HARDMAN&CO.

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Table of contents

Cars – generating different attitudes?

By Derek Terrington and William Terrington

20 years ago, a young intern at a leading investment bank was asked for his views on the future of the media industry. His published thoughts included the suggestion that his generation never watched TV. This came as a complete shock to the older generation of analysts and fund managers. Could this apply to the car industry?

The following article results from an interview between the Hardman & Co analyst, Derek Terrington, and his son, William (age 23). Derek is famous for his research note exposing Robert Maxwell in the 1990s, when he was the leading media analyst at UBS. The note was entitled *Couldn't recommend a purchase*, the acronym of which has been quoted ever since in the City.

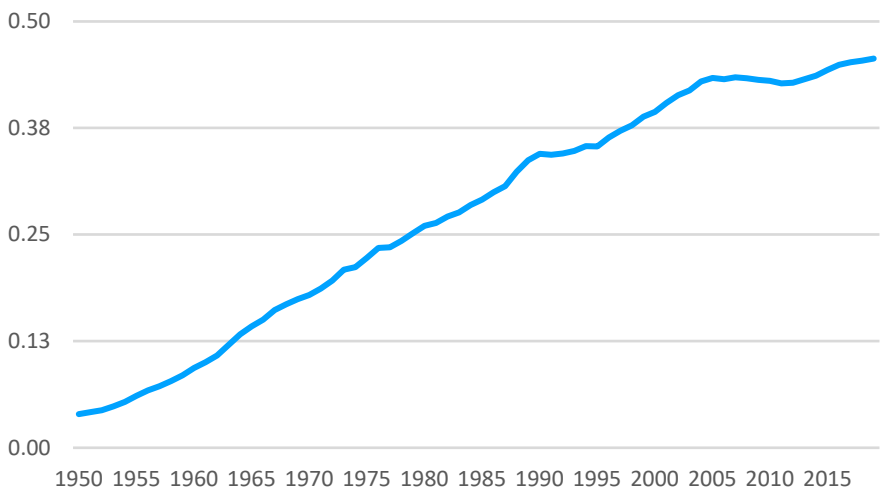
The car "culture"

Derek Terrington (DT): *When I was growing up, most of my generation, and that of my parents', thought of the car as the prime object of desire – it was the aspirational consumer good above all others. To the post-War generations, it replaced reliance on crowded, infrequent (and often dirty) public transport, it opened up a new era of go when you feel like it to wherever you want. You could go for day trips to the coast, as well as complete holidays in the car, and getting your shopping wasn't dictated by the bus timetable. Some families graduated from a motorbike (possibly with a sidecar) to a car – the number of motorbikes on UK roads peaked in 1950 at 1.58m and, by 1995, had fallen to just 0.59m.*

It was not only families that loved cars; so did teenagers, and getting a licence, and even a car, was a rite of passage.

You can see just how important the car became if you look at the numbers. The chart below shows the number of cars per head of population.

Cars per head of population in the United Kingdom

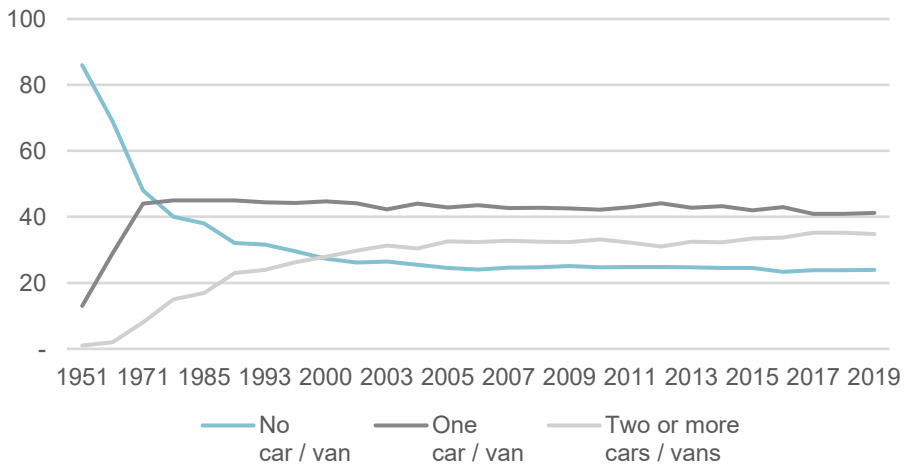


Source: Office for National Statistics, Department for Transport, Hardman & Co Research

Back in 1950, there was broadly one car per 25 people in the UK. By 2004, there was just short of one car for every head of population.

Looking at the data by household is even more revealing.

Car ownership per household in the UK, %



Source: Department for Transport, Hardman & Co Research

So important was the car to peoples' lives that, once a household had acquired one, they wanted a second! A third of households currently have two cars or more.

For many, cars seemed almost to replace religion. Indeed, some dedicated Sunday mornings to washing the car on the front drive, rather than church worship (granted, back in those days, the paint was so bad that, if you didn't regularly clean and polish, it faded).

William, how does your generation view cars?

William Terrington (WT): *Well, the culture around cars is certainly changing, especially among younger people, accompanied by a shift in attitudes to different fuels, which is also a challenge for car manufacturers.*

My generation is increasingly concerned about the environment, sees the car as common-place, rather than an object of desire, and more of a convenience than a badge of respect.

My generation's concern about the environment might lead to the growth of car sharing. Certainly, car sharing has tried to market itself as an eco-friendly alternative to owning a car, especially if you live in a city and do not need one that often, and are not particularly interested in cars, but just want the convenience of one occasionally.

However, over the years, the car has established itself as personal transport, not as public or shared transport. If cars were to be shared, the make and model would be of no particular consequence, so it is rather ironic for premium manufacturers, who make desirable cars for private ownership, to invest in this.

My generation has embraced city living, although COVID-19 might be a test of this theme. People living in cities may move away from car ownership to self-driving cars, car sharing or car hire. For them, the car is just a convenience. Indeed, will they want to own a car at all? These trends reduce the power of branding, and potentially make a highly competitive market even more so. This form of disruption, based upon changing consumer tastes, may be as great an issue for the industry as the move to alternative fuels.

Increasingly, my generation treats the car like a mobile phone – something to be rented, not owned. Car dealers and manufacturers have catered to this approach with personal contract purchase (PCP) schemes, which dress up taking on a large debt as a subscription payment, like Netflix. Despite the fact that PCP significantly raises the price of a car, PCP finance has increased hugely in popularity: the marketing has strongly emphasised the idea of being able to always have the latest model parked on your drive, with no commitment to ownership.

The way the consumer uses the vehicle will dictate the fuel used. We'll talk about fuels later, but hydrogen could be the fuel of choice for longer distances. Meanwhile, electric vehicles (EVs), hybrids and fuel-efficient internal combustion engines (ICEs) could account for most shorter-distance journeys.

The slow death of brands?

DT: *Does that mean the car becomes a commoditised convenience, rather than a branded good?*

WT: *The car is long established as a branded good for private transport. While this remains true at the cheaper "value" end, it has particular force in the performance and luxury car markets, where choosing a car brand remains a question of image and taste for most buyers.*

However, for those happy with just sharing a car, there is less interest in the make or model, or having a car as a personal possession.

Some of my generation are excited about driverless cars. These might also turn the car into a convenience. In many driverless concept cars, there are no steering wheels or even front-facing seats. The idea is to get in and tell the car where to go. Driverless cars and car sharing match very well, as they both cater for people who are not interested in cars or car ownership, and for whom make and model are of no particular consequence, as they are not meant to be driven, anyway. BMW's motto revolves around – will they change this to "the ultimate ***driven*** *machine"?*

PCP contributes to the car becoming little more than a convenience. In short, the customer can have the latest model every three or four years, with servicing included. This means no commitment to owning and keeping the car as the mileage and maintenance increases. This also allows the customer to obtain a car quicker than saving up for one. This appeals to those who view a car as just a necessity, perhaps for commuting to work. In this case, brands matter less than finding the best deal.

DT: *Will, is this a death threat to brands, especially premium brands?*

WT*: The prestige of premium brands should continue undiminished. Certainly, for premium manufacturers, investing in car sharing and driverless cars might become a conflict of interest. Even PCP might lead to the devaluation of brands. Perhaps PCP finance, car sharing and driverless cars should be left to cheaper manufacturers.*

If car sharing, car hire and driverless vehicles were to be the main form of car usage at any time in the future, it would essentially undermine the manufacturers of premium, luxury and performance cars.

These forms of car usage go against what premium manufacturers have been doing for decades: in the simplest of terms, creating desirable automobiles. These schemes do make up 90% of new car sales; however, this is because the vast majority of customers want the latest car as soon as possible. It could be said that this is the same mentality as with purchasing smartphones, as the majority of those are on contract, and even with household appliances, where there are now pay-monthly options. So, PCP seems to be

encouraging the treatment of the car as an appliance or convenience. Some customers may still have brand loyalty; however, for others, price is the main factor. It seems that premium brands will retain their basic strength in future, though, as there are still plenty of cash buyers, and those loyal to brands, and they are currently investing in alternative fuel technologies in order to make sure that they have a stake in the future of the car, whatever it is.

DT: *Aren't there already car sharing schemes? Will they increase in popularity?*

WT: *Yes, there are already car sharing schemes, such as Daimler's Car2go. However, these are for use in fixed areas in cities only, and remain relatively niche, and primarily use hybrids and EVs. The idea of car sharing, however, is simply not practical for use outside of the city. Someone living outside a city needs to have a car of their own. Daimler had started a new initiative with BMW, called "Share Now", yet the scheme is closing down in London, Brussels and other European cities next year.*

Sharing the car in cities, let alone anywhere else, is not proving popular. The car is personal transport, and the idea of having to find the car you want to use somewhere on the street with your phone and having to leave it somewhere within the area in which the scheme operates does seem to be making the idea of getting from A to B quite a bit of a chore. Surely a taxi would be much easier? The idea of getting into a car left on the side of the street, last driven by someone you don't know, is clearly not appealing. It is safe to say that this concept worked, in theory, among those planning it, but it fails to take into account basic practicalities. The irony here is that Daimler and BMW invested in a concept where vehicles were not used as cars, but as conveniences, which goes completely against what the likes of top brands Mercedes-Benz and BMW manufacture.

The objective of car sharing is to cater for those who view cars simply as mobility, a convenience. While car sharing schemes may offer a choice of cars, it is quite a basic choice, and is of no particular consequence. Ultimately, the cars might as well be all the same, with no model name and of no marque: these car sharing schemes are clearly aimed at a minority of those, in cities, who do not want ownership of a car and for whom taxi or similar services are not suitable; the kind of people for whom fit and finish, or desirability are irrelevant.

Fuel

DT: *William, let's turn now to fuel. Do you think that traditional car manufacturers deal with disruptive changes in powertrain technologies?*

WT: *Today, around 90% of the world's cars are still powered by the ICE, while manufacturers are investing in alternative powertrain technologies to meet emission targets, without knowing which technology will prevail.*

Manufacturers face huge pressure on profits and cashflow from the current downturn and the need to invest in new technologies. Currently, the focus is on EVs but, in spite of the growth in EV production, the fuel question is far from resolved. There are massive issues of cost and environmental matters around batteries, for example. However, we should also allow for improved fuel efficiency in petrol-driven cars in future, as technology develops.

With competing fuel technologies driving the development of cars, the "electrifying" of manufacturers' portfolios is key, but this does not imply producing battery-powered EVs only. The plan for "electrifying" can include some EVs; however, it also includes plug-in hybrids and regular hybrids, which can switch between petrol and electric.

However, the main way in which this is progressing right now is through "mild hybridisation". This is a rather misleading term, given there is no actual electric motor that drives the car. In short, a 48V system powers an electric compressor, which acts faster

than the turbocharger, increasing power and efficiency. This is the way in which petrol engines are becoming ever more efficient and less polluting, thus undermining EVs, which are still around a third more expensive, and for which charging times are still an issue, as is infrastructure. There are an increasing number of these "mild hybrids" across manufacturers' portfolios.

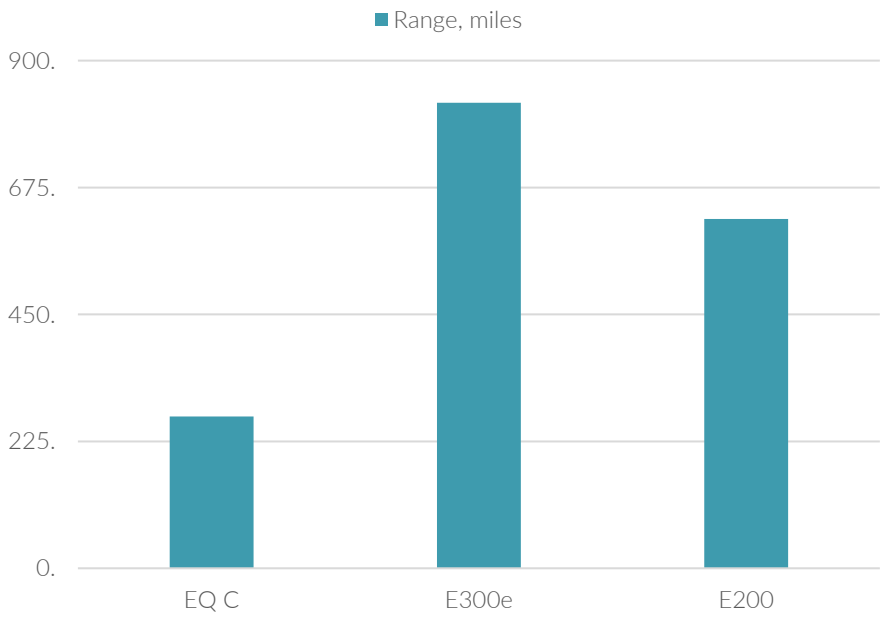
Currently, EVs are viewed as the green alternative, but coming up fast are hydrogen fuel cells, where volumes are quite low at present and where the number of refuelling points is very small. Economies of scale are set to reduce hydrogen costs substantially, and many industry managers and experts view hydrogen as the fuel of the future. Still, investment in hydrogen is not a one-way street. For example, Hyundai invested in hydrogen as early as 2013, but has been held back by the number of refuelling points, and has recently announced investment in two new EV production lines, so that it keeps up with other EV volume producers.

DT: *Will battery-powered EVs replace the ICE?*

WT: *Well, my view differs from most of my generation. I think it is important to consider what a replacement for a petrol engine should be: a vehicle that is as close to a petrol vehicle as is feasible, or even an improvement, if possible, on a petrol vehicle. Battery-powered EV's do not offer this – if everyone had them, we would all have to charge these cars nearly every night, putting strain on the National Grid, to make sure they had enough battery for the next day. Unless there were to be charging points for every electric car used by a commuter at the car park at work, then, due to the short range (needing increased vigilance in keeping the car topped up), the queues at charging stations at rush hour – rather than petrol or hydrogen stations – would be very long indeed.*

At the moment, EVs do not have a range beyond 200-250 miles, which is a fraction, in fact in some instances just a quarter of the range of an ICE car on a full tank of petrol. It should also be mentioned that this figure is a quoted range. In reality, on a stressful winter commute with a de-mister, radio and heating on, the range will be less. The fastest charging time possible for a full charge on the likes of Tesla's "Supercharger" might be just 75 minutes, but this is still many times longer than it takes to fill up with petrol. To fill up a quarter of a petrol tank takes about a minute. From this perspective, battery-powered EVs are a huge step backwards. It would be wise to consider the expense and environmental impact of making all those vehicles and maintaining all these charging points. In bar chart below are the projected ranges of three Mercedes-Benz cars, the EQ C (fully electric), E300e (petrol plug-in hybrid) and E200 (petrol, "mild hybrid"). The ranges for the hybrid and petrol models were not officially stated; however, this has been worked out by multiplying mpg by tank capacity. The EQ C is the only EV offered by Mercedes, and the E-class is one of the best sellers, used by a wide range of customers.

Comparison of ranges of battery-powered EV vs. petrol PHEV vs. petrol mild hybrid from Mercedes-Benz



Note: PHEV = plug-in hybrid EV; Source: Mercedes-Benz UK

In contrast, hydrogen cars, at the moment, have ranges varying between 300 and 400 miles. This is not in the petrol league, but it is a vast improvement on most battery-powered EVs. In addition, hydrogen cars can be filled up at a filling station in a few minutes, just like petrol, and also do not carry around the extra weight of batteries. But, to repeat, hydrogen fuel points remain scarce today (there are only 13 in the UK today).

DT: *Could battery-powered EVs become obsolete?*

WT: *Mine is not a common view, but I think the answer might be yes.*

The weak point in the EV is the battery. Batteries are expensive. They are very heavy and take many times longer to recharge than filling up with petrol or hydrogen, and their lifespan will likely dictate the life of the whole car.

What happens to the car when the battery no longer performs as it should? A battery replacement would not only be very expensive, but environmentally unfriendly. Further, most of the CO2 emissions that an EV causes during its life cycle are at production, chiefly because of battery production, whereas, with petrol cars, emissions are much more spread out over the life of the car.

Also, the key materials – lithium, cobalt and nickel – need to be mined, and they are only to be found in certain parts of the world. Mining these materials brings other concerns, and the price of lithium is very volatile.

In addition, even the lithium-ion battery currently used is being challenged by the development of solid-state batteries. However, it will be some time before these come into production, and their initial price can only be guessed at, given that they are still in development. These batteries will also require materials such as lithium, anyway. If they were to be introduced, they would be expensive, like lithium-ion batteries in cars still are, and the price would take time to come down. That is not going to appeal to many people.

As for propulsion, the developments in "electrifying" manufacturers' portfolios only seem to be helping petrol cars become more efficient. It is important to note that "electrifying" does not mean making every car a manufacturer produces a non-combustion car. The plan for electrifying can include some EVs. However, it also includes hybrids and "mild hybridisation".

The backlash against diesel will ultimately work in favour of petrol. For battery-powered electric cars to ever make up a majority of the market, there would still have to be vast amounts of development, and for the discussion around the supply of materials and of safety to vastly improve.

Surely the car of tomorrow should feel just like, or even better than, the car of today? That is what hydrogen and even more efficient petrol engines offer. Before the petrol engine, horses were the main way of getting around: you could ride one when needed, and change horses at intervals on a short trip, rather like getting into a petrol car, ready with fuel in the tank, and refuelling at a petrol station.

Hydrogen is the next-best alternative to petrol; however, extracting hydrogen from natural gas is still an issue. The limit on hydrogen at the moment is the number of filling stations. With the longer-term option of hydrogen, and the limitations of battery-powered EVs, it is difficult to see how battery-powered EVs could replace the combustion engine.

It looks like hydrogen could be the winner in the longer term, but it may not be the right fuel for city driving, where EVs may dominate and increasingly efficient petrol-powered ICEs will generate lower emissions.

It may be that how the consumer uses the vehicle will dictate the fuel used. Hydrogen could be the fuel of choice for longer distances. EVs, hybrids and fuel-efficient ICEs could account for most shorter-distance journeys.

DT: *How will consumers and governments respond to changing fuel technologies?*

WT: *Ultimately, I think future fuel technologies will be decided by the market, not by politicians and scientists. It is a question of which fuel is right for which customer. Due to the limitations in range and the need to have a charging network, it is difficult to see how electric cars are a viable solution outside cities. Installing charging networks not only has its own cost, both environmental and financial, but, if battery-powered EVs were the majority of cars on the road, they would be a large drain on the National Grid. So, it would be better for a family living in the suburbs to have an efficient petrol engine, rather than a battery-powered car. In short, the fuel someone needs will be dictated by what they do for a living and where they live.*

The market share of EVs remains small, and manufacturers, in particular the German ones, are generally reluctant to take them on, but are doing so to protect their long-term interests. Jaguar is aiming to have a completely EV portfolio by the early 2020s, although this is at odds with other British manufacturers, and would take it out of competition with the German manufacturers, so it is unclear as yet how any marque would make a reasonable profit by converting to EV-only. Tesla is (perhaps) an exception, as it was originally electric, anyway.

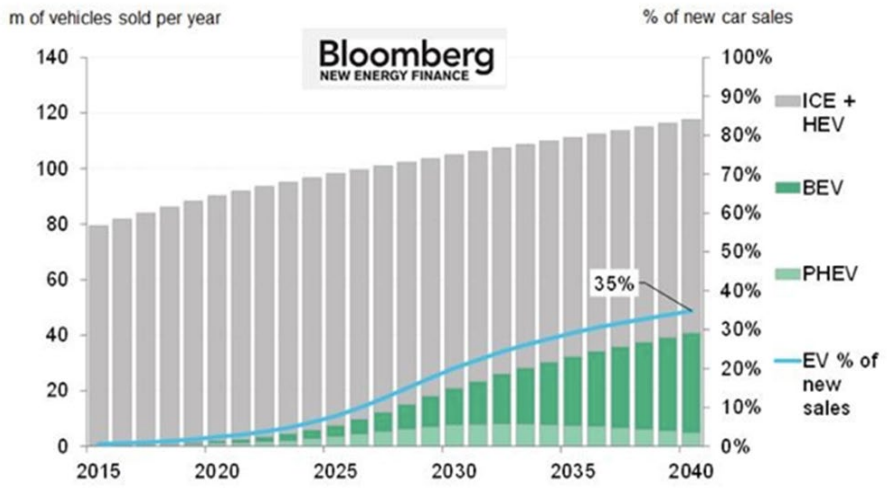
The range of battery-powered EVs is barely beyond that of a quarter of a tank in a petrol car, and the challenge of installing an infrastructure to support far more electric cars than we have now is a huge undertaking, and would have its own environmental cost.

To meet the UK government's plan to decarbonise the economy by 2050, it is proposed to halt the sales of new petrol, diesel and hybrid models by 2035 (the earlier target was 2040). Is this feasible? The AA has warned that there may not be an adequate supply of suitable zero-emission cars by this date. The inclusion of hybrid cars in the ban makes the target hugely demanding.

As discussed above, battery-powered cars are a huge step backwards from petrol cars. To go from the cars of today, which are still pretty much all petrol and diesel, to none at all in 15 years is simply impossible. In 2019, battery EVs accounted for just 1.6% of the UK market, compared with 4.2% for hybrids, 25.2% for diesels and 64.8% for petrol.

The table below from Bloomberg shows the global picture.

Projected global sales of various powertrains



Note: BEV = battery-powered electric vehicles; ICE = internal combustion engine; HEV = hybrid EV; PHEV = plug-in hybrid EV. Source: Bloomberg

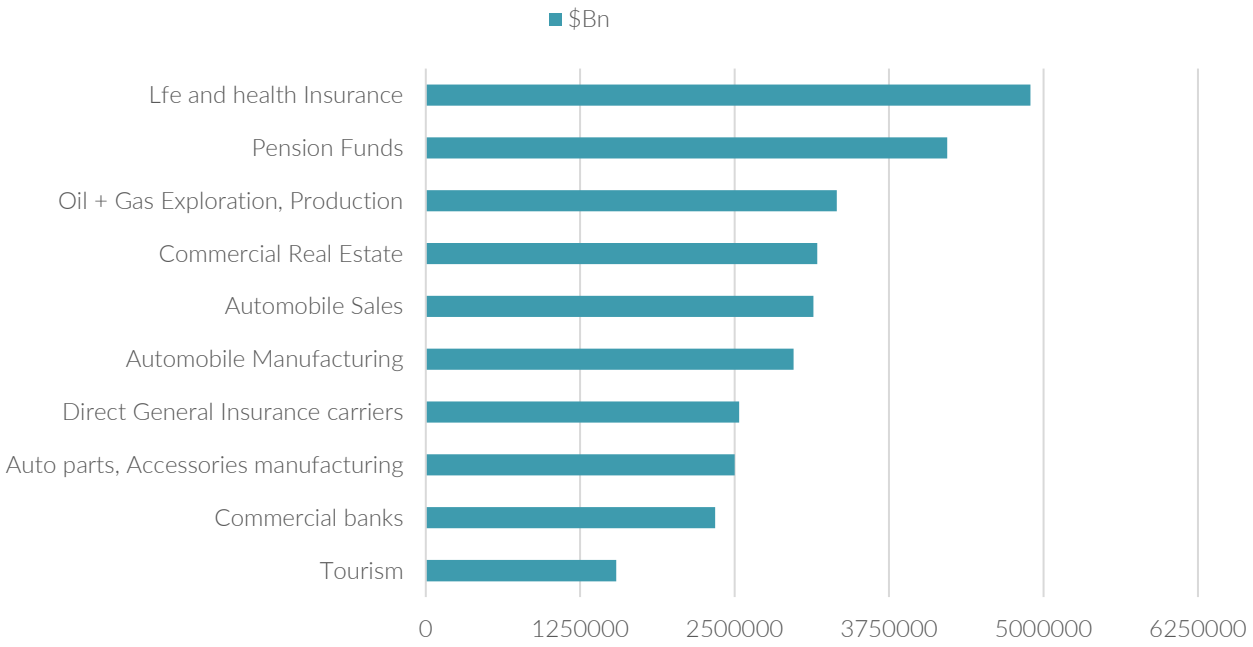
Even if this policy were implemented, petrol stations would still have to be around for decades to come, to support the millions of petrol and diesel cars on the road, and the environmental impact of scrapping millions of petrol and diesel cars, with plenty of miles left in them, would be considerable.

In short, this policy is the same kind of mistake as was the policy to encourage more people to buy diesel. Diesel was never an appropriate fuel for most drivers in the first place: this is a fuel suited to HGVs and towing heavy loads – it was always unnecessary for shopping and the school run. Similarly, and to an even greater extent, battery-powered vehicles cater for very few. The government's target for de-carbonisation is unrealistic and potentially damaging to the car industry. I think this policy is unachievable.

DT: *How important is all of this to the global economy?*

WT: *Car manufacturing (including parts and accessories) is the largest industry in the world, just ahead of life insurance. Pre-virus estimates suggest that its total revenues will amount to $5.5tr in 2020; manufacturing alone accounts for $3tr of this (see table below).*

Top 10 largest industries globally by revenue



Source: Source: IBIS World

Globally, 90m cars were sold in 2019, but this is forecast to fall 20% to 72m in 2020, compared with a pre-COVID forecast of 91m[1]. Currently, the industry is being hit by both the COVID-19-based fall in demand and by disruptive technological changes. Most leading companies have issued profit warnings.

Environmental concerns are driving diesel to the margins and opening up the market for new fuel technologies. New entrants (Google, Amazon) threaten long-established players with new ideas about how cars should be powered and how they will be used by consumers in the future.

Around the turn of the 20th century, cars were powered mainly by petrol, but there were alternatives with battery- and steam-powered vehicles; for example, the Baker-Electric, and the Doble Steam car.

[1] *Global Automotive Outlook and Trends: 2020 and Beyond*, Counterpoint Research. https://www.counterpointresearch.com/global-automotive-outlook-trends-2020-beyond/

Baker Electric

Source: Wikimedia Commons

Doble Steam Car

Source: Wikimedia Commons

Then along came cheap oil, which wiped out all competing powertrains (as we now call them). Now, electricity is once again presenting itself as an alternative to gasoline, but it is not cheap, and some basic environmental issues still have to be resolved.

The biggest causes of disruption in the industry reduce to:

- *political demands from governments that support de-carbonising and want to aim for carbon neutrality by a specific date;*
- *technical questions of choosing the powertrains (ICEs. EVs, hybrids) that deliver cost-effective solutions for the consumer;*
- *behavioural issues – will younger people (especially those living in cities) use individual transport, care about cars, and will they buy or hire; and*
- *understanding driverless cars – will they be allowed and what are the implications if they are.*

DT: *How do you think future propulsion technologies will be decided?*

WT: *At the moment, forecasts for EV sales are very optimistic. Bloomberg expects EVs to account for 35% of total car sales by 2040.*

But it is possible that the idea of the battery-powered EV could be phased out or simply not progress from being a niche product. Hydrogen/fuel cell cars can be filled up at a "petrol" station with hydrogen, and do not carry around heavy, slowly degenerating batteries; they offer zero emissions, but with the convenience that petrol cars have given us. The market share for battery-powered EVs has grown, but is likely to plateau if there is not enough infrastructure for electric cars. The number of charging points in cities is undoubtedly increasing; however, in a city, it is much easier to install such networks. To try and install these across the country is a huge undertaking.

Manufacturers are taking different approaches to electric cars: a few are making electric versions of well-established models, while the majority are making battery-powered vehicles in separate ranges. High-performance petrol cars are very important to the German car industry, in particular, so it is unlikely they would want to do away with petrol entirely. At this point, it seems as if the future will be dominated by very efficient petrol engines, with diesel, EVs and hydrogen cars as alternatives, but with hydrogen as a long-term winner.

For electric cars, many adverts and manufacturers' websites try to portray a 200-250 mile range as some compelling reason to buy one, yet this is the range of about a quarter of a tank of petrol. And, according to the company itself, the range of the current crop of Tesla models is between 314 miles and 379 miles.

It is optimistically claimed that networks for fast chargers are easily available, when this is really not the case: fast chargers do not have capacity for more than 3,500 vehicles. Otherwise, charging is extremely slow, and unless a difficult-to-locate charging point is found, it has to be done at home. Plus, if an electric car runs out of power, it will have to be towed to the nearest charging point. So, electric cars are probably not useful for anything other than commuting, and preferably city commuting. They are most likely to be used for short trips. They will not be useful for going on holiday.

Purchase price is another issue: electric cars still cost around a third more than a petrol equivalent with the same amount of output. Electric cars, at the moment, have nothing to pay in road tax, while to use charging points can require subscriptions and individual charges, not to mention the cost of installing a fast charger at home.

Road tax would have to increase if the majority of consumers switched to these cars. Presumably the government would start to apply rates similar to those of ICE cars, in order to pay for the maintenance of highways and infrastructure. Putting this together with the aforementioned issues does not make battery-powered electric cars a better proposition than the combustion engine, at least in the vast majority of applications, The

fact that these cars produce no CO2 when being driven has become the all-consuming factor, a stance that cannot last forever.

DT: *I've got to ask you whether you think Tesla will prosper in the future?*

WT: *At the moment, Tesla is the sole EV-only manufacturer and offers a comprehensive range of electric cars. The German manufacturers are very cautious about battery-powered EVs, only offering a few electric vehicles as an aside from their petrol and diesel cars. If, tomorrow, German manufacturers were to offer complete ranges of electric cars, it is probable Tesla would struggle, and might go back to being very niche, as it was in the 2000s.*

Tesla's sales are still tiny compared with German manufacturers, anyway. Even now, Tesla cars are a long way from mainstream. In the first half of 2020, total EV sales in the German new car market were 44,307, giving a market share of 3.7%, a number flattered by a 35% fall in total German car sales in the same period. Boosted by government subsidies, German manufacturers invested heavily in EVs, and leading German brands dominated the domestic EV market. Of those 44,307 EVs, just 5,103 were from Tesla.

German manufacturers, in particular, have taken advantage of the improvements in electronics, and this has only helped to make petrol even more efficient, especially with what is known as "mild hybridisation" (see above). With these advancements in petrol engines, and with the availability of hybrids, some of which can run electric-only for short periods, the case for the battery-powered car becomes less compelling. In short, Tesla's future is not guaranteed.

Conclusion

DT: *So, to wrap this up, has the car culture changed, and has the fuel of the future been decided?*

WT: *Yes, I think my generation's attitude to cars is different from yours in several ways, but the answer to the second question is no. The orthodoxy is that EVs have won. I don't think it will be that simple and that hydrogen, and ever-more efficient petrol engines and plug-in hybrids, could be coming up from behind.*

About the authors

Derek Terrington is responsible for covering media stocks at Hardman & Co.

He has more than 30 years' experience in the City, and was rated top analyst in the Institutional Investor Survey for the Publishing sector for four years from 1988 to 1991. He has worked at leading City brokers and financial institutions, and was Head of Media Research at UBS, KBS and Commerzbank, as well as Partner and Head of Research at Teather & Greenwood. On the buy side, he has been a media analyst at AXA Fund Managers.

Derek joined Hardman & Co in 2013. He is a graduate of the University of Cape Town, with an MA in Economics, and is an FRSA.

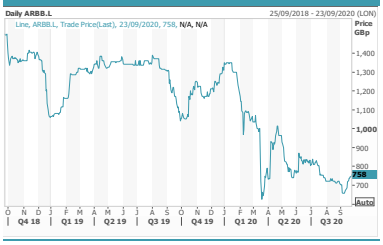
William Terrington is a graduate of Birkbeck, University of London, with a BA in French and German.

He is also a motoring journalist for Mercedes Enthusiast magazine, has a sound knowledge of the automotive industry, specialising in the German marques, and always keeps current on the latest developments in technology and powertrains.

Company research

- Priced at 23 September 2020 (unless otherwise stated)
- The following companies are clients of Hardman & Co.

Financials



Source: Refinitiv

Market data

EPIC/TKR	**ARBB/ARBN**
Price (p)	**757.5/720**
12m High (p)	1,428
12m Low (p)	625
Shares (m)	15.4
Mkt Cap (£m)	117
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

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ARBUTHNOT BANKING GROUP

Look to balance sheet strength

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 61% of NAV, implying value destruction to perpetuity.

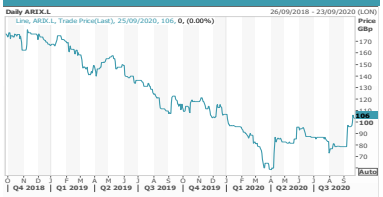
- **ESG banking:** On 15 September, Arbuthnot Commercial Asset Based Lending (ABL) announced £3.5m of finance to fast-growth social housing renovations and maintenance specialists, *PiLON Ltd*. On *9 September*, Arbuthnot Latham highlighted its support for eco home builder, Project Etopia.
- **Peer news:** Brooks MacDonald's *results*, on 17 September, showed a modest rise in AUM (4%) and revenue (3%). 1pm's *results* showed a £3m profit after COVID-19 impairments and lost revenue. Close Brothers' banking profits fell 61%, with asset management down 6%. STB announced £16.5m of *funding for affordable housing*.
- **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)	56.1	44.3	15.9	33.4	23.1	322.4
P/BV (x)	0.95	0.50	0.49	0.59	0.56	0.61

**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)	**103**
12m High (p)	121
12m Low (p)	59
Shares (m)	135.6
Mkt Cap (£m)	139.6
NAV/share (p)	*185.0
Premium/(discount) to NAV	-36%
Free Float	71%
Market	LSE

**at 30 June 2020*

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

4Q'20	Portfolio company trial data

Analyst

Martin Hall 020 7194 7622
mh@hardmanandco.com

ARIX BIOSCIENCE

Realising the valuation disconnect

ARIX is a listed global venture capital (VC) company that presents an opportunity for institutional and retail investors to participate in the high risk-return profile of early-stage biotech investing. ARIX minimises risk through its expert investment team and with portfolio diversification. Strong interim results, which saw the NAV rise 24% to £251.0m, highlighted the enormous disconnect between this and its share price. ARIX has prioritised 11 companies in the portfolio on which to focus its resources and expertise. These have a number of important value inflection points – mostly clinical events – over the next 12-18 months.

- **Strategy:** ARIX sources opportunities 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:** Results for 1H'20 exceeded market expectations with a 24% rise in NAV to £251.0m (£202.1m at 31 December 2019) driven by a valuation uplift in portfolio companies. At 30 June 2020, ARIX had £44m of cash to support existing portfolio companies, early-stage companies, and operations.

- **Performance:** During the period, portfolio companies raised $392m of working capital, with ARIX playing a supportive role in many cases. Since inception, ARIX has deployed £149m into its portfolio, realised £13m through opportunistic divestments, and generated an IRR of 20% (realised and unrealised). With a number of upcoming clinical events, ARIX has set an aspirational target to make an annual IRR of 15%-25%, and produce an NAV of £500m by the end of 2023.

- **Risks:** Development of new medicines always carries risk. In the short term, there may be added risk from COVID-19 affecting the recruitment and running of clinical trials. Value is realised through clinical progression, regulatory approvals, partnering and financial milestones, allowing it successful exits. Therefore, much depends on the skill of the investment team.

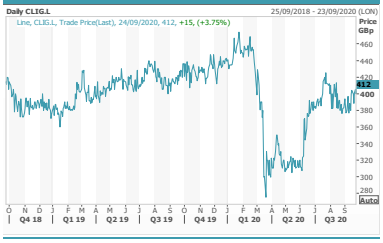
- **Investment summary:** Even though ARIX is still a relatively young company, the market is beginning to appreciate that the company has a maturing portfolio, with investee companies running 19 clinical trials that could lead to a number of value inflection points. Since inception, ARIX's investments have generated an IRR of 20% and it has set itself an ambitious set of targets for the coming three years which, if achieved, could see the NAV double to ca.£500m.

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	*21.6	-	-
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	29.5	-2.0	-5.0
Profit/(loss) before tax	-7.7	38.2	-75.6	29.7	-1.7	-4.8
Underlying EPS (p)	-9.5	27.2	-53.6	20.2	-1.2	-3.2
Net cash/(debt)	74.9	91.2	53.7	34.4	26.8	18.9
Capital increase	105.1	83.5	0.0	0.0	0.0	0.0
NAV/share (p)	152.3	200.4	149.1	*161.0	-	-

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

Financials



Source: Refinitiv

Market data

EPIC/TKR	**CLIG**
Price (p)	**400.0**
12m High (p)	474.0
12m Low (p)	275.0
Shares (m)	26.6
Mkt Cap (£m)	106.2
EV (£m)	91.6
Market	LSE

Description

City of London (CLIG) 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	18.2%
APQ Capital	6.2%
Blackrock	5.4%
Cannacord Genuity	5.0%
Eschaton Opportunities Fund Management	4.8%
Polar Capital	3.0%

Diary

7 Oct	1Q FUM statement
19 Oct	AGM
19 Jan	2Q FUM statement
15 Feb	Interim results

Analyst

Brian Moretta 020 7194 7622
bm@hardmanandco.com

CITY OF LONDON INVESTMENT GROUP

Solid results, with surprise dividend increase

City of London has announced its results for FY'20. As previously indicated, during a volatile year, FUM grew to $5.51bn. This led to a 4% increase in fee income to £33.3m. With excellent cost control, as usual, this led to a 9% increase in operating profits to £11.6m. Earnings were affected by exceptional costs for the Karpus transaction and losses on the seed investments in the new REIT strategies, and fell 19% to £7.37m. The final dividend was raised from 18p to 20p, giving 30p for the full year. This leaves cover ahead of the target cover over a rolling five-year period of 1.2x.

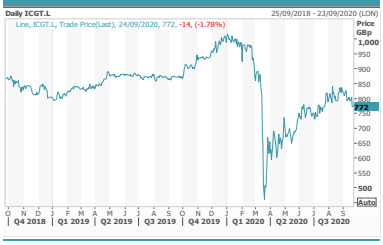
- **Karpus expenses:** There will be £3m of exceptional expenses for the Karpus transaction, plus £1m of capitalised share issuance costs. Of these expenses, £1.25m were charged in the 2020 accounts, while the remainder will be incurred in FY'21.
- **Board:** City of London's founder, Barry Olliff, will stay on the board for another year, while the senior independent director, Susannah Nicklin, will not seek re-election at the AGM. City of London acknowledges that, in the short term, there will be a minority of independent directors, but it will address this soon.
- **Valuation:** The 2021E P/E of 9.6x is at a discount to the peer group. The underlying 2021E yield of 8.3% 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. After a special dividend in FY'19, FY'20 saw another dividend increase. 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*	2020	2021E	2022E
FUM ($bn)	4.66	5.11	5.39	5.50	9.58	10.21
Revenue	31.29	33.93	31.93	33.26	50.68	59.45
Statutory PTP	11.59	12.79	11.40	9.41	22.38	29.91
Statutory EPS (p)	36.9	39.5	34.9	30.3	41.7	48.8
DPS (p)	25.0	27.0	27.0	30.0	33.0	36.0
Special dividend			13.5			
P/E (x)	10.8	10.1	11.5	13.2	9.6	8.2
Dividend yield	6.3%	6.8%	10.1%	7.5%	8.3%	9.0%

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

Closed-Ended Investment Funds



Source: Refinitiv

Market data	
EPIC/TKR	**ICGT**
Price (p)	**786**
12m High (p)	1,015.0
12m Low (p)	460.0
Shares (m)	68.88
Mkt Cap (£m)	541
NAV p/sh (p)	1,114
Discount to NAV	29%
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

7 Oct	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.

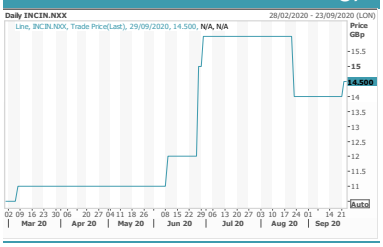
ICGT targets businesses that benefit from long-term structural trends, rather than relying on cyclical economic growth. It is able to do this, in particular in its high-conviction investments, by selecting co-investments and secondaries that exhibit defensive growth characteristics. ICGT also backs PE 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 ICGT 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 our 8 September report, *Defensive growth: explaining downside resilience*, can be found on the same site.

Pharmaceuticals & Biotechnology



Source: Refinitiv

Market data

EPIC/TKR	**INC**
Price (p)	**14.5**
12m High (p)	16.0
12m Low (p)	9.5
Shares (m)	60.9
Mkt Cap (£m)	8.8
EV (£m)	8.5
Free Float	38%
Market	AQSE Growth

Description

Incanthera (INC) is a specialist oncology company that offers two distinct programmes. The initial focus is on a value-added proprietary formulation sun cream, Sol, that prevents skin cancers. It also owns a novel, targeted, drug delivery platform to deliver cytotoxic warheads directly to cancer cells, in the expectation of improving clinical outcomes, with fewer side effects.

Company information

Exec. Chairman	Tim McCarthy
CEO	Simon Ward
COO	Pawel Zolniercyk
CFO	Laura Brogden

+44 161 817 5005
www.incanthera.com

Key shareholders

Directors	9.3%
North West Fund	26.6%
University of Bradford	12.3%
Immupharma plc	11.9%

Diary

Oct'20	Interim results

Analyst

Martin Hall 020 7194 7622
mh@hardmanandco.com

INCANTHERA

Successful permeation study

INC is a spin-out from the Institute of Cancer Therapeutics (ICT) at the University of Bradford to exploit development opportunities generated by ICT. This has provided the company with its core pro-drug delivery platform technology, to which additional technologies/products have been acquired, all focused on producing better clinical outcomes for cancer patients. The company has reported that a new formulation of its lead product, Sol, has superior dermal delivery compared with four comparator products. This represents an important milestone in the development of a product for the prevention of sun damage advancing into skin cancers.

- **Strategy:** INC is a specialist oncology company using a novel pro-drug approach to deliver cytotoxic warheads directly to tumour cells. It intends to develop drugs to a suitable valuation inflection point and then out-license them for late-stage trials, in return for development milestones and royalties.

- **Permeation study:** An independent study run by the School of Pharmacy, University of London, has demonstrated that INC's revised formulation of Sol permeates the skin better than four comparator products. In addition, the bioavailability (blood levels) exceeded those achieved following oral delivery.

- **Interims:** INC is expected to announce results for 1H'21 towards the end of October. Costs are expected to be tightly controlled to stretch its cash runway as long as possible. EBIT losses are forecast to be around -£450k. This would leave gross cash at ca.£50k, with a further £350k due in from its IPO.

- **Risks:** Investments in small, early-stage pharmaceutical companies carry a significant risk, and additional capital will be required for future expansion of clinical programmes. This additional capital may come from commercialisation of Sol, and/or INC may need to raise more capital in the future.

- **Investment summary:** INC offers distinct technology with the potential to attract the attention of the majors, especially given management's strategy to out-license products early. The focus, initially, will be on a patent-protected, value-added, sun cream, which represents a relatively quick and low-risk cosmetics project. The current EV suggests that there is good upside potential when comparing INC with a group of UK-listed peers working in the same field.

Financial summary and valuation

Year-end Mar (£000)	2017	2018	2019	2020	2021E	2022E
Sales	0	603	0	0	0	0
SG&A	-676	-1,223	-1,337	-683	-526	-473
R&D	-365	-143	-299	-250	-345	-250
EBITDA	-954	-864	-1,879	-1,091	-757	-612
Underlying EBIT	-1,075	-984	-2,012	-1,226	-891	-743
Reported EBIT	-1,075	-984	-2,012	-1,226	-891	-743
Underlying PBT	-1,075	-984	-2,012	-1,226	-891	-743
Statutory PBT	-1,075	-984	-2,012	-1,226	-891	-743
Underlying EPS (p)	-4.0	-2.3	-4.8	-2.3	-1.3	-1.1
Statutory EPS (p)	-4.0	-2.3	-4.8	-2.3	-1.3	-1.1
Net cash/(debt)	88	143	176	392	120	-382
Equity issues	309	1,021	2,398	1,168	350	0

Source: Hardman & Co Life Sciences Research

Financials

Source: Refinitiv

Market data

EPIC/TKR	**NSF**
Price (p)	**4.5**
12m High (p)	44.7
12m Low (p)	3.0
Shares (m)	312.0
Mkt Cap (£m)	14
EV (£m)	317
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

Oct'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

Awaiting update on guarantor loans review

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 and, on 25 September, took a board seat). Regarding complaint numbers, NSF most recently stated they "remain 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. Subject to the FCA review, further discussions with equity investors to strengthen the balance sheet and fund additional growth appear likely, and we note the appointment of an Alchemy representative to the board.

- **Peer news:** MCL's 17 September *trading update* reported strong recovery in July/August trading (lending ca.80% prior year, 97%/98% of expected collections received). Amigo has seen considerable speculation (e.g. see response on 7 *September*). The last reported Richmond stake was under 3% (GM 29 September).

- **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 long term. For a profitable, growing business, the long-term GGM implies a value above book (2019 tangible book value £40m, market capitalisation £14m).

- **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.

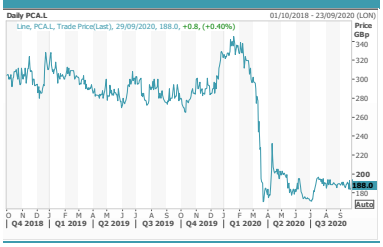
- **Investment summary:** Notwithstanding short-term uncertainty, with additional capital, substantial, long-term value should be created, as i) demand for, and pricing of, non-standard finance is likely to be strong for at least the next couple of years, following the COVID-19 crisis, ii) NSF has substantial 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)	1.3	1.3	1.2	-0.7	2.7
P/BV (x)	0.1	0.1	0.1	0.1	0.1
P/tangible book (x)	0.2	0.3	0.3	0.7	0.6
Dividend yield	48.9%	57.8%	15.6%	0.0%	22.2%

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

Real Estate



Source: Refinitiv

Market data

EPIC/TKR	**PCA**
Price (p)	**188**
12m High (p)	350
12m Low (p)	170
Shares (m)	45.9
Mkt Cap (£m)	86
EV (£m)	194
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

Nov'20	Interim results

Analyst

Mike Foster 020 7194 7622
mf@hardmanandco.com

PALACE CAPITAL

A busy month ahead for the sector's investors

Sector investors are in the midst of a very difficult year and, understandably, seek liquidity, track record and performance, but they are also making "big-picture" decisions. Palace Capital has minimal exposure to high street retail, but its office exposure – half the total – is misunderstood. There is chalk and cheese difference between a 20-storey asset and the office type in which Palace Capital has invested. These are low-rise and well connected, but also connected for car users. Meanwhile, this month sees the alternatives to REITs – open-ended property funds – unfreezing their funds. This has distorted the whole sector: turbulence continues.

- **Liquidity:** Palace Capital is, within six months, set to crystallise its development in York: Hudson Quarter. This is primarily residential, and sales are strong regarding both price and sales rates. Some £60m-plus is expected to be generated in spring next year – a major plank to our investment thesis here.

- **Performance:** Only two property sector open-ended funds have re-opened, but they have all been trying to raise liquidity, and this brings turbulence generally. The four biggest such funds have 16% in retail. Retail in the four months to end-June fell 11.1% in value, and offices by 3.9%.

- **Track record:** Palace Capital's assets are over 60% offices and industrials (the latter a sector that has fallen 2.7%). This REIT has outperformed the MSCI in each of the past three years, and we think it is very well placed to outperform again in calendar 2020. Rent collection has been hit, but by slightly less than the average 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:** Sectoral and regional exposures point to outperformance in capital values, rental change and total returns. This is a relatively small REIT, and the cash event in York is prospective, as opposed to "cash in hand". The dividend has been cut, yet the asset mix, the cash profile and, let alone, the value-adding management all point to dividend growth resuming in 2021.

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	9.8%	10.1%	10.1%	6.3%	5.6%
Price/EPRA NAV	42.4%	45.4%	46.1%	51.8%	51.2%
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)	**2,135**
12m High (p)	2,620
12m Low (p)	1,274
Shares (m)	54,089
Mkt Cap (£m)	1,155
NAV p/sh (p)*	2,846.2
Discount to NAV*	25%
Market	Premium equity closed-ended investment funds

**Manager valuations: 8% Mar'20, 94% 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-Oct	Sep NAV

Analyst

Mark Thomas 020 7194 7622
mt@hardmanandco.com

PANTHEON INTERNATIONAL

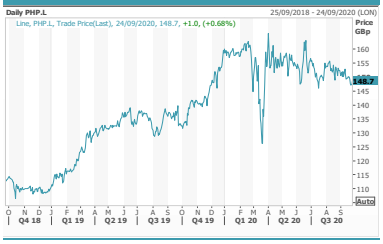
PIP is an investment trust that invests in a diversified portfolio of PE assets managed by third-party managers across the world. PIP is the longest-established PE fund-of-funds on the London Stock Exchange, and has outperformed the FTSE All-Share and MSCI World indices since its inception in 1987.

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.

Real Estate



Source: Refinitiv

Market data

EPIC/TKR	**PHP**
Price (p)	**145**
12m High (p)	165
12m Low (p)	115
Shares (m)	1,314
Mkt Cap (£m)	1,910
EV (£m)	2,880
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

Directors	0.8%
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

Set fine

This is a secure income stream. Rent has been effectively 100% collected on time, and the contractual terms – namely of rents being movable upwards-only – are continuing robustly. Indeed, for the past three years, the rate of rental rise has accelerated. Rises should keep pace with or beat RPI inflation in the coming years. Just prior to the late July interims, on 9 July, PHP launched a £120m proposed placing, at a point in the REIT's development that was underpinned by a strong and broad pipeline. The placing was expanded to £140m as a result of investor appetite.

- **A stand-out performer:** It is worth a recap on dividend drivers: there are ongoing rises in rents; interest cost is good, but has clear room to fall; expansion in RoI enhances EPS slightly more than UK investment; and PHP is growing well in RoI. At the interims, the MedicX merger helped drive EPRA EPS up 29%.

- **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:** In the short term, excitement is moving into a phase that will show solid growth with low risk. 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.

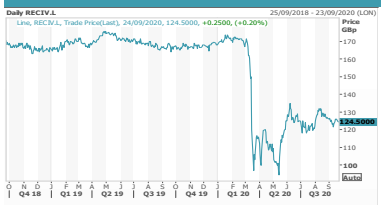
- **Risks:** COVID-19 financial resilience illustrated PHP's index-linked, gilt-style character. The recent placing helps to maintain an appropriate LTV in the short term, reducing the 30 June 2020 ratio by around 5.0ppts, from 45.8% to 40.3%, on a pro-forma basis. Interest cover is over 2.9x. The managers have successfully deployed fresh equity in the past, without paying excessive prices.

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	3.6%	3.7%	3.8%	4.1%	4.2%
Price/EPRA NAV (x)	1.44	1.38	1.33	1.27	1.23
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)	**124.25**
12m High (p)	175.5
12m Low (p)	94.4
Shares (m)	229.3
Mkt Cap (£m)	285
NAV p/sh (p)	147.6
Disc. to NAV	15%
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-Oct	Sep 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 and France.

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.

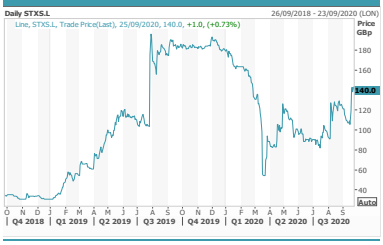
- Other direct or indirect opportunities, including equity participations in real estate, save that no more than 20% of the total assets will be invested in positions with an LTV in excess of 85% or in equity positions that are uncollateralised. On specific transactions, the company may be granted equity 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 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 detailed *market update* and presentation on 17 August.

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* (17 December 2019), *Getting a balanced view on outlook* (21 May 2020) and *Improving returns on new opportunities* (14 September 2020), can be found on the same site.

Pharmaceuticals & Biotechnology



Source: Refinitiv

Market data	
EPIC/TKR	**STX**
Price (p)	**138.0**
12m High (p)	196.0
12m Low (p)	54.0
Shares (m)	117.2
Mkt Cap (£m)	161.7
EV (£m)	155.2
Free Float*	41%
Market	AIM

**As defined by AIM Rule 26*

Description

Shield Therapeutics (STX) is a de-risked pharmaceutical company with a lead product, Feraccru/Accrufer, approved in Europe and the US for the treatment of iron deficiency in adults. Sales are made by distribution and commercialisation partners in return for royalties.

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	
2H'20	US Accrufer deal
4Q'20	Paediatric study to start

Analyst	
Martin Hall	020 7194 7622
	mh@hardmanandco.com

SHIELD THERAPEUTICS

Looking forward to US deal

STX is a commercial-stage company delivering specialty products that address patients' unmet medical needs, with an initial focus on treating iron deficiency (ID). Feraccru/Accrufer has been approved by the regulators in both Europe and the US. The company has an established commercial relationship with Norgine for Europe and signed a licensing deal with ASK Pharm for the Chinese market in 1H'20. Management has indicated that several discussions are ongoing to secure an optimal commercial deal for the US, which reassured the market. Meanwhile, on current assumptions, STX has a cash runway into 1Q'21.

- **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 and to keep investing in its R&D pipeline, while benefiting from immediate and long-term value.

- **Interims:** STX indicated that there remains a positive trend in Feraccru use in Europe with packs sold by Norgine up 50% over the previous six-month period. Both COGS and SG&A costs were higher than expected for specific reasons, yet STX still recorded an underlying profit of £2.8m (-£3.7m) for 1H'20.

- **Deal update:** Discussions between ASK and the regulator in China have indicated that the development programme for Feraccru might be less onerous than anticipated, making a launch in 2023 possible. Discussions with multiple interested parties in the US continue, suggesting that a deal is not too far away.

- **Risks:** All drug companies carry development risk, but STX's has been limited by regulatory approvals in the EU and the US. The biggest risk now is commercial execution. Having achieved deals in Europe and China, securing a partner for Accrufer in the US remains the top priority for 2020.

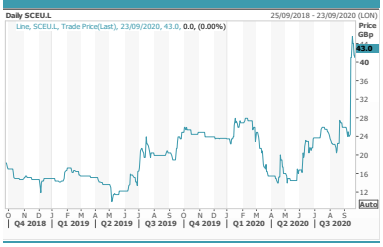
- **Investment summary:** Interim results confirmed the market's expectations and reiterated the length of STX's current cash runway in the absence of a US licensing deal. In these uncertain times, Feraccru provides a really good option to physicians seeking alternative therapies for ID patients reluctant to attend hospitals/clinics for intravenous iron therapy. Meanwhile, management reassured the market that progress is being made towards closing a US commercial deal in the near future.

Financial summary and valuation

Year-end Dec (£m)	2017	2018	2019	2020E	2021E	2022E
Gross revenues	0.64	11.88	0.72	9.39	6.00	13.75
Sales	0.64	0.86	0.62	0.70	6.00	13.75
R&D	-4.71	-4.30	-2.50	-3.00	-3.60	-4.00
Other income	0.00	11.03	0.10	8.69	0.00	0.00
EBITDA	-18.48	-2.47	-6.41	-1.18	-4.22	1.96
Underlying EBIT	-18.90	-3.26	-9.04	-3.72	-6.76	-0.58
Reported EBIT	-20.95	-5.17	-9.04	-3.72	-6.76	-0.58
Underlying PBT	-18.91	-3.26	-9.07	-3.23	-6.80	-0.63
Statutory PBT	-20.99	-5.16	-9.07	-3.23	-6.80	-0.63
Underlying EPS (p)	-15.58	0.09	-7.52	-2.24	-5.19	0.15
Statutory EPS (p)	-17.43	-1.55	-7.52	-2.24	-5.19	0.15
Net (debt)/cash	13.30	9.63	4.12	1.59	-2.49	3.75

Source: Hardman & Co Life Sciences Research

Automotive



Source: Refinitiv

Market data

EPIC/TKR	**SCE**
Price (p)	**41**
12m High (p)*	48
12m Low (p)	12
Shares (m)	154
Mkt Cap (£m)	63.0
EV (£m)	61.0
Free Float**	86%
Market	AIM

** Intraday, **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	13.1%
Unicorn	10.9%
Cannaccord Genuity	10.0%
Richard Gledhill esq. (director)	9.6%
Hargreaves Lansdown	4.2%

Diary

May'21	Preliminary results
Sep'21	Interim results

Analyst

Mike Foster 020 7194 7622
mf@hardmanandco.com

SURFACE TRANSFORMS

119% sales upgrade for 2022 – a game-changing win

The most significant of several 2020 contract wins was announced on 14 September, from a new global customer, OEM 8. New order momentum is rising significantly – doubling in terms of 2022 sales and of the total order book, on this one contract alone. Operationally, the roster of clients keeps expanding, globally. To be winning such orders shows that these exacting clients embrace ST's product, its robust supply chain and manufacturing. This, and the investment made in production and engineering teams, and in capital expenditure, bodes well for confidence on growth. ST also provides a £0.4m upgrade on recent sales revenue.

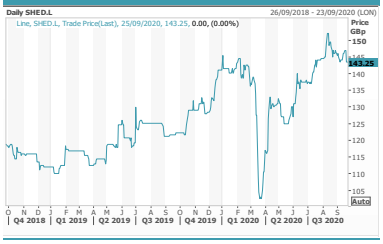
- **ST is clearly endorsed as a major supplier:** With a superior product and OEMs keen to promote a credible newer supplier in ST, the company is well positioned to win a large share in the £200m, carbon ceramic brake disc market, which is set to grow by an order of magnitude. The OEM 8 order is a game changer.
- **Our estimates**: Our forward estimates reflect only existing contracts. Gross margins are steady, at either side of 70%, and new sales bring operationally geared returns. This new multi-year £27.5m order takes capacity utilisation to ca.60%. Investment is being made to support future growth.
- **ST has arrived:** This is only just the beginning of top-line growth above market growth. 2019's success in winning its first OEM orders transformed ST's industry-wide visibility. Lead times are over a year on the tests the OEMs undertake, giving good indications of pipeline opportunities.
- **Risks:** COVID-19 affected 2020 sales, and it may have a modest 2021 impact. Industry sales of cars globally may be affected by an economic slowdown or – at the luxury end germane to ST – by stock markets. A sales increase at ST would lead to a (definable) increase in working capital needs.
- **Investment case:** This large market is 99%-supplied by one, highly profitable player. Single supply was a most anomalous position for an auto OEM market; now ST also supplies. Thus, the OEM 8 order, while a true "game changer", simply fits into the broader expansion of the market and of ST in the market. This has been anticipated for some years. It is coming about on a broad front.

Financial summary and valuation

Year-end May*/ December**(£m)	FY19*	*7-month 19E***	FY20E**	FY21E**	FY22E**
Sales	1.00	1.45	2.00	7.30	12.50
EBITDA	-2.63	-1.41	-1.90	0.65	3.40
EBITA	-2.97	-1.70	-2.55	-0.15	2.45
PBT	-2.98	-1.76	-2.65	-0.40	2.20
PAT	-2.06	-1.32	-2.10	0.15	2.75
EPS (adjusted, p)	-1.64	-0.97	-1.44	0.10	1.78
Shareholders' funds	6.96	5.57	5.72	5.87	8.62
Net (debt)/cash	1.60	0.65	1.00	0.40	3.10
P/E (x)	loss	loss	loss	n/a	23.0
EV/sales (x)	60.7	n/a	30.5	8.3	4.8
EV/EBITDA (x)	loss	loss	loss	loss	17.9
DPS (p)	nil	nil	nil	nil	nil

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

Real Estate



Source: Refinitiv

Market data

EPIC/TKR	**SHED**
Price (p)	**143**
12m High (p)	148
12m Low (p)	104
Shares (m)	189
Mkt Cap (£m)	270
EV (£m)	300
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

A strong and reliable dividend payer

The March £130m equity fund raise is being put to work in a measured way. A strong ongoing pipeline remains and the REIT is testing investor appetite to raise additional growth equity. It is in exactly the right asset class, achieving NIYs well above 6%. This level of income supports a repeatable total asset return based on hard cash from rents – rents that have been effectively not disrupted by COVID-19. Since flotation, total returns have been well above all-property returns. The median annual return is 16%. We find it noteworthy that the 2020 dividend yield is well above 5% and that physical assets trade at below replacement cost.

- **Deployment:** Nearly all equity from the March fund raise is already invested. As we go to press, we await an update re the most recently announced further fund raise. This is of course a growth raise so, while a longer-term benefit, the size of the raise is an open factor.

- **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 expect 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. The balance sheet is very secure, with estimated modest net cash held, but ongoing investment is supporting that growth in the dividend. Planned cash drag is a factor in 2020.

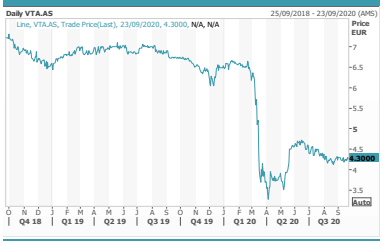
- **Investment track record**: We have mentioned the asset returns, but this is in a sector that is in favour. Sustainable investment has been positive in the 2020 crisis. As measured by MSCI Europe, there is *interesting positive data and analysis for 2020*. In Europe, ESG funds saw an inflow of €97bn, 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 (€)	**4.30/4.30/390p**
12m High (€)	6.74/7.04/642p
12m Low (€)	3.20/3.38/285p
NAV p/sh Aug (€)	5.80
Shares (m)	36.6
Mkt Cap (€m)	157
2019 yield	14.4%
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 Stephen Le Page Paul Varotsis
Fund Managers	Serge Demay
AXA IM Paris	A Martin-Min 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-Oct	Sep estimated NAV
Oct	Results to end July

Analyst

Mark Thomas 020 7194 7622
mt@hardmanandco.com

VOLTA FINANCE

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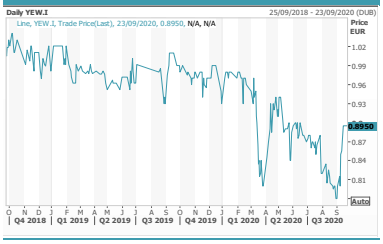
Volta is a closed-ended, limited liability company registered in Guernsey. Its investment objectives are to seek to preserve capital across the credit cycle and to provide a stable stream of income to its shareholders through dividends that it expects to distribute on a quarterly basis. The current dividend 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. On *21 September*, Volta declared a €0.11 quarterly dividend. 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 and, most recently, a 1.9% gain in August (YTD -21%).

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, *Q&A with Hardman analyst* (12 May 2020) and our most recent note, *Value added by active portfolio management* (15 September 2020), as well as links to our Directors Talk interviews on the company.

Real Estate



Source: Refinitiv

Market data

EPIC/TKR	**YEW**
Price (€)	**0.85**
12m High (€)	1.02
12m Low (€)	0.81
Shares (m)	111.6
Mkt Cap (€m)	98.6
EV (€m)	128.9
Free float	95%
Market	AIM and Euronext Dublin

Description

This REIT invests in the 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' 21	Final results

Analyst

Mike Foster 020 7194 7622
mf@hardmanandco.com

YEW GROVE

EGM approves a raised borrowing target

Yew Grove is discussing with owners a strong pipeline of potential investments. It has modest gearing. It 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. They are low-rise, well-connected and offer good space per desk. Regional office and industrial attractions are rising.

- **Resources for growth:** Latest updates showed 98% of rents being paid and – although invested in offices – these are exactly the sweet spot of low-rise suburban locations. Therefore, renewed authority for a further equity raise of up to €100m was approved by shareholders in May of this year.
- **EGM with relevance to the strong investment pipeline:** The board, having consulted with shareholders, called an EGM for 30 September to formally seek shareholder approval to amend the investment policy to increase the borrowing expectation to LTV of 40%, versus the previous 25%.
- **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:** The passing of the EGM resolution to raise borrowing potential does not bring material refinancing risks. Rent payments are excellent. Further, the WAULT (term to expiry) stands at 7.5 years. Most asset values are below replacement cost. Yew Grove's market rents are outpacing Dublin 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%	8.0%	7.0%	7.0%	7.8%
Price/EPRA NAV (x)	0.85	0.86	0.84	0.84	0.81
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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