

Capital raise & new income producing deal

24 October 2019

ADAM has made two announcements: a conditional share sale and purchase agreement with an existing portfolio investment, and a bond issue.

The new capital supports ADAM's capability to execute on its extensive pipeline, further diversify its portfolio and grow its income. These will help support ADAM's underlying equity valuation and growth strategy, income for shareholders, and ensure that it will be able to commence dividend payments to its investors soon. It also confirms ADAM's ability to access a broader range of financing options.

Bond issue confirms broader access to capital

ADAM has raised c USD1.9m gross via a US Dollar-denominated corporate bond, issued to family offices in the Middle East. This bond matures in October 2022 and is secured via a fixed and floating charge on ADAM's assets. It represents the first close of a corporate bond issuance programme of up to USD 10m. The first tranche carries a 12.5% pa cash coupon, payable semi-annually, and ADAM may change the terms of future corporate bond issuances under this programme.

Acquisition: 40% of owner of luxury hotel condominium units

ADAM has conditionally agreed to acquire 40% of a new SPV, Infinity TNP (ICG TNP), a wholly owned subsidiary of existing investment, Infinity Capital Group Limited (ICG). ICG develops premium residential projects in the Asia Pacific region, including Hirafu Village, a ski resort in Niseko, Japan. ADAM has agreed to pay ICG £5.63m for 40% of ICG TNP, settled via 16.18m ADAM shares at 34.8p/share. Post the transaction, ICG will hold 16% of ADAM's issued share capital.

On completion of the agreement, ICG will transfer seven property units in a luxury hotel condominium, Tellus Niseko currently under construction in Niseko, into the newly formed SPV. These assets will be leased to guests once the hotel is open (expected in December 2019).

That will support ICG TNP's commitment to distribute regular income to ADAM and other shareholders, equivalent to a 6% minimum yield on its agreed equity value at completion. That gives an annual cash dividend of £0.338m (USD 0.44m) based upon a £5.63m completion valuation.

Exciting plans

ADAM plans to target an ungeared annualised total (income and capital growth) return of between 14% and 16% from its new investments. Based upon its existing pipeline, it expects to have fully invested the new capital by the end of the current year.

Proforma NAV/share is 73p, versus a stock price of just 24p.

Company Data

EPIC	ADAM
Price	24p
52 week Hi/Lo	40p/24p
Market cap	£21m

Description

Adamas Finance Asia aims to be the leading London-quoted investment vehicle focused on providing financing to a diversified portfolio of established and emerging SMEs across Asia. Its stated objectives is to provide shareholders with attractive risk adjusted income and capital growth, from unique access to income generating assets with significant downside protection in growth sectors across Asia.

ADAM appointed a new Investment Manager, Harmony Capital Investors Limited in May 2017. Harmony Capital has an established track record, with investment expertise and local networks in Asia with disciplined risk management processes and is based in London, Hong Kong and Singapore.

Roger Leboff (Analyst)

0207 065 2690
roger@equitydevelopment.co.uk

Hannah Crowe

0207 065 2692
hannah@equitydevelopment.co.uk

New investment and bond issue

ADAM's latest announcements help to expand its income base, improve its capacity to cover ongoing expenses and move it closer to one of its priorities of commencing and then growing income distributions to shareholders.

They also strengthen the potential for medium term growth in NAV and illustrates an approach that pivots upon strong and trusted relationships with portfolio companies post investment.

The latest fundraising will enable it to finance a growing income producing investment pipeline, diversify the portfolio and attract new investors and suitable funding sources. It expects to continue to capitalise on its focus on the substantial, vibrant and vital sector which comprises emerging and established SMEs across Asia. ADAM's investments are expected to add further diversification by national geographies, instruments and asset classes, with significant downside protection.

Bond issue confirms broader access to capital

The initial USD 1.9m bond issue matures in October 2022. We expect it to be repaid from cash generated via exits from remaining legacy investments discussed in previous notes.

The Investment Manager, Harmony Capital intends to use the new capital to build ADAM's investment portfolio, remaining focused on higher yielding emerging and established SME investments operating in pan-Asian economies. These are predominately private income generating investment opportunities in growth sectors across Asia including healthcare, fintech, hospitality, IT and property.

This component of the regional economy is nonetheless underserved by traditional lenders for regulatory and structural reasons. The Investment Manager expects that its focus, established network, rigorous diligence and disciplined risk management processes will enable it to both access and deliver on its returns target.

ICG: ADAM has completed USD 4m investment this year

In January 2019, ADAM funded the first of two agreed USD 2m investment tranches in ICG. This took the form of a senior secured loan note with a 17.5% pa cash coupon secured against ICG's property assets. In July this year it announced that a Hong Kong based family office agreed to co-invest on a 50:50 basis and in August, both ADAM and this Family Office funded the second tranche of the existing investment commitment.

The construction of the Tellus Niseko units to be transferred approaches completion, on schedule and in line with projected budgets. The official opening is due in mid-December 2019 and Tellus Niseko is 95% booked for December 2019, 80% for January 2020.

Post latest transaction, ICG will hold 16% of ADAM equity

Post the latest acquisition, ICG will hold c 16% of ADAM's issued share capital and ICG and ADAM will each be entitled to appoint one non-executive director to the other's board. Completion is subject to due diligence and other preliminaries. These include an independent valuation of the property units that confirms **at least USD20.0m total value.**

ICG TNP has agreed to distribute regular income to shareholders equivalent to a 6% minimum dividend yield on the agreed ICG TNP equity value at completion. A completion valuation of £5.63m would imply an annual cash dividend of c £0.338m (USD 0.44m).

If, however, that isn't received in the first-year post completion, ADAM would have the right to put its 40% ICG TNP shareholding back to ICG. A reciprocal arrangement would see the consideration shares revert to ADAM at no further cost to either party.

Following admission of the consideration shares, ADAM's issued share capital will be 104,912,379 ordinary shares. Net of 916,804 shares held in treasury, total voting rights will be 103,995,575 ordinary shares.



Investor Access

Hannah Crowe

Direct: 0207 065 2692

Tel: 0207 065 2690

hannah@equitydevelopment.co.uk

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Equity Development, 15 Eldon Street, London, EC2M 7LD. Contact: info@equitydevelopment.co.uk 0207 065 2690