



HARDMAN & CO.



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Trump's Scottish investments

By Steve Clapham, equity analyst at Hardman & Co

Introduction

Various articles have speculated about Trump's income and asset base

President Trump likes to project himself as a highly successful businessman, but surprisingly little is known about his true financial position. Various articles, including a 2016 in-depth [analysis](#) by *The Wall Street Journal*, have speculated about his income and asset base. All sorts of claims and counter-claims have been made about his wealth – by Trump himself, pitching his fortune at some [\\$9bn](#), and by journalist Timothy O'Brien, [suggesting](#) that it is as “low” as \$150m-\$250m. It is doubtful whether we shall ever know the truth, but we can use Trump's UK corporate filings to gain an insight into his businesses in Scotland.

This article examines the Trump investments there, and asks whether he is as astute as he claims (spoiler – the answer is “no”). We look at the period to the end of 2018, and at the last accounts filed by the two Trump UK holding companies. We do not expect the Trump 2019 accounts to be published before Christmas, as UK companies now have 12 months to file because of COVID-19.

This article compares Trump's two Scottish properties – Trump International in Aberdeenshire and Turnberry – with two established golf resorts – Loch Lomond Golf Club, considered by *cognoscenti* to be one of the finest in the world, and Gleneagles, the famous hotel and golf resort.

Comparing Trump International and Turnberry with two established Scottish golf resorts, Loch Lomond Golf Club and Gleneagles...

Loch Lomond is owned by a Caymans vehicle, and we understand (from a member there) that this belongs to its members. Gleneagles was sold by Diageo in 2015 to Ennismore (the hospitality company founded by [Sharan Pasricha](#)), which previously bought the Hoxton Hotel in Shoreditch. One of the owners of the Hoxton Hotel told me that he was more than pleased with the price he received, so it is quite possible that Gleneagles was a similarly expensive acquisition. The price for Gleneagles was rumoured to be £150m, but our analysis suggests that the purchase price was £139m; given that the business had net cash of £14m, we use a cost of £125m in this article.

How has Trump fared overall?

...assessing Trump's skills in hotel and resort operation

Our detailed analysis below looks at the four properties, in an attempt to understand Trump's skills in hotel and resort operation. Before drilling down, we do some high-level analysis to assess the returns from these investments.

Losses and negative equity at the Trump properties

Profitability

We show below the trends in profit (well, actually, losses) for the two Trump properties in Scotland. At Trump International, accumulated losses to end-2018 were £13m and, with other reserves of £1.7m (mainly an accounting technicality), there is negative equity of £12m. At Turnberry, there are accumulated losses of £44m, and negative equity of £51m. Had Trump charged interest on inter-company loans at either company, the losses to date would have been significantly higher: on our estimates, a 5% rate would have generated an additional £38m of accumulated losses. Had the businesses been run independently, with directors paid for their services (see below) and arm's length financing, the two businesses would have accumulated losses of well over £100m in the period of ownership by Trump.

Trump does not appear to have hedged foreign currency exposure over 2006 to 2018

FX exposure

We examine how the Trump investments have performed in the table below. The first problem is that asset exposure does not appear to have been hedged. The first rule for any investor in overseas assets is to hedge the foreign currency exposure. Trump does not appear to have done so, and looks to have extended sterling loans to the Scottish companies. We estimate that the dollar value of these loans to the ventures have declined significantly.

FX losses on loans			
Resort	Balance due	Period	Loss to date
Trump International	£45m	2006-18	22%
Turnberry	£114m	2014-18	15%

Source: Behind the Balance Sheet

The pound was worth \$1.27 when we did these calculations, and Trump had seen a near-\$40m decline in the value of the loans extended to the two companies. Note that we have included the slither of quasi-equity in this calculation, although the accountants make a technical distinction here. This has arisen because the value of sterling has slumped since Brexit (ironically, a policy that Trump keenly supported).

Our analysis of the losses to date is derived using the estimated sterling amounts extended by Trump and a Trump trust to the two companies, and converting these to dollars at the average rate each year. We then compare the dollar total lent with the current value of the sterling loans accumulated, and the loss totals just under \$40m. These numbers do not tie exactly to the current sterling loan balances.

Of course, we do not know what sophisticated hedging Trump may have engaged in at home. It does seem a bit odd to us, however, not simply to borrow locally with a cross guarantee – but perhaps the UK banks would be less willing to lend. More likely, Deutsche Bank, believed to be his main source of credit, has a bigger loan book in the US, and these loans would be combined with many others.

2019 may have seen improvement, but
2020 must have seen significant losses

We also assume that the loans are in sterling, which is how it appears from the accounts, but it is possible that some of the loans to the Turnberry operation are in dollars, so it is conceivable that our estimates are too high. These estimates are for the period to December 2018, the latest financial filings. Although 2019 may have seen an improvement, 2020 must have seen significant losses at the properties.

This means that Trump's losses will certainly have increased significantly. The decline in the value of the sterling loans into the two companies, plus cash injections required as a result of COVID-19, must amount to \$50m – and probably significantly more today.

Business values

Of course, these are merely paper losses. If Trump sold the businesses tomorrow, how would his investments fare? That is the more important question. Note that, at Trump International, planning permission was granted last year for a second course, a 500-unit residential village and more. We have not allowed anything for these, as it is unclear what they would be worth, and it would be impossible for us to make any realistic assessment.

Trump would need to recover £164m, plus
\$65m, or roughly £215m, to break even

Trump paid \$65m for Turnberry. Loans at end-2018 amounted to £43m at Trump International and £115m at Turnberry. In addition, there is another £6m of quasi equity. These are loans that are treated as equity because the loans do not bear interest – an accounting technicality. So, overall, Trump needs to recover £164m, plus \$65m, or roughly £215m, in order to break even.

If Gleneagles sold for £125m, and if we considered this to probably be a high price, how would these two businesses compare with Gleneagles? Turnover for Turnberry and Trump International totalled £21m, vs. £55m at Gleneagles, while there was an EBIT loss of £8m vs. a profit of £3.5m (pre-loss on sales of assets) at Gleneagles. Tangible assets are similar, at ca.£95m.

Given that the businesses are loss-making, we can use an EV:sales approach; the companies have significant negative equity, so price:book is not appropriate. Gleneagles changed hands for 2.6x sales and, on that basis, the Trump properties would be valued at just £56m. There may, of course, be additional development value.

Trump was showing significant loss on his
investment before COVID-19 struck

We are not professional hotel valuers, and we do not have enough detail on these properties to do a full valuation. Nevertheless, it is clear that Trump was showing a significant loss on his investment before COVID-19 struck. We do not have enough data to conclude that his £215m investment would be worth ca.£56m at end-2018 but, post COVID-19, it is hard to imagine that his losses to today could be less than, say, 50%. Moreover, there is an opportunity cost to this.

Opportunity cost

We looked at the injections made by Trump each year into the two businesses, including the purchase price, and asked how he would have fared if he had invested in an S&P 500 tracker instead.

Opportunity cost of Trump's investment
in Scottish hotels likely been at least
\$250m

We assumed that, instead of buying the assets, he invested in the S&P at the same time. We also assumed that cash injections made each year into the hotels were, instead, made on 1 January in the following year into the S&P – a conservative basis of calculation.

On this basis, and ignoring dividends for the sake of simplicity (and to be more conservative), we estimate that investing this cash in an S&P tracker would have generated an investment value today of around \$420m. If this cash had been

invested in a portfolio of tech stocks, like Amazon or Apple, it would likely be worth over \$1bn today.

For Trump, the opportunity cost of his investment in these Scottish hotels has likely been at least \$250m (assuming the hotels were worth \$170m, not our calculated £56m/\$70m) and possibly over \$1bn – that's real money, even if he were worth his claimed \$9bn.

Drilling down into the businesses

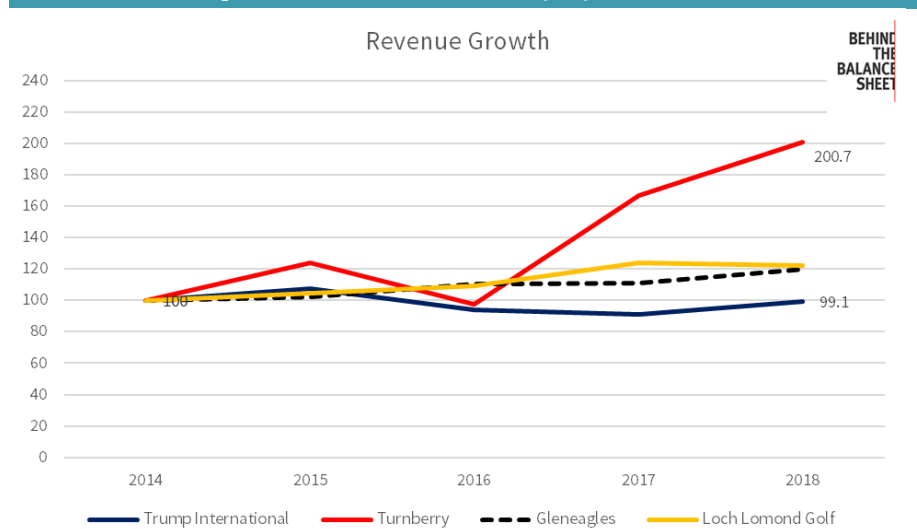
Looking at operational performance of
two businesses in context of peers

We now examine the operational performance of Trump's two businesses in the context of the peer group. We begin, as we would if reporting on a quoted stock, with revenue growth. Before detailing our analysis, we highlight that we have not consulted any of the companies concerned, that the analysis has been entirely desk research of filed accounts, and that these are simply our estimates – do your own research and please do not rely on this for any financial or other decisions. See our full disclaimer [here](#).

Revenue growth

Revenue at Turnberry increased from £11.4m in 2015 to £18.5m in 2018, an impressive percentage increase, but less so relative to the investment made – capex has totalled £56m in the first five years of Trump's ownership. A BBC [article](#) suggested that Trump claimed he would invest £200m, and that his company said that £150m had been invested in 2016. This would not have been money well spent – with nearly £8 being spent to generate £1 of additional revenue in a loss-making business.

Indexed revenue growth at the four Scottish properties, 2014-18



Source: Behind the Balance Sheet

The doubling of revenue at Turnberry in the chart is slightly exaggerated, because its 2014 accounts covered February to December. Adjusting for this pro rata (unrealistic, as January is a low month for revenues) would yield an increase of 78%; the 2015-18 increase was 62%, still much higher than peers.

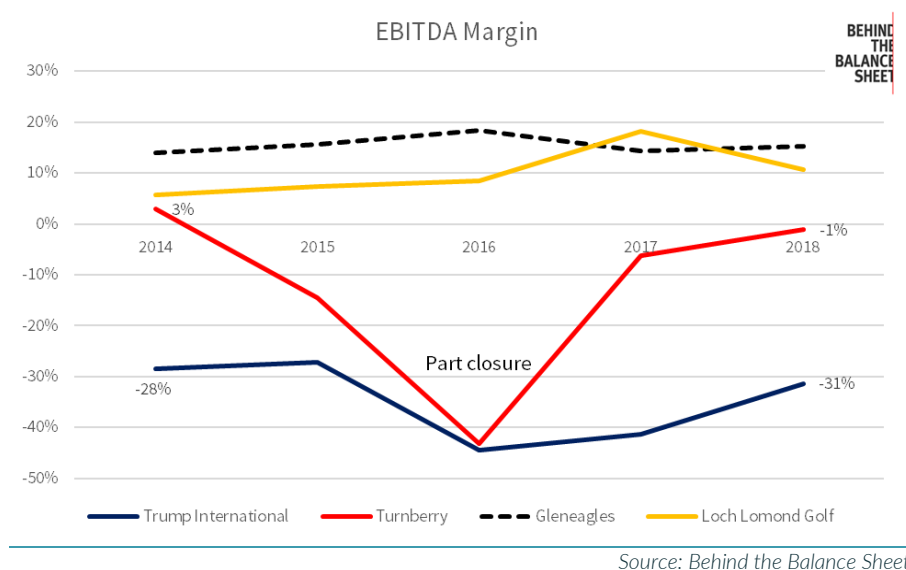
Profitability

We show below that the Trump companies have clearly been less profitable than the established Scottish golf courses. In addition, growth at the latter looks to have been fairly limited – this probably reflects the fact that they are already full, and additional income is dependent less on filling vacant golf capacity and more on attracting visitors to alternative activities. Also, let's face it, Scotland is pretty, but the weather is unreliable and, even when it's nice, there are midges. Trump could conceivably be successful in creating a large new market, but it looks like a long shot.

Trump companies have been less profitable than the established Scottish golf courses

We show both the EBITDA margins (the statistic beloved of private equity) and the potentially less comparable EBIT margins in the following charts. Turnberry made a small positive EBITDA contribution in the first partial year of Trump's ownership but, in spite of the significant increase in revenues, the contribution at this level remains negative. Losses are much higher at the EBIT level, which includes depreciation. Turnberry was partly closed in 2016, with the investment programme, and hence this has resulted in higher-than-normal losses.

EBITDA margin at the four Scottish properties, 2014-18



Both Gleneagles and Loch Lomond make small positive margins at the EBITDA level, but profits are slim once depreciation is taken into account. It is possible that this reflects a deliberate policy by Loch Lomond's member owners.

Trump's Scottish holding company boards

Trump International Golf Club Directors

Mr D Trump Jnr

Mr E Trump

Mr A Weisselberg (Trump's CFO, in his 70s)

Turnberry Directors

Mr E Trump

Source: Behind the Balance Sheet

Donald Trump resigned from the Trump International Board on 19 January 2017, before he took office, and he does not appear to have been on the board of the Turnberry vehicle. Ms I Trump is a former director of the Trump International Golf Club vehicle.

When comparing profit margins, Trump's companies have an unconventional board structure, and directors do not charge the Scottish companies for their services. Hence, the margins are slightly flattered compared with companies whose directors charge fees. At Gleneagles, directors took home £659k in 2018, and the parent imposed a management charge of £2m. Without these, margins in the last two years would have increased from 3.7%-3.8% to 8.7%. Directors of Loch Lomond Golf Club, including the City grandee Chairman, Sir Nigel Rudd, do not charge fees.

EBIT margins are before FX gains or losses were reported.

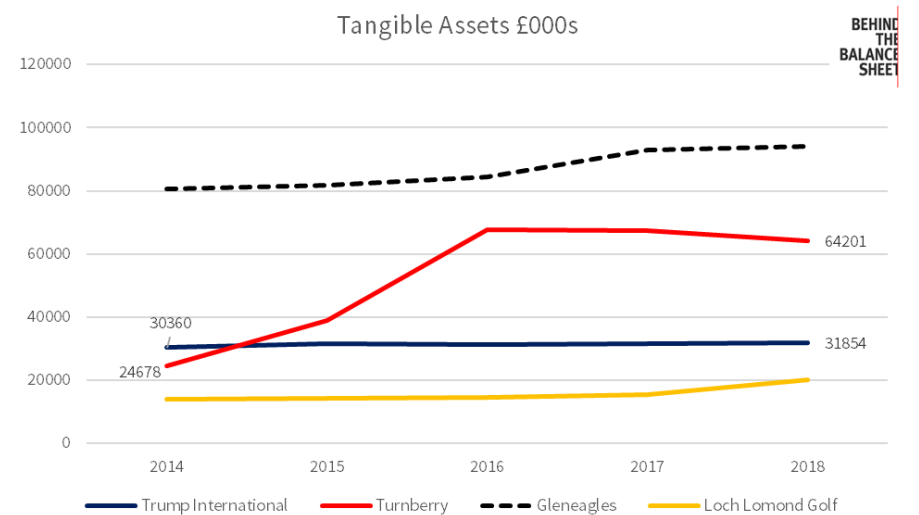
The Trump companies have not recognised over £10m of tax assets on their balance sheets. In order to recognise the asset, the directors have to establish that there is a reasonable likelihood of the company making sufficient profit to take advantage of the tax losses. Perhaps that would be too much, even for Trump, to hope for.

Investment

Largest asset base is at Gleneagles

Gleneagles has the largest asset base, with land and buildings at a cost/valuation of over £100m. This reflects the values conferred upon purchase, and the same is true for Turnberry, which has seen £56m of capex, vs. £3m for Trump International in the last five years (the main investment was earlier). Gleneagles has enjoyed an investment of £37m, and Loch Lomond £10m. Clearly, this investment is related directly to expansion plans and the state of the infrastructure, and, for this type of business, we would expect a fairly flat asset profile.

Tangible assets (£000) at the four Scottish properties, 2014-18



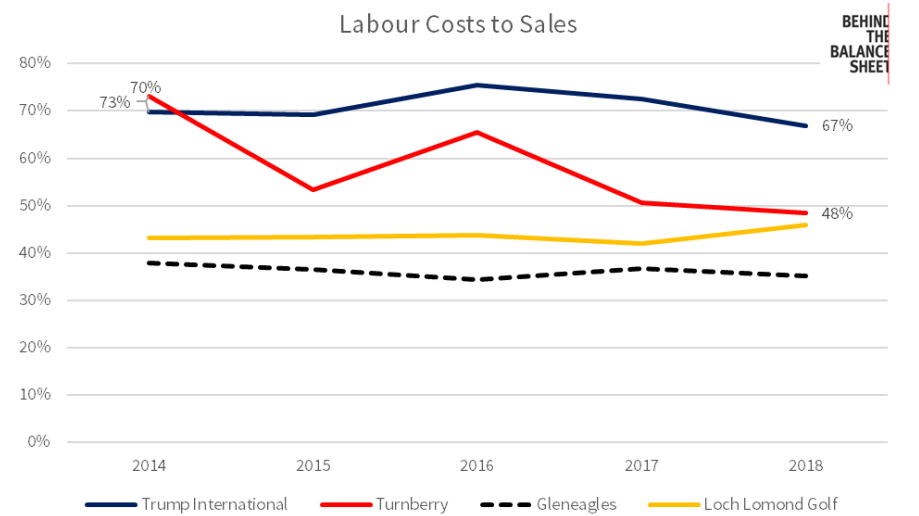
Source: Behind the Balance Sheet

Employment

Labour, as cost element, much higher for Trump resorts

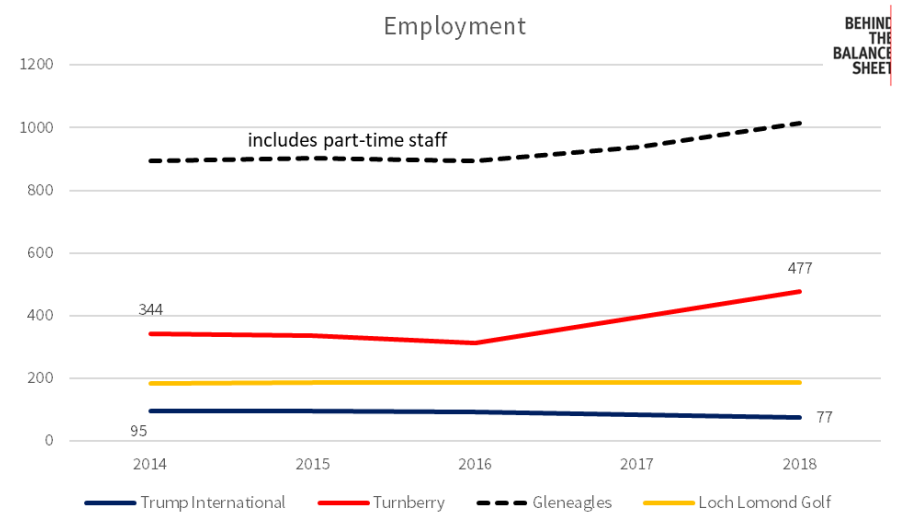
Labour is a significant cost element for all these businesses, but it is much higher for the Trump resorts. The ratio of labour costs to sales for Turnberry has been falling closer to the two independent companies here, as sales and employment numbers have doubled, while the average salary has fallen. Gleneagles is by far the most efficient but, clearly, the mix of business may be significantly different.

Labour costs to sales at the four Scottish properties, 2014-18



The following employment ratios include part-time staff for Gleneagles. It appears that the full-time equivalent is disclosed but, as mentioned earlier, we have not consulted the company directly for this article (one of the problems we face when doing analysis of this type).

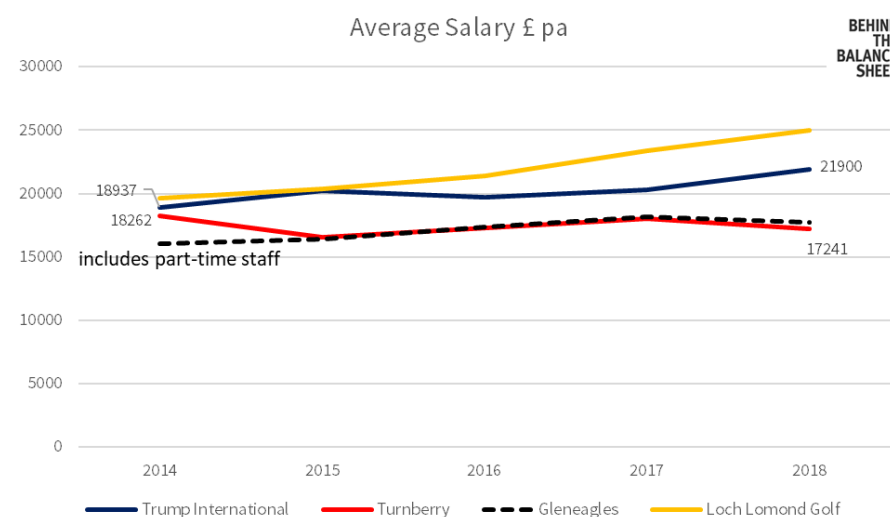
Employment at the four Scottish properties, 2014-18



Average salary has been lowest at Gleneagles but, as it has grown, Turnberry has dipped below it (this could be more lower-paid staff – cleaners, etc. – to cater for the growth). What is unquestionable, given the generally remote nature of these companies, is their positive impact on the local economies – even little Loch Lomond has a wage bill of £5m and, although it is close to Glasgow, it is likely that there is significant local employment. The impact will be much greater for Turnberry, with a wage bill of £8m in a small rural area, and especially for Gleneagles, with its £18m

wages bill in the countryside. For Trump International, the wage bill is lower, but the influx of tourists is also helpful for all these local communities. Tips are a major part of the wage bill – Loch Lomond's guests contributed ca.£6k per week last year.

Average salary (£ p.a.) at the four Scottish properties, 2014-18



Source: Behind the Balance Sheet

Conclusions

Hard to see how Trump will extract return from Scottish investments...

It is hard to see how Trump will extract a return from his investments in Scotland. It may be possible to stem or slow the losses, but there is a large amount invested, and generating a return on that investment will be difficult. One tailwind now may be a weakening dollar, although the pound has not been in favour, and we have the consequences of Brexit to come. Two factors may come to Trump's rescue:

- ▶ The further proposed developments at Trump International could be lucrative but, given the track record, this seems unlikely.
- ▶ Perhaps, by "magic", there will be another golf-loving billionaire with Scottish blood, whose appetite will match Trump's, but this looks even more of a long shot.

...and losses, to date, likely to have been well over \$50m

We have explained, in this article, that Trump lost ca.\$40m to the end of 2018, and this must have risen by now. Even if 2019 was a better year, 2020 must have been extremely difficult. Losses to date are likely to have been well over \$50m, as explained. We shall learn more when the 2019 accounts are filed at the end of the year, but we will need to wait until this time in 2021 to gain a fuller picture.

About the author



Steve Clapham is an equity analyst at Hardman & Co.

Steve is the founder of [*Behind the Balance Sheet*](#), an investor training consultancy. He has been an investment analyst for the last 25 years, working on the sell side for a number of investment banks covering the transport, utilities and conglomerates sectors. In 2005, he moved to the buy side, where he was a partner at Toscafund Asset Management LLP, and then Head of Research at Altima Partners LLP.

Steve was part of the group of investors that acquired Hardman & Co in late 2012. He holds a degree in Technology and Business Studies, and is a member of the Institute of Chartered Accountants of Scotland.

Company research

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

Healthcare Equipment & Services



Source: Refinitiv

Market data

EPIC/TKR	AVO
Price (p)	37.0
12m High (p)	43.0
12m Low (p)	21.8
Shares (m)	333.4
Mkt Cap (£m)	123.4
EV (£m)	156.8
Free Float*	69%
Market	AIM

*As defined by AIM Rule 26

Description

Advanced Oncotherapy (AVO) is developing next-generation proton therapy (PT) 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. PT 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.avopl.com

Key shareholders

Liquid Harmony (Board)	13.5%
Other Board members	7.9%
Barrymore/Nerano	9.1%
Celeste	6.0%
P. Glatz	4.7%
Lombard Odier	4.1%

Diary

2Q'21	2020 final results
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Analyst

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ADVANCED ONCOTHERAPY

Operational progress and stronger balance sheet

AVO's goal is to deliver an affordable and novel 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 marking. Operational and commercial progress was highlighted at the recent investor day, despite the challenges caused by COVID-19. Subsequently, AVO strengthened its balance through a share Subscription to raise £7.7m.

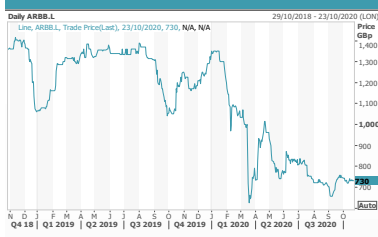
- **Strategy:** AVO is developing a compact and modular PT system, which is affordable for the payor, financially attractive to the operator, and generating superior patient outcomes. AVO benefits from technology know-how developed by ADAM (CERN spin-off), and relies on a world-class supplier base.
- **Investor day:** AVO recently held a well-attended virtual investor day to update the market on operational progress towards the first fully operational LIGHT system with a proton beam of 230MeV in 2021, and on commercial progress. A recording is available on the website: <https://www.avopl.com/en-gb/>.
- **Subscription:** AVO has strengthened its balance sheet through the issue of 25.74m new shares via a Subscription at 30p to raise gross new capital of £7.7m. Concomitantly, associated advisors' fees and outstanding fees due to non-executive directors have been satisfied by the issue of 1.33m shares.
- **Risks:** The technology itself is de-risked already, and LIGHT is simply accelerating the proton beam in a different way from conventional PT systems. Upcoming challenges and how they are being mitigated were highlighted in the annual report, and new funding is providing financial flexibility to reach the finishing line.
- **Investment summary:** AVO's £157m EV equates only to the amount invested into LIGHT to date, which reflects neither the enormous technical challenges that have been overcome, nor the market potential – our DCF valuation is 215p. As assembly of the first LIGHT system reaches its conclusion, the market's confidence in AVO is expected to improve considerably. Commercial deals indicate that buyers are comfortable about the timing of LIGHT delivery.

Financial summary and valuation

Year-end Dec (£m)	2017	2018	2019	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	-22.7	-16.1	-4.2
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	-8.4	-6.9	-3.7
Net cash/(debt)	-9.2	-2.0	-43.3	-62.9	-88.6	-84.8
Equity issues	8.1	21.1	25.4	18.4	0.0	25.0
EV/EBITDA (x)	-9.4	-5.9	-8.9	-8.2	-13.1	8.9

Source: Hardman & Co Life Sciences Research

Financials



Source: Refinitiv

Market data

	ARBB/ARBN
Price (p)	730/745
12m High (p)	1,428
12m Low (p)	625
Shares (m)	15.4
Mkt Cap (£m)	113
Loans to deposits, 2020E	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	Andrew Salmon
Arb. Latham	
Group FD,	James Cobb
Deputy CEO	
Arb. Latham	

+44 20 7012 2400

www.arbuthnotgroup.com

Key shareholders

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

Diary

Mar'21 (tbc)	FY'20 results
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Analyst

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ARBUTHNOT BANKING GROUP

3Q trading statement: in line

We reviewed ABG's interim results in our July note, *2020 interim results: credit robust, rate sensitivity*. The group has since issued a *3Q trading update* confirming it is trading in line with consensus, and our, expectations of a small FY'20 pre-tax loss. Loan balances were up 3% on the prior year to £1.6bn while deposits grew 14% to £2.23bn. Investment Management gross inflows increased 24% with assets under management up 4%. The group continues its long-term track record of having excess capital (surplus over £60m) and liquidity (surplus £489m). Trading at 58% of NAV is anomalous with a long-term record of value creation and surplus capital and liquidity.

- **Falling payment holidays:** In the core bank, payment holidays fell from 10% to 3% (by customer balances). The acquired mortgage portfolios saw a decline from 26% to 5% of customers who were in receipt of COVID-19-related forbearance. In the asset finance business, it fell from 70% to 39% (by balances).
- **New business payback:** During the quarter, Arbuthnot Commercial Asset Based Lending reached an overall breakeven point, which means that ABG recouped its investment in start-up losses with a 16-month payback period. Investing in new commercial businesses has been a key part of ABG's strategy.
- **Valuation:** Our forecast scenarios, and multiple valuation approaches, see a broad range of valuations. Our base-case range is 871p to 1,658p. Our upside scenario is 1,044p to 1,918p, and our downside 783p to 1,412p. The share price is just 58% 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 highly 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)	54.1	42.7	15.4	32.2	22.3	310.7
P/BV (x)	0.91	0.48	0.48	0.57	0.54	0.59

*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)	108
12m High (p)	121
12m Low (p)	59
Shares (m)	135.6
Mkt Cap (£m)	146.4
NAV/share (p)	153.8
Premium/(discount) to NAV	-30%
Free Float	71%
Market	LSE

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

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ARIX BIOSCIENCE

3Q reporting season

ARIX is a listed global 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 market capitalisation. 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.
- **3Q'20:** During November, most of the listed companies in ARIX's portfolio will be reporting 3Q'20 results and providing development updates, so ARIX will be in the news regularly. Following the recent capital increase by LogicBio (see below), all of the portfolio companies have good cash runways through 2021.
- **LogicBio:** During October, portfolio company, LogicBio Therapeutics (LOGC), announced a capital increase of \$48.3m (gross) via a public offering of 8.05m shares at \$6.0 per share. ARIX participated in this funding round with an investment of \$3.0m, giving it an 11.0% stake in the company.
- **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 it 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 the company has set itself an ambitious set of targets for the coming three years, which, if achieved, could see the NAV double to ca.£500m.

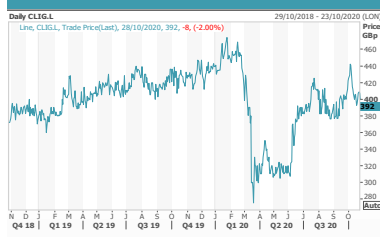
Financial summary and valuation

Year-end Dec (£m)	2017	2018	2019	2020E	2021E	2022E
Change in FV of investments	5.5	51.2	-58.6	*11.0	-	-
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	4.8	-2.5	-5.0
Profit/(loss) before tax	-7.7	38.2	-75.6	5.0	-2.2	-4.8
Underlying EPS (p)	-9.5	27.2	-53.6	3.4	-1.5	-3.3
Net cash/(debt)	74.9	91.2	53.7	32.1	24.4	16.6
Equity issues	105.1	83.5	0.0	0.0	0.0	0.0
NAV/share (p)	152.3	200.4	149.1	*153.8	-	-

*Based on share prices and forex at close of business on 26 October 2020

Source: Hardman & Co Life Sciences Research

Financials



Source: Refinitiv

Market data

EPIC/TKR	CLIG
Price (p)	407.0
12m High (p)	474.0
12m Low (p)	275.0
Shares (m)	50.7
Mkt Cap (£m)	206.0
EV (£m)	191.4
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

George Karpus	31.5%
Other directors & staff	9.5%
APQ Global Limited	3.3%

Diary

19 Jan	2Q FUM statement
15 Feb	Interim results

Analyst

Brian Moretta	020 7194 7622
	bm@hardmanandco.com

CITY OF LONDON INVESTMENT GROUP

Boost from positive markets and deal completion

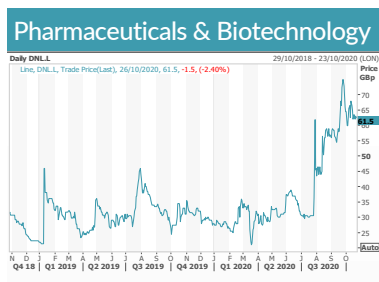
City of London has announced a trading statement covering its first quarter FUM and financial performance. With the Karpus merger taking place on 1 October, all figures refer to the pre-transaction entity. Markets were very supportive over the quarter, with a smaller offset from net outflows. At the quarter-end, FUM were \$5.94bn, an increase of 8% on the \$5.50bn at the financial year-end. Fund performance was good in the main strategies, with Frontier being the exception. It was also the source of the majority of the outflows, as the largest client reallocated away from the sector.

- **Operations:** Operational performance was slightly above our expectations, with the revenue margin constant, at 74bps, and “fixed” costs still at £1.1m per month. The balance of the £1.8m exceptional expenses for Karpus (which are not tax-deductible) reduced profit after tax to £1.0m for the quarter.
- **Karpus completion:** As expected, completion was on 1 October. Karpus client servicing has done a good job of getting approvals, and 98% of client assets have been retained. FUM, at completion, were \$3.6bn, bringing the group total to \$9.5bn. Two new board members from Karpus have also been appointed.
- **Valuation:** The 2021E P/E of 9.5x is at a discount to the peer group. The underlying 2021E yield of 8.1% 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	9.93	10.58
Revenue	31.29	33.93	31.93	33.26	52.91	62.07
Statutory PTP	11.59	12.79	11.40	9.41	24.34	32.12
Statutory EPS (p)	36.9	39.5	34.9	30.3	42.8	50.5
DPS (p)	25.0	27.0	27.0	30.0	33.0	36.0
Special dividend (p)			13.5			
P/E (x)	11.0	10.3	11.6	13.4	9.5	8.1
Dividend yield	6.2%	6.6%	10.0%	7.4%	8.1%	8.9%

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



Source: Refinitiv

Market data⁺

EPIC/TKR	DNL
Price (p)	63.0
12m High (p)	80.0
12m Low (p)	21.0
Shares (m)	122.0
Mkt Cap (£m)	76.9
EV (£m)	61.8
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

Nov'20	AGM (tbc)
4Q'20	Alkindi US launch
1Q'21	Chronocort EMA approval

Analyst

Martin Hall	020 7194 7622
	mh@hardmanandco.com

DIURNAL GROUP

All eyes are on ETON

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 regulatory approvals will open up more markets. September 2020 proved to be an important month for DNL, with the expected US FDA approval of Alkindi, followed by a Placing to provide the resources needed for further pipeline product development. Market attention is focused now on launch announcements from US partner, ETON.

- **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.
- **FDA approval:** Timed exactly with the Prescription Drug User Fee Act (PDUFA) date, the FDA formally approved Alkindi on 29 September. US partner, ETON, has done much of the launch preparation work, but can drive this forward and complete the packaging in preparation for launch towards the end of the year.
- **Capital increase:** On 9 October, DNL announced a Placing to raise gross new funds of £8.0m (£7.5m net) at 60p per share, a 9.8% discount to the previous close. An Open Offer to existing shareholders could raise a further £2.0m. The issue of shares was subject to shareholder approval at a GM on 28 October.
- **Use of funds:** The primary use of the new funds is to progress development of DITEST™, following confirmation of the regulatory pathway (505(b)(2) route) from the FDA, to include a Phase I multiple ascending dose study. DNL will also commence US Phase III plans for Chronocort® and regulatory work in Japan.
- **Investment summary:** FDA approval of Alkindi makes DNL only the third Diurnal AIM-listed company to reach this milestone. Since signing the commercial deal, ETON has been preparing to add Alkindi into its supply chain and commercial infrastructure, so that first sales can occur towards end-2020. The shares are likely to remain steady until the GM, even though they are trading well below our risk-adjusted DCF valuation (223p, unadjusted for pending enlarged capital).

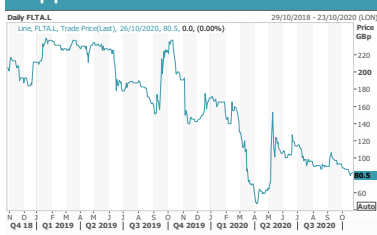
Financial summary and valuation⁺

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

*All market information and forecasts exclude the aforementioned proposed capital increase

Source: Hardman & Co Life Sciences Research

Support Services



Source: Refinitiv

FILTA GROUP

Fog lifting

Filta announced that it remained EBITDA-positive in 1H'20, despite most of its customers closing for part of the period. Business is returning as customers reopen, with sports stadia expected to be the last to resume catering. Filta has reduced costs and improved its business model. We expect it to emerge as an even better business when COVID-19 is tamed. Our 2020 forecasts remain suspended.

Market data

EPIC/TKR	FLTA
Price (p)	84
12m High (p)	196
12m Low (p)	42
Shares (m)	29
Mkt Cap (£m)	24
EV (£m)	28
Free Float*	33%
Market	AIM

*As defined by AIM Rule 26

Description

Filta Group (Filta) provides cooking oil filtration, fryer and drain management services in North America and Europe to commercial kitchens.

Company information

CEO	Jason Sayers
CFO	Brian Hogan
Chairman	Tim Worlledge

+44 1788 550100

www.filtapl.com

Key shareholders

Directors	66.4%
Gresham House	16.5%
Cannacord Genuity	3.7%

Diary

Apr'21	Preliminary results
Sep'21	Interim results

Analyst

Jason Streets 020 7194 7622
js@hardmanandco.com

► **Strategy:** Filta provides a professional service, via franchisees, to kitchens to filter their cooking oil – improving taste and saving money. Grease emanating from commercial kitchens also causes problems, and needs managing. Filta has scope to become the main player in the UK grease management business.

► **Outlook:** Business is picking up month-on-month and is back to ca.70% of pre-COVID-19 levels. Strong franchisees will prosper and weaker ones may not survive, but an economic downturn tends to lead to increased interest in franchise businesses, and Filta's recurring revenue model is an attractive one. Filta has maintained its 40% gross margin and reduced fixed overheads.

► **Valuation:** Along with our forecasts, we have suspended our valuation.

► **Risks:** The clear risk for Filta is that COVID-19 returns aggressively and its customers are unable to stay open. In the UK-owned operations, the business is heavily weighted towards 20 large operations that are well positioned to survive. Its balance sheet is relatively strong, with cash balances and low net debt.

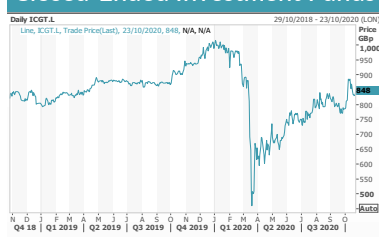
► **Investment summary:** Filta is an attractive business, in our view, combining the capital-light franchise model in North America and Europe with company-owned operations in the UK. As businesses continue to reopen, the focus on cleanliness, efficiency and environmental friendliness is unlikely to abate.

Financial summary and valuation

Year-end Dec (£000)	2015	2016	2017	2018	2019	2020E*
Revenue	7,925	8,469	11,547	14,213	24,923	
EBITDA	594	1,193	2,116	2,642	3,163	
Underlying EBIT	450	1,011	2,059	1,941	1,504	
Reported EBIT	450	(249)	1,699	1,782	1,208	
Underlying PTP	376	932	1,968	1,900	1,233	
Statutory PTP	376	(329)	1,608	1,742	936	
Underlying EPS (p)	1.39	3.66	5.05	5.39	2.40	
Statutory EPS (p)	1.39	-1.51	3.85	4.88	1.39	
Net (debt)/cash	-619	3,271	2,992	2,040	-879	
Shares issued (m)	22	23	27	29	29	
P/E (x)	60.5	23.0	16.6	15.6	35.0	
EV/EBITDA (x)	31.8	13.2	9.4	8.4	8.4	

*2020 forecasts remain suspended, Source: Hardman & Co Research

Closed-Ended Investment Funds



Source: Refinitiv

Market data

EPIC/TKR	ICGT
Price (p)	848
12m High (p)	1,015.0
12m Low (p)	460.0
Shares (m)	68.88
Mkt Cap (£m)	583
NAV p/sh (p)	1,114
Discount to NAV	24%
Market	Premium equity closed-ended inv. funds

Description

ICGT 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%
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Diary

Early Jan'21	Quarterly update
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Analyst

Mark Thomas	020 7194 7622
	mt@hardmanandco.com

ICG ENTERPRISE TRUST PLC

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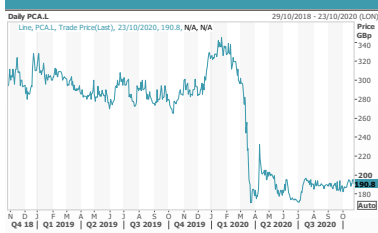
ICGT provides shareholders with access to the long-term returns generated by investing in private companies, with the benefit of the daily liquidity of an LSE quote. ICG Enterprise listed on the London Stock Exchange in 1981.

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 400 employees, based in offices in 13 countries across the world.

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](#), published on 6 July 2020, and our 8 September report, [Defensive growth: explaining downside resilience](#), can be found on the same site. You can also access a [webinar](#) hosted by Hardman & Co after the 7 October results.

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)	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%
Mitton	7.4%
J.O. Hambro	7.3%
Stanley Davis (Chairman)	3.6%

Diary

Nov'20	Interim results
Jul'21	Final results

Analyst

Mike Foster 020 7194 7622
mf@hardmanandco.com

PALACE CAPITAL

March and June rents: 94% and 90% collected

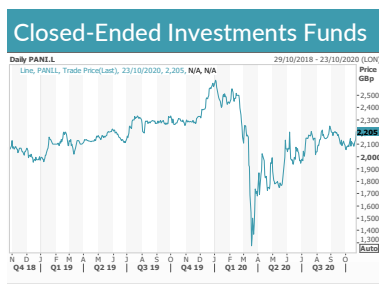
70% of all rents due on the most recent September quarter date have been collected, a higher percentage than at the equivalent stage in the previous two quarters, with November and December monthly payments to come. Half of the assets are offices. There are "chalk and cheese" differences between a 20-storey asset and the office type in which Palace Capital has invested – low-rise and well situated but also connected for car users. They offer value for money, enabling users to achieve lower desk densities per floorplate. This tenant desire is set to last for years, and Palace Capital fits the bill. Results are due this month.

- **Liquidity:** Palace Capital is set to crystallise its York Hudson Quarter development within six months. It is primarily residential, and sales are strong in terms of 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:** 2020 is a difficult year, of course; yet 94% and 90% of rents have been collected for the March and June quarters, respectively, as announced in the 13 October update provided by the company. Apartments are selling at Hudson Quarter, and several leisure tenants have extended their leases.
- **Track record:** Palace Capital's assets are more than 60% offices and industrials. This REIT has outperformed the MSCI in each of the past three years. It is very well placed to outperform again in calendar 2020, we believe. Rent collection has been hit, but slightly less than the average REIT.
- **Cash:** LTV is set for ca.40% at the peak of the development of apartments and offices within the York city walls. Crystallising the development in cash terms means LTV reduced towards 30%. Cash reserves as at 30 September 2020 were £14.3m, with a further £5.0m available from the revolving credit facility.
- **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 York cash event is prospective, as opposed to "cash in hand". The dividend has been cut, but the asset mix and cash profile, let alone the value-adding management, 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	9.7%	10.0%	10.0%	6.2%	5.6%
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



Market data

EPIC/TKR	PIN
Price (p)	2,205
12m High (p)	2,620
12m Low (p)	1,274
Shares (m)	54,089
Mkt Cap (£m)	1,193
NAV p/sh (p)*	3,007.4
Discount to NAV*	27%
Market	Premium equity closed-ended investment funds

*Manager valuations: Sep 1%, Jun 97%, Mar 1%, new investment 1%

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
Manager	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 CI	4.70%
APG Asset Mgt.	4.44%
Investec Wealth	4.37%
Private Syndicate Pty	3.76%
Brewin Dolphin	3.45%

Diary

Mid-Nov'20	Oct NAV
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Analyst

Mark Thomas	020 7194 7622
	mt@hardmanandco.com

PANTHEON INTERNATIONAL

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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 104 investment professionals globally (total staff of 348 as at September 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. As at 30 September 2020, it had 460 advisory board seats.

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, i) [History of value added to portfolio by holding Pantheon](#), published on 26 November 2019, ii) [2020 interim results consistency in delivery](#), published on 2 March 2020, iii) [Positioned for sustained growth](#), published on 14 August 2020, and iv) an annual review [Returns, resilience and responsibility](#) published on 9 October 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 Management	2.3%

Diary

Feb'21	Final results
Apr'21	AGM

Analyst

Mike Foster 020 7194 7622
mf@hardmanandco.com

PRIMARY HEALTH PROPERTIES

A share price up on a year ago

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. 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. We expect ca.£140m annual spend on real estate purchases ongoing.

- **2020:** We note that 1H'20 dividend cover stood at 100%, but the equity raise is anticipated to result in only a minimal reduction in the interest charge for 2020 – hence 2H'20 DPS dilution. The September 2019 equity raise indicated PHP's execution ability.
- **2021 and 2022:** The July 2020 equity issue was a larger raise than that of September 2019 but, by end-2021, we expect LTV to rise to 43.6%, vs. 44.2% at end-2019 and 41.5% at end-2020E. This makes 2022 the year to fully reflect PHP's ongoing potential, and could lead to ca.7% 2022E growth in EPRA EPS.
- **Valuation:** Solid growth, with low risk, is PHP's strategy, and it has succeeded in 2020. The rating reacted positively to the 2019 strategy execution, including the MedicX merger and the reduction in debt costs. As deployment comes through, it seems likely that 2021 will be another year where strong execution is rewarded.
- **Risks:** The recent placing reduced LTV from 45.8% to 40.3% on a pro-forma basis. However, COVID-19 financial resilience has illustrated PHP's index-linked, gilt-style character, interest cover is over 2.9x, and the managers have successfully deployed fresh equity in the past, without paying excessive prices.
- **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%.

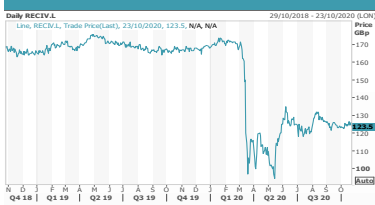
Financial summary and valuation

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

Note: 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)	123.5
12m High (p)	175.5
12m Low (p)	94.4
Shares (m)	229.3
Mkt Cap (£m)	283
NAV p/sh (p)	147.6
Disc. to NAV	16%
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-Nov'20	Oct factsheet
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Analysts

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

REAL ESTATE CREDIT INVESTMENTS

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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:

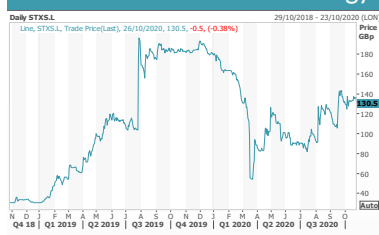
- Secured real estate loans, debentures or any other forms of debt instruments (together "Secured Debt"). Secured real estate loans are typically secured by mortgages over the property or charges over the shares of the property-owning vehicle. Individual secured debt investments will have a weighted 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, except 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)	130.0
12m High (p)	193.0
12m Low (p)	54.0
Shares (m)	117.2
Mkt Cap (£m)	152.3
EV (£m)	152.3
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 (ID) 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

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

Analyst

Martin Hall	020 7194 7622
mh@hardmanandco.com	

SHIELD THERAPEUTICS

Withdrawal of patent opposition removes uncertainty

STX is a commercial-stage company delivering specialty products that address patients' unmet medical needs, with an initial focus on treating 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 it 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 has 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.
- **Feraccru/Accrufer patent:** Considerable uncertainty was removed in October, when Teva decided to withdraw its opposition to both of STX's European patents, 2668175 and 3160951. This means that the latter patent is maintained as granted and will continue to provide protection through to October 2035.
- **Deal update:** Discussions between ASK Pharm 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:** Based on current assumptions and expectations, STX has a current cash runway through to 1Q'21 in the absence of a US licensing deal. With the second COVID-19 wave likely to affect patients' ability to get to hospitals/clinics, Feraccru provides an excellent option to physicians seeking an alternative to intravenous therapy for ID patients. Meanwhile, as noted, STX continues to work 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)	50
12m High (p)*	51
12m Low (p)	12
Shares (m)	154
Mkt Cap (£m)	77.0
EV (£m)	75.0
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.surfacettransforms.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

New client in September was game-changing

The most significant of several 2020 contract wins was announced on 14 September, from a new global customer, OEM 8. All clients are important, major businesses, and all have scope to expand their offtakes significantly in the future. Operationally, the roster of clients keeps expanding, globally. To be clear, while order volumes are not 100% guaranteed, the OEMs are selling cars that have waiting lists. Offtake remains very predictable, notwithstanding the turbulence of the economy in 2020 onwards. A small minority of sales is to non-OEM clients, and some slight risk related to COVID-19 in 2021 stems from these.

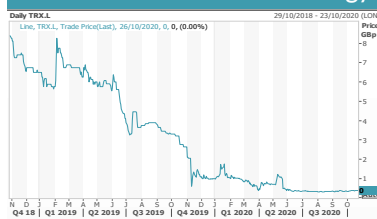
- **ST is clearly endorsed as a major supplier:** New order momentum is rising significantly – doubling in terms of 2022 sales and of the total order book, on this one contract alone. This is a global market and, while it is currently only £200m p.a. in size, the market's growth curve is rising sharply.
- **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* / Dec** (£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	28.1
EV/sales (x)	75.0	n/a	37.5	10.2	6.0
EV/EBITDA (x)	loss	loss	loss	loss	22.0
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)	0.40
12m High (p)	2.65
12m Low (p)	0.25
Shares (m)	7,033
Mkt Cap (£m)	28.1
EV (£m)	15.0
Free Float*	57%
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.tissuregenix.com

Key shareholders

Directors	3.9%
Lombard Odier	16.0%
IP Group	13.7%
R.Griffiths	10.1%
Premier Miton	10.1%
Directors	3.9%

Diary

Dec'20	Possible trading update
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Analyst

Martin Hall	020 7194 7622
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TISSUE REGENIX

Funded through to profitability

TRX is focused on the development and commercialisation of two proprietary decellularisation technologies for repair of soft tissue (dCELL) and bone (BioRinse). It has a broad portfolio of approved regenerative medicine products for the biosurgery, orthopaedics and dental markets. Over the past two years, TRX has revised its commercial strategy, restructured to service demand, and commenced a capacity expansion programme in its US facilities. As some benefits were beginning to emerge, COVID-19 caused the postponement of elective surgeries on which much of TRX's core business is derived. Despite the challenges, TRX is well positioned for growth.

- **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.
- **Trading:** 1H'20 results were in line with our expectations, with reported sales of £6.1m (£6.1m) and a greatly reduced underlying EBIT loss of £2.4m (-£4.2m). The net cash position, including the Placing in June, was £10.6m and in line with our forecast. A trading update may be issued once the impact of COVID-19 is known.
- **Expansion:** During 2019, TRX moved to two-shift manufacturing and restarted outsourcing some of its DermaPure production. Alongside this, in July 2020, an expansion programme was started to satisfy product demand through investment in its US facilities, which should see benefits from 1H'21.
- **Commercial:** In May 2020, TRX announced a white label manufacturing agreement with a top-10 global healthcare company. Following receipt of CE marking for OrthoPure XT® in June 2020, TRX has concluded a UK distribution agreement with a speciality supplier of orthopaedic and biologic products.
- **Investment summary:** TRX has a portfolio of innovative regenerative products with regulatory approval in both the US and the EU. Realignment of the commercial strategy to maximise sales potential through strategic and distribution partnerships has been successful, resulting in increased demand for its products. TRX now has the necessary funding to scale up manufacturing capacity, leaving it well positioned to deliver on future milestones, which should result in a re-rating.

Financial summary and valuation

Year-end Dec (£m)	2017	2018	2019	2020E	2021E	2022E
Sales	5.23	11.62	13.03			
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)	142
12m High (p)	148
12m Low (p)	104
Shares (m)	255
Mkt Cap (£m)	362
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

Nov'20	Interim results
May'21	Final results

Analyst

Mike Foster	020 7194 7622
mf@hardmanandco.com	

URBAN LOGISTICS

A busy year and one where the share price has risen

The £130m March equity raise has been put to work, and the £92m gross raise of end-September 2020 is now being invested. Urban Logistics acquires with a focus on strong covenants, and a bias to assets central to the supply chain of essential products and consumer goods. This sector is helped by the boom in internet fulfilment, but many of the occupiers are in other sectors of national importance. We find it noteworthy that the 2020 dividend yield is well over 5% and that physical assets trade at under replacement cost. Interim results are this month. Estimates are suspended due to the fund raise, as we calibrate the likely deployment rate.

- **Excellent rent collection again:** 99% of the rent to December 2020 was paid on time – at end-September. This is a sector where vacancies are ca.5%, with Urban Logistics effectively nil, as its locations and assets are in an excellent position.
- **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, so we estimate the stock trades at slightly below prospective NAV, on assets valued below replacement cost. We estimate that the 2021 dividend is set to register a further rise.
- **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:** Since listing on the AIM in April 2016, Urban Logistics has generated annual NAV and dividend returns of over 13% p.a. compound. Market rents are ca.9% above the REIT's current levels, as evidenced by two recent reviews. We expect that rental reviews will lead to rises and continue to enhance EPS.

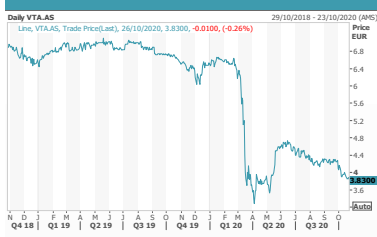
Financial summary and valuation

Year-end Mar (£m)	2018	2019	2020	2021E
Rental income	5.56	10.77	12.60	
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	4.41%	4.88%	5.30%	
Price/EPRA NAV (x)	1.15	1.05	1.05	
NAV per share (p)	123.62	137.37	137.19	
EPRA NAV per share (p)	122.49	138.18	137.19	

Finalising based on rate of new equity deployment

Source: Hardman & Co Research

Financials



Source: Refinitiv

Market data

EPIC/TKR	VT.A.NA, VT.A.LN, VTAS LN
Price (€)	3.84/4.08/357p
12m High (€)	6.74/7.04/642p
12m Low (€)	3.20/3.38/285p
NAV p/sh Aug (€)	6.08
Shares (m)	36.6
Mkt Cap (€m)	140
2019 yield	16.1%
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	Graham Harrison
Directors	Stephen Le Page
Fund Managers	Paul Varotsis
AXA IM Paris	Serge Demay
	A Martin-Min
	François Touati
Co. Sec.	BNP Paribas
/Administrator	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-Nov'20	Oct estimated NAV
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Analyst

Mark Thomas	020 7194 7622
	mt@hardmanandco.com

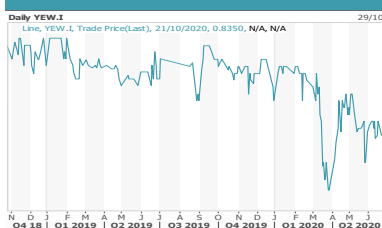
VOLTA FINANCE

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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.

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 (€)	0.86
12m High (€)	1.02
12m Low (€)	0.81
Shares (m)	111.6
Mkt Cap (€m)	96.0
EV (€m)	126.0
Free float	95%
	AIM and
Market	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. The REIT 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
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Analyst

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YEW GROVE

Strong strategy, tenants and total returns

Yew Grove invests in RoI office and industrial real estate. Throughout 2020, 97%-plus of rent has been paid on time, rising to more than 99% now. Tenants are creditworthy: 96% large corporate or government. The strategy creating such a secure income stream also brings high and rising rents. The gross yield on the portfolio is 7.9%. Yew Grove has found asset classes where buyer competition is modest. The assets are appropriate for the world of COVID-19 and post COVID-19, with generous, uncrowded floorplates. In 2020, the modest void levels have been reduced further. We note the mere 0.01% asset value fall in June.

- **All rents paid:** 4Q rent collection updates showed more than 99% of rents being paid and – although invested in offices – these are exactly the sweet spot of low-rise suburban locations. More than 90% of tenants are state bodies, governmental or multinational.
- **Strategically placed for secure, sustainable, rising income:** The target markets are 50/50 into RoI regional growth zones and the ring outside Dublin CBD. Office assets are low-rise – typically three storeys – and well connected for car users, and many are also connected to public transport.
- **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.
- **Risk mitigation:** WAULT (weighted average unexpired lease term) is 4.6 years to first break. WAULT stands at 7.7 years. Yew Grove has deployed in areas where rent rises and capital values have lagged Dublin CBD over the cycle, yet rents here are starting to outperform.
- **Investment case:** Here we have secure income. The office assets represent high-quality value for money in locations attractive to both FDI/government employers and employees. Recent weeks have seen new leases signed, including uplifted prices and filling of void space. Other secure income REITs offer, on average, dividend yields of 5.0% and share prices trading, on average, at 104% NAV.

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	-1.4	-1.3	-1.3
EPRA operating profit	0.8	6.4	7.9	8.1	9.0
Declared profit	2.4	5.1	4.5	11.8	10.7
EPS reported (c)	4.1	6.3	4.0	10.6	9.6
EPRA EPS (dil., post LTIP, c)	1.4	7.0	5.8	6.1	6.9
DPS (c)	1.0	6.8	5.5	6.0	6.8
Net (cash)/debt	-1.0	-5.8	-31.9	-31.5	-31.1
Dividend yield	n/a	7.9%	6.4%	7.0%	7.9%
Price/EPRA NAV (x)	0.86	0.87	0.88	0.83	0.81
NAV per share (c)	100.2	98.4	97.9	102.7	105.8
EPRA NAV per share (c)	100.2	98.5	97.9	102.7	105.8

Source: Yew Grove, Hardman & Co Research

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