

Portfolio additions build income stream

27 September 2019

The key message from the interim result was the material increase in total portfolio income, from US\$0.05m (H1 2018) to US\$1.25m in the first six months this year. We see that as the key metric to track continuing progress made by ADAM's investment manager, Harmony Capital.

Rationalisation of legacy portfolio near completion

Since its appointment in May 2017, Harmony Capital has focused on a plan to recommence investment and build a more diversified and rational portfolio, focused upon its area of specific expertise and competitive advantage. The turnaround is still early stage, but top line growth is encouraging and in line with management expectations.

The core strategy sought to meet a need for short-term income and where possible, secure potential for medium-term capital growth. Recent investments in DocDoc and Infinity Capital Group Ltd (ICG) have kickstarted this process.

First half income was a combination of interest and fair value adjustments. The second half result will be driven by full contributions from transactions concluded in H1 and follow-on investment tranches. That should justify some reappraisal of ADAM's prospects and valuation, but the other major component will be confirmation that China based Future Metal Holdings (FMH) has resumed operations this year. That should help establish credibility with investors and reinforce the core message, that cashflow growth is now on track to cover expenses, ongoing investment and dividends.

Valuation: invest to build income generating portfolio

As FMH contributed 46% of mid-year NAV, its prospects are closely aligned with ADAM's. The latter has de facto control of FMH via an 84.8% stake and taken a hands-on role to steer it into a position where it can restart mining this year. Success in that respect should help validate the portfolio's intrinsic value (**NAV/share 88p at end June 2019 vs a 30p share price**) and demonstrate the investment manager's ability to work ADAM's assets for shareholders' benefit.

ADAM has built an investment pipeline which it will capitalise upon where it has rebuilt its valuation and gained access to new capital. It is rolling out initiatives to address the illiquidity of its equity and positively raise its profile.

Summary interims

Six months to 30 June, USD '000s	2018	2019
Fair value adj. to financial assets	51	571
Net finance income	1	677
Pre-tax profit	(1,437)	(157)
EPS (c)	(1.77)	(0.18)
Net asset value per share (p)	93	88

Source: Group interim report (GBP/USD=1.25)

Company Data

EPIC	ADAM
Price (last close)	30p
NAV/share (end June)	88p
Market cap	£26.3m

Description

Adamas Finance Asia aims to be the leading London-quoted pan-Asian focused diversified SME investment holding vehicle. It targets above average income and capital growth, with a stated objective to provide shareholders with unique access to a diversified portfolio with access to high-growth Asian economies.

ADAM appointed a new Investment Manager, Harmony Capital Investors Limited ("Harmony Capital"), in May 2017. Harmony Capital has a dedicated Asian focus and is based in London, Hong Kong and Singapore.

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Interims: income growth post recent investment

If ADAM remains a work in progress, the interim results provide reassurance that things are moving in the right direction. Investment manager Harmony Capital is assembling a new portfolio and working towards completion of its plans for the legacy assets.

Harmony Capital's primary strategy has been to shift the investment portfolio weighting to income producing assets, ideally with some potential for capital appreciation. On that basis growth in income generated - both interest receivable and fair value adjustments - to US\$1.25m in the first half (H118: US\$0.05m and FY18: US\$0.364m) and lower US\$0.16m net loss (H1 2018: US\$1.44m) is encouraging. A proportion of interest receivable is received in cash (ICG), others a mix of cash/PIK and receipts from FMH are all accrued.

Results			
USD '000s	Six months ended	Six months ended	Year ended
	30 Jun 2019	30 Jun 2018	31 Dec 2018
	Unaudited	Unaudited	Audited
Realised gain on disposals	-	-	(4)
FV changes - financial assets	571	51	216
Administrative expenses	(1,405)	(1,489)	(3,861)
Operating (loss)/gain	(834)	(1,438)	(3,649)
Net finance income/(expense)	677	1	148
(Loss)/Profit before taxation	(157)	(1,437)	(3,501)
Taxation	0	0	0
(Loss)/Profit for the period	(157)	(1,437)	(3,501)
Profit/(Loss) per share			
Basic	(0.2c)	(1.8c)	15.2c
Diluted	(0.2c)	(1.7c)	15.0c

Source: Company

During the first half ADAM invested another US\$2.19m (FY18: \$2.2m) and ended H1 with US\$5.38m cash (FY18: US\$8.8m), US\$2m of which has since been drawn by Infinity Capital Group. NAV increased by 3.5% in the period to US\$96.3m (FY 2018: US\$93.0m, post an issue of 6.108m shares in February 2019 to CASIL Clearing Limited, to waive a put-option held in relation to its holding in FMH.

Summary Balance Sheet			
USD '000s	30 Jun 2019	30 Jun 2018	31 Dec 2018
	Unaudited	Unaudited	Audited
Unquoted financial assets at fair value through profit or loss	57,855	80,560	55,519
Loans and other receivables	33,258	6,556	28,902
Cash and cash equivalents	5,375	9,786	8,828
Total assets	96,488	96,902	93,249
Other payables and accruals	235	1,896	201
Total liabilities	235	1,896	201
Net assets	96,253	95,006	93,048

Source: ADAM interims

Investment during 2019

The principal holdings at the mid-year are shown below. This illustrates the relative importance of updates from Hong Kong Mining Holdings – since restructured and renamed Future Metal Holdings Ltd – which represented 44.2% of the portfolio by value at end June 2019.

Considerable effort has been made to get that business back in production before the end of this year. ADAM will provide an update on FMH's plans and prospects in due course but is confident that this project will make a positive contribution to group results in 2020.

Principal Assets at end June 2019					
\$m	Instrument type	Effective Interest		Valuation	
		30 Jun 19	31 Dec 19	30 Jun 19	31 Dec 19
Fook Lam Moon	Int. bearing loan/ Equity	-	-	26.9	26.5
Hong Kong Mining	Struct. equity	84.81%	84.81%	42.6	42.5
Meize Energy Indust.	Red. conv. pref.	7.90%	7.90%	8.2	8.2
DocDoc	Conv. bond	-	-	2.2	2.1
Infinity Capital Group	Int. bearing loan/ Equity			2.2	
GCCF/Others				5.1	4.9
CASIL	Receivable			3.7	
Cash				5.4	8.8
Total net asset value				96.3	90.0

Source: Company

Post period end activity

Future Metal Holdings

ADAM announced that it had restructured its equity and debt interests in Hong Kong Mining Holdings Ltd, the SPV which holds its interest in Linfen Zhuangpeng Magnesium Co., Ltd (LZM).

The latter owns a large open pit dolomite magnesium limestone operation located in Shanxi Province, China. A new British Virgin Islands incorporated wholly owned subsidiary, Future Metal Holdings Limited (FMH) has been launched.

Aggregate ownership of LZM will remain unchanged at 84.8% but will now be held through two wholly owned SPVs, Future Metal and Dynamite Win Limited. The restructuring is timed to coincide with the restart of operations at the quarry in the second half of 2019.

Infinity Capital Group & DocDoc

ADAM has funded the second US\$2m tranche of its existing investment commitment to Infinity Capital Group Limited, and DocDoc Pte Ltd closed its institutional capital raise of US\$13.0m in a round led by ADAM.

Valuation: differentiated proposition

We believe that ADAM offers a differentiated investment proposition amongst London-listed vehicles. Its stated objective is to provide shareholders with unique access to a diversified portfolio with access to high-growth Asian economies and establish a leading London-listed investor in strategically placed pan-Asian SMEs.

The investment focus is to secure, income-generative assets with potential for medium term capital growth and Harmony Capital sees **no shortage of opportunities** fitting that investment criteria. Subject to its ability to access necessary capital, ADAM plans to (a) fund new investments from an existing pipeline of assets which meet its criteria, (b) help existing projects e.g. Future Metal Holdings achieve a self-sustaining condition and in due course (c) seek profitable exits for all of its now stabilised, but non-core holdings.

As its portfolio builds cumulatively, we see potential for growth in income to cover all core expenses including investment manager fees (0.875% of portfolio NAV at end June and December in each calendar year, calculated and paid bi-annually in advance, plus incentive fees) and enable it to commence paying regular and stable dividend distributions.

Remaining challenges reflected in NAV discount

ADAM's management is pragmatic regarding its need to prove its ability to deliver that strategy and establish credibility with a new investor base. The shares' **currently stand at a 70% discount to mid-year NAV** reflecting concerns over the both the inherent illiquidity of its shares and the difficulties related to understanding what is required for ADAM to stabilise and exit its legacy investments.

The key remaining sensitivity is **Future Metal Holdings**, 44.5% of the half-year portfolio by value. Announcement that it has resumed mining production before the current year end should be well-received, especially accompanied by some clarity regarding ADAM's strategy to monetise its stake i.e. to convert an asset valued at US\$42.6m into cash for reinvestment in a more diversified portfolio of core SME assets.

Conversely, the other perceived sensitivities related to ADAM's focus on the Asian market e.g. USA/China trade war will be managed through diversification, or increase the difficulties experienced by the target SME niche in raising capital. That may increase the attractions of an entity such as ADAM which can make relatively quick decisions and in due course, will hopefully be able to access the cash required.

Strategic need to address illiquidity and other investor concerns

ADAM actively seeks to build communications with external investors, readily recognises the need to address inherent illiquidity in its shares and sees resolution of this issue as a strategic priority. Initiatives during the first half included:

February 2019	Commencement of share buyback programme
June 2019	Change in denomination of shares to GBP from US\$
	Appointment of joint corporate broker (Pello Capital) to focus on widening shareholder base, particularly among retail investors
	Increased availability of trading on wide range of retail investor platforms and presentations at investor events
	Communications strategy to generate press coverage and social media aimed at raising profile with retail investors

Current portfolio

Company	Description
Future Metal Holdings (FMH)	<p>Natural resources company. Primary asset is a large dolomite magnesium limestone mine in the province of Shanxi, China. ADAM management expect production to restart in late 2019, with local teams now active on the mining site.</p> <p>ADAM's 84.8% stake gives it effective control over this company and Harmony Capital visits the operations on a monthly basis, meeting the entire onshore team, equipment suppliers, staff from nearby mines and local government officials in Xi County.</p> <p>FMH has appointed an international accounting firm to support finance and operations for this business and consultants to evaluate the potentially lucrative dolomite and wall rock market in China.</p> <p>FMH's onshore PRC management team has applied to the Shanxi Province Forest Bureau to acquire additional land for mining activities. It expects to receive approval for the acquisition in this quarter assuming there are no regulatory delays.</p> <p>It remains ADAM's intention to consider all viable monetisation options for this investment once operations have underway.</p> <p><i>The end June 2019 valuation of ADAM's 84.8% holding in FMH was US\$40.6m. That is based upon an independent valuation of the NPV of estimated future cash flows from the project, carried out in 2018, and applying a 25% discount. Including loan disbursements provided to FMH and its subsidiaries and accrued PIK interest, the estimated fair value of the project is US\$42.5m.</i></p>
Fook Lam Moon Holdings (FLMH)	<p>Cantonese restaurant chain with over 70 years of history in Hong Kong, and one location in Macau. The Wan Chai and Kowloon locations and its Guo Fu Lou restaurant hold Michelin stars.</p> <p>Its restaurants have been recognised by prestigious award bodies such as San Pellegrino as amongst Asia's best restaurants and Wine Spectator commented that it offers one of Asia's best wine lists.</p> <p>Guo Fu Lou is the group's Michelin starred restaurant in Hong Kong. It has attracted domestic and international gourmards and regular coverage by local media including the South China Morning Post and Oriental Daily News. Guo Fu Lou is a Cantonese fine dining concept targeting a millennial customer base.</p> <p>FLMH is currently exploring expansion opportunities for its catering business to allocate resources into other food & beverage opportunities.</p> <p><i>ADAM's Convertible Bond was valued at US\$26.6m at end June 2019 based upon PIK interest accrued and cash interest receivable.</i></p>

Company	Description
<p>DocDoc Pte Ltd (DocDoc)</p>	<p>Singapore headquartered online network of over 23,000 doctors, 600 clinics and 100 hospitals, which serves a wide array of specialties in eight countries. Founded in 2012, it uses artificial intelligence, clinical informatics and proprietary data to connect patients to doctors which fit their needs at an affordable price.</p> <p>DocDoc has secured partnership agreements with some of Asia's largest insurers such as the Ping An Group and Prudential Singapore.</p> <p>In order to achieve its product growth and market expansion objectives as a medtech start-up it raised US\$13m via a recent convertible note issue. ADAM led that funding round, having previously invested US\$2m in a convertible note in March 2018.</p> <p>The round was supported Cyberport Marco Fund, leading regional family offices and a fund managed by a global investment firm specialising in financial services. DocDoc has raised a total of US\$24.6m and the latest round secured its plans to enhance its patient intelligence platform.</p> <p>As at 30 June 2019, the carrying value of the Convertible Bond was US\$2.2m based upon PIK interest accrued and cash interest receivable.</p>
<p>Meize Energy Industries Holdings Limited (Meize)</p>	<p>Privately-owned designer and manufacturer of blades for wind turbines. Has secured several new customers to its order book during the year in a challenging market. ADAM intends to monetise this asset.</p> <p>As at 30 June 2019, ADAM's interest in Meize had a fair value of US\$8.2m, based upon discounted redemption cash flows over a period of two years (2018: US\$8.2m).</p>
<p>Infinity Capital Group Limited (ICG)</p>	<p>Developer of premium residential projects in Hirafu Village, a world-class ski village in Niseko, Japan and one of the most popular winter travel destinations in the world. Niseko was named as one of the world's top ten ski areas by Snow Magazine.</p> <p>In January 2019 ADAM agreed to provide a US\$4m loan to ICG to be drawn in tranches. The coupon is ,17.5% pa payable in cash. The loan is secured by real estate assets within ICG's portfolio in Niseko.</p> <p>ADAM was issued with detachable warrants which give it the right to subscribe to up to US\$4m of ICG or parent company equity, should either undertake a liquidity event, such as an IPO.</p> <p>ICG has started the internal fitout for its Tellus Niseko project; expected to be completed this quarter. During Q2 19, it held marketing events across Asia to promote its various Tellus projects. It is expected to break ground for the Tellus Hirafu project this quarter, alongside the civil construction for the Tellus Villas development.</p>

Source: ADAM investor documents/website

Income statement

USD '000s	2017	2018
Realised (loss)/gain on disposal of investments	(14,329)	(4)
Fair value changes on financial assets through profit & loss	33,885	216
Loan written off	0	0
Administrative expenses	(7,958)	(3,861)
Operating gain/(loss)	11,598	(3,649)
Finance income	82	148
Finance expense	0	0
Dividend income	0	0
Other income	14	0
Profit/(Loss) before taxation	11,694	(3,501)
Taxation	0	0
Profit/(Loss) for the year	11,694	(3,501)
Profit/(Loss) per share		
Basic	15.2c	(4.3c)
Diluted	15.0c	(4.3c)

Source: ADAM report & accounts

Balance Sheet

USD '000s	2017	2018
<u>Assets</u>		
Unquoted financial assets at fair value through profit or loss	75,639	55,519
Loans and other receivables	6,579	28,902
Cash and cash equivalents	13,217	8,828
Total assets	95,435	93,249
<u>Liabilities</u>		
Loan payables and interest payables	0	0
Other payables and accruals	1,882	201
Total liabilities	1,882	201
Net assets	93,553	93,048

Source: ADAM report & accounts

Cash flow		
USD '000s	2017	2018
Cash flows from operating activities		
Gain/(Loss) before taxation	11,694	(3,287)
Adjustments for:		
Dividend income	-	0
Finance income	(82)	0
Finance expense	0	0
Exchange gain	(453)	0
Loan written off	0	0
Fair value changes on unquoted financial assets at fair value through profit or loss	(33,885)	0
Realised loss/(gain) on disposal of investments	14,329	0
Share-based expenses	4,070	(1,515)
Decrease/(Increase) in other receivables	(139)	4,180
Increase/(Decrease) in other payables and accruals	1,805	(1,680)
Net cash used in operating activities	2,661	(2,302)
Cash flows from investing activities		
Dividend income received	0	0
Sale proceeds of unquoted financial assets at fair value through profit or loss	15,100	26,496
Purchase of unquoted financial assets at fair value through profit or loss	0	(6,384)
Loans granted	(530)	(26,500)
Proceeds from repayment of loan granted	0	4,511
Net cash generated in investing activities	14,570	(1,877)
Cash flows from financing activities		
Finance expense paid	0	0
Loans repayment	0	0
Net proceeds from issue of shares	0	0
Net cash used from financing activities	0	0
Net increase / (decrease) in cash and cash equivalents	11,909	(4,178)
Cash and cash equivalents and net debt at the beginning of the year	1,308	13,005
Cash and cash equivalents and net debt at the end of the year	13,217	8,827

Source: ADAM report & accounts



Investor Access

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