

Adamas Finance Asia Limited



Resilient H1 2020 performance despite pandemic

26 August 2020

ADAM's interims confirm operational progress, recent initiatives to strengthen its balance sheet and build investment capacity, plus details regarding ongoing efforts to stabilise legacy assets and move them towards satisfactory exit. The report covers the period ending 30 June 2020, the eye of the pandemic storm, during which underlying portfolio performance remained encouragingly robust.

Interim result for six months to end June 2020

Total income was USD1.19m (H1 19: USD1.25m) and comprised interest payments and fair value adjustments. A net loss of USD0.70m (H1 19: USD0.16m) reflected a USD0.32m expected credit loss provision related to the investment in FLM Holdings and a USD0.179m of interest payable on its corporate bond issued in H2 last year.

Operational progress, strong pipeline, finance in place

The key update related to Future Metal Holdings, ADAM's largest single investment and part of its legacy portfolio. Production is back up and running following pandemic-related interruption. FMH has obtained a new three-year mining licence and the first financial guidance for the quarry is expected in September 2020.

ADAM's income base continues to build, and it now has funds in place to secure new assets, supplemented post the period end.

- The strategy is to identify attractive, remunerative investments that progressively build revenues and generate free cashflow to support distributions to shareholders. ADAM reports ongoing review of an active pipeline of prospective opportunities which meet its criteria.
- ADAM secured further funding for its portfolio build. In H1 2020, it raised gross proceeds of USD1.7m via a new subscription to its corporate bond bringing the total raised by this initiative to c. USD3.6m. In August, post the period end, it closed a placing and open offer which raised GBP3.13m (USD3.8m) at 25p per share.
- Proforma net cash is c. GBP2.5m.

Valuation: over 60% discount to NAV

ADAM reported a small, 0.69% decrease in consolidated NAV to USD 100.2m (GBP81.1m) vs H1 19, mainly related to lower cash. The recent share issues prompted the YoY decline in NAV/share to 95c (GBP0.75) at 30 June 2020, vs 108c (GBP0.84) a year earlier. **We estimate proforma NAV/share, adjusted for the latest share issue, and net new money raised is USD0.87 (GBP0.67).**

Catalysts for a narrower NAV discount, vs over 60% currently, include updates on the progress of investments such as FMH. ADAM has also confirmed its intention to continue to purchase shares at attractive levels via its existing Share Buyback Programme. To better reflect its pan-Asian heritage and focus, ADAM will also soon change its name to Jade Road Investments Limited.

Company Data

EPIC	ADAM
Price (last close)	25.5p
52 weeks Hi/Low	36.0/18.0p
Market cap	£26m
Proforma net cash	£2.5m

Share Price, p



Source: ADVFN

Description

Adamas Finance Asia (ADAM) intends to be the leading London-quoted, pan-Asian focused investment vehicle. It provides finance to a diversified portfolio of established and emerging SMEs across Asia. Its stated objective is to provide shareholders with attractive risk adjusted income, with potential for income and capital growth, from unique access to income generating assets.

ADAM appointed a new Investment Manager, Harmony Capital Investors Limited in May 2017. Harmony Capital has an established track record as an Asia based investor, with local networks and expertise, and disciplined risk management processes. It has offices 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

Interims to end June 2020

The interim results reflect a work in progress, with portfolio growth at a relatively early stage but underlying momentum building. Total income was USD1.19m, achieved through a combination of interest payments and fair value adjustments (H1 2019: USD1.25m).

ADAM reported a USD0.70m net loss (H1 2019: USD0.16m). The key differences vs the first half last year were a USD0.322m expected credit loss provision established in relation its investment in FLM Holdings, its Hong Kong restaurant group (discussed below) and a USD0.179m finance expense, the initial interest payable on its USD1.9m corporate bond. The latter has since increased to USD3.6m after a second funding round. The consolidated loss per share (basic) was USD0.69c (H1 2019: USD0.18c).

Summary interim results			
\$'000s	H1 2020	H1 2019	FY 2019
Income from unquoted financial assets	525	571	902
Finance income from loans	668	677	1,341
Gross portfolio income	1,193	1,248	2,243
Fair value changes on financial assets at fair value through P&L	(14)	(166)	201
Expected credit loss provision	(322)		(237)
Net portfolio income	857	1,082	2,207
Administrative expenses	(436)	(314)	(1,296)
Operating result - before fees	421	768	911
Management fees	(900)	(925)	(1,679)
	(479)	(157)	(768)
Incentive fees	(40)	0	(1,907)
Operating result	(519)	(157)	(2,675)
Finance expense	(179)	0	(98)
Loss before taxation	(698)	(157)	(2,773)
Tax	0	0	0
Loss after tax	(698)	(157)	(2,773)
Loss per share			
Basic	(0.69c)	(0.18c)	(3.11c)
Diluted	(0.69c)	(0.18c)	(3.11c)
Other comprehensive expense			
Foreign currency translation differences			(81)
Loss and total comprehensive expense for the year			(2,854)

Source: ADAM interim statement

Consolidated NAV fell by only 0.69% during the period to USD 100.2m/GBP 81.1m (End Dec 2019: USD100.9m / GBP 75.7m).

Fundraising builds capacity for new investment

ADAM ended the period with USD3.0m of cash (H1 2019: USD5.4m), USD0.45m net of debt, and raised another USD3.8m (GBP3.14m) in August, post the period end.

- During the first half of 2020, USD1.7m gross was raised via a new subscription to its corporate bond by HNW individuals and Middle Eastern family offices. It has now raised c. USD3.6m in total via its corporate bond.
- In July ADAM launched an Open Offer & Placing for an aggregate 12,538,840 shares at 25p. The Open Offer closed on 21 August 2020 and was fully underwritten. Total proceeds under the Open Offer and Placing were GBP3.134m (USD3.8m) before expenses. All new shares will start trading on 7 September 2020, and net proceeds will be used to fund new investments currently under review.

The investment manager, Harmony Capital Investors Limited, reports increasing numbers of attractive opportunities, at prospective yields in line with its prior investments. ADAM believes the pandemic has impeded access to capital for high growth SMEs, and presents even better opportunities to access strong, well-managed, but capital-starved companies.

In August ADAM also confirmed its intention to continue to take advantage of opportunities to repurchase shares at attractive levels under its Share Buyback Programme.

It also announced a change of name to Jade Road Investments Limited which was supported by affirmative votes from shareholders submitted on 5 August 2020. The transition to JADE is expected to be completed in September 2020. Finally, ADAM has registered with the Dubai International Financial Centre, to enable it to undertake increased promotional activities within the UAE.

Operational highlights and outlook

ADAM's portfolio performed broadly as expected despite challenges triggered by COVID-19. It remains cautious, but underlying valuations were mostly unaffected, with the outlook secured by inherent diversification, intrinsic downside protection, and focus on a region with experience of previous outbreaks.

Some investments were unsurprisingly affected in H1 2020, reporting lower than expected income or delays post local lockdowns. Cost bases were reduced, and other measures taken to diversify revenue sources where possible. The pandemic in Asia affected almost all countries and sectors, but ADAM expects its regional impact to recede over the next 12 months, and the operating environment for its portfolio investments to improve.

Future Metal Holdings Limited (FMH)

FMH is ADAM's largest investment. At 30 June, including loan disbursements and accrued PIK interest, the estimated fair value of its holding was USD45.3m.

Production recommenced at the end of 2019, but quarry operations paused temporarily due to the COVID-19 pandemic. In Mid-March it commenced infrastructure work, including construction of a steel structure to enclose its stockpile site and land hardening to comply with local environmental requirements. Both initiatives were completed near the end of Q2 2020 and the quarry resumed production on 10 June 2020.

A new three-year mining licence was issued by the local Ministry of Natural Resources post the period end. This permits maximum dolomite production capacity of 300,000 tonnes p.a.

Local management is now focused on sales to domestic construction companies as the local economy picks up. **ADAM expects to provide the first 2020 financial guidance for the quarry in September.**

FLM Holdings

Although the business and its branch restaurants have been affected by the COVID-19 pandemic and social distancing measures, FLM has benefitted from prompt management action to safeguard guests and staff, which includes introduction of additional private dining areas. The restaurants have also engaged online distribution channels to increase accessibility to its food and beverage offerings. Fook Lam Moon received its One Michelin Star in late 2019.

Portfolio overview

		Valuation 30 Jun 20 USDm	Valuation 31 Dec 19 USDm
Future Metal Holdings	The largest magnesium dolomite quarry in Shanxi Province, China	45.3	44.7
Fook Lam Moon	Convertible bond issued to ADAM by Hong Kong food & beverage business	27.8	27.5
Infinity Capital Group	Senior secured loan to developer of luxury residential in Niseko, Japan	2.2	2.1
Infinity TNP/Tellus Niseko	Wholly owned subsidiary of ICG owns seven units in luxury hotel condo	7.3	7.3
DocDoc	Leading pan-Asian virtual network of physicians, clinics and hospitals	2.3	2.2
Meize	Designs and manufactures blades for wind turbines	8.2	8.2
GCCF & Other Invs.	Private Equity investment	8.8	8.9
		101.9	100.9
Corporate debt		(3.5)	(1.9)
Other Liabilities		(1.2)	(2.2)
Cash		3.0	4.1
		100.2	100.9

Source: ADAM interim statement

Meize Energy Industries Holdings Limited

Meize is a privately-owned company that designs and manufactures blades for wind turbines. Both wind turbine manufacturing plants have returned to full capacity; Ningxia in April 2020, Inner Mongolia in May 2020. Meize began to build its third plant in Jiangsu province during the period, to enable it to diversify its operations from supply of onshore wind turbine blades into blades for offshore wind turbines.

Infinity TNP

The asset, Tellus Niseko, achieved an average of 80-90% occupancy in January 2020, but COVID-19 prompted travel bans which adversely affected tourism. A series of cost-saving measures and implementation of new safety and hygiene controls have been carried out and Tellus Niseko plans to reopen for bookings for the Winter season from this September.

Infinity Capital Group

ICG is working with local management to introduce inspection and monitoring measures. It is tracking the domestic property market and local pandemic response, including construction project planning and potential movement in property prices.

DocDoc Pte Ltd

DocDoc as an insurtech business has been largely unaffected by the COVID-19 pandemic. In fact, it operates in the growing ecosystem of insurance, healthcare, and technology. DocDoc entered a revenue-sharing partnership with Kaitaming Technology in June. Kaitaming is a leading insurance agent platform and will expand its reach into China.



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