revenues and profits.

The graph below demonstrates that the market has some confidence that AstraZeneca's COVID-19 research will provide some benefit to investors; its 14% rise in 1H'20 revenues underlines its robust trading position. AstraZeneca is now the UK's second-most valuable quoted company after Unilever.

AstraZeneca: six-month graph




*Source: Refinitiv*

*Imperial Brands struggling*

On the tobacco front, Imperial Brands has been unable to reproduce the share price resilience of past economic crises. While the levels of smoking, certainly in the UK, are falling, the COVID-19 pandemic has added a further powerful incentive to abandon smoking on health grounds.

# UK Utilities

UK utilities offer defensive earnings but are subject to price regulation and to political intervention. The former remains a very real threat, while the latter is now less of an issue post the General Election in December 2019 – and, more specifically, the commanding ca.80-seat Conservative Party majority.

*Resilience is the watchword*

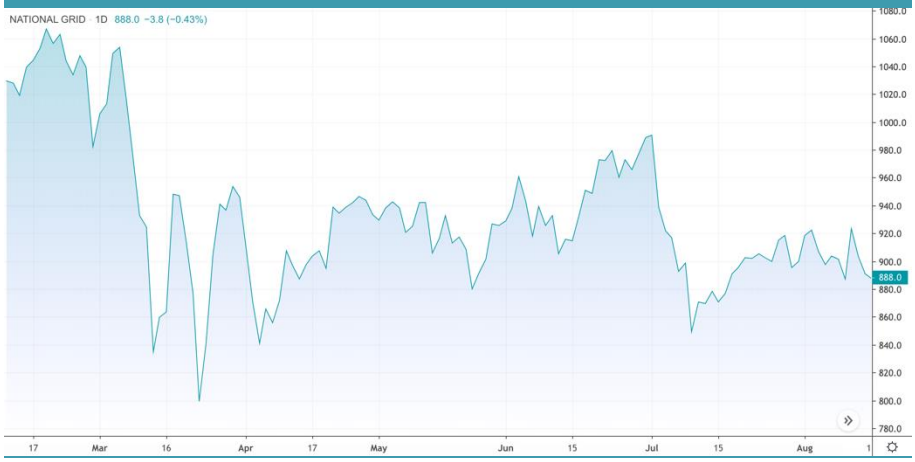
Currently, there are five energy and water companies in the FTSE 100 – all have proven to be resilient investments during the COVID-19 lockdown period, although – for regulatory reasons – National Grid, has underperformed the three water stocks.

*RIIO-T2 is pivotal for National Grid – and its shareholders*

National Grid is in the throes of a crucial periodic review, RIIO-T2, which will have a profound impact on the returns from its UK electricity transmission and gas transportation businesses. In 2019/20, these two business streams accounted for around half of its underlying operating profit: much of the remainder arose from its US operations.

Ofwat's final RIIO-T2 determination will be announced later in the year, with its rulings due to take effect as from April 2021. Significantly, Ofgem's draft determination in early July knocked 5.5% off National Grid's share price on the day that it was announced: this fall has been partly reversed subsequently, as the graph below shows.

**National Grid: six-month graph**




*Source: Refinitiv*

SSE's share price has rallied since March, although low energy prices – which reduce generation returns – are still holding back its share price rating. In recent years, SSE, which is essentially a UK and Irish energy business, has focused on its regulated transmission and distribution activities and on its renewable generation plants.

While profits are under pressure due to COVID-19 and, more specifically, as a result of lower energy prices, a dividend of 80p plus RPI for the 2020/21 financial year is expected, thereby putting the stock on a yield of more than 6%.

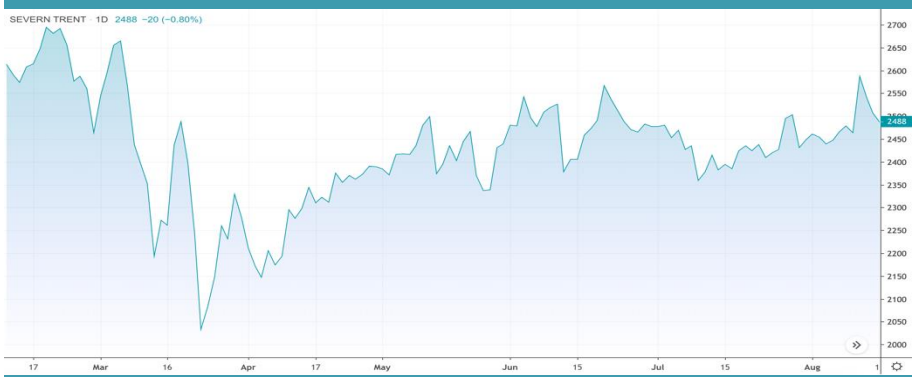
The water sector has been only moderately affected by COVID-19. In fact, it has been PR19, the key five-year periodic pricing review, that has had more of an impact on water company valuations.

*Reassuring dividend projections from the water sector*

Both Severn Trent and United Utilities, having accepted Ofwat's final determinations, have now confirmed their long-term dividend policies. Dividend increases until 2024/25, which are at least in line with the CPIH inflation figure (this includes housing costs), are projected for both utilities.

As a key defensive stock, shares in Severn Trent have performed robustly – given the circumstances – as the graph below indicates.

**Severn Trent: six-month graph**




*Source: Refinitiv*

United Utilities' shares have also performed very solidly now that their finances until 2024/25 are far less opaque than previously.

*Viridor's sale value exceeds expectations…*

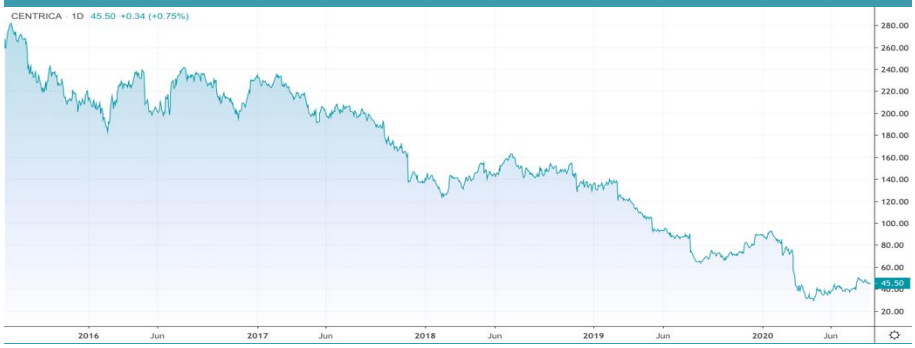
In Pennon's case, its South West Water core business secured a favourable settlement from Ofwat, which was – not surprisingly – accepted. More recently, Pennon has sold its Viridor waste business to KKR, a leading global investment firm, for £4.2bn – a somewhat higher figure than the market expected: its share price responded positively.

*…but Centrica's woes continue*

Centrica, which is the UK's leading gas supplier, has had a torrid time, due partly to the controversial introduction of the price cap: its shares have fallen sharply since the start of the lockdown. However, confirmation of the sale of its US Direct Energy business to NRG has alleviated debt concerns; the share price has rallied, admittedly from a very low base.

The graph below shows just how badly shares in Centrica – widely viewed as a utility – have performed in the past five years, during which time its dividend has been cut from 12p per share to perhaps nil for 2020; the interim dividend for 2020 was passed. Not surprisingly, Centrica's share price has followed suit.

**Centrica: five-year graph**




*Source: Refinitiv*

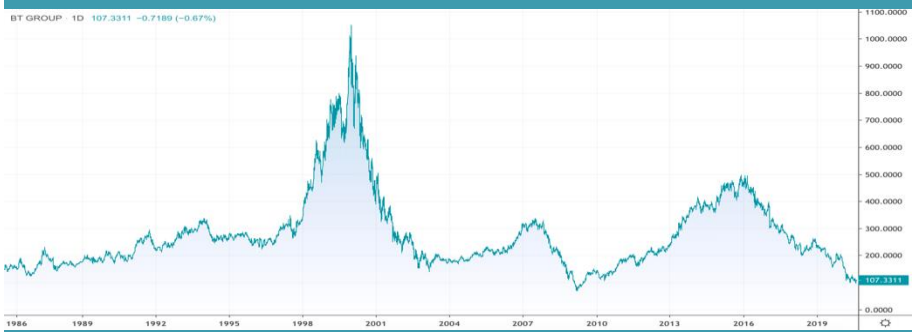
Despite its supposed growth profile, British Telecom is the archetypal utility. Its underlying EBITDA – once allowance is made for the EE mobile phone acquisition in 2016 – has barely changed in a generation.

Nonetheless, in the face of intense political pressure to roll out enhanced broadband capacity, British Telecom is now committed to a £12bn plan to connect 20m homes to fibre optic cable over the next decade. With far more employees now set to work from home, far greater broadband capacity, especially in rural areas, will be much needed.

*Soaring net debt in 2019/20*

Not surprisingly against this background – notwithstanding net debt of £18bn and a worsening pension deficit – British Telecom's share price has been very weak of late and recently fell below £1 for the first time since 2008, as the graph below indicates.

**British Telecom: 1986-August 2020**




*Source: Refinitiv*

*Vodafone's resilience*

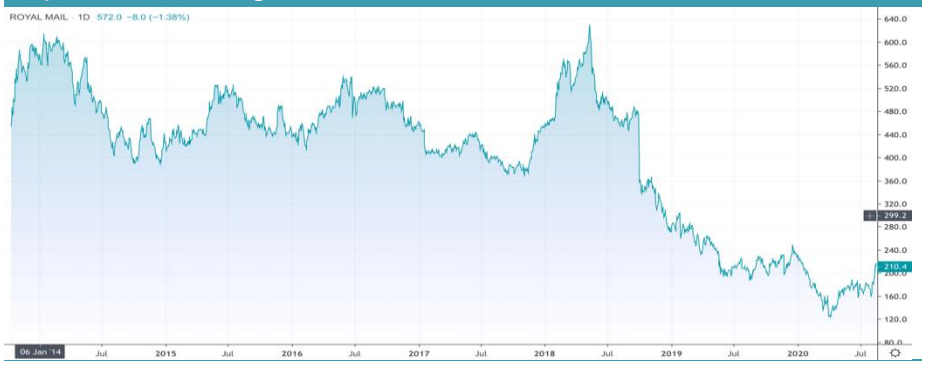
The UK's leading telecoms business, Vodafone, which now has many utility-type features, confirmed that it expects its EBITDA for 2020/21 to be "either flat or slightly down" on its 2019/20 return: Vodafone's financial year runs from April to March. Given the travel-related plunge in its roaming revenues, these projections are quite reassuring.

*Struggling Royal Mail*

Like British Telecom, Royal Mail has also seen its shares plummet, as letter volumes fall each year. Despite the boom in online deliveries in recent months, Royal Mail seems to have derived comparatively modest benefit, as leading US-based logistic businesses, such as UPS and DHL, have prospered. The one bright spot for Royal Mail is its GLS parcels business.

The fall in Royal Mail's share price since flotation in 2013 is pronounced, as the graph below highlights.

**Royal Mail: 2013-August 2020**




*Source: Refinitiv*

# REIFs

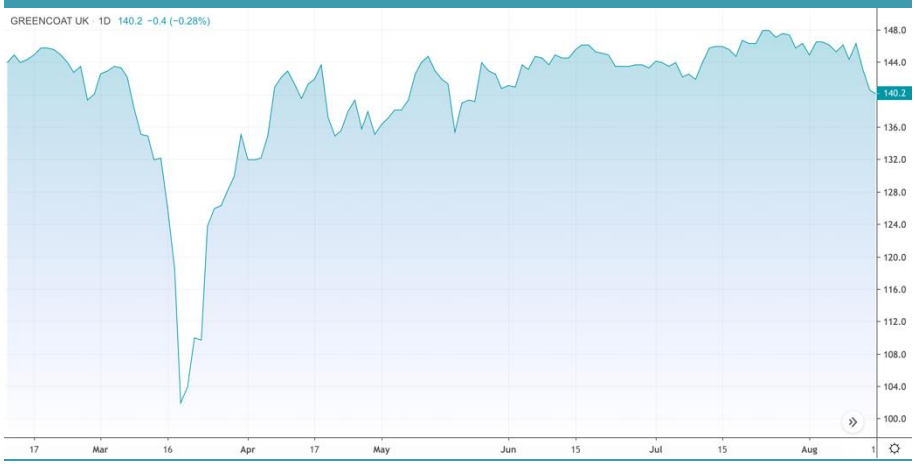
*Financial solidity from the REIFs – despite lower NAVs*

Elsewhere in the UK energy sector, the 13 quoted REIFs have been very reliable – if low-key – performers, despite lower net asset values (NAVs) brought about mainly by lower long-term energy price projections.

The two leading REIFs – Greencoat UK Wind and TRIG – are currently capitalised at more than £2bn each; their share prices are barely changed from late February 2020. However, during March, their valuations fell appreciably as the market fretted about the impact of COVID-19; but, their share price recovery – to pre-pandemic levels – was quick.

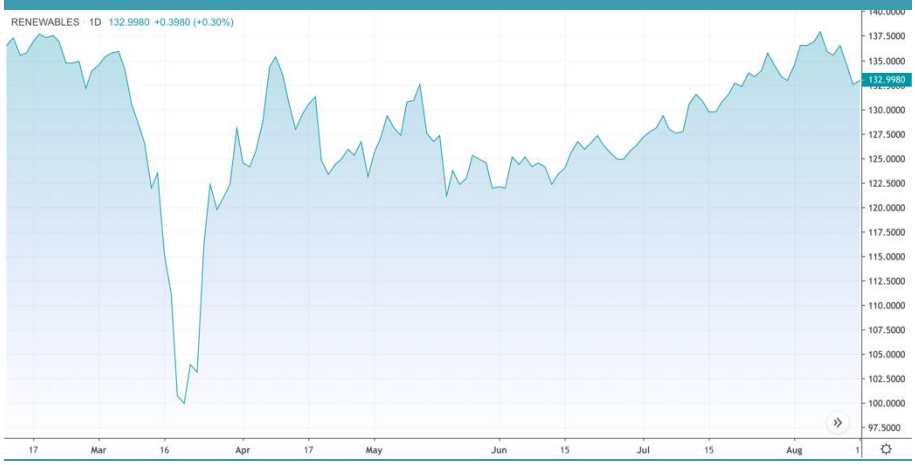
Six-month share price graphs for both Greencoat UK Wind and TRIG are reproduced below – they emphasise how resilient these two stocks have been during the COVID-19 pandemic when so many UK companies faced immense challenges.

**Greencoat UK Wind: six-month graph**




*Source: Refinitiv*

**TRIG: six-month graph**




*Source: Refinitiv*

In the solar generation sub-sector, both NextEnergy Solar and Bluefield Solar have also demonstrated their financial resilience, abetted by higher-than-expected output levels during the early months of 2020.

*Impact of lower energy prices on NAVs*

However, for some REIFs, NAVs have fallen by up to 6%, as lower long-term price projections have adversely affected underlying valuations. In the context of the COVID-19 environment, these falls are quite modest.

*Reassuringly robust on the dividend front*

REIFs have performed particularly well on the dividend front, with solid – and moderately increasing – payments. Not surprisingly, some REIFs, such as NextEnergy Solar, have placed the level of their future dividend payments under review. Compared with Centrica, for example, their dividend payment capacity is distinctly favourable. Moreover. the REIF sector yield is currently between 5% and 6%.

# Dividends

When the COVID-19 lockdown began, there were considerable political sensitivities around the payment of substantial dividends. Many large companies deemed it inappropriate to recommend large dividend payments as the UK's economy plunged.

*Banks opt out of dividends for the moment*

Under severe pressure from the Bank of England, all the UK's leading banks, including HSBC, Barclays, Lloyds and NatWest (formerly RBS) suspended their planned dividend payments during the spring. Once COVID-19 is defeated, dividend payments should resume, although not necessarily at the same level as previously.

*Many dividend cuts/suspensions*

Many other well-known companies, including Sainsbury, British Telecom, Associated British Foods, Rolls Royce, Land Securities, International Continental Hotels, Whitbread and Persimmon, have either cut or suspended dividend payments.

*Shell's historic dividend announcement*

However, by far the biggest shock for income funds was Shell's decision to cut its dividend for the first time since the end of WWII in 1945 – the cut was no less than 66% as oil prices seem set to remain very weak.

*Centrica's dividend shrinks – again*

Elsewhere in the energy sector, Centrica has passed its interim dividend, on the back of very poor full-year results for 2019. Between 2015 and 2019, Centrica's annual dividend payment has fallen from 12p to just 6p – its full-year dividend will probably be lower, if paid at all, for 2020.

SSE has also pared its dividend on the basis that its cover was becoming very low and in the recognition that generation prices are not expected to rise markedly for some years.

*The quest for yield*

Given that several major dividend payers of the past are now less reliable – both Shell and BP have cut their dividends sharply – income funds will need to invest in quality companies that offer a decent dividend stream on a decent yield. To meet such criteria will be no easy task.

# Looking forward

*UK net debt now exceeds £2,000bn*

Eventually, once COVID-19 is fully tamed, it will become apparent how much of an impact it has had on the UK economy – disastrously so in the case of 2019/20 and 2020/21 – and how long-term this impact will be. In any event, the UK's net debt has already breached the £2,000bn threshold.

*Staggering debt pile – 300 years vs. 10 years*

It took the UK 300 years to reach the £1,000bn net debt threshold and a further 10 years to double it.

Listed below are several views about the impact of COVID-19: some relate to the British way of life, while others are far more relevant to specific sectors, such as utilities.

- **Many companies will use the COVID-19 umbrella to introduce very radical changes** that might otherwise have not been implemented – the various innovative proposals, some relating to social housing provision, put forward by the unquoted John Lewis partnership, owners of Waitrose, are a case in point.

- **A thorough reappraisal of UK infrastructure projects.** A very pronounced increase in homeworking and the consequential sharp fall in commuting levels makes the case for the controversial HS2 project even weaker. The ca.£100bn cost will surely be reviewed. Also, Heathrow Airport's long-standing aspiration to build a third runway now looks far less robust than previously as air travel levels plunge, not helped either by the financial challenges facing British Airways' parent company, IAG.

- **The surge in homeworking during lockdown.** British Telecom will probably be required to be more aggressive in rolling out enhanced fibre-optic broadband services, especially in rural areas.

- **The long-lasting repercussions of Shell's swingeing dividend cut.** As the first such cut for ca.75 years, other companies, with low dividend covers, will feel freer to go down this route if their finances demand it – a distinctly unwelcome development for income funds.

- **Depressed oil and gas prices.** While oil and gas prices in 2019 were way below the oil peak of almost $150 per barrel in 2008, the seriously adverse impact of the COVID-19 lockdown has driven energy prices lower. It is uncertain how and when they will recover.

- **Bad debts.** In addition to the generous furlough scheme, many government payments were also made to prevent companies failing during the prolonged COVID-19 lockdown. How many of these payments are recoverable is unknown – even by leading banks who also face heavy bad-debt exposure. Furthermore, many companies, such as utilities, may experience higher bad debts as households struggle, especially as the furlough scheme ends and unemployment – as seems inevitable – rises sharply.

- **National Grid.** The UK's largest utility, National Grid, faces a key periodic review covering its UK electricity transmission and its gas transportation businesses. It covers around half of its underlying operating profits. Ofgem's draft determination in July saw 5.5% knocked off National Grid's share price on the day of publication. A bad outcome for National Grid would, almost certainly, see a dividend cut.

- **Small energy suppliers.** Given the immensely challenging energy supply environment, further bankruptcies and/or mergers of small energy suppliers seem inevitable – they would join the many corporate failures within the sector in recent years.

- **Nuclear power.** While the construction of Hinkley Point C is probably too advanced to be stopped, future UK nuclear projects look far less certain, especially those where substantial Chinese investment is expected. Aside from major controversy about the origins of the COVID-19 pandemic and whether China was honest in reporting all the relevant data, its relationship with the UK has seriously deteriorated of late over the issue of the governance of Hong Kong.

- **The water sector post PR19.** The three quoted FTSE 100 water companies, Severn Trent, United Utilities and Pennon, are well placed now since – for them at any rate – PR19 is concluded. No dividend cuts were made, with expectations of some real annual growth between 2020/21 and 2024/25. Some highly geared, but now unquoted, privatised water companies are currently arguing their PR19 case in front of the Competition and Markets Authority.

- **Royal Mail's travails.** As the owner of the UK's largest customer base – virtually every address in the UK – and superb access through the local postman, Royal Mail could expect to have prospered during COVID-19, on the back of far higher online sales. Instead, major US logistic companies have dominated the market, leaving Royal Mail with a declining UK letters' business and its GLS parcels operation; some takeover speculation has been in evidence.

- **The advance of Apple and Amazon.** Having had a remarkably successful time during lockdown, these two US leviathans are now worth a combined $3,800bn. Their substantial influence and global reach seem certain to persist.

# Conclusion

*Sea changes underway*

With the UK economy operating in unprecedented times – against a global pandemic – a sea change is expected once COVID-19 is properly tamed: very different ways of working for millions of people are one obvious example. The ramifications seem certain to be wide-ranging.

*Stock selection is paramount*

For investors, stock selection will be increasingly key, with some very marked changes in UK shares prices – AstraZeneca vs. IAG, the owner of British Airways, for example – being recorded. Securing resilient dividend streams, with some real growth will be a priority for many funds, and not just those on the income front.

## About the author

*Nigel Hawkins is the Infrastructure and Renewables Specialist at Hardman & Co*

*Nigel specialises in the energy sector, with a particular focus on the expanding renewable generation market, both in the UK and overseas, about which he has written several reports assessing the sector's finances.*

*He has been involved in analysing the utilities sector since the 1980s. He covered the privatisation of the water and electricity companies for Hoare Govett between 1989 and 1995. Subsequently, he researched the UK and EU telecoms sector for Williams de Broe. He has also written many feature articles for Utility Week magazine since the mid-1990s.*

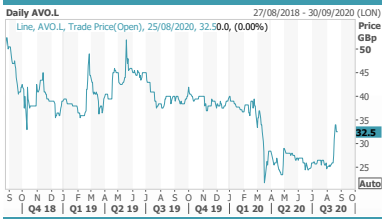
*Between 1984 and 1987, Nigel was the Political Correspondence Secretary to Lady Thatcher at 10 Downing Street.*

*Nigel joined Hardman & Co in February 2016. He holds a BA (Hons) in Law, Economics and Politics from the University of Buckingham and is a senior fellow of the Adam Smith Institute.*

# Company research

Priced at 24 August 2020 (unless otherwise stated).

## Healthcare Equipment & Services




*Source: Refinitiv*

## Market data

| | |
|---|---|
| EPIC/TKR | **AVO** |
| Price (p) | **33.0** |
| 12m High (p) | 43.0 |
| 12m Low (p) | 21.8 |
| Shares (m) | 306.4 |
| Mkt Cap (£m) | 101.1 |
| EV (£m) | 144.1 |
| Free Float* | 67% |
| Market | AIM |

**As defined by AIM Rule 26*

## Description

Advanced Oncotherapy (AVO) is developing next-generation proton therapy systems for use in cancer radiotherapy. The first system is expected to undergo CE marking within a year. Standard radiation procedures have evolved over many years. PBT delivers radiation via a beam of proton particles, rather than a beam of photons used in conventional radiotherapy (X-rays).

## Company information

| | |
|---|---|
| Exec. Chairman | Michael Sinclair |
| CEO | Nicolas Serandour |
| | +44 203 617 8728 |
| | www.avoplc.com |

## Key shareholders

| | |
|---|---|
| Liquid Harmony (Board) | 14.7% |
| Other Board members | 8.3% |
| Barrymore/Nerano | 9.9% |
| Celeste | 6.5% |
| P. Glatz | 5.1% |
| Lombard Odier | 4.5% |

## Diary

| | |
|---|---|
| 4Q'20 est. | Investor day |

## Analyst

Martin Hall 020 7194 7622
mh@hardmanandco.com

# ADVANCED ONCOTHERAPY

## Record multiples paid for proton therapy leader

**AVO's goal is to deliver an affordable and novel proton therapy (PT) system, called LIGHT, based on state-of-the-art technology developed originally at the world-renowned CERN. Over the past two years, the project has been significantly de-risked through important technical milestones. AVO is working on the verification and validation phase, prior to LIGHT being used on the first patients to support CE certification. A recent equity issue, new loan facilities and some commercial announcements earlier in 2020 highlight the increasing confidence that is building in AVO's ability to achieve its goal to deliver LIGHT in the near future.**

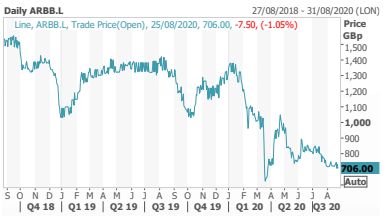
- **Strategy:** AVO is developing a compact and modular PT system, which is affordable for the payor, financially attractive to the operator, and generating superior patient outcomes. AVO benefits from technology know-how developed by ADAM (CERN spin-off), and relies on a world-class supplier base.
- **Facility drawdown:** As part of the new debt facilities announced in June 2020, AVO has announced that it has drawn down an initial $10m/£8m from the interest-bearing secured $30m convertible facility with Nerano Pharma for the further development of the company's LIGHT system.
- **PT investment:** Strong demand for PT has been highlighted by a number of commissions announced recently by competitor, Mevion. Also, the attractions of investing in PT companies have been emphasised by the proposed acquisition of Varian for $16.4bn (5.0x 2019 sales, 32.2x EBITDA, 40% premium) by Siemens Healthineers to gain access to its innovative solutions in radiation oncology.
- **Risks:** The more complex technical challenges have been overcome, and progress towards assembling a fully functional accelerator is under way. The annual report highlights the upcoming challenges and how they are being mitigated, with new funding giving financial flexibility to reach the finishing line, despite COVID-19.
- **Investment summary:** Removal of a stock overhang has seen some recovery in the share price, giving AVO an EV of £144m. However, this still equates only to the amount invested into LIGHT to date, which does not reflect the enormous technical challenges that have been overcome, or the market potential. Varian, the biggest 2020 M&A healthcare deal, highlights the attractions of PT investment.

## Financial summary and valuation

| Year-end Dec (£m) | 2017 | 2018 | 2019E | 2020E | 2021E | 2022E |
|---|---|---|---|---|---|---|
| Sales | 0.0 | 0.0 | 0.0 | 11.2 | 57.1 | 105.8 |
| Gross profit | 0.0 | -1.9 | 0.0 | 1.0 | 10.0 | 26.6 |
| Administration costs | -12.9 | -15.7 | -19.0 | -23.1 | -23.9 | -25.5 |
| EBITDA | -14.1 | -21.4 | -18.6 | -21.8 | -16.4 | -4.5 |
| Underlying EBIT | -14.5 | -21.8 | -20.7 | -25.0 | -20.0 | -8.2 |
| Statutory EBIT | -14.5 | -21.8 | -20.7 | -25.6 | -19.3 | -6.5 |
| Underlying PTP | -16.5 | -21.9 | -21.8 | -27.4 | -24.7 | -14.2 |
| Statutory PTP | -16.5 | -21.9 | -21.9 | -27.9 | -24.0 | -12.5 |
| Underlying EPS (p) | -17.6 | -14.0 | -9.8 | -8.9 | -7.5 | -4.0 |
| Statutory EPS (p) | -9.2 | -2.0 | -43.3 | -65.2 | -90.8 | -86.8 |
| Net (debt)/cash | 8.1 | 21.1 | 25.4 | 15.1 | 0.0 | 25.0 |
| EV/EBITDA (x) | -6.3 | -3.8 | -6.6 | -6.6 | -10.4 | 6.2 |

*Source: Hardman & Co Life Sciences Research*

## Financials




*Source: Refinitiv*

## Market data

| | |
|---|---|
| EPIC/TKR | **ARBB/ARBN** |
| Price (p) | **712.5/690** |
| 12m High (p) | 1,428 |
| 12m Low (p) | 625 |
| Shares (m) | 15.4 |
| Mkt Cap (£m) | 110 |
| Loans to deposits, 2019 | 76% |
| Free Float* | 42% |
| Market | AIM/Aquis |

**As defined by AIM Rule 26*

## Description

Arbuthnot Banking Group (ABG) has a well-funded and well-capitalised private bank, and has been growing commercial banking very strongly. It holds a 9.85% stake in Secure Trust Bank (STB).

## Company information

| | |
|---|---|
| Chair/CEO | Sir Henry Angest |
| COO/CEO Arb. Latham | Andrew Salmon |
| Group FD, Deputy CEO Arb. Latham | James Cobb |

+44 20 7012 2400
www.arbuthnotgroup.com

## Key shareholders

| | |
|---|---|
| Sir Henry Angest | 56.1% |
| Liontrust | 7.0% |
| Slater Investments | 3.9% |
| Miton Asset Mgt. | 3.6% |
| R Paston | 3.6% |
| M&G IM | 3.5% |

## Diary

| | |
|---|---|
| Oct'20 (tbc) | Trading statement |

## Analyst

Mark Thomas 020 7194 7622
mt@hardmanandco.com

# ARBUTHNOT BANKING GROUP

## 2020 interim results: credit robust, rate sensitivity

**We reviewed ABG's interim results in our July note, *2020 interim results: credit robust, rate sensitivity*. We noted that three things make ABG resilient to the forthcoming economic storm: low-risk assets (e.g. falling percentage of private bank Stage 2 & 3 loans), strong capital (surplus now £66m) and surplus deposits (£0.6bn more than loans). Profits before tax fell from £2.9m to £0.2m, as the base-rate cut squeezed margins (£2.7m cost), and with a £1m incremental COVID-19-related impairment. Our 2020 base-case scenario is now for a small loss (previously breakeven). The shares trade at 60% of NAV, implying value destruction to perpetuity.**

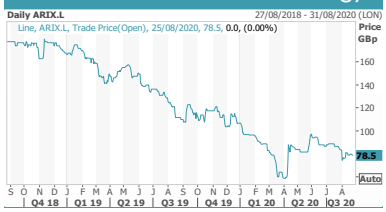
- **Arbuthnot Specialist Finance Limited (ASFL):** On 20 August, ABG issued a *release* that highlighted ASFL's offering in the short-term property finance market. It offers residential investment, light refurbishment and heavy & conversion refurbishment products at varying degrees of security cover and margin.
- **Peer news:** STB's *results*, on 6 August, showed a modest rise in income (despite a small fall in loans), falling costs and a doubling of the impairment rate for COVID-19. Customer numbers were up 15%. The shares rose sharply. Rathbones' *results* showed broadly stable earnings. Its shares also rose over 10% on the day.
- **Valuation:** Our forecast scenarios, and multiple valuation approaches, see a broad range of valuations. Our base-case range is 871p to 1,658p, the higher end down due to the fall in the STB value. Our upside scenario is 1,044p to 1,918p, and our downside 783p to 1,412p. The share price is just 57% of the 1H'20 NAV (1,248p).
- **Risks:** Short term, the impact of lower base rates is critical. Going forward, the key risk is credit. Historically, ABG has been very conservative in lending criteria and security taken. Its financial strength means that ABG can take time to optimise recoveries. Other risks include reputation, regulation and compliance.
- **Investment summary:** ABG offers strong-franchise and continuing-business (normalised) profit growth. Its balance sheet strength gives it a number of wide-ranging options to develop organic and inorganic opportunities. The latter are likely to increase in uncertain times. Management has been innovative, but also very conservative, in managing risk. Having a profitable, well-funded, well-capitalised and strongly growing bank priced below book value is an anomaly.

**Financial summary and valuation (see our note, *2020 interim results: credit robust, rate sensitivity*, for range of scenario forecasts for 2020 and 2021)**

| Year-end Dec (£000) | 2015 | 2016 | 2017 | 2018* | 2019* | 2020E* |
|---|---|---|---|---|---|---|
| Operating income | 34,604 | 41,450 | 54,616 | 67,905 | 72,465 | 70,293 |
| Total costs | -35,926 | -46,111 | -54,721 | -64,982 | -70,186 | -68,973 |
| Cost:income ratio | 104% | 111% | 100% | 96% | 97% | 98% |
| Total impairments | -1,284 | -474 | -394 | -2,731 | -867 | -4,400 |
| Reported PBT | -2,606 | -1,966 | 2,534 | 6,780 | 7,011 | -1,500 |
| Adjusted PBT | 2,982 | 1,864 | 3,186 | 4,388 | 5,800 | 500 |
| Statutory EPS (p) | 86.3 | 1,127.3 | 43.9 | -134.5 | 41.1 | -8.2 |
| Adjusted EPS (p) | 13.5 | 17.1 | 47.5 | 22.7 | 32.8 | 2.3 |
| Loans/deposits | 82% | 76% | 75% | 71% | 77% | 76% |
| Equity/assets | 5.5% | 18.5% | 12.8% | 9.0% | 8.0% | 7.2% |
| P/adjusted earnings (x) | 52.8 | 41.7 | 15.0 | 31.4 | 21.7 | 303.3 |
| P/BV (x) | 0.89 | 0.47 | 0.47 | 0.56 | 0.53 | 0.58 |

**IFRS9 basis; 2020E is central case within range of scenarios; Source: Hardman & Co Research*

## Pharmaceuticals & Biotechnology




*Source: Refinitiv*

### Market data

| | |
|---|---|
| EPIC/TKR | **ARIX** |
| Price (p) | **79** |
| 12m High (p) | 123 |
| 12m Low (p) | 59 |
| Shares (m) | 135.6 |
| Mkt Cap (£m) | 106.4 |
| NAV/share (p) | 153.0 |
| Premium/(discount) to NAV | -49% |
| Free Float | 70% |
| Market | Main |

### Description

Arix Bioscience (ARIX) is a publicly listed biotechnology venture capital (VC) company. It provides an opportunity for all investors to participate in a balanced portfolio of diverse biotech innovation via a single stock. With a global portfolio of 16 companies and five IPOs achieved since launch in 2016, ARIX is a dynamic and modern approach to life sciences VC investing.

### Company information

| | |
|---|---|
| Exec. Chairman | Naseem Amin |
| MD | Jonathan Tobin |
| MD | Christian Schetter |
| COO | Robert Lyne |
| Finance Director | Marcus Karia |

+44 20 7290 1050
www.arixbioscience.com

### Key shareholders

| | |
|---|---|
| Directors | 0.1% |
| Link Fund Solutions | 19.8% |
| Fosun | 8.2% |
| Ruffer | 6.1% |
| Takeda Ventures | 5.5% |

### Diary

| | |
|---|---|
| 8 Sep | Interim results |

### Analyst

Martin Hall 020 7194 7622
mh@hardmanandco.com

# ARIX BIOSCIENCE

## Interim results – due 8 September

**ARIX is a listed global VC company that presents an opportunity for institutional and retail investors to participate in the high risk-reward profile of early-stage biotech investing. Interim results for fiscal 2020 are due for release on 8 September. We are forecasting a 10% increase in NAV to £222m at 30 June, from £202m at 31 December 2019, compared with investment of £138m into its portfolio companies – currently 16. After both investments and divestments during 1H'20, we estimate ARIX's cash position to be ca.£50m. Strong gains have been registered by some portfolio companies during 1H'20, notably Imara.**

- **Strategy:** ARIX sources benefits from an established network and a strong scientific reputation. The portfolio is diversified by therapeutic area, treatment modality, stage of discovery/development and geography to balance the risk-reward profile. Value is realised when ARIX successfully exits its investments.

- **Interims:** 1H'20 results will be dominated by some strong share price movements within its listed portfolio, boosting the NAV. Operational changes announced earlier in 2020 will generate only a modest administration saving during the period, but will benefit 2H'20 by £1m (to £7m) and fiscal 2021 by £3m (to £5m), compared with total costs of £8m in fiscal 2019.

- **LogicBio:** Portfolio company, LogicBio (LOGC.OQ), focused on gene-editing in the fight against early onset childhood diseases, announced recently the clinical trial design for its planned Phase I/II study (SUNRISE), to assess the safety and tolerability of a single intravenous infusion of LB-001 in paediatric patients with methylmalonic acidemia (MMA). First patient enrolment is due in early 2021.

- **Portfolio update:** During the past month, most of the listed companies in the portfolio have reported 2Q'20 results. The solid cash positions of Autolus (AUTL.OQ), Harpoon (HARP.OQ), Imara (IMRA.OQ) and LogicBio (LOGC.OQ) were all reiterated, with cash runways, at least, well into next year.

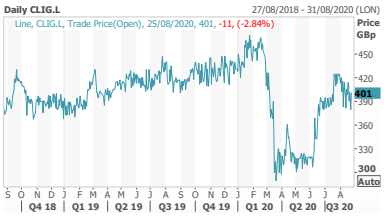
- **Investment summary:** This summary highlights the anticipated outcome when ARIX reports its interims on 8 September. 1H'20 performance has been very solid, with some strategic divestments having been made. For example, the holding value of Harpoon at 30 June was almost the same as at 31 December, despite the opportunistic disposal of £6.5m shares in the period. Some share price volatility has returned to some listed portfolio companies since June, which has been over-compensated for in ARIX's share price, increasing the NAV discount to 49%.

### Financial summary and valuation

| Year-end Dec (£m) | 2017 | 2018 | 2019 | 2020E | 2021E | 2022E |
|---|---|---|---|---|---|---|
| Change in FV of investments | 5.5 | 51.2 | -58.6 | *13.9 | - | - |
| Operating income | 1.9 | 1.3 | 0.5 | 0.2 | 0.2 | 0.0 |
| Administrative expenses | -11.0 | -11.7 | -9.7 | -7.0 | -5.5 | -5.6 |
| Operating profit/(loss) | -7.2 | 37.5 | -70.6 | 5.2 | -5.3 | -7.6 |
| Profit/(loss) before tax | -7.2 | 37.5 | -70.6 | 5.7 | -4.9 | -7.3 |
| Underlying EPS (p) | -9.5 | 27.2 | -49.9 | 3.9 | -3.3 | -4.9 |
| Net cash/(debt) | 74.9 | 91.2 | 53.7 | 45.0 | 33.6 | 22.0 |
| Capital increase | 105.1 | 83.5 | 0.0 | 0.0 | 0.0 | 0.0 |
| NAV/share (p) | 152.3 | 200.4 | 149.1 | 153.0 | - | - |

**Based on share prices and forex at close of business on 24 August 2020*
*Source: Hardman & Co Life Sciences Research*

## Financials




*Source: Refinitiv*

## Market data

| | |
|---|---|
| EPIC/TKR | **CLIG** |
| Price (p) | **387.0** |
| 12m High (p) | 474.0 |
| 12m Low (p) | 275.0 |
| Shares (m) | 26.6 |
| Mkt Cap (£m) | 102.8 |
| EV (£m) | 90.3 |
| Market | LSE |

## Description

City of London is an investment manager specialising in using closed-ended funds to invest in emerging and other markets.

## Company information

| | |
|---|---|
| CEO | Tom Griffith |
| Head of Finance | Deepranjan Agrawal |
| Chairman | Barry Aling |

+44 207 860 8346
www.citlon.com

## Key shareholders

| | |
|---|---|
| Directors & staff | 18.0% |
| APQ Capital | 6.2% |
| Blackrock | 5.4% |
| Cannacord Genuity | 5.0% |
| Eschaton Opportunities Fund Management | 4.8% |
| Polar Capital | 3.0% |

## Diary

| | |
|---|---|
| 14 Sep | Preliminary results |
| 7 Oct | 1Q FUM announcement |
| 8 Oct | Ex-div. date final dividend |
| 19 Oct | AGM |

## Analyst

Brian Moretta 020 7194 7622
bm@hardmanandco.com

# CITY OF LONDON INVESTMENT GROUP

## Still benefiting from favourable markets

**Global equity markets continue to recover after the sharp declines in the first quarter of 2020. City of London has continued to benefit from this, with FUM increasing 5%, from $5.51bn at the end of June to $5.79bn at the end of July. This is a recovery of over 30% from the end-March figure. August (to date) has also been positive for markets, albeit at a slower rate, with the MSCI Emerging Markets Index up 3%.**

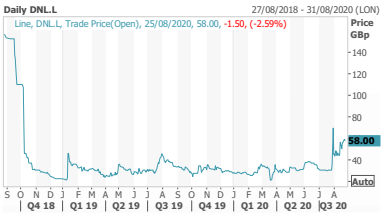
- **Close period:** With results due next month, City of London is in a close period, and there is no other news.
- **Karpus:** At the general meeting in July, shareholders overwhelmingly approved the transaction. Completion is still expected to be on, or around, 1 October, as originally announced.
- **Valuation:** The 2021E P/E of 8.6x is at a discount to the peer group. The underlying 2021E yield of 7.8% is very attractive, in our view, and should, at the very least, provide support for the shares in the current markets.
- **Risks:** Although emerging markets can be volatile, City of London has proved to be more robust than some other EM fund managers, aided by its good performance and strong client servicing. Further market volatility could increase the risk of such outflows, although increased diversification is also mitigating this.
- **Investment summary**: Having shown robust performance in challenging market conditions, City of London is now reaping the benefits in a more supportive environment. The valuation remains reasonable. FY'17, FY'18 and FY'20 all saw dividend increases. With the expected EPS boost from Karpus in 2021, the prospects for future dividend increases look very good.

## Financial summary and valuation

| Year-end Jun (£m) | 2017 | 2018 | 2019* | 2020E | 2021E | 2022E |
|---|---|---|---|---|---|---|
| FUM ($bn) | 4.66 | 5.11 | 5.39 | 5.50 | 9.54 | 10.17 |
| Revenue | 31.29 | 33.93 | 31.93 | 32.36 | 51.68 | 60.70 |
| Statutory PTP | 11.59 | 12.79 | 11.40 | 8.75 | 24.35 | 30.16 |
| Statutory EPS (p) | 36.9 | 39.5 | 34.9 | 28.0 | 45.2 | 49.1 |
| DPS (p) | 25.0 | 27.0 | 27.0 | 28.0 | 30.0 | 33.0 |
| Special dividend | | | 13.5 | | | |
| P/E (x) | 10.5 | 9.8 | 11.1 | 13.8 | 8.6 | 7.9 |
| Dividend yield | 6.5% | 7.0% | 10.5% | 7.2% | 7.8% | 8.5% |

**2019 figures include a special dividend of 13.5p; Source: Hardman & Co Research*

## Pharmaceuticals & Biotechnology




*Source: Refinitiv*

### Market data

| | |
|---|---|
| EPIC/TKR | **DNL** |
| Price (p) | **58.0** |
| 12m High (p) | 62.0 |
| 12m Low (p) | 21.0 |
| Shares (m) | 122.0 |
| Mkt Cap (£m) | 70.8 |
| EV (£m) | 55.4 |
| Free Float* | 48% |
| Market | AIM |

**As defined by AIM Rule 26*

### Description

Diurnal (DNL) is a European, UK-headquartered, specialty pharma company targeting patient needs in chronic, potentially life-threatening, endocrine (hormonal) diseases. Alkindi is approved in Europe and has been filed in the US. Chronocort completed the largest and only Phase III trial in CAH, and is awaiting EMA approval.

### Company information

| | |
|---|---|
| CEO | Martin Whitaker |
| CFO | Richard Bungay |
| Chairman (interim) | Sam Williams |

+44 29 2068 2069
www.diurnal.co.uk

### Key shareholders

| | |
|---|---|
| Directors | 2.6% |
| IP Group | 36.1% |
| Finance Wales | 9.4% |
| Polar Capital | 8.1% |
| Amati VCT | 7.8% |
| Richard Griffiths | 4.7% |

### Diary

| | |
|---|---|
| 15 Sep | Final results |
| 29 Sep | Alkindi PDUFA date |
| 1Q'21 | Chronocort EMA approval |

### Analyst

Martin Hall 020 7194 7622
mh@hardmanandco.com

# DIURNAL GROUP

## September 2020 – an important month

**DNL is a commercial-stage specialty pharmaceutical company focused on diseases of the endocrine system. Its drugs are targeting rare conditions where medical need is currently unmet, with the long-term aim of building an "Adrenal Franchise". Alkindi® is being rolled out throughout Europe, and recent approvals in Israel and Australia will open up more markets. September 2020 is an important month for the group: it will report financial figures for fiscal 2020 on 15 September, and the user fee date for Alkindi has been set for 29 September, by which time the FDA must give an approval/not approvable answer to DNL.**

- **Strategy:** DNL aims to create a valuable "Adrenal Franchise" that can treat patients with chronic cortisol deficiency diseases from birth through to old age. Once Alkindi and Chronocort are established in Europe and the US, the long-term vision is to expand DNL's product offering to other related conditions.

- **2020 results:** DNL has announced already that group/Alkindi sales increased 130% to £2.39m (£1.04m) in fiscal 2020 and that gross/net cash at the end of June was £15.4m. Reported results will benefit from an unrealised gain in value (£0.46m est.) in its equity investment in US commercial partner, Eton Pharma.

- **PDUFA date:** The Prescription Drug User Fee Act (PDUFA) date for Alkindi is 29 September. Eton was confident of approval in its recent 2Q'20 results release. Also, Washington Analysis Group has "*no doubt that the application will be approved and high confidence that the FDA will act on or even before the PDUFA date*".

- **Alkindi approvals:** In August, DNL has received regulatory approval of Alkindi in both Israel and Australia. It is likely to be launched in Israel in 1H'21 by its partner, Medison Pharma, and in Australia in 2H'21 by Emerge Health, following completion of pricing and market access activities.

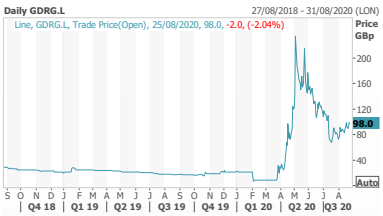
- **Investment summary:** The shares have been developing an upward momentum in response to all the recent good news. However, FDA approval on or before the PDUFA date in September would be a significant step forward, making DNL part of an elite group of three AIM companies to have reached this milestone. The risk then moves to commercial execution, but Eton has stated already that it will be in a position to launch Alkindi shortly after approval.

### Financial summary and valuation

| Year-end Jun (£m) | 2017 | 2018 | 2019 | 2020E | 2021E | 2022E |
|---|---|---|---|---|---|---|
| Sales | 0.00 | 0.07 | 1.04 | 2.39 | 5.91 | 16.58 |
| SG&A | -3.23 | -6.21 | -5.83 | -5.50 | -6.15 | -7.53 |
| R&D | -8.34 | -10.02 | -8.69 | -4.78 | -4.54 | -5.90 |
| EBITDA | -12.07 | -16.97 | -14.51 | -6.32 | -6.38 | 0.62 |
| Underlying EBIT | -12.08 | -16.98 | -14.53 | -6.40 | -6.45 | 0.54 |
| Statutory EBIT | -12.08 | -16.98 | -14.53 | -5.94 | -6.45 | 0.54 |
| Underlying PBT | -12.16 | -17.11 | -14.40 | -6.35 | -6.38 | 0.58 |
| Statutory PBT | -12.16 | -16.91 | -14.40 | -5.89 | -6.38 | 0.58 |
| Underlying EPS (p) | -18.04 | -27.16 | -14.54 | -5.53 | -4.32 | 1.65 |
| Statutory EPS (p) | -18.04 | -26.78 | -19.70 | -5.04 | -4.32 | 1.65 |
| Net (debt)/cash | 16.37 | 17.28 | 9.15 | 15.40 | 7.73 | 7.53 |
| Equity issues | 0.05 | 13.40 | 5.53 | 11.20 | 0.00 | 0.00 |

*Source: Hardman & Co Life Sciences Research*

## Pharmaceuticals & Biotechnology




*Source: Refinitiv*

### Market data

| | |
|---|---|
| EPIC/TKR | **GDR** |
| Price (p) | **98.0** |
| 12m High (p) | 220.0 |
| 12m Low (p) | 7.0 |
| Shares (m) | 52.0 |
| Mkt Cap (£m) | 50.9 |
| EV (£m) | 45.0 |
| Free Float* | 75% |
| Market | AIM |

**As defined by AIM Rule 26*

### Description

Genedrive plc (GDR) is a disruptive platform designed to bring the power of central laboratory molecular diagnostics to point-of-care/near-patient settings with a low-cost device offering fast and accurate results. It focuses on diagnostics for acute hospital settings and for serious infectious diseases, such as COVID-19, hepatitis C and tuberculosis.

### Company information

| | |
|---|---|
| CEO | David Budd |
| CFO | Matthew Fowler |
| Chairman | Ian Gilham |

+44 1619 890 245
www.genedriveplc.com

### Key shareholders

| | |
|---|---|
| Directors | 2.0% |
| Global Health Fund | 13.7% |
| Calculus Capital | 9.0% |
| Spreadex Ltd | 3.5% |
| HJ Rylands | 3.2% |

### Diary (calendar year)

| | |
|---|---|
| Oct'20 | Final results |
| Nov'20 | AGM |

### Analyst

Martin Hall 020 7194 7622
mh@hardmanandco.com

# GENEDRIVE PLC

## Progressing its COVID-19 tests

**GDR is a commercial-stage diagnostics focused on point-of-care (POC) molecular diagnostics. Its Genedrive® molecular diagnostic platform offers low-cost, simple-to-use devices for highly sensitive and specific testing. Rapid analysis of samples aids real-time decision-making, whether in clinical, public health or biothreat applications. Prospects have changed considerably over the last two months, with the development and commercialisation of two SARS-CoV-2 assays, a rapid machine agnostic CE certified test, and a POC test that will run on the Genedrive platform, due to be launched around the end of 2020.**

- **Strategy:** With CE marking for its Genedrive technology platform, management has been focusing on a commercialisation pathway for gene-based diagnostics in biothreat pathogen detection, including hepatitis C, tuberculosis (TB) and, more recently, COVID-19 and Antibiotic-Induced Hearing Loss (AIHL).

- **Rapid test:** GDR has developed a SARS-CoV-2 Polymerase Chain Reaction (PCR) assay, in partnership with Cytiva, for a high-throughput test to detect active COVID-19 infection, which received CE certification in May. In addition, it is collaborating with Beckman Coulter to fully automate the test.

- **PoC test:** GDR is also developing a SARS-CoV-2 test that will be run on its mobile Genedrive platform. Progress is under way, leveraging the high-throughput SARS-CoV-2 knowledge. However, when ready, at the end of this year, this test will be entering a competitive marketplace, with six assays already available.

- **Risks:** The COVID-19 diagnostic test market is very competitive, but GDR offers a one-step PCR test with differentiating advantages. The recent funding has strengthened the balance sheet and provided GDR with the financial resource to launch its COVID-19 tests and its pending test for hearing loss.

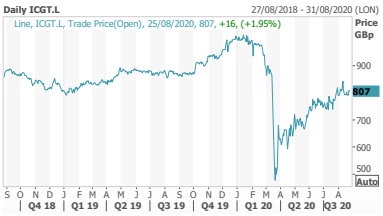
- **Investment summary:** Forecasting is extremely difficult at the present time. In a recent trading update, management stated that it was confident about the sale of units and tests for the US Department of Defense business, and for AIHL, to underpin 1H'21. However, although global tenders are being sought, and initial orders won, for the rapid SARS-CoV-2 molecular test, the magnitude of these sales remains very unpredictable.

### Financial summary and valuation

| Year-end Jun (£000) | 2017 | 2018 | 2019 | 2020E | 2021E | 2022E |
|---|---|---|---|---|---|---|
| Group sales | 5,785 | 1,938 | 2,362 | 1,123 | | |
| Underlying EBIT | -4,913 | -5,264 | -4,449 | -4,967 | | |
| Reported EBIT | -7,292 | -7,375 | -4,010 | -4,967 | | |
| Underlying PBT | -5,417 | -5,782 | -5,002 | -6,722 | | |
| Statutory PBT | -7,487 | -7,788 | -4,518 | -6,372 | | |
| Underlying EPS (p) | -23.6 | -26.9 | -15.8 | -16.6 | Forecasts | |
| Statutory EPS (p) | -34.9 | -31.9 | -14.0 | -15.6 | under review | |
| DPS (p) | 0.0 | 0.0 | 0.0 | 0.0 | | |
| Net (debt)/cash | -70 | -2,096 | -3,334 | -792 | | |
| Equity issues | 6,023 | 0 | 3,243 | 9,426 | | |
| P/E (x) | -1.2 | -1.1 | -1.9 | -9.9 | | |
| EV/sales (x) | 2.8 | 8.3 | 6.8 | 66.2 | | |

*Source: Hardman & Co Life Sciences Research*

## Closed-Ended Investment Funds




*Source: Refinitiv*

### Market data

| | |
|---|---|
| EPIC/TKR | **ICGT** |
| Price (p) | **820** |
| 12m High (p) | 1,015.0 |
| 12m Low (p) | 460.0 |
| Shares (m) | 68.88 |
| Mkt Cap (£m) | 564 |
| NAV p/sh (p) | 1,114 |
| Discount to NAV | 26% |
| Market | Premium equity closed-ended inv. funds |

### Description

ICG Enterprise Trust (ICGT) is a listed private equity (PE) investor providing shareholders with access to a portfolio of European and US investments in profitable, cash-generative unquoted companies. It invests in companies managed by ICG and other leading PE managers, directly and through funds. It strikes a balance between concentration and diversification, risk and reward.

### Company information

| | |
|---|---|
| Chair | Jane Tufnell |
| Audit Cte. Chr. | Alastair Bruce |
| NED | Lucinda Riches |
| | Sandra Pajarola |
| | Gerhard Fusenig |
| Inv. Mgr. | Oliver Gardey, |
| | Colm Walsh |
| Contact | James Caddy |
| | +44 20 3545 2000 |
| | www.icg-enterprise.co.uk |

### Key shareholders

| | |
|---|---|
| Mattioli Woods | 3.0% |

### Diary

| | |
|---|---|
| Oct'20 | Interim results |

### Analyst

Mark Thomas 020 7194 7622
mt@hardmanandco.com

# ICG ENTERPRISE TRUST PLC



**ICGT provides shareholders with access to the long-term returns generated by investing in private companies, with the benefit of the daily liquidity of an LSE quote. ICG Enterprise listed on the London Stock Exchange in 1981.**

ICGT targets businesses that benefit from long-term structural trends, rather than relying on cyclical economic growth. It is able to do this, in particular, in its high-conviction investments by selecting co-investments and secondaries that exhibit defensive growth characteristics. ICGT also backs PE managers that share its investment philosophy, to ensure that its stated "defensive growth" strategy is also prevalent in its fund portfolio.

ICGT is externally managed by Intermediate Capital Group (ICG), a leading global alternative asset manager, with €46bn of assets under management (AUM) across 21 strategies. ICG focuses on providing capital to help companies grow. It develops long-term relationships with its business partners to deliver value for shareholders, clients and employees. It invests across the capital structure, with an objective of generating income and consistently high returns, while protecting against investment downside. ICG has more than 300 employees, based in offices in 13 countries across the world.

On 17 June 2020, ICGT gave a *quarterly update* for the three months ending 30 April 2020, which captured a significant element of the markets' COVID-19-related falls. ICGT's NAV fell 4% in the quarter, to 1,100p. On 22 June, it announced the *disposal of its investment in Roompot*, generating an uplift to the NAV of 1.3%, by 14p.

Given the regulatory restrictions on distributing research on this company, the monthly book entry for RECI can be accessed through our website, *Hardman and Co Research*. Our initiation report, *Outperformance through every stage of cycle*, was published on 6 July 2020, and can be found on the same site.

## Financials


*Source: Refinitiv*

## Market data

| | |
|---|---|
| EPIC/TKR | **NSF** |
| Price (p) | **5.48** |
| 12m High (p) | 44.7 |
| 12m Low (p) | 3.0 |
| Shares (m) | 312.0 |
| Mkt Cap (£m) | 17 |
| EV (£m) | 320 |
| Free Float | 99% |
| Market | Main |

## Description

In the UK non-standard lending market, Non-Standard Finance (NSF) has the market-leading network in unsecured branch-based lending, is number two in guarantor loans and number three in home credit.

## Company information

| | |
|---|---|
| CEO | John van Kuffeler |
| CFO | Jono Gillespie |
| Non-Exec. Chair | Charles Gregson |

+44 20 386 99026
www.nonstandardfinance.com

## Key shareholders (20 Jul'20)

| | |
|---|---|
| Alchemy | 29.95% |
| Hargreaves Lansdown | 12.05% |
| Marathon Asset Mgt. | 10.85% |
| Neil Utley | 7.96% |
| Interactive Investor Services | 2.74% |

## Diary

| | |
|---|---|
| Sep'20 (tbc) | Announcement re FCA review and discussions with shareholders on potential equity raise |
| Oct'20 (tbc) | Half-year results |

## Analyst

Mark Thomas 020 7194 7622
mt@hardmanandco.com

# NON-STANDARD FINANCE

## Guarantor loan review in perspective

**On 3 August, NSF announced an *FCA review* into its guarantor loan business and that its potential equity raise was on hold (noting, however, that its largest shareholder remained supportive regarding a further capital raise). To put this into perspective, NSF has consistently reported lower numbers of complaints compared with Amigo, most recently stating it "remains low in absolute terms and relative to our peers". On 26 August, NSF announced that its £15m *securitisation draw-down had been re-paid* (although facility open for further use) and its gross cash was £65m post repayment.**

- **Long-term opportunity:** Finance is key to whether NSF grows strongly, moderately or at all. NSF expects "positive" discussions with lenders to conclude over the coming weeks. Subject to the FCA review, further discussions with equity investors to strengthen the balance sheet and fund further growth appear likely.

- **Peer news:** MCL's 10 August *trading update* reported July collections at 98% of normal rates and sales at 81% of the same period in 2019 – both improving trends. PFG *reported* an interim adjusted loss of £33m, driven by higher impairments. Home Collect lost £38m. Amigo's 28 August results will be reviewed in our next monthly.

- **Valuation:** While the outcome of the FCA review remains unclear, near-term earnings progression, and the absence of any dividend, are unlikely to be reflective of the long-term business outlook. For a profitable, growing business, the long-term Gordon Growth Model (GGM) implies a value above book (2019 tangible book value £40m, market capitalisation £17m).

- **Risks:** Credit risk remains the biggest threat to profitability (mitigated through high risk-adjusted margins and good customer relationships). Regulatory risk has been heightened by the FCA review, noting the perspective above. COVID-19 also presents headwinds in the short term (lower income and higher impairment), but we expect this will create long-term opportunities as demand increases.

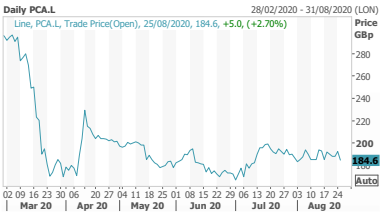
- **Investment summary:** Notwithstanding short-term uncertainty, substantial medium- and long-term value should be created, as i) demand for, and pricing of, non-standard finance is likely to be strong for at least the next couple of years, following the COVID-19 crisis, ii) NSF has substantial committed medium-term debt funding, albeit subject to covenant constraints, iii) competitors have withdrawn (and potentially more may do so), and iv) NSF has a highly experienced management team. We will provide a range of forecasts/valuations in our half-year results note.

**Financial summary and valuation (2020/21 central case sees a range of forecast scenarios – see our note, *FY'19 solid; outlook – broad range of outcomes*)**

| Year-end Dec (£000) | 2017 | 2018 | 2019* | 2020E* | 2021E* |
|---|---|---|---|---|---|
| Reported revenue | 121,682 | 168,128 | 184,611 | 163,457 | 176,144 |
| Total impairments | -28,795 | -43,738 | -46,660 | -64,181 | -49,797 |
| Total costs | -69,203 | -89,082 | -95,786 | -91,946 | -90,303 |
| EBITDA | 23,684 | 33,714 | 42,165 | 7,331 | 36,044 |
| Adjusted PBT | 13,203 | 12,607 | 14,707 | -22,886 | 5,928 |
| Statutory PBT | -13,021 | -2,365 | -75,976 | -27,133 | 1,697 |
| Pro-forma EPS (p) | 3.44 | 3.06 | 3.66 | -6.04 | 1.64 |
| DPS (p) | 2.20 | 2.60 | 0.70 | - | 1.00 |
| P/E (adjusted, x) | 1.6 | 1.6 | 1.5 | -0.9 | 3.3 |
| P/BV (x) | 0.1 | 0.1 | 0.1 | 0.2 | 0.2 |
| P/tangible book (x) | 0.2 | 0.3 | 0.4 | 0.8 | 0.7 |
| Dividend yield | 40.1% | 47.4% | 12.8% | 0.0% | 18.2% |

** IFRS9 basis; Source: Hardman & Co Research*

## Real Estate




*Source: Refinitiv*

## Market data

| | |
|---|---|
| EPIC/TKR | **PCA** |
| Price (p) | **190** |
| 12m High (p) | 350 |
| 12m Low (p) | 170 |
| Shares (m) | 45.9 |
| Mkt Cap (£m) | 87 |
| EV (£m) | 195 |
| Market | Main, LSE |

## Description

Palace Capital is a real estate investor, diversified by location, but with no London exposure and with minimal exposure to retail. There is an emphasis on city-centre locations. The York development site comprises 6% of assets.

## Company information

| | |
|---|---|
| Chairman | Stanley Davis |
| CEO | Neil Sinclair |
| CFO | Stephen Silvester |
| Executive director | Richard Starr |

+44 20 3301 8330
www.palacecapitalplc.com

## Key shareholders

| | |
|---|---|
| Directors | 5.0% |
| AXA | 7.7% |
| Miton | 7.4% |
| J.O. Hambro | 7.3% |
| Stanley Davis (Chairman) | 3.6% |

## Diary

| | |
|---|---|
| Late Sep'20 | 1Q'21 dividend declaration |
| Nov'20 | Interim results |

## Analyst

Mike Foster 020 7194 7622
mf@hardmanandco.com

# PALACE CAPITAL

## Three years' outperformance of MSCI index

**In late September, we expect the announcement of the first-quarter dividend, and a level of 2.5p is anticipated. We estimate that, by 4Q'21, the dividends will begin to rise, and continue to do so. The Hudson Quarter development in York is due to complete in spring 2021, that is to say around the company's year-end. The development shows every sign of success. There is much more to Palace Capital than this development; therefore, we consider investors should look more closely beforehand. Nonetheless, this completion is set to bring profits, reduced LTV and significantly greater scope to the dividend payout.**

- **FY'20 results:** These were announced two months ago already but, while asset total return outperformed the benchmark, the passing of the 3Q'20 dividend had unsettled investors. The payment of only 2.5p for 4Q'20 was conservative, but COVID-19 led to concern and disappointment in the market.

- **Robust balance sheet:** Year-end LTV stood at 38%. Loan covenants are fully compliant. £20m gross cash is held, with no facilities maturing until 2022. By that point, Hudson Quarter will have generated significant cash for reinvestment, thereby enhancing ongoing income.

- **Valuation:** We see the company's measured development as a positive, but the market does not price as such. Price to historical NAV is over 20ppts below the regional REIT universe average. The overweight offices, near nil high street retail and decent exposure to logistics are a good mix: a strongly positioned regional REIT.

- **Risks:** LTV is set for ca.40% at the peak of the development of apartments and offices within the York city walls. The latter can be retained or sold, thereby ensuring enhanced income, as well as LTV reduced towards 30%. Current markets are uncertain, and Palace Capital has not commented on calendar 2020.

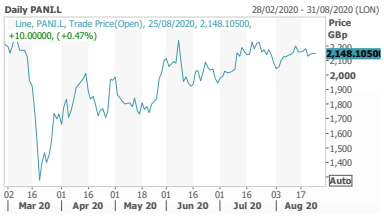
- **Investment summary:** The sectoral and regional exposures point to outperformance in capital values, rental change and total returns. While markets do all present challenges and reduced clarity, we note that this positioning and the embedded value-adding specific future events are major positives. In current markets, short-term NAV prospects are volatile.

## Financial summary and valuation

| Year-end Mar (£m) | 2017 | 2018 | 2019 | 2020 | 2021E |
|---|---|---|---|---|---|
| Net income | 12.2 | 14.9 | 16.4 | 18.8 | 14.9 |
| Finance cost | -3.0 | -3.4 | -3.7 | -4.3 | -3.8 |
| Declared profit | 12.6 | 13.3 | 6.4 | -9.1 | 6.6 |
| EPRA PBT (adj. pre-reval'n.) | 6.4 | 7.3 | 8.6 | 10.2 | 7.1 |
| EPS reported (diluted, p) | 36.5 | 35.8 | 11.3 | -11.8 | 14.3 |
| EPRA EPS (p) | 21.2 | 18.7 | 16.5 | 23.4 | 15.4 |
| DPS (p) | 18.5 | 19.0 | 19.0 | 12.0 | 10.5 |
| Net (cash)/debt | -68.6 | -82.4 | -96.5 | -104.4 | -123.8 |
| Dividend yield | 9.7% | 10.0% | 10.0% | 6.2% | 5.5% |
| Price/EPRA NAV | 42.8% | 45.8% | 46.5% | 52.2% | 51.6% |
| EPRA NAV (p) | 443.0 | 414.8 | 406.6 | 364.2 | 368.9 |
| LTV | 37.3% | 29.9% | 33.8% | 37.9% | 41.6% |

*Source: Hardman & Co Research*

## Closed-Ended Investments Funds




*Source: Refinitiv*

## Market data

| | |
|---|---|
| EPIC/TKR | **PIN** |
| Price (p) | **2,150** |
| 12m High (p) | 2,620 |
| 12m Low (p) | 1,274 |
| Shares (m) | 54,089 |
| Mkt Cap (£m) | 1,163 |
| NAV p/sh (p)* | 2,724.8 |
| Discount to NAV* | 21% |
| Market | Premium equity closed-ended investment funds |

**Manager valuations: 1% Dec'19, 86% Mar'20, 13% Jun'20*

## Description

The investment objective of Pantheon International Plc (PIP) is to maximise capital growth by investing in a diversified portfolio of private equity (PE) assets and directly in private companies.

## Company information

| | |
|---|---|
| Chairman | Sir Laurie Magnus |
| Aud. Cte. Chr. | David Melvin |
| Sen. Ind. Dir. | Susannah Nicklin |
| Inv. Mgr. | Pantheon |
| Managers | Helen Steers |
| Contact | Vicki Bradley |
| | +44 20 3356 1800 |
| | www.piplc.com |

## Key shareholders (31 May'20)

| | |
|---|---|
| Quilter | 9.40% |
| USS | 8.15% |
| Esperides SA Sicav-SIF | 5.75% |
| East Riding of Yorkshire Cl | 4.70% |
| APG Asset Mgt. | 4.44% |
| Investec Wealth | 4.37% |
| Private Syndicate Pty | 3.76% |
| Brewin Dolphin | 3.45% |

## Diary

| | |
|---|---|
| Mid-Sep | Aug NAV |

## Analyst

Mark Thomas 020 7194 7622
mt@hardmanandco.com

# PANTHEON INTERNATIONAL



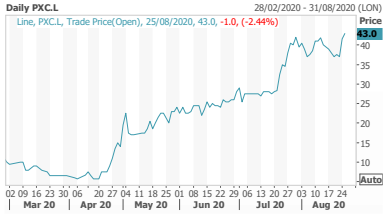
**PIP is an investment trust that invests in a diversified portfolio of PE assets managed by third-party managers across the world. PIP is the longest-established PE fund-of-funds on the London Stock Exchange, and has outperformed the FTSE All-Share and MSCI World indices since its inception in 1987.**

PIP is managed by Pantheon, one of the world's foremost PE specialists. Founded in 1982, with assets under management (AUM) of $50.7bn (as at 31 March 2020), and a team of 100 investment professionals globally (total staff of 341 as at 30 June 2020), Pantheon is a recognised investment leader, with a strong track record of investing in PE funds over various market cycles in both the primary and secondary markets, as well as co-investments.

PIP actively manages risk by the careful selection and purchase of high-quality PE assets in a diversified and balanced portfolio, across different investment stages and vintages, and by investing in carefully selected funds operating in different regions of the world.

Given the regulatory restrictions on distributing research on this company, the monthly book entry for Pantheon can be accessed through our website, *Hardman and Co Research*. Our *initiation report*, published on 6 September 2019, and our reports, *History of value added to portfolio by holding Pantheon*, published on 26 November 2019, *2020 interim results consistency in delivery*, published on 2 March 2020, and *Positioned for sustained growth*, published on 14 August 2020, can be found on the same site.

## Mining




*Source: Refinitiv*

## Market data

| | |
|---|---|
| EPIC/TKR | **PXC** |
| Price (p) | **41.00** |
| 12m High (p) | 43.75 |
| 12m Low (p) | 5.00 |
| Shares (m) | 62.46 |
| Mkt Cap (£m) | 25.61 |
| EV (£m) | 24.49 |
| Free Float* | 84.30% |
| Market | AIM |

**As defined by AIM Rule 26*

## Description

Phoenix Copper (PXC) is developing the former Empire deposit and the surrounding area in central Idaho into a potentially world-class copper and polymetallic mine. First production is expected in late 2021.

## Company information

| | |
|---|---|
| Chairman | M. Edwards-Jones |
| CEO | Ryan McDermott |
| CFO | Richard Wilkins |
| CTO | Roger Turner |

+44 7590 216 657
www.phoenixcopperlimited.com

## Key shareholders

| | |
|---|---|
| Martin Hughes (Cheviot) | 21.59% |
| Directors | 8.70% |
| Hargreaves Lansdowne | 6.54% |
| Pershing Nominees | 6.29% |

## Diary

| | |
|---|---|
| Aug'20 | Assay drilling results |
| 3Q'20 | Updated resources |

## Analyst

Paul Mylchreest 020 7194 7622
pm@hardmanandco.com

# PHOENIX COPPER LTD

## A potential world-class copper-silver-gold mine

**PXC continues to advance its strategy for the staged development of the potentially world-class polymetallic mine in mining-friendly Idaho, US. In a change to planned mine scheduling, the initial Red Star silver mine will provide cashflow to develop the Empire near surface copper (oxide ore) mine and explore the much larger sulphide ore body at depth. Only ca.1% of the deposit has been explored so far. Our current estimated DCF valuation of 31p per share, based on the initial silver mine only, is under review due to the current surge in the silver price.**

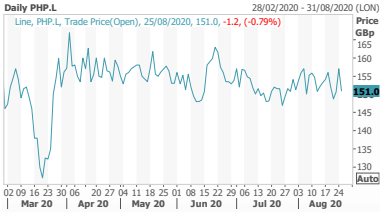
- **Strategy:** PXC focuses on near-term cashflow, and will maximise returns/minimise risk to shareholders by developing a potentially world-class copper-gold-silver deposit in stages. Empire was formerly a very high-grade underground copper mine (recovering 3.64% Cu), shut down due to WW2.
- **Recent announcements:** Results from the first six (of 10) holes of the 2020 drilling programme confirmed the high-grade silver-lead system at Red Star – with up to 19.5 Ag Eq. oz/tonne. Results from 21 holes at Empire were stellar, with gold and copper grades of up to 9.78 g/t and 6.13%, respectively.
- **Red Star update:** The Red Star mine development is being fast-tracked, with production possible by end-2021. The first three drill holes led to an inferred resource of 103,500 tonnes of ore and 0.58m oz. of silver. This year's programme will see a further 20 holes to enlarge the resource.
- **Risks:** PXC is subject to normal risks for a junior mining company. These include volatility in copper and zinc prices, operational risks in executing the mining plan, running downstream processing facilities and funding risks. We believe that jurisdictional risk is significantly reduced in PXC's case, due to the Idaho location.
- **Investment summary:** Our current DCF valuation (pending revision) is 31p per share, based solely on the silver mine, a cautious (for now) 15% discount rate and a long-term silver price of $19.00/oz. PXC's share price is highly geared to the upside thesis for silver (and copper), with each $1.00/oz adding an estimated 6.2p-6.3p per share.

## Financial summary and valuation

| Year-end Dec ($m) | 2017 | 2018 | 2019 | 2020E | 2021E | 2022E |
|---|---|---|---|---|---|---|
| Sales | 0 | 0 | 0 | 0 | 0 | 48,800 |
| Underlying EBIT | -1.058 | -1.654 | -1.105 | -1.282 | -2.082 | 0.787 |
| Reported EBIT | -1.058 | -1.654 | -1.105 | -1.282 | -2.082 | 0.787 |
| Underlying PTP | -1.056 | -1.652 | -1.128 | -1.380 | -5.069 | -2.708 |
| Statutory PTP | -1.056 | -1.652 | -1.128 | -1.380 | -5.069 | -2.708 |
| Underlying EPS (c) | -8.20 | -5.82 | -2.76 | -2.44 | -3.30 | 7.15 |
| Statutory EPS (c) | -8.20 | -5.82 | -2.76 | -2.44 | -3.30 | 7.15 |
| Net (debt)/cash | 1.904 | 0.113 | -0.589 | -0.953 | -26.530 | -8.895 |
| Average shares (m) | 16.498 | 28.273 | 40.862 | 56.436 | 82.086 | 82.086 |
| P/E (x) | n/a | n/a | n/a | n/a | n/a | 7.6 |
| Dividend yield | n/a | n/a | n/a | n/a | n/a | n/a |
| FCF yield | n/a | n/a | n/a | n/a | n/a | 47.2% |

*Source: Hardman & Co Research*

## Real Estate




*Source: Refinitiv*

## Market data

| | |
|---|---|
| EPIC/TKR | **PHP** |
| Price (p) | **153** |
| 12m High (p) | 161 |
| 12m Low (p) | 115 |
| Shares (m) | 1,314 |
| Mkt Cap (£m) | 2,010 |
| EV (£m) | 2,980 |
| Market | Premium, LSE |

## Description

Primary Health Properties (PHP) is a REIT acquiring and owning modern primary medical properties in the UK, and is expanding into the Republic of Ireland (RoI), now 7% of assets.

## Company information

| | |
|---|---|
| CEO | Harry Hyman |
| CFO | Richard Howell |
| Chairman | Steven Owen |

+44 20 7451 7050
www.phpgroup.co.uk

## Key shareholders (pre fund raise)

| | |
|---|---|
| Directors | 1.0% |
| Blackrock | 6.7% |
| CCLA | 5.3% |
| Investec Wealth | 5.0% |
| Vanguard Group | 2.7% |
| Troy Asset | 2.3% |

## Diary

| | |
|---|---|
| Feb'21 | Final results |
| Apr'21 | AGM |

## Analyst

Mike Foster 020 7194 7622
mf@hardmanandco.com

# PRIMARY HEALTH PROPERTIES

## Strong set of results, confirming ongoing rent rises

**29 July interims showed a 7.1% EPRA EPS increase, rising NAV and a continued rise in DPS. Illustrating the growth, rents rose 20.4%, and adjusted EPRA earnings rose 29.0%. On 9 July, PHP launched a £120m proposed placing, at a point in the REIT's development that is underpinned by a strong and broad pipeline. The placing was expanded to £140m as a result of investor appetite. The short-term pipeline stands at £128m, and there is also growth from active management of existing assets. We consider this REIT has significant per share value growth potential, through capital deployment, rent rises and financing cost efficiencies.**

- **A stand-out performer:** Adjusted EPRA earnings rose 29%, or £8.1m, with £4.1m deriving from a full six months of the MedicX merger benefits, £2.2m from rental growth and reviews, and £1.8m from the reduced interest rate vs. the prior year. COVID-19 financial resilience illustrated PHP's index-linked, gilt-style character.

- **Investment summary:** 25% of leases being index-linked and 6% on fixed uplifts enhance even further the attractions of the AAA covenant, we believe. Also, the deployment success of the September 2019 equity raise is highly likely to be replicated on the latest oversubscribed raise, enhancing long-term dividends.

- **Expansion:** PHP deploys into new development funding, but also secures opportunities to buy standing assets. This is a growing sector. Last September, PHP raised growth equity at 128p; all of this has been deployed. With assets yielding 4.9% and new debt costing ca.2% or less, expansion is accretive.

- **Valuation:** The rating reacted positively to 2019 strategy execution, including the MedicX merger and the reduction in debt costs. The progressive dividends are – and will remain, we estimate – fully covered by earnings. This is not the first time that investor appetite has exceeded initial targets for equity issuance.

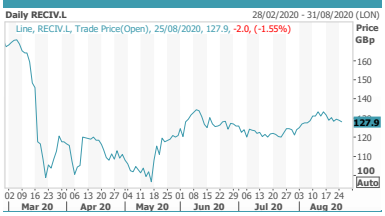
- **Risks:** The recent placing helps to maintain an appropriate LTV in the short term, reducing the 30 June 2020 ratio by around 5.0ppts, from 45.8% to 40.3% on a pro-forma basis. Interest cover is over 2.9x. No direct development risk is taken, and the long leases are upwards-only rents.

## Financial summary and valuation

| Year-end Dec (£m) | 2017 | 2018 | 2019 | 2020E | 2021E |
|---|---|---|---|---|---|
| Rental income | 71.3 | 76.4 | 115.7 | 133.0 | 142.0 |
| Finance costs | -31.6 | -29.7 | -43.7 | -46.3 | -48.5 |
| Declared profit | 91.9 | 74.3 | -70.2 | 112.8 | 133.7 |
| EPRA PBT | 31.0 | 36.8 | 59.7 | 72.8 | 78.7 |
| EPS reported (p) | 15.3 | 10.5 | -6.4 | 9.0 | 10.2 |
| EPRA EPS (diluted, p) | 5.1 | 5.2 | 5.4 | 5.8 | 6.0 |
| DPS (p) | 5.25 | 5.40 | 5.60 | 5.90 | 6.12 |
| Net debt per balance sheet | -726.6 | -670.2 | -1,120.8 | -1,110.9 | -1,251.2 |
| Dividend yield | 3.4% | 3.5% | 3.6% | 3.9% | 4.0% |
| Price/EPRA NAV (x) | 1.53 | 1.47 | 1.41 | 1.35 | 1.30 |
| IFRS NAV per share (p) | 94.7 | 102.6 | 101.0 | 106.7 | 110.8 |
| EPRA NAV per share (adjusted, p) | 100.7 | 105.1 | 107.9 | 113.3 | 117.5 |

*EPRA EPS adjusted as per PHP definition. Debt figure includes mark-to-market.*
*Source: Hardman & Co Research*

## Diversified Financial Services




*Source: Refinitiv*

## Market data

| | |
|---|---|
| EPIC/TKR | **RECI** |
| Price (p) | **129.0** |
| 12m High (p) | 175.5 |
| 12m Low (p) | 94.4 |
| Shares (m) | 229.3 |
| Mkt Cap (£m) | 296 |
| NAV p/sh (p) | 147.6 |
| Disc. to NAV | 13% |
| Market | Premium equity closed-ended inv. funds |

## Description

Real Estate Credit Investments (RECI) is a closed-ended investment company that aims to deliver a stable quarterly dividend via a levered exposure to real estate credit investments, primarily in the UK and France.

## Company information

| | |
|---|---|
| Chairman | Bob Cowdell |
| NED | Susie Farnon |
| NED | John Hallam |
| NED | Graham Harrison |
| Inv. Mgr. | Cheyne Capital |
| Head of team | Ravi Stickney |
| Main contact | Richard Lang |
| | +44 207 968 7328 |
| | www.recreditinvest.com |

## Key shareholders (31 Mar'20)

| | |
|---|---|
| Close Bros | 8.55% |
| AXA SA | 8.50% |
| Premier Miton | 8.09% |
| Bank Leumi | 7.82% |
| Fidelity | 7.59% |
| Canaccord Genuity Group | 7.36% |
| Smith and Williamson | 6.84% |

## Diary

| | |
|---|---|
| Mid-Sep | Aug factsheet |

## Analysts

| | |
|---|---|
| Mark Thomas | 020 7194 7622 |
| | mt@hardmanandco.com |
| Mike Foster | 020 7194 7622 |
| | mf@hardmanandco.com |

# REAL ESTATE CREDIT INVESTMENTS



**RECI is a closed-ended investment company. To achieve the investment objective, the company invests, and will continue to invest, in real estate credit secured by commercial or residential properties in Western Europe, focusing primarily on the UK, France and Germany.**

Investments may take different forms, but are likely to be:

- Secured real estate loans, debentures or any other forms of debt instruments (together "Secured Debt"). Secured real estate loans are typically secured by mortgages over the property or charges over the shares of the property-owning vehicle. Individual secured debt investments will have a weighted average life profile ranging from six months to 15 years. Investments in secured debt will also be directly or indirectly secured by one or more commercial or residential properties, and will not exceed an LTV of 85% at the time of investment.

- Listed debt securities and securitised tranches of real estate-related debt securities – for example, residential mortgage-backed securities and commercial mortgage-backed securities (together "MBS"). For the avoidance of doubt, this does not include equity residual positions in MBS.

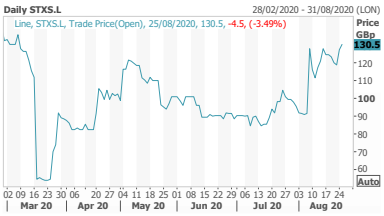
- Other direct or indirect opportunities, including equity participations in real estate, save that no more than 20% of the total assets will be invested in positions with an LTV in excess of 85% or in equity positions that are uncollateralised. On specific transactions, the company may be granted equity positions as part of its loan terms. These positions will come as part of the company's overall return on its investments, and may or may not provide extra profit to the company, depending on market conditions and the performance of the loan. These positions are deemed collateralised equity positions. All other equity positions in which the company may invest are deemed uncollateralised equity positions.

RECI is externally managed by Cheyne Capital Management (UK) LLP, a UK investment manager authorised and regulated by the FCA. As at 29 February 2020, Cheyne had 161 employees, of which 32 were in the Real Estate Team, and AUM of $7.2bn, of which $3.4bn was managed by the Real Estate Team. It has offices in London, New York, Bermuda, Berlin, Dubai, Dublin and Zurich. Cheyne invests across the capital structure – from the senior debt to the equity positions. It has expertise in the structuring, execution and management of securitisation transactions, involving a broad range of assets, including portfolios comprised of traditional asset classes, such as commercial and residential mortgages, as well as mortgage-backed securities and the management of commercial real estate portfolios, focused on Europe and the UK.

RECI gave a *market update* (including a detailed review of COVID-19-related exposures) on 15 May and issued *its end-May* factsheet on 5 June.

Given the regulatory restrictions on distributing research on this company, the monthly book entry for RECI can be accessed through our website, *Hardman and Co Research*. Our initiation report, published on 28 August 2019, and our notes, *Delivering on its promises*, published on 17 December 2019, and *Getting a balanced view on outlook*, published on 21 May 2020, can be found on the same site.

## Pharmaceuticals & Biotechnology




*Source: Refinitiv*

### Market data

| | |
|---|---|
| EPIC/TKR | **STX** |
| Price (p) | **129.0** |
| 12m High (p) | 196.0 |
| 12m Low (p) | 54.0 |
| Shares (m) | 117.2 |
| Mkt Cap (£m) | 151.2 |
| EV (£m) | 142.1 |
| Free Float* | 41% |
| Market | AIM |

**As defined by AIM Rule 26*

### Description

Shield Therapeutics (STX) is a commercial-stage pharmaceutical company delivering innovative specialty pharmaceuticals that address patients' unmet medical needs, with an initial focus on anaemia associated with renal and gastrointestinal disorders.

### Company information

| | |
|---|---|
| CEO | Tim Watts |
| CFO | tba |
| Chairman | Hans Peter Hasler |

+44 207 186 8500
www.shieldtherapeutics.com

### Key shareholders

| | |
|---|---|
| Directors | 3.9% |
| W. Health | 47.8% |
| MaRu AG | 10.7% |
| C. Sterritt | 8.8% |
| Blackrock | 4.3% |
| Jupiter | 3.7% |

### Diary

| | |
|---|---|
| Sep'20 | Interim results |
| 2H'20 | US Accrufer deal |
| 2H'20 | Accrufer launch |
| 4Q'20 | Paediatric study to start |

### Analyst

Martin Hall 020 7194 7622
mh@hardmanandco.com

# SHIELD THERAPEUTICS

## Interim results – due September

**STX is a commercial-stage company delivering specialty products that address patients' unmet medical needs, with an initial focus on treating iron deficiency (ID) with ferric maltol. Its lead product, Feraccru/Accrufer, is approved with a broad label in the US and Europe. 1H'20 results are due to be announced in September, and are expected to confirm that, being a virtual company, COVID-19 has had only minimal direct impact on STX. Meanwhile, the market is patiently awaiting a licensing deal for the commercialisation of Accrufer in the US. The company has a good cash runway, which could be boosted by an upfront payment in the US deal.**

- **Strategy:** STX's strategy is to out-license the commercial rights to its products to partners with marketing and distribution expertise in target markets. These deals allow STX to retain its intellectual property (IP) and to keep investing in its R&D pipeline, while benefiting from immediate and long-term value.

- **Interims:** 1H'20 royalties on Feraccru sales by Norgine are forecast at £0.30m (£0.28m). The underlying EBIT is expected to be ca.-£3.8m (-£3.9m). Both these figures will be boosted at the reported level by ca.£8.7m licensing income from ASK Pharma (China). Net cash at 30 June is forecast at £6.8m (£4.1m at 31 Dec.).

- **AEGIS H2H reanalysis:** Data confirmed that Feraccru/Accrufer did not meet the primary endpoint on non-inferiority to intravenous (IV) iron at 12 weeks. However, by 24 weeks, in the intention-to-treat population, 65% of patients on Feraccru had normal levels of haemoglobin, compared with 68% of patients in the IV-treated arm, confirming that this drug is a suitable alternative to IV iron.

- **Accrufer deal:** STX continues to work diligently towards concluding a licensing and distribution deal for the commercialisation of Accrufer in the US. This is a very important deal and, we believe, care is being taken to ensure that the best deal is obtained for shareholders. Patience is likely to be well rewarded.

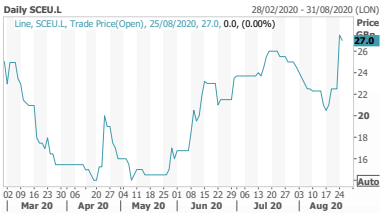
- **Investment summary:** Feraccru is a new alternative to intravenous iron for patients, which is particularly attractive in the COVID-19 environment, providing STX's marketing partners with a new opportunity. The next major value inflection point is likely to be the conclusion of a US commercial partner for Accrufer. An update might come with the interim results.

### Financial summary and valuation

| Year-end Dec (£m) | 2017 | 2018 | 2019 | 2020E | 2021E | 2022E |
|---|---|---|---|---|---|---|
| Gross revenues | 0.64 | 11.88 | 0.72 | 9.92 | 5.06 | 13.15 |
| Sales | 0.64 | 0.86 | 0.62 | 1.15 | 5.06 | 13.15 |
| R&D | -4.71 | -4.30 | -2.50 | -3.24 | -3.81 | -4.19 |
| Other income | 0.00 | 11.03 | 0.10 | 8.77 | 0.00 | 0.00 |
| EBITDA | -18.48 | -2.47 | -6.41 | 1.43 | -3.94 | 0.38 |
| Underlying EBIT | -18.90 | -3.26 | -9.04 | -0.67 | -6.04 | 0.38 |
| Reported EBIT | -20.95 | -5.17 | -9.04 | -0.67 | -6.04 | 0.38 |
| Underlying PBT | -18.91 | -3.26 | -9.07 | -0.70 | -6.09 | 0.33 |
| Statutory PBT | -20.99 | -5.16 | -9.07 | -0.70 | -6.09 | 0.33 |
| Underlying EPS (p) | -15.58 | 0.09 | -7.52 | -0.18 | -4.71 | 0.82 |
| Statutory EPS (p) | -17.43 | -1.55 | -7.52 | -0.18 | -4.71 | 0.82 |
| Net (debt)/cash | 13.30 | 9.63 | 4.12 | 3.43 | -8.89 | -19.19 |

*Source: Hardman & Co Life Sciences Research*

## Automotive




*Source: Refinitiv*

## Market data

| | |
|---|---|
| EPIC/TKR | **SCE** |
| Price (p) | **27** |
| 12m High (p) | 28 |
| 12m Low (p) | 13 |
| Shares (m) | 155 |
| Mkt Cap (£m) | 42.0 |
| EV (£m) | 39.0 |
| Free Float* | 86% |
| Market | AIM |

**As defined by AIM Rule 26*

## Description

Surface Transforms (ST) is 100% focused on the manufacture and sale of carbon ceramic brake discs. It has recently announced a number of OEM contracts.

## Company information

| | |
|---|---|
| Non-Exec. Chair. | David Bundred |
| CEO | Dr Kevin Johnson |
| Finance Director | Michael Cunningham |

+44 151 356 2141
www.surfacetransforms.com

## Key shareholders

| | |
|---|---|
| Directors | 14.0% |
| Richard Sneller | 12.3% |
| Unicorn | 10.9% |
| Cannaccord Genuity | 10.0% |
| Richard Gledhill esq. (director) | 9.6% |
| Hargreaves Lansdown | 4.2% |

## Diary

| | |
|---|---|
| Late Sep'20 | Interim results |
| Mar'21 | Preliminary results |

## Analyst

Mike Foster 020 7194 7622
mf@hardmanandco.com

# SURFACE TRANSFORMS

## Positive progress anticipated for September interims

**ST has a strong position as the robust and fast-growing challenger in a potential £2bn market with high barriers to entry and only two suppliers. As a challenger, there were many issues to cope with but, happily, the market is beginning to see what has been achieved in securing the downside risks, carving out multi-year contracts with global clients and continuing to cost-engineer the product, which happens to be the best in the market. Financially, this takes the company to cash generation in 2021 and profits in 2022, we estimate. Operationally, the roster of clients keeps expanding, globally.**

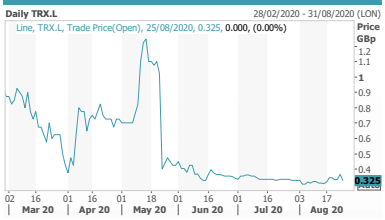
- **Multi-year contracts and strong margins:** All remains on track regarding the contract commencement dates, as outlined at the time of the fund raise. Cost engineering is also on track. It is important to understand that the backbone to the estimates (see table below) are multi-year contracts with prices set.
- **Existing orders and active discussions on OEM 3:** Further, OEM 6 is on stream for 2023, and we therefore estimate a further contractual rise in revenues post 2022. There have been two contracts won in recent months, but this only added further to the underlying contracts already in place.
- **£50m mid-term pipeline reconfirmed by ST:** OEM 1, 5 and 6 have stated effective demand for further models in the next five years. Further, the ongoing retrofit and near OEM work have restarted. There are also other OEMs globally, and thus a £50m pipeline for the medium term is anticipated.
- **Supply chain de-risking:** ST has relocated its small German office nearer suppliers and OEMs. It is also planning to put a small warehouse in place as a Brexit component. The recent presentation highlights strengthening of the established dual source supply chain, which is incremental.
- **Investment case and underlying current market:** This is a large, growing market, 99%-supplied by one, highly profitable player. COVID-19 has had an impact – as anticipated. Some start of production dates for future OEM programmes have been pushed back, but there are no new delays currently. Half-year revenue is on track. £2.25m net was secured in the equity raise.

## Financial summary and valuation

| Year-end May*/ Dec**(£m) | FY19* | *7-month 19E*** | FY20E** | FY21E** | FY22E** |
|---|---|---|---|---|---|
| Sales | 1.00 | 1.45 | 1.60 | 4.00 | 5.70 |
| EBITDA | -2.60 | -1.41 | -1.55 | -0.10 | 1.00 |
| EBITA | -2.94 | -1.70 | -2.25 | -0.80 | 0.30 |
| PBT | -3.04 | -1.76 | -2.25 | -0.80 | 0.30 |
| PAT | -2.12 | -1.32 | -2.25 | -0.25 | 0.85 |
| EPS (adjusted, p) | -1.64 | -0.97 | -1.20 | -0.16 | 0.55 |
| Shareholders' funds | 6.90 | 5.62 | 6.52 | 6.27 | 7.12 |
| Net (debt)/cash | 1.60 | 0.18 | 2.65 | 2.65 | 3.60 |
| P/E (x) | loss | n/a | loss | loss | 47.4 |
| EV/sales (x) | 35.5 | n/a | 21.8 | 8.9 | 6.5 |
| EV/EBITDA (x) | loss | n/a | loss | loss | 31.0 |
| DPS (p) | nil | nil | nil | nil | nil |

**May year-end; **Change of year-end to December*
*Source: Hardman & Co Research*

## Pharmaceuticals & Biotechnology




*Source: Refinitiv*

## Market data

| | |
|---|---|
| EPIC/TKR | **TRX** |
| Price (p) | **0.34** |
| 12m High (p) | 4.45 |
| 12m Low (p) | 0.25 |
| Shares (m) | 7,033 |
| Mkt Cap (£m) | 23.9 |
| EV (£m) | 10.8 |
| Free Float* | 59% |
| Market | AIM |

**As defined by AIM Rule 26*

## Description

Tissue Regenix (TRX) is a pioneering international medical device company focused on the development of regenerative products based on its two platform technologies – dCELL and BioRinse. These decellularisation technologies remove DNA, cells and other material from animal/human tissue and bone, leaving scaffolds that can be used to repair diseased or worn-out body parts. Its products have multiple applications.

## Company information

| | |
|---|---|
| CEO (interim) | Gareth Jones |
| Finance Director | Kirsten Lund |
| Chairman (interim) | Jonathan Glenn |

+44 330 430 3052
www.tissueregenix.com

## Key shareholders

| | |
|---|---|
| Directors | 3.9% |
| Lombard Odier | 15.0% |
| IP Group | 13.7% |
| R. Griffiths | 10.1% |

## Diary

| | |
|---|---|
| 2 Sep | Interim results |

## Analyst

Martin Hall 020 7194 7622
mh@hardmanandco.com

# TISSUE REGENIX

## Interim results – due 2 September

**TRX is focused on the development and commercialisation of two proprietary decellularisation technology platforms for repair of soft tissue (dCELL) and bone (BioRinse). Its broad portfolio of commercialised regenerative medicine products is targeting the biosurgery, orthopaedics and dental markets. The company has revised its commercial strategy, realigned its supply chain, and restructured operations to overcome capacity constraints and service strong product demand. Recent announcements have highlighted that the company is moving forward with its strategic goals, which are likely to be emphasised in the 1H'20 statement.**

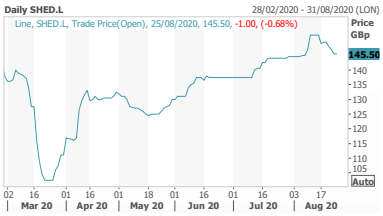
- **Strategy:** TRX is building an international regenerative medicine business around its proprietary technology platforms, underpinned by compelling clinical outcomes. It plans to develop production capabilities, enabling the business to expand its global distribution network, via strategic partnerships, to drive sales momentum.
- **Interims:** Despite the fact that TRX has had to contend with operational and financing issues, a cyber security incident and COVID-19-related issues, we believe the company will deliver broadly flat sales for 1H'20. The main driver has been the delay to elective procedures in the US due to COVID-19.
- **OrthoPure XT:** Following receipt of CE marking in June 2020, TRX has entered into a UK distribution agreement for OrthoPure XT with a speciality supplier of orthopaedic and biologic products. A modest first order should be satisfied in 4Q'20, with expansion in 2021 as more distribution agreements are concluded.
- **Risks:** With proper funding now in place, the main risks are timing and commercial execution. As with all businesses, the impact of the current global COVID-19 pandemic is unquantifiable until there is further clarity around timing and the effect on elective surgical procedures.
- **Investment summary:** TRX has a portfolio of innovative regenerative products with regulatory approval in both the US and EU. Realignment of the commercial strategy to maximise sales potential through strategic and distribution partnerships has been successful, resulting in increased demand for products. Having secured the required funding to invest in scaling the manufacturing facilities, the market will start to take note when management delivers on future milestones.

## Financial summary and valuation

| Year-end Dec (£m) | 2017 | 2018 | 2019 | 2020E | 2021E | 2022E |
|---|---|---|---|---|---|---|
| Sales | 5.23 | 11.62 | 13.03 | Forecasts under review | | |
| EBITDA | -9.01 | -7.09 | -6.13 | | | |
| Underlying EBIT | -9.72 | -8.27 | -7.18 | | | |
| Reported EBIT | -10.82 | -8.69 | -7.20 | | | |
| Underlying PBT | -9.67 | -8.46 | -7.64 | | | |
| Statutory PBT | -10.77 | -8.88 | -7.66 | | | |
| Underlying EPS (p) | -0.90 | -0.67 | -0.60 | | | |
| Statutory EPS (p) | -1.02 | -0.70 | -0.61 | | | |
| Net (debt)/cash | 16.42 | 7.82 | 0.09 | | | |
| Equity issues | 40.25 | 0.00 | 0.00 | | | |
| P/E (x) | - | - | - | | | |
| EV/sales (x) | - | 2.3 | 1.1 | | | |

*Source: Hardman & Co Life Sciences Research*

## Real Estate




*Source: Refinitiv*

## Market data

| | |
|---|---|
| EPIC/TKR | **SHED** |
| Price (p) | **144** |
| 12m High (p) | 148 |
| 12m Low (p) | 104 |
| Shares (m) | 189 |
| Mkt Cap (£m) | 272 |
| EV (£m) | 302 |
| Market | AIM |

## Description

This is a strategically located REIT (e.g. urban "last mile"), with smaller (typically ca.70,000 sq. ft.), single-let industrial and logistics properties, servicing high-quality tenants. The market is in strategic under-supply.

## Company information

| | |
|---|---|
| CEO | Richard Moffitt |
| Chairman | Nigel Rich |

+44 20 7591 1600
www.urbanlogisticsreit.com

## Key shareholders

| | |
|---|---|
| Directors | 0.6% |
| Rathbone | 6.0% |
| Janus Henderson | 4.6% |
| Sir John Beckwith | 4.4% |
| Allianz | 4.2% |
| Legal General | 4.0% |

## Diary

| | |
|---|---|
| Oct'20 | Trading update |
| Nov'20 | Interim results |

## Analyst

Mike Foster 020 7194 7622
mf@hardmanandco.com

# URBAN LOGISTICS

## Really well placed for current markets

**The £130m equity fund raise, completed in March, is being put to work in a measured way. A strong further pipeline remains. The REIT is in exactly the right asset class. It is achieving NIYs well over 6%, and has a track record of raising rents well, and, indeed, recycling some assets for good profits (typically 50%). With another good set of results and a confident forward statement achieved, we note that the rating, at below prospective NAV, stands out. With another strong dividend rise announced and a positive forward statement, we also find it noteworthy that the 2020 dividend yield is well over 5%.**

- **Deployment:** 80% of the equity from the March fund raise is already invested. We estimate LTV approaching 30% by March 2021 but, at this point, we are finalising calibrating the rate of investment. One site has extra development potential. In August, Barclays doubled the size of its facility to £151m.
- **Forward estimates:** Given investment to date, the EPRA EPS for the current year is indicated to be at least as high as last year's dividend per share. Once budgeting is finalised for the capital investment, we will be in a strong position to confirm forward estimates. We anticipate progress in the dividend.
- **Valuation:** A combination of the rising rents and likely tightening capitalisation rates brings every expectation of an NAV rise this year. Not only does the stock trade at below prospective NAV, on assets valued below replacement cost, but we estimate that the 2020 dividend rise of 0.6p is set to continue to increase.
- **Risks:** Tenant sectoral exposure is biased towards food, pharmaceuticals, staple goods and large logistics firms, which are household names. At year-end, the balance sheet had £151m loan facilities, put in place in August. Deployment does impact 2021 profits, but most equity is deployed.
- **Investment track record**: Sustainable investment has been positive in the 2020 crisis. As measured by MSCI Europe, there is *interesting positive data and analysis for 2020*. In Europe, ESG funds saw an inflow of €97bn, vs. an outflow of €28bn (*ETF Morningstar*) to end-July. We see Urban Logistics in this category.

## Financial summary and valuation

| Year-end Mar (£m) | 2018 | 2019 | 2020 | 2021E |
|---|---|---|---|---|
| Rental income | 5.56 | 10.77 | 12.60 | Finalising based on rate of new equity deployment |
| Finance costs | -0.93 | -2.19 | -2.72 | |
| EPRA operating profit | 3.40 | 8.15 | 6.46 | |
| Declared profit | 9.86 | 18.88 | 18.40 | |
| EPS reported (p) | 19.54 | 22.12 | 19.60 | |
| EPRA EPS (dil., post LTIP, p) | 6.12 | 7.15 | 7.77 | |
| DPS (p) | 6.32 | 7.00 | 7.60 | |
| Net (debt)/cash | -44.39 | -61.64 | 57.58 | |
| Dividend yield | 4.39% | 4.86% | 5.28% | |
| Price/EPRA NAV (x) | 1.16 | 1.06 | 1.06 | |
| NAV per share (p) | 123.62 | 137.37 | 137.19 | |
| EPRA NAV per share (p) | 122.49 | 138.18 | 137.19 | |

*Source: Hardman & Co Research*

## Financials


*Source: Refinitiv*

## Market data

| | |
|---|---|
| EPIC/TKR | **VTA.NA, VTA.LN, VTAS LN** |
| Price (€) | **4.20/4.30/384p** |
| 12m High (€) | 6.74/7.04/642p |
| 12m Low (€) | 3.20/3.38/285p |
| NAV (€) | 5.69 |
| Shares (m) | 36.6 |
| Mkt Cap (€m) | 154 |
| 2019 yield | 14.8% |
| Free Float | 70% |
| Market | AEX, LSE |

## Description

Volta Finance (Volta) is a closed-ended, limited liability investment company with a diversified investment strategy across structured finance assets (primarily CLOs). It aims to provide a stable stream of income through quarterly dividends.

## Company information

| | |
|---|---|
| Ind. Chairman | Paul Meader |
| Ind. Non-Executive Directors | Graham Harrison<br>Stephen Le Page<br>Atosa Moini<br>Paul Varotsis |
| Fund Managers AXA IM Paris | Serge Demay<br>A Martin-Min<br>François Touati |
| Co. Sec. /Administrator | BNP Paribas Securities Services SCA, Guernsey Branch |

BNP: +44 1481 750853
www.voltafinance.com

## Key shareholders

| | |
|---|---|
| Axa Group | 30% |
| BBVA Madrid & BNP WM | 7% |
| Ironside Partners & Deutsche | 6% |

## Diary

| | |
|---|---|
| Mid-Sep | Aug estimated NAV |

## Analyst

Mark Thomas 020 7194 7622
mt@hardmanandco.com

# VOLTA FINANCE

**THIS DOCUMENT IS NOT AVAILABLE TO 'U.S. PERSONS', NOR TO PARTIES WHO ARE NOT CONSIDERED 'RELEVANT PERSONS' IN THE UNITED KINGDOM, NOR SHOULD IT BE TAKEN, TRANSMITTED OR DISTRIBUTED, DIRECTLY OR INDIRECTLY, TO EITHER OF THESE CATEGORIES.**

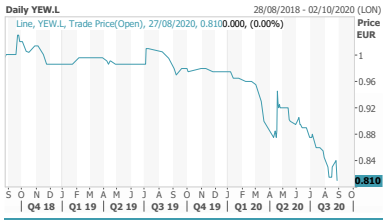
Volta is a closed-ended, limited liability company registered in Guernsey. Its investment objectives are to seek to preserve capital across the credit cycle and to provide a stable stream of income to its shareholders through dividends that it expects to distribute on a quarterly basis. The current dividend policy (target 8% NAV) was outlined on *11 May 2020*. The assets in which Volta may invest, either directly or indirectly, include, but are not limited to, corporate credits, sovereign and quasi-sovereign debt, residential mortgage loans, commercial mortgage loans, automobile loans, student loans, credit card receivables, leases, and debt and equity interests in infrastructure projects. The current underlying portfolio risk is virtually all to corporate credit. The investment manager for Volta's assets is AXA Investment Managers Paris, which has a team of experts concentrating on the structured finance markets.

On 11 December 2018, Volta announced that, after due enquiry, it was the opinion of the Board that the company's shares qualified as an "excluded security" under the rules; the company, therefore, is excluded from the FCA's restrictions that apply to non-mainstream pooled investments (NMPIs).

In terms of COVID-19, Volta has made a number of announcements. The 11 March 2020 company *monthly report* included a detailed review of the February performance and the consequences of the COVID-19 crisis on the fund. A further *intra-month trading update* was issued on 24 March 2020. The *dividend was initially cancelled* on 2 April, with an update on *11 May*, seeing a (smaller than historical) dividend declared and a target 8% NAV payout announced. The monthly NAV reports saw a sharp fall in March, with strong recoveries in each of April, May and June, before a small decline in July.

Given the regulatory restrictions on distributing research on this company, the monthly book entry for Volta Finance can be accessed through our website, *Hardman & Co Research*. Our *initiation report*, published on 5 September 2018, can be found on the same site, as can our notes, *Investment opportunities at this point of the cycle* (14 January 2019), *9%+ yield in uncertain times* (7 October 2019), *Follow the money* (3 February 2020), the manager's *March 2019* and *June 2019* presentations, and a *Q&A with Hardman analyst* (12 May 2020), as well as links to our Directors Talk interviews on the company.

## Real Estate




*Source: Refinitiv*

## Market data

| | |
|---|---|
| EPIC/TKR | **YEW** |
| Price (€) | **0.81** |
| 12m High (€) | 1.02 |
| 12m Low (€) | 0.81 |
| Shares (m) | 111.6 |
| Mkt Cap (€m) | 90.2 |
| EV (€m) | 120.5 |
| Free float | 95% |
| Market | AIM and Euronext Dublin |

## Description

This REIT invests in Republic of Ireland (RoI) to provide stable, long-term rising income, with scope for capital appreciation. Assets are predominantly offices outside Dublin CBD and regionally. Office rents typically are ca.€20 sq. ft. It also invests in high-specification industrial assets in sought-after locations and estates.

## Company information

| | |
|---|---|
| Chairman | Barry O'Dowd |
| CEO | Jonathan Laredo |
| CFO | Charles Peach |
| | +353 1 485 3950 |
| | www.ygreit.com |

## Key shareholders

| | |
|---|---|
| Directors/management | 4.6% |
| Royal London | 20.6% |
| Invesco | 10.6% |
| AIB | 6.6% |
| OVMK | 4.9% |
| Hof Hoorneman Bankiers | 4.8% |

## Diary

| | |
|---|---|
| Mar | Final results |
| June | AGM |

## Analyst

Mike Foster 020 7194 7622
mf@hardmanandco.com

# YEW GROVE

## Strong strategy, tenants and total returns

**Yew Grove invests in office and industrial assets in RoI. Tenants are creditworthy, 95% multinational or governmental; this RoI regional income REIT invests in assets that support rising income streams, based on rents that are a fraction of Dublin CBD levels. Macroeconomic conditions pre (and, even more so, post) COVID-19 are supportive to Yew Grove's selection of locations, which exclude Dublin CBD. Sharp historical rises in Dublin CBD rents and the greater ease of accessibility of offices on the fringe of the centre have pointed occupiers here. Regional office and industrial attractions are rising.**

- **Resources for growth:** In 2019, Yew Grove raised €35.8m equity and purchased €61.8m investment assets through 2019 to February 2020. Renewed authority for a further equity raise of up to €100m was approved by shareholders in May of this year.
- **Interim results and pipeline:** We have not changed estimates in a material sense post the interim results announced on 14 August. There was a further – minor – lease surrender, with payment of rent due being made in advance. The strong pipeline has been reiterated. Rent collections are running at 98%.
- **Valuation:** Strong accounting returns amount to 3.1% p.a. since the 2018 IPO, post all investment costs. Even excluding the special dividend, Yew Grove is 150% of the UK sector's historical dividend yield, on a growing dividend. Return on assets (EPRA EPS vs. NAV) is the highest in the peer group.
- **Risks:** WAULT (term to expiry) stands at 7.5 years. Most asset values are below replacement cost. Yew Grove has deployed in areas where rent rises and capital values have lagged Dublin CBD over the cycle. This highlights a good opportunity, with these market rents in recent years outpacing CBD.
- **Investment case**: The office assets represent high-quality value for money in locations attractive to both FDI/government employers and employees. The industrial assets are in locations where growth is being promoted by the IDA, which underpins market forces. The premium investment returns, underpinned by above-market yields, should prove more reliable in all potential market conditions.

## Financial summary and valuation

| Year-end Dec (€m) | 2018 | 2019 | 2020E | 2021E | 2022E |
|---|---|---|---|---|---|
| Rental Income | 2.6 | 9.4 | 10.9 | 11.6 | 12.0 |
| Finance costs | 0.0 | -0.7 | -1.2 | -1.3 | -1.3 |
| EPRA operating profit | 0.8 | 6.4 | 7.9 | 8.1 | 9.0 |
| Declared profit | 2.4 | 5.1 | 9.7 | 11.8 | 10.7 |
| EPS reported (c) | 4.1 | 6.3 | 8.7 | 10.6 | 9.6 |
| EPRA EPS (dil., post LTIP, c) | 1.4 | 7.0 | 6.0 | 6.1 | 6.9 |
| DPS (c) | 1.0 | 6.8 | 6.0 | 6.0 | 6.8 |
| Net (cash)/debt | -1.0 | -5.8 | -32.3 | -31.9 | -31.5 |
| Dividend yield | 1.2% | 8.4% | 7.4% | 7.4% | 8.3% |
| Price/EPRA NAV (x) | 0.81 | 0.82 | 0.80 | 0.80 | 0.77 |
| NAV per share (c) | 100.2 | 98.4 | 101.2 | 101.0 | 104.0 |
| EPRA NAV per share (c) | 100.2 | 98.5 | 101.2 | 101.0 | 104.0 |

*Source: Hardman & Co Research*

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