THE MONTHLY

July 2020

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Feature article

This is an excerpt from a paper Hardman & Co published in May. The full document can be found *here*. We have NOT updated share prices, yields, P/Es, etc, and all the data was priced at 18 May 2020.

Safer harbour REITs: an update

REITs to back as investors come out of lockdown

A number of REITs have the ability to thrive in current market conditions and thereafter. Not only do they hold assets that will remain in strong demand, but they have focus and transparency. The leases and underlying rents are structured in a manner to provide long visibility, growth and security. Hardman & Co defined an investment universe of REITs that we considered provided security and "safer harbours". We introduced this universe with our report published in March 2019: *"Secure income" REITs – Safe Harbour Available*. Here, we take forward the investment case and story. We point to six REITs, in particular, where we believe the risk/reward is the most attractive.

- **2018 and 2019 saw outperformance:** Past-year outperformance in the selected universe is 11.4% (12.9% unweighted), vs. the sector, after 5.7% outperformance over the year to our 2019 report. Despite this and previous outperformance, 5%-6% yields on sustainable dividends remain available, which we consider attractive.

- **Income and transparency:** The REITs' strategies are transparent and geared to sustainable income. 42% of the UK's top 100 quoted shares have announced dividend cuts, and this may well rise to ca.50%. At worst, 20% of the market capitalisation of the REITs listed in this report will cut 2020 dividends. For most, we believe they will rise.

- **Designed for the retail, as well as institutional, investors:** Recent conditions benefit corporates, which provide personal investors with income, and such investors are even more active in the market. Search for income will not abate, and yields available here are at a premium to the wider market.

- **Risks:** COVID-19 conditions generally play to these particular REITs' strengths. They are not GDP-exposed, other than on the margin. Quoted sector (and banking system) gearing is lower, so REITs are far less exposed to treasury management mistakes. There is a solid base, albeit some are having to cut dividends.

- **Investment case:** Investors have rightly been sceptical of real estate during a crisis. In the April share price bounces, there was an initial differentiation favouring defensiveness. Our view is that this will continue, fuelled by the need for income in a world where long interest rates will be "lower for longer". With the right exposure, investors have every reason to expect attractive, positive total returns.

Financial ratings summary of selected REITs

At current prices*	Share price (p)	Change year to date	Historical dividend yield	Price to historical EPRA NAV (x)
Impact Healthcare (IHR)	96	-11.2%	6.5%	0.90
LXi (LXI)	100	-28.6%	5.8%	0.83
Primary Health Properties (PHP)**	158	-0.0%	3.6%	1.47
Residential Secure Income (RESI)	91	-7.1%	5.5%	0.83
Urban Logistics (SHED)**	122	-15.8%	6.3%	0.84
Warehouse REIT (WHR)	103	-6.4%	5.9%	0.97

This table highlights certain REITs we see as of interest. We remain positive on others, outlined in this report.
**Priced as at 18 May 2020; **Hardman & Co client. Source: Hardman & Co Research*

Executive summary

Revisiting "Secure income" REITs

Modest rents, cash transparency – attracting investor inflows

Updating our previous publication

In March 2019, we published an Insight entitled *"Secure income" REITs*, highlighting the safety that some REITs could provide to investors focused on income. It would seem appropriate to revisit the issue today, with volatile markets and scepticism in many investors' minds about the future demand for property.

We believe that some specialist REITs continue to offer comfort to income investors, and recent weakness adds to their attractions.

The investment case

A price dip in a successful cohort

2020 has confirmed "secure" status of many of the REITs we cover

The REITs covered (see page 11 of *full report*) have been designed to provide stable, rising income. Not all have succeeded, but 11 out of the 16 covered are set to avoid a cut (either announced by the Board or as per consensus forecasts), which is a much more resilient situation than that in the wider market or the wider real estate sector, in this most difficult year.

Market background has impacted share prices of successful ones...

We consider ratings attractive. Stock markets and, particularly, the real estate doyens have been weak, and cuts have hit, even in the universe in this report. This has resulted in a valuation landscape that we find particularly attractive, namely:

...which yield 5.4% on progressive dividends

- The average (unweighted) historical dividend yield stands at 5.6%, and the prospective dividend yield is just over 5% after forecasting ca.10% dividend cuts. Those REITs (11 out of the 16 in our secure income basket) where dividends are not expected to be cut yield 5.4% on historical dividends – a surprisingly modest discount to that for the entire basket.

Temporary share price weakness belies ongoing outperformance...

Although share prices have fallen recently and dividend yields are attractive, investors backing this sector are investing in long-term outperformers. This applies to both their operational performance and their stock market performance over past years. Longer-term share price trends in these REITs are strong, absolute and relative:

- The average REIT in this report has generated positive total shareholder returns (TSR) in the past year. These REITS also outperformed in the year ahead of our March 2019 report, rising more than the rise in the wider sector.

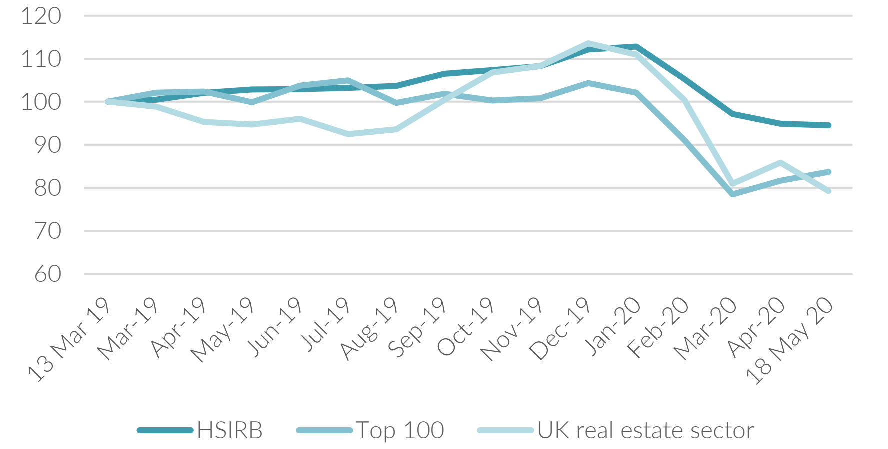
...11.4% (12.9% unweighted) 12-month outperformance

- The 11.4% (weighted), 12.9% (unweighted) outperformance vs. the UK real estate sector in the past year is based on the price moves above, versus a sector down 16.8%. Share prices in our "universe" have therefore fallen slightly.

The Hardman & Co Secure Income REIT Basket (HSIRB)

To help readers understand the resilience of the stocks we have identified, we have created a basket of them and compared this basket's performance to the 100 largest stocks on the London market, and the Real Estate sector. We chart, below, the basket of REITs created in our previous publication, which was priced on 13 March 2019. The basket is weighted and price trends to the pricing of this report, on 18 May 2020, are compared, rebased at 100.

Price performances since previous Hardman & Co sector research



HSIRB: Hardman Secure Income Real Estate Basket
Source: London Stock Exchange, Hardman & Co Research

The chart clearly demonstrates that, although the basket has fallen a little in absolute terms since we published a year ago, it has substantially outperformed both the 100 largest stocks in the market as a whole and the UK real estate sector.

For more detail on how we constructed this chart, please see the section later in this report, entitled *Methodologies, definitions and clarifications*.

The REITs' investment strategy

How do they operate and invest?

While even the successful REITs (those not cutting their dividends) here yield far more than the stock market as a whole, their prospects are resilient. We outline in this report how the REITs' portfolios are successfully constructed for secure growth:

- This is achieved through a transparent, focused strategy.
- Most REITs offer end-tenants clear value-for-money rent levels.
- The 14.1-year average WAULT (weighted average unexpired lease term) is lengthy.
- The value inherent in the rents and the overall strong lessee covenants mean the rent progression should be predictable, affordable and consistently positive.
- Excluding the student accommodation REITs, ca.75% of the leases are indexed to CPI, RPI or fixed uplifts, and this rises to 90%, including other upwards-only contracts.
- The result is that £2.2bn has been raised, or 22% of market capitalisation, as new equity in the past 24 months, in 18 fund raises.

"Safer harbour" REITs deliver on multiple attractions

Investment case for "safer harbour" or "secure income" REITs well established, and COVID-19 only accentuates their attractions further

This investment case is not about finding pockets of resilience. This report seeks a universe that is structurally better-placed than the whole equity market. COVID-19 has only highlighted the relative success of (most of) the REITs in this report.

Resilient leases and dividends

Cash, dividends and trends that were already in place

Dividends

- "Safer harbour" REITs pay the dividends. Of the 16 listed here, five (maybe in the end four) in 2020 will likely cut, but total weighted £ reduction is likely to fall by no more than 10% of the total across the 16. See page 12 of full report. The unweighted might approach 20%, dragged down principally by PBSA (purpose-built student accommodation), which – arguably – is a sector that should not qualify for this report. Dividend income in the wider market is now under permanent constraint. The broader equity-market dividend payment situation has been made much worse, permanently, by COVID-19.

Cash

- Cash is king, and much of the real estate sector remains illiquid. This applies to assets that have poor forward income visibility and very much also to the "open-ended funds" (also known as PAIFs). Again, COVID-19 simply reminds investors of existing tensions. UK all-property rents were already growing much more slowly than "safer harbour" REITs.
- While there may be concerns elsewhere in the property sector, most "safer harbour" or "secure income" REITs are collecting rent fully on time – the contrast with the broader market is quite stark. See page 35 of full report.

Assets tenants delighted with

- This is not easy, plain sailing. Several REITs in this report have reported 97%-100% rent payment on time for the quarter day end-March, but not all have. (See individual commentaries in this report.)
- The "safer harbour" REITs generally provide assets that society needs in increasing numbers, just as they generally provide income streams that investors need – a happy coincidence. One important indicator of likely success is "value-for-money."

Modest rents, and the majority is CPI/RPI-indexed

Really important that leases are not treated just as financial structures

One of the most important supports to the investment case of the REITs in this report is "value-for-money." We have referred to modest rents – the definition varies by sector – and this is an important plank in the investment case. They are a hallmark of most of the REITs in this report. We would include all "secure income" REITs, bar the PBSA REITs.

High exposure to CPI/RPI linkage

We estimate – based on results announcements, company-issued Fact Sheets and presentations – that nearly 50% weighted and nearly 60% unweighted income from these 16 "secure income" REITs is linked to CPI or RPI.

Some examples of value

Demand dynamics and rents on our six REIT highlights

REIT	Does COVID-19 boost demand?	Rents
Impact Healthcare (IHR)	Neutral	ca.10% fees
LXi (LXI)	Neutral	e.g. budget hotels
Primary Health Properties (PHP)	Yes	Value proposition
Residential Secure Income (RESI)	Yes	All rents below market
Urban Logistics (SHED)	Yes	Typical ca.£5-£6 sq. ft. p.a.
Warehouse REIT (WHR)	Yes	Typical ca.£5 -£6 sq. ft. p.a.

This table highlights certain REITs of interest. We remain positive on others, outlined in this report.
Source: Hardman & Co Research

"Modest" rents may, for example, mean that they enhance labour retention or that they are a low portion of operators' gross profits. While the rents of Primary Health Properties (PHP) are above those typical for older, smaller, converted properties, i) this is comparing "apples with bananas" in terms of quality and sustainability for both patients and GPs, ii) it is also comparing "apples with bananas" in terms of the opportunity to save the NHS money, and also improve outcomes. Purpose-built new primary medical assets offer more services, taking pressure off hospitals in areas such as testing.

A good destination for new equity

Significant, undimmed, growth momentum

With £1bn p.a. or more of new equity issuance, these 16 REITs have channelled significant new equity into growing real estate asset classes. There is still plenty of potential to deploy new equity. Even in niche sectors (e.g. supermarkets), these REITs' acquisitions have accounted for less than 10% of the asset class transaction flow.

The majority of REITs covered here are set to grow dividends

We have already seen many companies deferring, reducing or even cancelling dividend payments. These include some of the staple constituents of income portfolios, such as Shell; the past month has taught investors that owning shares in the largest 100 companies does not shield you from this risk. Statements have made it clear that the economic uncertainty ahead also casts a shadow over the immediate prospects for dividend growth.

In contrast, although the REITs covered here are likely, in aggregate, to cut dividends by up to 10% this year, we believe the majority will immediately return to dividend growth. Thus, these REITs should stand out as a much safer option than the broader market. This report seeks to verify how robust these particular REITs are, and to support our conclusion that they offer value.

New issuance

£2.2bn raise over two years – often over-subscribed

- We calculate that the REITs covered in this report have raised £2.2bn new growth equity in the past two years alone. Their market capitalisation totals £11.5bn, well up on the total as of the date of our previous report. The majority of secondary issues have raised more than the original intention.
- REITs with the attribute of strong transparency, have, understandably, a solid appeal to a broad range of shareholder classes, including direct retail investors and wealth managers.

We estimate ca.50% weighted and ca.60% unweighted income linked to CPI or RPI

Since the 2008 global financial crisis, most UK REIT equity issuance has been aimed at seekers of stable, progressive income, which hits the "bottom line" in a predictable, transparent manner. In our report published in March 2019: *"Secure income" REITs – Safe Harbour Available*, 17 such REITs were identified, whose mission was secure income, which was benefiting primarily from long-term indexed or fixed uplift income. We estimate that ca.50% of weighted and ca.60% of unweighted income is linked to CPI or RPI. Note: much is capped and collared with a 4% ceiling. It is also to be noted that, out of the 17, one small REIT (AEW Long) was delisted at a loss.

Rebuilding the UK: retail investor, as well as institutional attraction

Retail investors are increasingly important to the market, as identified by Hardman & Co's work with the Office for National Statistics, *Share ownership: for the many, not the few*, published earlier this year. The REITs highlighted here are mostly designed to fit their requirements far better than is the case for the broader market

These REITs have an advantage regarding secondary fund raises – designed with private investors and wealth managers in mind

These REITs are designed for transparency and are simple to understand. They fulfil investors' need for trusted and regular income. Many indicate their affinity by paying dividends quarterly. Indeed, our client PHP's move from bi-annual to quarterly dividend payments was well received. Retail investors have been an increasing part of the UK investor universe in recent years.

Retail investment provides new money and drives share prices

A London Stock Exchange-hosted webinar, on 7 May (which Hardman & Co co-sponsored), illustrated that, while ca.5% of transaction cash volume (a far higher number of individual transactions) is normally retail, the recent markets have frequently seen 20%. Account openings at large private investor platforms have almost trebled (as per the presentation), and the balance is ca.75% of retail orders having been buys recently. Investors and the REITs have the appetite to engage, and the "simple" REIT structure encourages this. Wealth managers feature strongly in the shareholder lists of the REITs listed here. See page 24 of full report.

In exactly right space for retail and institutional investment

We dwell on the importance of the retail investor market here, as we consider it to be particularly supportive of many of the REITs listed in this report: they are designed for the visibility towards which the current climate is leaning. We are confident that more retail interest will come – as a result of the attributes illustrated on pages 3 to 5 above.

About the author

Mike Foster is an equity analyst at Hardman & Co

Mike covers a wide range of clients in the Support Services, Building and Property sectors.

He spent his early career working in fund management with British Rail Pension Fund and Eagle Star Investment Management. He then spent two decades in sell-side research at several firms, including Peel Hunt and Crédit Lyonnais. He has covered sectors including Construction, Support Services and Real Estate. In his fund management career, he was responsible for both bond and equity portfolios.

Mike was part of the group of investors that acquired Hardman & Co in late 2012. He holds a BA (Hons) in Geography from the University of Cambridge.

E: mf@hardmanandco.com
T: +44 (0) 20 7194 7622

About the statistician

Yingheng Chen is a senior financial analyst at Hardman & Co

Yingheng has particular experience in the markets for palm oil, cocoa, citrus, coconut, Jatropha and sugar. She worked as a corporate finance analyst at the Agricultural Bank of China, and is fluent in Cantonese and Mandarin. She has a thorough understanding of the Chinese financial and business markets, as well as of those in the UK.

Yingheng joined Hardman & Co in 2008. She holds the Chartered Financial Analyst Level 2 qualification, together with a BSc in Economics from the London School of Economics.

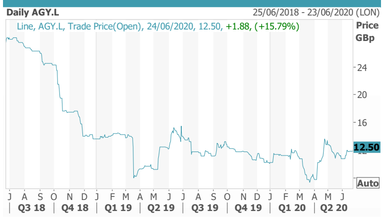
E: yc@hardmanandco.com
T: +44 (0) 20 7194 7622

Company research

Priced at 23 June 2020 (unless otherwise stated).

HARDMAN&CO.

Pharmaceuticals & Biotechnology



Source: Refinitiv

Market data	
EPIC/TKR	AGY
Price (p)	11.9
12m High (p)	15.8
12m Low (p)	7.3
Shares (m)	636.2
Mkt Cap (£m)	75.7
EV (£m)	46.9
Free Float*	41%
Market	AIM

*As defined by AIM Rule 26

Description

Allergy Therapeutics (AGY) provides information to professionals related to prevention, diagnosis and treatment of allergic conditions, with a special focus on allergy vaccination. The emphasis is on treating the underlying cause and not just the symptoms.

Company information	
CEO	Manuel Llobet
CFO	Nick Wykeman
Chairman	Peter Jensen

+44 1903 845 820
www.allergytherapeutics.com

Key shareholders	
Directors	0.7%
Abbott Labs	37.8%
Southern Fox	20.3%
SkyGem	19.5%
River & Mercantile	4.8%

Diary	
15 Jul	Trading statement
2H'21	Ph. I peanut vaccine trial

Analyst
Martin Hall 020 7194 7622
mh@hardmanandco.com

ALLERGY THERAPEUTICS

Detailed trading update due in July

AGY is a long-established specialist in the prevention, diagnosis and treatment of allergies. Pollinex Quattro (PQ) is an ultra-short-course subcutaneous allergy immunotherapy (SCIT) platform, which continues to make strong market share gains in a competitive environment. Several products using the PQ platform are in late-stage development in order to move them to full registration under new EU and US regulations. Historically, the company issues a trading update in mid-July, following its fiscal year-end, but it has made a preliminary announcement in June, as a shift in costs, notably R&D, has significantly improved profit expectations.

- **Strategy:** AGY is a fully integrated pharmaceutical company focused on the treatment of allergies. There are three parts to its strategy: i) continued development of its European business via investment or opportunistic acquisitions; ii) the US PQ opportunity; and iii) further development of its pipeline.

- **Sales:** Sales in the last quarter were impacted by the inability of patients to attend hospitals during the coronavirus lockdown. Underlying sales in fiscal 2020 have grown at about 5.3% to £77.6m, compared with our forecast of £80.0m (+8.5%). This reduces to £77.0m on a reported basis due to forex.

- **EBIT:** Despite the lower level of sales, the lockdown reduced travel, marketing and conference costs. Consequently, marketing costs are expected to be about £2m lower than previously forecast, at £25.5m. Additionally, the timing of R&D projects has been deferred – so R&D costs are expected to be ca.-£7.0m.

- **Trading update:** Full details of the improved profitability are expected to be disclosed in AGY's usual trading update on 15 July, which will provide greater transparency on the impact of COVID-19 on the cost base and timing of R&D. However, it is also likely to affect sales in the important 1H'21 trading period.

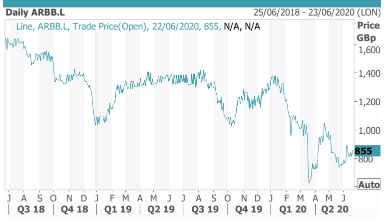
- **Investment summary:** Despite COVID-19, AGY will still be reporting another record year for sales in fiscal 2021. Also, marketing and R&D costs have clearly benefited from the lockdown. However, it is important to reflect on the fact that this is simply a deferral, particularly in the case of R&D spend, into fiscal 2021. Consideration should also be given to the rate at which hospitals are able to return to normal levels of activity.

Financial summary and valuation

Year-end Jun (£m)	2017	2018	2019	2020E	2021E	2022E
Sales	64.1	68.3	73.7	77.0	82.0	87.7
R&D investment	-9.3	-16.0	-13.0	-7.0	-17.0	-23.0
Underlying EBIT	-3.6	-7.4	-2.2	3.3	-5.5	-11.2
Reported EBIT	-2.6	-7.4	3.8	6.5	-5.5	-11.2
Underlying PBT	-3.7	-7.5	-2.3	3.1	-6.0	-11.6
Statutory PBT	-2.7	-7.5	3.7	6.3	-6.0	-11.6
Underlying EPS (p)	-0.6	-1.3	-0.4	0.3	-1.2	-2.1
Statutory EPS (p)	-0.4	-1.3	0.5	0.8	-1.1	-1.9
Net cash/(debt)	18.8	12.5	25.0	21.0	14.3	1.3
Equity issues	0.0	0.0	10.2	0.3	0.3	0.3
P/E (x)	-14.0	-6.5	-20.3	47.3	-10.0	-5.7
EV/sales (x)	0.82	0.77	0.71	0.61	0.57	0.54

Source: Hardman & Co Life Sciences Research

Financials



Source: Refinitiv

Market data

EPIC/TKR	ARBB/ARBN
Price (p)	835/800
12m High (p)	1,390
12m Low (p)	625
Shares (m)	15.4
Mkt Cap (£m)	129
Loans to deposits, 2019	77%
Free Float*	42%
Market	AIM/Aquis

**As defined by AIM Rule 26*

Description

Arbuthnot Banking Group (ABG) has a well-funded and 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

To be confirmed when current restrictions allow	AGM

Analyst

Mark Thomas 020 7194 7622
mt@hardmanandco.com

ARBUTHNOT BANKING GROUP

Positioned for any downturn

We reviewed ABG's results in our 6 April note, *2019 results: resilience into the storm*. We noted that three things make ABG resilient to the forthcoming economic storm: low-risk assets, strong capital and surplus deposits. ABG's 14 May trading statement confirmed these points, reporting 4% loan book growth in 1Q (origination up 38% on 1Q'19) and net investment management inflows. Lower interest rates squeezing margins will impact 2020 profitability significantly. However, trading at 61% of NAV implies permanent value destruction, which is contrary to the group's long- term record of value creation.

- **COVID-19 impact on ABG:** We noted the pressure on margins from lower base rates. More positively, on 3 June, Arbuthnot Latham *announced* it was an accredited lender of the government's Coronavirus Business Interruption Loan Scheme (CBILS), which may support some incremental loan growth.

- **Peer news flow:** Charles Stanley's FY *results to end March* reported growth in all three divisions: Investment Management Services, Charles Stanley Direct, Financial Planning. Close Bros' *Feb to April trading update* reported a small reduction in loans, materially higher impairments and a modest Asset Management AUM fall.

- **Valuation:** Our forecast scenarios and multiple valuation approaches see a broad range of implied valuations. Our base-case range is 871p to 1,912p, our upside scenario 1,183p to 2,377p, and our downside 782p to 1,424p. The share price is 61% of the 2019 NAV (1,364p), implying significant value destruction to perpetuity.

- **Risks:** As with any bank, the key risk from here is credit. ABG's existing business should see below-market volatility, and so the main risk lies in new lending. We believe management is cognizant of the risk and, historically, has been very conservative. Other risks include reputation, regulation and compliance.

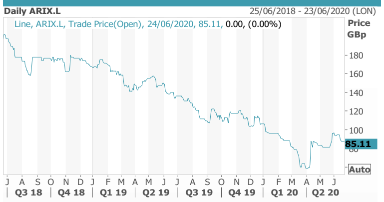
- **Investment summary:** ABG offers strong-franchise and continuing-business (normalised) profit growth. Its balance sheet strength gives it wide-ranging options to develop organic and inorganic opportunities. The latter are likely to increase in uncertain times. Management has been innovative, but also very conservative, in managing risk. Having a profitable, well-funded, well-capitalised and strongly growing bank priced well below book value appears anomalous.

Financial summary and valuation (see our note, *2019 results: resilience into the storm*, for range of scenario forecasts for 2020 and 2002)

Year-end Dec (£000)	2015	2016	2017	2018*	2019*	2020E*
Operating income	34,604	41,450	54,616	67,905	72,465	64,349
Total costs	-35,926	-46,111	-54,721	-64,982	-70,186	-62,573
Cost:income ratio	104%	111%	100%	96%	97%	97%
Total impairments	-1,284	-474	-394	-2,731	-867	-3,840
Reported PBT	-2,606	-1,966	2,534	6,780	7,011	0
Adjusted PBT	2,982	1,864	3,186	4,388	5,800	2,000
Statutory EPS (p)	86.3	1,127.3	43.9	-134.5	41.1	0.0
Adjusted EPS (p)	13.5	17.1	47.5	22.7	32.8	10.6
Loans/deposits	82%	76%	75%	71%	77%	77%
Equity/assets	5.5%	18.5%	12.8%	9.0%	8.0%	8.0%
P/adjusted earnings (x)	61.9	48.8	17.6	36.8	25.5	78.8
P/BV (x)	1.04	0.55	0.55	0.65	0.62	0.62

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

Pharmaceuticals & Biotechnology



Source: Refinitiv

Market data

EPIC/TKR	ARIX
Price (p)	85
12m High (p)	158
12m Low (p)	58
Shares (m)	135.6
Mkt Cap (£m)	115.2
NAV/share (p)	172.5
Premium/discount to NAV	-51%
Free Float	70%
Market	Main

Description

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

Company information

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

+44 20 7290 1050
www.arixbioscience.com

Key shareholders

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

Diary

Aug'20	Interim results

Analyst

Martin Hall 020 7194 7622
mh@hardmanandco.com

ARIX BIOSCIENCE

Busy conference season

ARIX is a listed global VC company that presents an opportunity for institutional and retail investors to participate in the high risk-reward profile of early-stage biotech investing. ARIX minimises risk through its expert investment team and portfolio diversification. At 31 December 2019, its published NAV was £202m, compared with £138m investment into its portfolio – currently 16 companies. With a cash position of £54m (31 December 2019), ARIX is well positioned to support its portfolio of investments. Strong gains have been registered by portfolio companies recently, which has not been reflected in the ARIX share price.

- **Strategy:** ARIX sources benefits from an established network and a strong scientific reputation. The portfolio is diversified by therapeutic area, treatment modality, stage of discovery/development and geography to balance the risk-reward profile. Value is realised when ARIX successfully exits its investments.
- **Autolus:** New data from its Phase 1 AUTO1 programme in relapsed/refractory adult B-Acute Lymphocytic Leukaemia (ALL) was presented at the European Haematology Association Virtual Congress. Event-free survival (EFS) and overall survival (OS) at six months were 62% and 72%, respectively, in all 19 patients.
- **Imara:** At the same congress, Imara presented interim results from its ongoing Phase IIa trial of IMR-687 in adult patients with sickle cell disease (SCD). Oral, once-a-day IMR-687 was reported to be safe and well tolerated as a monotherapy, and in combination with hydroxyurea (HU).
- **Iterum:** Highlighting the risks of early-stage biotech development, Iterum stated that its Phase III trial with sulopenem in complicated urinary tract infections (UTIs) did not reach its primary end-point. This was a surprise, given the strong Phase II results. Iterum will now evaluate its corporate, strategic and financial alternatives. Meanwhile, it has undertaken a $5m direct offering on NASDAQ.
- **Investment summary:** The past month has been busy for both ARIX and its portfolio companies. Results from clinical trials have generally been positive, indicating that steady progress is being made. This was tempered slightly by the news from Iterum. There has been good momentum in the share price of Imara (IMRA.OQ), which has generated some unrealised valuation gains. Meanwhile, ARIX has strengthened its scientific oversight with the establishment of a scientific advisory board, chaired by NED, Professor Trevor Jones.

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	*42.8	-	-
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	34.1	-7.2	-7.6
Profit/(loss) before tax	-7.2	37.5	-70.6	34.6	-6.8	-7.3
Underlying EPS (p)	-9.5	27.2	-49.9	23.4	-4.6	-4.9
Net cash/(debt)	74.9	91.2	53.7	44.0	32.4	20.7
Capital increase	105.1	83.5	0.0	0.0	0.0	0.0
NAV/share (p)	152.3	200.4	149.1	172.5	-	-

*Based on share prices and forex at close of business on 23 June 2020
Source: Hardman & Co Life Sciences Research

Market data

EPIC/TKR	**Private**
Price (p)	**n/a**

Description

B-North is being developed to serve the huge UK SME lending market. It has state-of-the-art technology, a regional hub model, and experienced managers to deliver a best-in-class service to SMEs and commercial brokers. It will be funded through best-buy retail deposit comparison websites. The model should have a material cost advantage over competitors, and credit risk is being tightly managed.

Company information

Chairman	Ron Emerson CBE
CEO	Jonathan Thompson
CFO	David Broadbent

Contact: investor@b-north.co.uk
Website: b-north.co.uk

Key shareholders

Directors/management	£1m+
Greater Manchester Combined Authority	Six-figure sum
HNWI	Balance

Diary

3Q'20	Banking licence (tbc)
3Q'20	Capital raise (tbc)
4Q'20	Start lending (tbc)
1H'21	Start retail deposit-taking

The seed round top-up capital raise of £2m was oversubscribed (£2.7m raised). The group now targets raising equity in 3Q'20 from institutional investors, conditional on getting its banking licence. We understand that indicative terms on a secured debt line have been received, indicating lenders' confidence in the B-North model.

Analyst

Mark Thomas 020 7194 7622
mt@hardmanandco.com

B-NORTH

Bridge over troubled waters

In our note, *Bridge over troubled waters*, published on 22 June 2020, we reviewed B-North's core competitive advantages. We considered how the COVID-19 crisis had i) impacted the competitive environment, ii) affected operational issues for B-North, and iii) impacted on the timing of the banking licence process. We believe both lending and deposit spreads will be wider, incumbents will be internally focused and customer demand higher. Unlike incumbents, B-North is not facing back-book impairment or management issues. The raising of further equity is the key next step, and is likely to reflect the improved outlook.

- **Opportunity improved:** B-North is clearly differentiated from incumbent banks, which carry a sensitivity to the economic cycle, primarily because of credit risk on historically written loans. Usually, pre-impairment operating profits improve. As a new entrant, B-North can tap into this upside, without carrying the downside risk.
- **Capital raise:** B-North intends to raise equity: £20m required initially for its banking licence, a process we understand is close to completion, infrastructure, and early-stage loan growth. In terms of timing, it may raise these funds in a single round, or as an initial issue followed by another later in the year.
- **Valuation:** Given the growth profile of the company and associated uncertainties, any valuation must be treated with extreme caution. In our *initiation report*, we gave a range of approaches, indicating that, on average, B-North's value in 2027 could be treble the amount of equity raised, and we provided a range of sensitivities.
- **Risks:** Credit risk is key for any bank. B-North will establish independent credit functions, and its technology brings it close to customers interfacing with their internal information. It has multiple options to address any loan growth shortfall. The economic cycle is important. The model is yet to be tested, and capital raised.
- **Investment summary:** B-North is still at the pre-revenue stage. Its model should be low-cost, and deliver a superior service to customers and intermediaries. It has a conservative credit culture, and uses state-of-the-art technology, written from scratch, to originate, service and manage its business. Funding will be via the deep best-buy retail deposit comparison sites. The potential market is huge, profitable and under-served, and major incumbents have selectively become uncompetitive.

Financial summary and valuation – eight-pod scenario

Year-end Sep (£m)	2019	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E
Net interest income	0.0	0.5	3.9	14.5	37.4	72.7	116.2	160.7	203.6
Costs	-2.9	-7.0	-18.0	-28.3	-36.0	-41.3	-45.5	-47.8	-52.0
Impairments	0.0	0.0	-0.2	-1.0	-3.1	-7.4	-8.9	-10.1	-10.7
Pre-tax profit	-2.9	-6.5	-14.2	-14.3	-0.6	25.9	64.7	106.5	145.4
Net interest margin	n/m	1.4%	4.0%	4.3%	4.1%	4.2%	4.2%	4.3%	4.3%
Cost:income ratio	n/m	n/m	n/m	n/m	-93%	-55%	-38%	-29%	-25%
RoE	n/m	-14%	-15%	-12%	0%	11%	20%	23%	24%
Loans	0	15	100	470	1,100	1,925	2,850	3,700	4,550
Deposits	0	0	12	329	770	1,424	2,098	2,745	3,393
Equity	1	72	86	102	154	217	298	393	502
Value at 12x P/E*	n/m	n/m	n/m	n/m	n/m	252	629	962	1,303
Value vs. cum. equity issued	n/m	n/m	n/m	n/m	n/m	1.1	2.3	2.9	3.4

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

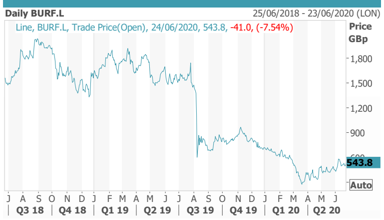
BURFORD CAPITAL

Putting fears to rest

Burford has announced its results for 2019. As previously indicated, these were lower than in the previous year. Revenue fell 17% from \$430m in 2018 to \$357m. Profit after tax, on Burford's basis, declined 31% from \$329m to \$226m. As announced earlier, there will be no final dividend, so only the interim dividend of ¢4.17 was paid for FY19. Unusually, Burford has also released a trading update for early 2020 alongside its main figures. Court results and arbitral awards have been obtained that would generate some healthy profits. Most notable is \$200m in income (\$300m in cash receipts) regarding which further legal review is unlikely.

- **New presentation:** Burford has always tried to be open about how it works, but this annual report overhauls its presentation. Additional information on commitments, fair-value accounting and returns should reassure investors and finally put to rest the hazy allegations that have been made against it.
- **Balance sheet:** Cash generation from operations was \$518m, only slightly down from the \$526m generated in 2018. With the new sovereign wealth fund arrangement in place, balance sheet deployments were much reduced at \$465m, compared with \$670m in 2018. Year-end cash was down \$71m to \$206m.
- **Risks:** The investment portfolio is highly diversified, both by number of claims and type. However, it retains some very large investments, which means revenue could be volatile, particularly in the smaller divisions. The Petersen case shows that this volatility is not simply a negative.
- **Investment summary:** Burford has already demonstrated an impressive ability to deliver good returns in a growing market, while investing its capital base. As the invested capital continues to grow, we would expect that the litigation investment business will continue to produce long-run earnings growth.

Financials



Source: Refinitiv

Market data

EPIC/TKR	BUR
Price (p)	543.8
12m High (p)	1,669.0
12m Low (p)	280.6
Shares (m)	218.6
Mkt Cap (£m)	1,191
Total Assets (\$m)	2,267
Free Float*	90%
Market	AIM

**As defined by AIM Rule 26*

Description

Burford Capital is a leading global finance and professional services firm focusing on law. Its businesses include litigation finance and risk management, asset recovery, and a wide range of legal finance and advisory activities.

Company information

CEO	Christopher Bogart
CIO	Jonathan Molot
CFO	Jim Kilman
Chairman	Sir Peter Middleton

+1 212 235 6820
www.burfordcapital.com

Key shareholders

Directors	8.8%
Invesco	9.5%
Conifer Management	6.4%
Mithaq Capital	5.1%

Diary

Sep'20	Interim results

Analyst

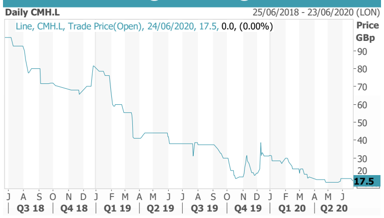
Brian Moretta 020 7194 7622
bm@hardmanandco.com

Financial summary and valuation

Year-end Dec (\$m)	2014	2015	2016	2017	2018	2019
Revenue	82.0	103.0	163.4	341.2	429.7	356.7
Operating profit	60.7	77.2	124.4	285.1	354.7	274.6
Reported net income	45.4	64.5	108.3	249.3	318.1	212.1
Underlying net income	53.0	64.5	114.2	264.8	329.0	226.3
Underlying RoE	12.1%	16.0%	22.1%	35.9%	30.2%	16.3%
Underlying EPS (\$)	0.26	0.32	0.55	1.27	1.50	1.03
Statutory EPS (\$)	0.22	0.32	0.53	1.20	1.51	0.97
DPS (\$)	0.07	0.08	0.09	0.11	0.13	0.04
Dividend yield	0.9%	1.1%	1.2%	1.4%	1.6%	0.5%
NAV per share (\$)	1.87	2.12	2.22	3.19	5.62	6.40
P/E (x) (underlying)	29.4	24.2	13.9	6.0	5.1	7.4
Price/NAV (x)	4.1	3.6	3.4	2.4	1.4	1.2

Source: Hardman & Co Research

Industrial Engineering



Source: Refinitiv

Market data

EPIC/TKR	**CMH**
Price (p)	**17.5**
12m High (p)	54.0
12m Low (p)	15.0
Shares (m)	8.3
Mkt Cap (£m)	1.4
EV (£m)	6.8
Free Float*	40%
Market	AIM

Priced as at 23 June 2020
**As defined by AIM Rule 26*

Description

Chamberlin is a UK-based industrial engineering company operating in two divisions – Foundries and Engineering. Approximately 75% of sales are exported.

Company information

CEO	Kevin Nolan
CFO	Neil Davies
Chairman	Keith Butler-Wheelhouse

+44 1922 707 100
www.chamberlin.co.uk

Key shareholders

Rights & Issues IT	12.5%
Miton Capital Partners	12.5%
Janus Henderson	9.9%
Chelverton	6.3%
Thornbridge IM	6.3%
Schroders	4.4%

Diary

Aug'20	Final results

Analyst

Paul Singer 020 7194 7622
ps@hardmanandco.com

CHAMBERLIN

Trading update encouraging

Chamberlin's recent trading update was encouraging considering the current challenging times. The company continues to take appropriate operational strategic actions. The group has been financially de-risked, but financial forecasts remain inappropriate, given low visibility on business activity.

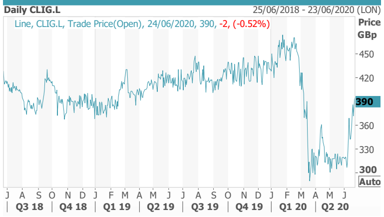
- **Trading update:** Trading for the year to 31 March 2020 was in line with market expectations; however, given the current ongoing uncertainty of future customer demand, management expects that revenue will be substantially reduced in the early part of 2020/21.
- **2020/21 forecasts** remain unpredictable and somewhat inappropriate given the global market uncertainty. Chamberlin is benefiting from restructuring initiatives with a reduced operating cost base. Management is focused on cash preservation and has taken advantage of UK government measures to support businesses.
- **Business developments:** The Walsall foundry reopened on 4 May, and production levels are broadly in line with activity seen prior to the three-week shutdown. The Scunthorpe foundry has remained operational, and is operating at full production levels. Petrel is operating at around 60% of normal sales volumes.
- **Risks:** Potential risks include developments related to the COVID-19 pandemic, the global automotive industry and Brexit uncertainties. From a financial standpoint, the group has been significantly de-risked, with the recent Exidor disposal proceeds used to reduce the pension scheme deficit and pay down debt.
- **Investment summary:** We believe the shares offer the opportunity to invest in a highly cyclical stock. They are, however, likely to tread water at current levels, until significantly brighter prospects become more evident.

Financial summary and valuation

Year-end Mar (£m)	2018	2019	2020E	2021E
Sales	30.2	33.0	26.4	
Gross profit	4.7	3.8	2.6	
EBITDA	1.2	0.9	0.0	
Underlying EBIT	-0.3	-0.9	-1.0	Forecasts
Underlying PBT	-0.7	-1.3	-1.1	currently
Underlying EPS (p)	-12.3	-16.6	-10.3	suspended
Net (debt)/cash*	-8.9	-5.4	-5.0	
P/E (x)	-	-	-	
EV/sales (x)	0.3	0.3	0.3	

**Net debt after cash position;*
Source: Hardman & Co Research

Financials



Source: Refinitiv

Market data

EPIC/TKR	**CLIG**
Price (p)	**382.0**
12m High (p)	474.0
12m Low (p)	275.0
Shares (m)	26.6
Mkt Cap (£m)	101.5
EV (£m)	89.0
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
CFO	Tracy Rodrigues
Chairman	Barry Aling

+44 20 7860 8346
www.citlon.com

Key shareholders

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

Diary

14 Jul	Pre-close update
14 Sep	Preliminary results
7 Oct	1Q FUM announcement
8 Oct	Ex-div date final dividend

Analyst

Brian Moretta 020 7194 7622
bm@hardmanandco.com

CITY OF LONDON INVESTMENT GROUP

Karpus transaction looks a winner

City of London has announced a merger with Karpus Management Inc, a US SEC-registered investment adviser. Based in upstate New York, it is focused on wealth management for HNW individuals and, as of end-March, it had FUM of $3.22bn. Like City of London, it invests primarily through funds. Its main focus is closed-ended funds (CEFs), but it also uses mutual funds, ETFs and other vehicles. With a range of balanced mandates, on an underlying basis, 39% of assets are equities, predominantly in the US, and 61% are fixed income. City of London will be significantly diversifying its exposure by asset class and client type.

- **Finances:** Private client management has a higher revenue margin than City of London's institutional business. Karpus is also run very efficiently and, ex the compensation of the departing founder, generates a higher profit, with an estimated adjusted PBT of $16.0m in FY'19 and $8.9m in 1H'20.

- **Earnings upgrades:** We have significantly upgraded our earnings estimates. We estimate that Karpus will enhance EPS by 15% in 2021 and 14% in 2022. There are also significant increases from market improvements. In addition, we have upgraded our dividend forecasts and have restored increases in 2021 and 2022.

- **Valuation:** The 2021E P/E of 8.1x is at a discount to the peer group. The underlying 2021E yield of 7.9% is very attractive, in our view, and should, at the very least, provide support for the shares in the current markets.

- **Risks:** Although emerging markets can be volatile, City of London has proved to be more robust than some other EM fund managers, aided by its good performance and strong client servicing. Further market volatility could increase the risk of such outflows, although increased diversification is also mitigating this.

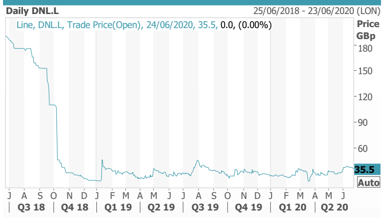
- **Investment summary:** Having shown robust performance in challenging market conditions, City of London is now reaping the benefits in a more supportive environment. The valuation remains reasonable. FY'17 and FY'18 both saw dividend increases. With the EPS upgrades from Karpus, the prospects for future dividend increases look very good.

Financial summary and valuation

Year-end Jun (£m)	2017	2018	2019*	2020E	2021E	2022E
FUM ($bn)	4.66	5.11	5.39	5.44	9.60	10.24
Revenue	31.29	33.93	31.93	32.35	52.26	61.81
Statutory PTP	11.59	12.79	11.40	8.75	25.40	31.79
Statutory EPS (p)	36.9	39.5	34.9	28.0	47.1	51.8
DPS (p)	25.0	27.0	27.0	28.0	30.0	33.0
Special dividend (p)			13.5			
P/E (x)	10.4	9.7	10.9	13.7	8.1	7.4
Dividend yield	6.5%	7.1%	10.6%	7.3%	7.9%	8.6%

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

Pharmaceuticals & Biotechnology



Source: Refinitiv

Market data	
EPIC/TKR	**DNL**
Price (p)	**35.5**
12m High (p)	46.0
12m Low (p)	21.0
Shares (m)	121.6
Mkt Cap (£m)	43.2
EV (£m)	26.2
Free Float*	49%
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	2.9%
IP Group	36.2%
Finance Wales	9.5%
Polar Capital	8.1%
Amati VCT	7.8%
Richard Griffiths	5.1%

Diary	
Jul'20	Trading statement
Sep'20	Final results
29 Sep	Alkindi PDUFA date

Analyst

Martin Hall 020 7194 7622
mh@hardmanandco.com

DIURNAL GROUP

Potentially busy month ahead

DNL is a commercial-stage specialty pharmaceutical company focused on diseases of the endocrine system. Its two lead products target rare conditions where medical needs are currently unmet, with the aim of building a long-term "Adrenal Franchise". 2020 is expected to be a busy year, with market authorisations and a US commercial partnership for Alkindi. The US licensing deal with Eton Pharmaceuticals has strengthened the group's financial position. The coming month will be notable for conference presentations, potentially some regulatory news, and a trading update for the market with respect to fiscal 2020.

- **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.

- **Chairman:** On 5 March 2020, the non-executive chairman of DNL, Peter Allen, announced his intention to step down after five years in the post, effective 30 June 2020. Sam Williams, current NED and representative of major shareholder, IP Group, will fulfil the role on an interim basis until a new chairman is appointed.

- **Trading update:** Towards the end of July, DNL is likely to release an update for the full year, with results usually announced in September. DNL was positioned well with respect to COVID-19, and no major impact is expected, but we are wary that the reduced ability of patients to visit clinics/hospitals can affect sales.

- **Regulatory news:** Early July sees the first anniversary for the Alkindi marketing application with the Australian Therapeutic Good Administration (TGA) by its commercial partner in Australia and New Zealand, Emerge Health. Therefore, there is the possibility for marketing approval in Australia and, potentially, Israel.

- **Investment summary:** The company is well positioned to withstand a long period of lockdown, with sufficient supplies of its commercially available drugs. New funding via the March Placing of shares to raise £10.7m (net), together with the upfront receipt from Eton, leave the company with sufficient cash to take it through to profitability, based on current forecasts.

Financial summary and valuation

Year-end Jun (£m)	2017	2018	2019	2020E	2021E	2022E
Sales	0.00	0.07	1.04	2.41	5.76	16.16
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	-14.50	-5.16	-6.56	0.19
Underlying EBIT	-12.08	-16.98	-14.53	-5.18	-6.58	0.17
Statutory EBIT	-12.08	-16.98	-14.53	-5.18	-6.58	0.17
Underlying PBT	-12.16	-17.11	-14.40	-5.13	-6.50	0.21
Statutory PBT	-12.16	-16.91	-14.40	-5.13	-6.50	0.21
Underlying EPS (p)	-18.04	-27.16	-14.54	-4.24	-4.44	1.35
Statutory EPS (p)	-18.04	-26.78	-19.70	-4.24	-4.44	1.35
Net (debt)/cash	16.37	17.28	9.15	15.82	8.48	7.76
Equity issues	0.05	13.40	5.53	10.70	0.00	0.00

Source: Hardman & Co Life Sciences Research

HAYDALE

Commercial traction continues; trading still challenging

Commercial traction continues to develop most favourably, but near-term trading remains soft, and medium-term financial issues are continually being addressed. The long-term risk/reward balance remains favourable, we believe. The markets, though, await clear evidence of revenue visibility becoming more apparent.

- **Corporate developments:** Haydale has just announced (29 June 2020), further to the successful Phase 1 collaboration agreement, the Phase 2 Development Agreement with IRPC to develop transparent graphene and functionalised acetylene black conductive screen printing inks. Haydale will receive an upfront fee and a second payment following submission of the final report.

- **Previous developments:** The four-year exclusive DLYB distribution agreement to market Haydale's electrically conductive graphene-enhanced masterbatches in the Chinese and Taiwan markets is positive. Haydale will receive an initial licence fee and, in 2021, revenues will start at $0.3m, rising annually thereafter.

- **Current trading:** Haydale has revealed a slowdown in many of its markets, in particular the US aviation industry. This has significantly affected its silicon carbide business. Haydale will now fall markedly short of its trading expectations. With market visibility low, 2019/20 and 2020/21 forecasts remain suspended.

- **Financial position:** The Group's cash position was £2.7m at December 2019. A range of financial measures have now been implemented to mitigate the impact of COVID-19. The group has sufficient reserves to manage the impact, and continues to take steps to preserve its cash position.

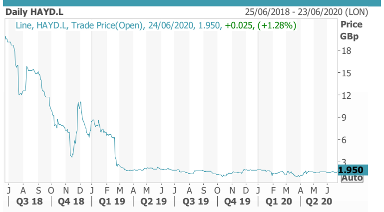
- **Investment summary:** Haydale remains well positioned competitively, with a proprietary nanomaterial functionalisation plasma process. Commercial traction continues its recovery, and the group has been financially de-risked. While the risk/reward balance remains favourable on a long-term basis, in our view, the market awaits clear evidence that future revenues are becoming more apparent.

Financial summary and valuation

Year-end Jun (£m)	2018	2019	2020E	2021E
Sales	3.4	3.5	Forecasts currently suspended	
Gross profit	2.0	1.9		
Grant income	0.8	0.8		
EBITDA	-4.9	-4.4		
Underlying EBIT	-5.7	-5.5		
Reported EBIT	-6.0	-7.5		
Underlying PBT	-5.8	-5.6		
Underlying EPS (p)	-22.4	-2.9		
Statutory EPS (p)	-23.7	-4.1		
Net (debt)/cash	4.2	3.4		
EV/sales (x)	0.1	0.1		

Source: Hardman & Co Research

Specialty Chemicals



Source: Refinitiv

Market data

EPIC/TKR	**HAYD**
Price (p)	**2.1**
12m High (p)	2.4
12m Low (p)	0.8
Shares (m)	340.2
Mkt Cap (£m)	7.0
EV (£m)	3.6
Free Float*	100%
Market	AIM

**As defined by AIM Rule 26*
Priced at 29 June 2020

Description

Haydale is involved in the production and functionalisation of nanomaterials, with key growth areas being silicon carbide (75% of revenues), functionalised inks and graphene composites.

Company information

CEO	Keith Broadbent
CFO	Mark Chapman
Chairman	David Banks

+44 1269 842 946
www.haydale.com

Key shareholders

Quilter Plc	13.3%
Anthony Best	11.4%
Nicholas Audley Money-Kyrle	8.3%
David & Monique Newlands	3.8%
Others	63.2%

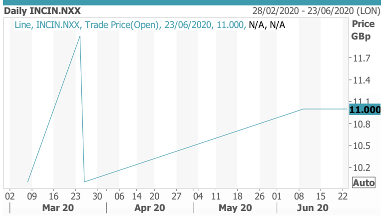
Diary

Sep'20	Final results

Analyst

Paul Singer 020 7194 7622
ps@hardmanandco.com

Pharmaceuticals & Biotechnology



Source: Refinitiv

Market data

EPIC/TKR	**INC**
Price (p)	**12.0**
12m High (p)	12.0
12m Low (p)	9.5
Shares (m)	60.9
Mkt Cap (£m)	7.3
EV (£m)	6.9
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 1618 175 005
www.incanthera.com

Key shareholders

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

Diary

15 Jul	AGM

Analyst

Martin Hall 020 7194 7622
mh@hardmanandco.com

INCANTHERA

AGM – due 15 July

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. INC listed on the Aquis Exchange in February 2020, raising £1.2m new capital for the development of an advanced topical skin product, Sol, that prevents sun damage developing into skin cancers, which should be ready for commercialisation with a partner in the near term.

- **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.

- **Focus:** INC is developing lead candidate, Sol, a topical cream containing an active ingredient known to prevent skin cancer, for the skincare market. An optimised programme of work is aimed at preparing the product to be ready for commercialisation – a significant value inflection point.

- **AGM:** Last month, INC released its inaugural set of results, following a successful listing on the Aquis Exchange (AQSE) in February. At 31 March, INC had net cash of £392k and a call option for a further £350k. The annual report is online, with the AGM on 15 July.

- **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)	7.24
12m High (p)	48.6
12m Low (p)	8.35
Shares (m)	312.0
Mkt Cap (£m)	23
EV (£m)	275
Free Float	99%
Market	Main

Priced at 29 June 2020

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 3869 9026
www.nonstandardfinance.com

Key shareholders

Alchemy	29.95%
Aberforth Partners	17.64%
Marathon Asset Mgt.	11.24%

Diary

Jul'20	Announcement re discussions with shareholders on potential equity raise

Analyst

Mark Thomas 020 7194 7622
mt@hardmanandco.com

NON-STANDARD FINANCE

Strong 2019 results, 2020 uncertainty

Key results and presentation takeaways were i) solid underlying 2019 with normalised operating profits up 20% and impairments to revenue improving, ii) £60m cash in bank with April and May cash-generative, and iii) current collections 86% of pre-lockdown levels. NSF is a "going concern" and is considering an equity raise to help fund additional growth. On the downside: i) 2019 statutory loss with further material goodwill impairments; ii) material uncertainty arising from potential effects of COVID-19 on income and impairments and so, possibly, its going-concern status; and iii) operating performance needs to improve for further securitisation-line drawings (waiver to securitisation covenants extended on 29 June).

- **Long-term opportunity:** We have emphasised before how, in a downturn, increased demand for non-standard lending, combined with wider spreads, can more than offset higher impairments. NSF's balance sheet is such that, to take full advantage of this opportunity, an equity raise may be required.
- **Short-term uncertainty:** COVID-19 creates uncertainty on loan volumes (and so income) as well as impairment. NSF is solvent and liquid in its base-case scenario, and so the business is a "going concern". However, a much more severe downturn could see further financing covenants breached and a risk to this status.
- **Valuation:** Near-term earnings, and dividend progression, are unlikely to be reflective of the long-term business outlook and are likely to be highly variable. For a profitable, growing business, the long-term Gordon Growth Model implies a value above book (2019 tangible book value £40m, market capitalisation £23m).
- **Risks:** Credit risk remains the biggest threat to profitability (this is mitigated through high risk-adjusted margins and good customer relationships), and NSF's model accepts higher credit risk where a higher yield justifies it. As noted above, COVID-19 also presents threats to income.
- **Investment summary:** Notwithstanding short-term uncertainty, substantial medium- and long-term value should be created, as i) demand for, and pricing of, non-standard finance is likely to be strong for at least the next couple of years following the fallout from the COVID-19 crisis, ii) NSF has substantial committed medium-term debt funding, iii) competitors have withdrawn (and more may do so), and iv) NSF has a highly experienced management team. We will provide a range of forecasts/valuations with our full results note.

Financial summary and valuation (we will be introducing a range of forecast scenarios for 2020/2021 with the results note)

Year-end Dec (£000)	2017	2018	2019*
Reported revenue	121,682	168,128	184,611
Total impairments	-28,795	-43,738	-46,660
Total costs	-69,203	-89,082	-95,786
EBITDA	23,684	33,714	42,165
Adjusted PBT	13,203	12,607	14,707
Statutory PBT	-13,021	-2,365	-75,976
Pro-forma EPS (p)	3.44	3.06	3.66
DPS (p)	2.20	2.60	0.70
P/E (adjusted, x)	2.1	2.1	2.0
P/BV (x)	0.1	0.1	0.2
P/tangible book (x)	0.3	0.4	0.6
Dividend yield	30.4%	35.9%	9.7%

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

Real Estate

Source: Refinitiv

Market data

EPIC/TKR	**PCA**
Price (p)	**181**
12m High (p)	350
12m Low (p)	170
Shares (m)	45.9
Mkt Cap (£m)	83
EV (£m)	191
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

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

Diary

7 Jul	Final results
Aug'20	AGM
Nov'20	Interim results

Analyst

Mike Foster 020 7194 7633
mf@hardmanandco.com

PALACE CAPITAL

A good hand, attractively priced

Palace Capital's healthy liquidity position takes risks down to a modest level, as does its overweight position to regional offices and the broader asset-class balance. The risk on the Hudson Quarter development site is also low, and places Palace Capital in the robust segments of the sector. Hudson Quarter, within the York city walls, has been selling well. This provides upside – with risks tightly controlled and manageable – to NAV from developments and medium-term asset management plans. Pre- and post-COVID-19, the income yield is above the market average, and with below-market risk.

- **Four pillars:** Palace Capital has four strategic benefits: i) strong sectoral and regional exposure; ii) development opportunities to optimise income and capital values; iii) a strong balance sheet, strengthening further via development sales; and iv) evident medium-term, value-creating opportunities.
- **Results due this week:** We shall look out for visibility on the York mixed-use development, with residential markets being "open for business", but perhaps at lower prices. Commercial markets are still in the process of opening back up, so little hard news is anticipated, but the gross cash position will be of interest.
- **Valuation:** This is a strongly positioned regional REIT. The regional peer group tends not to undertake development, which we see as a Palace Capital upside, but the market does not price as such. Price to historical NAV for Palace Capital is 31ppts below the (unweighted) average for the regional REIT universe.
- **Risks:** LTV is set for ca.40% at the peak of the apartment and office development project within the York city walls. The latter can be retained or sold, thereby ensuring enhanced income, as well as reduced debt. Current markets are uncertain, and Palace Capital has not commented on calendar 2020.
- **Investment summary:** A comparison with the sector is straightforward. The sectoral and regional exposures point to outperformance in capital values, rental change and total returns. While markets do all present challenges and reduced clarity, this positioning and the embedded value-adding specific future events are major positives. In current markets, short-term NAV prospects are volatile.

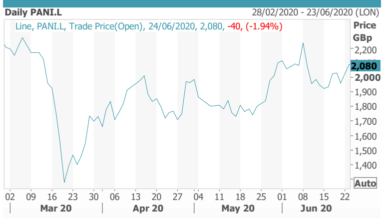
Financial summary and valuation

Year-end Mar (£m)	FY17	FY18	FY19	FY20E	FY21E
Net income	12.2	14.9	16.4	19.0	
Finance cost	-3.0	-3.4	-4.6	-4.0	
Declared profit	12.6	13.3	6.4	-12.6	
EPRA PBT	6.4	7.5	8.6	11.0	Awaiting FY20 results announcement
EPS reported (diluted, p)	36.5	35.8	11.3	-13.1	
EPRA EPS (p)	21.2	18.7	16.5	23.2	
DPS (p)	18.5	19.0	19.0	14.3	
Net cash/debt	-68.6	-82.4	-96.5	-108.6	
Dividend yield	10.6%	10.9%	10.9%	8.1%	
Price/EPRA NAV	39.5%	42.2%	43.0%	46.7%	
EPRA NAV (p)	443.0	414.8	406.6	375.0	
LTV	37.3%	29.9%	33.8%	38.7%	

Source: Hardman & Co Research

PANTHEON INTERNATIONAL

Closed-Ended Investments Funds



Source: Refinitiv

Market data

EPIC/TKR	**PIN**
Price (p)	**2,065**
12m High (p)	2,620
12m Low (p)	1,274
Shares (m)	54.089
Mkt Cap (£m)	1,117
NAV p/sh (p)*	2,729.9
Discount to NAV*	24%
Market	Premium equity closed-ended investment funds

**Manager valuations: 86% Dec'19, 14% more recent; cut by 226.3p for "Manager's Provision"*

Description

The investment objective of Pantheon International Plc (PIP) is to maximise capital growth by investing in a diversified portfolio of 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'19)

USS	8.2%
Merian	7.0%
Esperides SA SICAV- SIF	5.7%
East Riding of Yorkshire	4.7%
APG Asset Mgt.	4.4%
Investec Wealth	4.4%
Private Syndicate pty.	3.8%
Brewin Dolphin	3.4%

Diary

Early Jul	May performance update

Analyst

Mark Thomas 020 7194 7622
mt@hardmanandco.com

PIP is an investment trust that invests in a diversified portfolio of private equity (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.

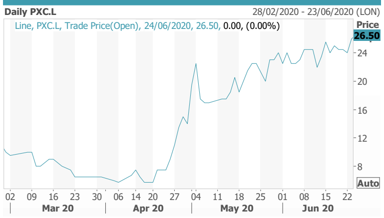
PIP is managed by Pantheon, one of the world's foremost PE specialists. Founded in 1982, with assets under management (AUM) of $49.1bn (as at 31 December 2019), and a team of 99 investment professionals globally (total staff of 330 as at March 2020), Pantheon is a recognised investment leader, with a strong track record of investing in PE funds over various market cycles in both the primary and secondary markets, as well as a track record of 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, by investing in carefully selected funds operating in different regions of the world.

PIP, like all private equity investors, is reliant on calculating its NAV on underlying manager valuations. This can see a delay in market rating changes feeding through to PIP's NAV. It has tried to eliminate this distortion and, in its *30 April monthly performance report,* PIP noted NAV of 2,794.9p, based off 94% of December valuations, which were then adjusted down by £122m (226.3p per share), to reflect underlying manager feedback and market movements since. That report detailed the methodology used in assessing the manager's provision. The *26 May performance update* reported that the provision had been left unchanged to end-April. It will be released when the March actual number are published in early July.

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, and *2020 interim results consistency in delivery,* published on 2 March 2020, can be found on the same site.

Mining



Source: Refinitiv

Market data

EPIC/TKR	**PXC**
Price (p)	**25.10**
12m High (p)	28.75
12m Low (p)	5.00
Shares (m)	62.46
Mkt Cap (£m)	15.68
EV (£m)	16.27
Free Float*	84.30%
Market	AIM

**As defined by AIM Rule 26*

Description

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

Company information

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

+44 7590 216 657
www.phoenixcopperlimited.com

Key shareholders

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

Diary

Jun'20	Assay drilling results
3Q'20	Updated resources

Analyst

Paul Mylchreest 020 7194 7622
pm@hardmanandco.com

PHOENIX COPPER LTD

A potential world-class copper-silver-gold mine

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

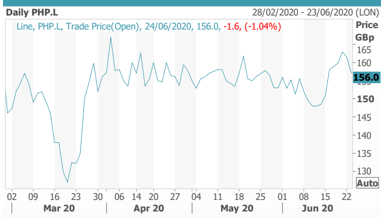
- **Strategy:** PXC focuses on near-term cashflow, and will maximise returns/ minimise risk to shareholders by developing a potentially world-class copper-silver-gold deposit in stages. Empire was formerly a very high-grade underground copper mine (recovering 3.64% Cu), shut down due to World War II.
- **Recent announcements:** On 4 May 2020, a new NI43-101 resource for Empire was announced by re-evaluating the existing ore body. This increased the gold and silver resources by 87% and 29%, respectively. The notional gold value at $1,600/oz is $547.6m and the silver value at $19.00/oz is $180.5m.
- **Red Star update:** The Red Star mine development is being fast-tracked, with production possible by end-2021. This year's drilling programme will see a further 20 drill holes to upgrade/enlarge the existing resource. The initial three holes led to an inferred resource of 103,500 tonnes of ore and 0.58m oz. of silver.
- **Risks:** PXC is subject to normal risks for a junior mining company. These include volatility in copper and zinc prices, operational risks in executing the mining plan, running downstream processing facilities and funding risks. We believe that jurisdictional risk is significantly reduced in PXC's case due to the Idaho location.
- **Investment summary:** Our DCF valuation is 31p/share, based solely on the silver mine, a cautious (for now) 15% discount rate and a long-term silver price of $19.00/oz. PXC's share price is highly geared to the upside thesis for silver (and copper), with each $1.00/oz adding an estimated 6.2p-6.3p/share.

Financial summary and valuation

Year-end Dec ($m)	2017	2018	2019	2020E	2021E	2022E
Sales	0	0	0	0	0	48,800
Underlying EBIT	-1.058	-1.654	-1.105	-1.282	-2.082	0.787
Reported EBIT	-1.058	-1.654	-1.105	-1.282	-2.082	0.787
Underlying PTP	-1.056	-1.652	-1.128	-1.380	-5.069	-2.708
Statutory PTP	-1.056	-1.652	-1.128	-1.380	-5.069	-2.708
Underlying EPS (c)	-8.20	-5.82	-2.76	-2.44	-3.30	7.15
Statutory EPS (c)	-8.20	-5.82	-2.76	-2.44	-3.30	7.15
Net (debt)/cash	1.904	0.113	-0.589	-0.953	-26.530	-8.895
Average shares (m)	16.498	28.273	40.862	56.436	82.086	82.086
P/E (x)	n/a	n/a	n/a	n/a	n/a	4.4
Dividend yield	n/a	n/a	n/a	n/a	n/a	n/a
FCF yield	n/a	n/a	n/a	n/a	n/a	77.2%

Source: Hardman & Co Research

Real Estate



Source: Refinitiv

Market data

EPIC/TKR	**PHP**
Price (p)	**153**
12m High (p)	161
12m Low (p)	115
Shares (m)	1,220
Mkt Cap (£m)	1,866
EV (£m)	3,000
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	1.0%
Blackrock	6.7%
CCLA	5.3%
Investec Wealth	5.0%
Vanguard Group	2.7%
Troy Asset	2.3%

Diary

Jul'20	Interim results
Feb'21	Final results

PRIMARY HEALTH PROPERTIES

Gilt-edged stock on a near 4% dividend yield

PHP has several drivers to EPS growth, one of which is capital deployment. Recent announcements confirm progress on this front. Other drivers include progressive refinancing of debt and rent rises. Results are due this month, and it will be noteworthy to see the quantum of rent rises, which are modestly accelerating. The rises are still only ca.2%, but three points are important: i) a number of leases are RPI-linked; ii) the open market rents are contractually upwards-only; and iii) those rents are firming up. The search for income will continue to point investors towards stocks that generate reliable income.

- **A sector to back**: There is a threefold support to valuations. The covered dividend is supported by the long-lease, upward-only rents. This is PHP's 23rd year of rising dividends. This is a market where the trend in rent rises is actually accelerating.

- **Growth**: We have listed the drivers to DPS growth and, "on the ground", PHP continues to acquire assets. A £3.3m purchase was completed on 22 June. On 28 May, PHP announced forward funding for an €18 Irish asset. Despite COVID-19, transactions in this sector proceed virtually unaffected.

- **Valuation:** The recently declared 1.475p 3Q'20 dividend represents an annualised (2020E) dividend yield of 3.8%. Given dividend cuts elsewhere, this yield actually represents a premium to the market for 2020. We have illustrated PHP's index-linked, gilt-style character, and this puts the yield in context.

- **Risks:** There are over £340m of undrawn loan facilities added to cash on deposit. Interest cover is 2.7x. We estimate a 46.8% end-2020 LTV. No development risk is taken, and rents are upwards-only. We consider COVID-19, on balance, not a risk for PHP, but, currently, many patient visits are online.

- **Investment summary:** The upwards-only rents and the ongoing debt refinancing have significantly enhanced EPS, but the benefits so far are only partly reflected in the numbers. Progressive incremental capital deployment enhances EPS, with RoI investment achieving slightly higher returns than the UK. There is a clear road ahead for EPS growth.

Financial summary and valuation

Year-end Dec (£m)	2017	2018	2019	2020E	2021E
Income	71.3	76.4	115.7	134.0	143.0
Finance costs	-31.6	-29.7	-43.7	-46.5	-48.8
Declared profit	91.9	74.3	-70.2	112.4	133.7
EPRA PBT	31.0	36.8	59.7	72.4	78.7
EPS reported (p)	15.3	10.5	-6.4	9.2	10.9
EPRA EPS (diluted, p)	5.1	5.2	5.4	5.9	6.4
DPS (p)	5.25	5.40	5.60	5.90	6.12
Net debt	-726.6	-670.2	-1,120.8	-1,249.3	-1,382.9
Dividend yield	3.4%	3.6%	3.7%	3.8%	4.0%
Price/EPRA NAV (x)	1.52	1.45	1.41	1.39	1.32
IFRS NAV per share (p)	94.7	102.6	101.0	103.7	108.7
EPRA NAV per share (p)	100.7	105.1	107.9	110.3	115.3

EPRA EPS and EPRA NAV adjusted as per PHP definition; Source: Hardman & Co Research

Analyst

Mike Foster 020 7194 7622
mf@hardmanandco.com

R.E.A. Holdings

June trading update

In REA's June trading update, the company reported that COVID-19 had not had a significant negative impact on its operations in Indonesia. The company has maintained its fertiliser application regime, despite the persistently weak CPO price. REA continues to push for improvements, with rigorous loose fruit collection, and greater efficiency in both fruit transport and mill operations. FFB production increased some 7.3% to the end of May, to 295,000 mt, and oil extraction rates (OER) were up to 23.1% (22.9% May 2019). Both metrics place the group's efficiency in the top quartile for the plantation sector.

- **CPO price:** This has recovered over $100/mt since mid-May to $620/mt (22 June). Some factors supporting the price in 2020/21, aging trees and reduced fertiliser usage during the low 2019 CPO price, particularly for smallholders, will have a significant negative impact on production over the next couple of years.

- **Stone:** Since the announcement in the FY'19 annual report, a neighbouring coal company has commenced land clearing for the road that will be built through REA's estates. It will utilise stone sourced from REA's andesite stone concession. This will be on similar terms to those agreed for the Kota Bangun coal concession.

- **Coal:** In 2019, the concession holding company appointed a contractor to provide mining services. It will fund all further expenditure requirements in exchange for participation in profits that may be generated from the mine. COVID-19 has delayed coal mining commencement, which may now not start until 2021.

- **Global palm oil consumption:** According to *Oil World*, world palm oil consumption is expected to shrink in the 2019/20 season, for the first time in over 30 years. A ca.1.1m mt consumption decline forecast from the prior year, however, with 76.5m mt global consumption, would still exceed expected production.

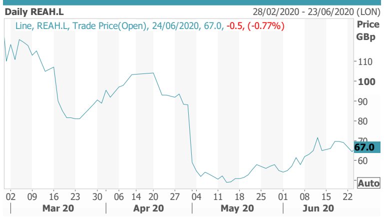
- **Summary:** There are uncertainties in both supply and demand. The possibility of a production fall in small producers and how much palm oil will be absorbed by biodiesel production, given the current gas oil price level, remain uncertain. However, we are expecting a gradual increase in demand globally, as countries emerge from lockdowns caused by COVID-19.

Financial summary and valuation

Year-end Dec ($m)	2016	2017	2018	2019	2020E
Sales	79.3	100.2	105.5	125.0	
EBITDA	16.8	20.7	12.8	18.2	
Reported EBIT	-5.0	-2.2	-10.7	-9.1	
Adjusted PBT	-18.4	-18.3	-20.3	-35.1	Forecasts
EPS (c)	-48.2	-67.0	-54.4	-43.1	under
DPS (p)	0.0	0.0	0.0	0.0	review
Net (debt)/cash	-205.1	-211.7	-189.6	-207.8	
P/E (x)	-	-	-	-	
Total planted hectare (ha)	42,846	44,094	36,500	36,154	
Adj. EV/planted ha ($/ha)*	6,235	6,043	7,078	7,026	
CPO production (mt)	127,697	143,916	217,721	224,856	

**EV/planted ha includes mkt. cap. of 9% pref. shares; Source: Hardman & Co Research*

Food Producers



Source: Refinitiv

Market data

EPIC/TKR	**RE./RE.B**
Price (p)	**64.5/60.3**
12m High (p)	186.0
12m Low (p)	48.0
Shares Ord (m)	44.0
Shares Prefs (m)	72.0
Mkt Cap Ord (£m)	28.3
Mkt Cap Prefs (£m)	43.4
EV (£m)	311.3
Free Float	27.6%
Market	MAIN

Description

R.E.A. Holdings (REA) is engaged in the operation and further development of palm oil plantations in East Kalimantan, Indonesia. The group also has interests, by way of loans to local companies, in stone quarrying and coal mining concessions.

Company information

Managing Director	Carol Gysin
Chairman	David Blackett

+44 20 7436 7877
www.rea.co.uk

Key shareholders

Directors	31.4%
M&G Investment	19.9%
Nokia Bell Pensioenfonds	9.3%
Aberforth Partners	6.7%
Artemis	5.6%

Diary

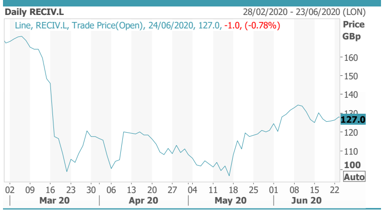
Sep'20	Interim results

Analyst

Yingheng Chen 020 7194 7622
yc@hardmanandco.com

REAL ESTATE CREDIT INVESTMENTS

Diversified Financial Services



Source: Refinitiv

Market data

EPIC/TKR	**RECI**
Price (p)	**127.5**
12m High (p)	175.5
12m Low (p)	94.4
Shares (m)	229.3
Mkt Cap (£m)	293
NAV p/sh (p)	149.1
Disc. to NAV	14%
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, France and Germany.

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 20 7968 7328
www.recreditinvest.com

Key shareholders (pre-placement)

Bank Leumi	8.6%
AXA SA	8.4%
Close Bros	8.2%
Premier AM	8.2%
Fidelity	8.0%
Canaccord Genuity Group	7.7%
Smith and Williamson	6.7%

Diary

Mid-Jul	Jun factsheet

Analysts

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

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

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

- Secured real estate loans, debentures or any other forms of debt instruments (together "Secured Debt"). Secured real estate loans are typically secured by mortgages over the property or charges over the shares of the property-owning vehicle. Individual secured debt investments will have a weighted average life profile ranging from six months to 15 years. Investments in secured debt will also be directly or indirectly secured by one or more commercial or residential properties, and will not exceed an LTV of 85% at the time of investment.
- Listed debt securities and securitised tranches of real estate-related debt securities – for example, residential mortgage-backed securities and commercial mortgage-backed securities (together "MBS"). For the avoidance of doubt, this does not include equity residual positions in MBS.
- Other direct or indirect opportunities, including equity participations in real estate, save that no more than 20% of the total assets will be invested in positions with an LTV in excess of 85% or in equity positions that are uncollateralised. On specific transactions, the company may be granted equity positions as part of its loan terms. These positions will come as part of the company's overall return on its investments, and may or may not provide extra profit to the company, depending on market conditions and the performance of the loan. These positions are deemed collateralised equity positions. All other equity positions in which the company may invest are deemed uncollateralised equity positions.

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

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

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

Automotive

Source: Refinitiv

Market data

EPIC/TKR	**SCE**
Price (p)	**21**
12m High (p)	28
12m Low (p)	13
Shares (m)	155
Mkt Cap (£m)	32.5
EV (£m)	29.5
Free Float*	86%
Market	AIM

**As defined by AIM Rule 26*

Description

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

Company information

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

+ 44 1513 562 141
www.surfacetransforms.com

Key shareholders

Directors	14.0%
Canaccord	14.8%
Unicorn	12.3%
Richard Gledhill esq. (director)	9.9%
Richard Sneller esq.	8.2%
Hargreaves Lansdown	4.5%
[All: Pre recent fund raise]	

Diary

20 Jul	1H'20 sales update
24 Jul	AGM
Late Sept'20	Interim results

Analyst

Mike Foster 020 7194 7622
mf@hardmanandco.com

SURFACE TRANSFORMS

A decisive, positive 2020, with more new orders

ST's strong position is still not apparent in its share price. It is understandable that early-growth companies should be vulnerable in terms of ratings. ST remains loss-making this year. The recent share issue was highly oversubscribed and finances are strong. Seven-month audited figures – already announced pre-audit – have been formally announced, and are in line with expectations. More significantly, the good order flow news keeps coming. There is a successful recipe for securing increasingly significant business. All these wins are from clients with whom ST has been working for years – with small revenue or undergoing testing.

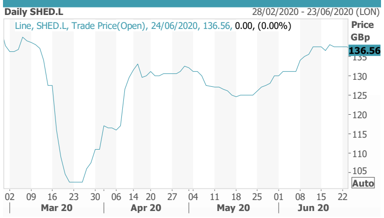
- **Share price:** The share price is ahead of its 2017 and 2018 highs, but, since then, the commercial success has been transformative. With current orders and a strong balance sheet, ST is cash self-sustaining, and we believe investors still have not assessed this positive change.
- **Major orders achieved, and more to come:** As per the 10 January update: "the Company still expects to be able to make significant contract announcements during the new 2020 financial year." The growing market is currently tiny, at £100m. ST is one of only two manufacturers.
- **£5m Koenigsegg contract award:** On 8 June, ST announced this mid-2022 start contract run to mid-2027. This is the third win from Koenigsegg, and represents sharing of growth at this expanding client. In 2019, Koenigsegg received $150m new equity from the large Swedish company, NEVS.
- **Fund raise and risks:** ST is set to be cashflow-positive by 2021. COVID-19 has not affected the OEM order timeline, as this is set by the timing of model launches. These types of cars benefit from significant pre-orders. The 13p fund raise and open offer to shareholders were well oversubscribed.
- **Investment case:** This is a large, growing market, 99%-supplied by one, highly profitable player. Lead times for new competition are multi-year (as in five or more), with none in sight. ST is the right side of high barriers to new competition in a high-growth market. The path to its discs being designed into many more models is clear – and keeps happening.

Financial summary and valuation

Year-end May*/ December**(£m)	FY19*	*7-month 19E***	FY20E**	FY21E**	FY22E**
Sales	1.00	1.45	1.60	4.00	5.70
EBITDA	-2.60	-1.41	-1.55	-0.10	1.00
EBITA	-2.94	-1.70	-2.25	-0.80	0.30
PBT	-3.04	-1.76	-2.25	-0.80	0.30
PAT	-2.12	-1.32	-2.25	-0.25	0.85
EPS (adjusted, p)	-1.64	-0.97	-1.20	-0.16	0.55
Shareholders' funds	6.90	5.62	6.52	6.27	7.12
Net (debt)/cash	1.60	0.18	2.65	2.65	3.60
P/E (x)	loss	n/a	loss	loss	38.1
EV/sales (x)	29.5	n/a	18.7	7.4	5.2
EV/EBITDA (x)	loss	n/a	loss	loss	29.5
DPS (p)	nil	nil	nil	nil	nil

As this report goes to publication, the 2019 report is published, with accompanying statement
**May year-end; **Change of year-end to December*
Source: Hardman & Co Research

Real Estate



Source: Refinitiv

Market data

EPIC/TKR	**SHED**
Price (p)	**138**
12m High (p)	148
12m Low (p)	104
Shares (m)	189
Mkt Cap (£m)	260
EV (£m)	288
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

Jul'20	AGM
Nov'20	Interim results

Analyst

Mike Foster 020 7194 7622
mf@hardmanandco.com

URBAN LOGISTICS

Very well placed and a discount to NAV

The £130m equity fund raise completed in March is being put to work in a measured way. A strong further pipeline remains. The REIT is in exactly the right asset class. Its balance sheet is among the strongest in the whole sector. It is achieving NIYs well over 6%, and has a track record of raising rents well, and indeed recycling some assets for good profits (typically 50%). With another strong dividend rise announced and positive forward statement, we find it noteworthy that the rating is below prospective NAV.

- **Results – year to March 2020:** A strong advance in EPRA EPS and dividend was achieved. Headline numbers were stated post crystallisation of an LTIP. To date, the COVID-19 negative impact has been immaterial, and the strategy of single tenant per asset is working well.

- **Deployment:** Nearly 80% of the equity from the oversubscribed March fund raise is already invested, and we estimate LTV approaching 30% by March 2021. This is a sensible continuation of the existing asset types, which have served so well so far. One site has extra development potential.

- **Valuation:** The stock trades at below NAV, on assets valued below replacement cost. Further, the historical dividend rise of 0.6p is set to be repeated this year and increased in the next, we estimate. This is driven by the well-advanced capital deployment programme and conservative rent rise assumptions.

- **Risks:** Tenant sectoral exposure is biased towards food, pharmaceuticals, staple goods and large logistics firms, which are household names. At year-end, the balance sheet held £132m cash, with £151m loan facilities put in place this month. Deployment does impact 2021 profits, but most equity is deployed.

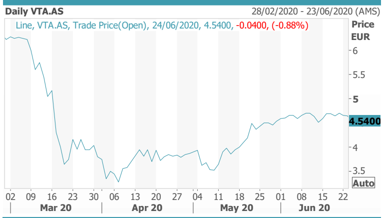
- **Investment track record**: Since listing on the AIM in April 2016, Urban Logistics has generated annual NAV and dividend returns of 16.0%. Market rents are ca.9% above the REIT's current levels, as evidenced by two recent reviews. Market vacancies are only ca.5%, and Urban Logistics' vacancy is nil, so rental reviews are set to continue to enhance EPS.

Financial summary and valuation

Year-end Mar (£m)	2018	2019	2020	2021E	2022E
Rental income	5.56	10.77	12.60	21.20	26.00
Finance costs	-0.93	-2.19	-2.72	-3.20	-4.00
EPRA operating profit	3.40	8.15	6.46	17.90	22.20
Declared profit	9.86	18.88	18.40	23.70	29.90
EPS reported (p)	19.54	22.12	19.60	12.60	15.90
EPRA EPS (dil., post LTIP, p)	6.12	7.15	7.77	7.90	9.60
DPS (p)	6.32	7.00	7.60	8.20	9.10
Net debt	-44.39	-61.64	57.58	-117.50	-127.70
Dividend yield	4.57%	5.07%	5.51%	5.94%	6.59%
Price/EPRA NAV (x)	1.11	1.01	1.01	0.96	0.93
NAV per share (p)	123.62	137.37	137.19	141.60	148.40
EPRA NAV per share (p)	122.49	138.18	137.19	141.60	148.40

Source: Hardman & Co Research

Financials



Source: Refinitiv

Market data

EPIC/TKR	VTA .NA, VTA.LN, VTAS LN
Price (€)	**4.54/4.58/420p**
12m High (€)	6.74/7.04/642p
12m Low (€)	3.20/3.38/285p
Shares (m)	36.6
Mkt Cap (€m)	166
2019 yield	13.7%
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 Atosa Moini Paul Varotsis
Fund Managers AXA IM Paris	Serge Demay A Martin-Min François Touati
Co. Sec. / Administrator	BNP Paribas Securities Services SCA, Guernsey Branch

BNP: +44 1481 750 853

www.voltafinance.com

Key shareholders

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

Diary

Mid-Jul'20	Jun estimated NAV

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 and *NAV announced* on 14 April, reporting a 32.4% monthly decline for March. On *11 May*, a (smaller) dividend was declared and a target 8% NAV payout announced. The *April NAV performance*, reported on 14 May, was +5.7% and *May*'s NAV was +4.5%.

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

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The full detail is on page 26 of the full directive, which can be accessed here: http://ec.europa.eu/finance/docs/level-2-measures/mifid-delegated-regulation-2016-2031.pdf

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research@hardmanandco.com

35 New Broad Street
London
EC2M 1NH

+44(0)20 7194 7622

www.hardmanandco.com