

# Zacks Small-Cap Research

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## UC Asset, LP

(UCASU-OTCQX)

### UCASU: Weathering the uncertainty

Our target price for UC Asset is \$4.50 per unit. We use a multiple of 3x 2024E net asset value (NAV) per unit of \$1.90, discounted back at 15%. With the uncertainty in the markets, UCASU currently trades at a 70% discount to its 2019 per unit NAV. We expect a longer track record, the possibility of accelerated growth, and greater corporate visibility to widen the NAV multiple.

### OUTLOOK

UC Asset LP invests in real estate primarily in and around Atlanta. UC Asset has raised approximately \$8.6 million to date including a \$0.3 million private placement in March 2020. From 2016 through 2019, net equity per unit grew 39%, an 8.58% year over year compound growth. The company has taken actions to strength its portfolio while it seeks intermediate and longer-term investment options created by the economic downturn.

Current Price (10/14/20) \$0.52  
**Valuation \$4.50**

### SUMMARY DATA

52-Week High **\$2.36**  
 52-Week Low **\$0.32**  
 One-Year Return (%) **N/A**  
 Beta **N/A**  
 Average Daily Volume (sh) **40**

Shares Outstanding (mil) **6**  
 Market Capitalization (\$mil) **\$3**  
 Short Interest Ratio (days) **N/A**  
 Institutional Ownership (%) **0**  
 Insider Ownership (%) **N/A**

Annual Cash Dividend **\$0.00**  
 Dividend Yield (%) **0.00**

5-Yr. Historical Growth Rates  
 Sales (%) **N/A**  
 Earnings Per Share (%) **N/A**  
 Dividend (%) **N/A**

P/E using TTM EPS **N/A**  
 P/E using 2020 Estimate **-3.2**  
 P/E using 2021 Estimate **13.8**

Zacks Rank **N/A**

Risk Level **High,**  
 Type of Stock **N/A**  
 Industry **Fin-Misc Svcs**  
 Zacks Rank in Industry **N/A**

### ZACKS ESTIMATES

#### Revenue

(in millions of \$)

	Q1	Q2	Q3	Q4	Year
	(Mar)	(Jun)	(Sep)	(Dec)	(Dec)
2018					N/A A
2019					N/A A
2020					N/A E
2021					N/A E

#### Net change in net assets per unit

	Q1	Q2	Q3	Q4	Year
	(Mar)	(Jun)	(Sep)	(Dec)	(Dec)
2018					-\$0.05 A
2019					\$0.07 A
2020					-\$0.17 E
2021					\$0.04 E

Zacks Projected EPS Growth Rate - Next 5 Years % **N/A**

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## COMPANY UPDATE

The pandemic continues to throw uncertainty into the economy and markets, making it difficult, if not impossible, for many to look past 2020, or even next week. Recent [studies](#) suggest that in the past three months, between six and eight million Americans have fallen into poverty, creating additional concerns for landlords and other small businesses.

In response to the increased likelihood of protracted disruption as opposed to a v-shaped recovery, UC Asset continues to move its portfolio away from residential investment to supporting commercial property owners and, more recently, neighborhood revitalization. We continue to believe that this move away from short-term, high-turnover investments, to longer-term investments with a recurring income stream, will allow UC Asset to scale its investments while helping to insulate results from short-term market swings.

In April, UC Asset announced plans to diversify out of residential investments into opportunities to provide mortgage support to commercial property owners whose cash flow has been disrupted by the pandemic. In June, UC Asset closed its first commercial property support investment in a rental property with a market value of \$850k. The current owner was earning a profit from the property prior to the pandemic but had not collected rent for five months and has a remaining mortgage balance of slightly over \$400k. The owner will receive a cash payment to compensate for its existing equity. UC Asset will take over the mortgage and is entitled to purchase the property for \$1 after its mortgage is paid off.

The deal structure is likely to vary from investment to investment, which adds complexity to our forecasts. In our view, changes to recognize include:

- Longer investment holding period
- Negative project cash flows for first 12-24 months, possibly longer
- Little to no initial cash investment
- Debt liabilities

At the same time, the Company is likely to benefit from: portfolio diversification, lower sales expense as a result of lower turnover, regular cash flows which will offset mortgage debt expense once the economy has stabilized, and larger absolute returns when the asset is sold or paid off.

However, UC Asset's management recognizes that the commercial mortgage support program has a limited investment window. Once the economy normalizes, new commercial investment opportunities will likely slow, but it seems reasonable to expect returns to continue well beyond the recovery, providing funds for additional investments without the need to raise capital.

### ***Revitalizing neighborhoods - SHOC***

UC Asset's initial investor pitch in 2016 included a commitment to invest in underserved neighborhoods around Atlanta. In late September, the Company announced plans to revitalize clusters of distressed residential properties in neighborhoods in close proximity to major airports, renovate them into cost-efficient home offices, and market them as shared accommodation on platforms such as Airbnb, to serve business travelers who prefer renting a shared home-office than staying at a conventional hotel. The Company refers to this as "SHOC" (shared home office concept).

UC Asset has successfully invested in individual residential properties near Atlanta's airport. The SHOC strategy is more comprehensive and its success will likely require buy-in from community stakeholders and local boards. We believe the timing is good for starting these discussions and we look forward to additional details before we add this to our forecasts.

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## RECENT FINANCIALS

As the residential real estate demand began to soften in late 2019, UC Asset began to divest many of its properties either through sale or lease. The pace of divestitures accelerated as the pandemic took hold. UC Asset saw several in-contract property sales cancelled and the Company has quickly pivoted to reduce its holdings while building its cash reserves. In April, the Company leased out several residential properties to pay off outstanding debt and create modest cash flow. UC Asset sold two completed properties in July at a modest profit and built its cash balance to \$1 million. Last month, the Company sold its 72-acre development property outside Dallas for \$1.3 million, with a buyback option and listed an additional residential property in Atlanta for \$1.3 million. As a result, we expect the Company to have cash reserves in the \$2-3 million range once all the transactions close.

The shift in strategy was not without pain. In the first half of 2020, net assets per common unit fell \$(0.25), due largely to the economic impact of the pandemic. Most of the decline stemmed from unrealized losses of \$0.9 million to adjust the value of the investment portfolio in the first quarter. The rate of decline slowed in the second quarter with net assets per common unit falling \$(0.07), compared to \$(0.18) in the first quarter of 2020.

We expect a decrease in net assets from operations of \$(1.3) million for 2020, down from our previous estimate of \$(1.0) million. Our model includes \$(0.9) million in unrealized investment losses for the year, reflecting unrealized losses of \$(1.4) million in the first half, partially offset by potential gains later in 2020 from commercial portfolio investments and recently announced contracts for residential property sales.

On a per-unit basis, we look for net assets from operations to decline \$(0.22) in 2020, compared with an increase of \$0.07 in 2019.

Our modeling forecasts net assets of \$16.8 million by 2024, compared with \$8.7 million reported in 2019, a compound average annual increase of 14%. On a per-unit basis, we forecast a compound average annual increase of 5%, or \$1.90 per unit by 2024. UCASU currently trades at 0.3x its 2019 per unit NAV (in a depressed market), down from a 50% premium in July. A return to its pre-pandemic multiple this brings us to a per unit valuation on 2024 estimates of approximately \$3.00. However, if the current multiple doubles to 3x NAV, our price target on 2024 numbers rises to \$6.00 per unit.

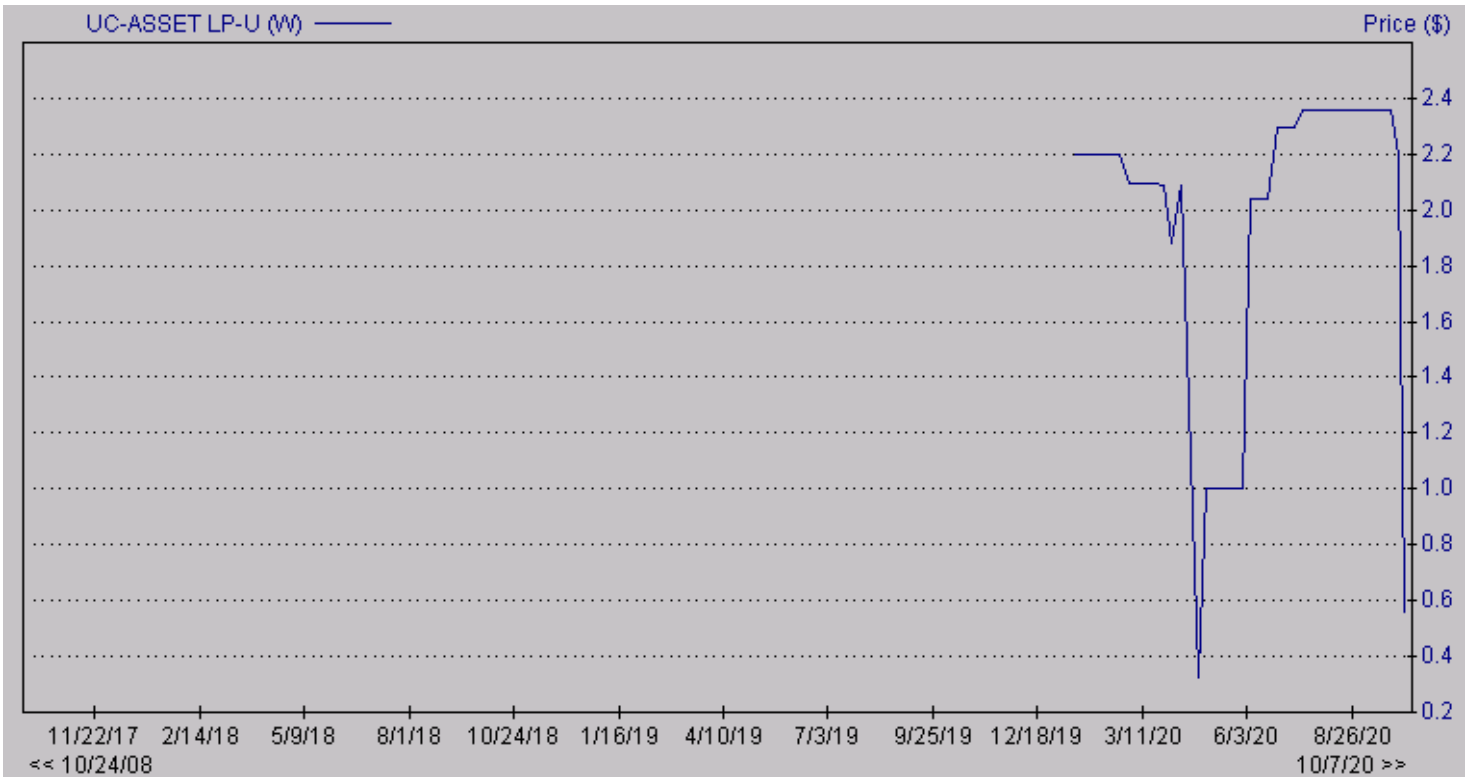
Enterprise value/EBITDA becomes a more relevant method when leverage comes into play. Under our forecasts, we expect operating cash flow to improve dramatically beginning in late 2022-early 2023, as commercial property owners are able to offset UCASU's mortgage supplement payments. Enterprise value will likely rise along with EBITDA, leading to higher price per unit.

## FINANCIAL SUMMARY

STATEMENT OF CHANGE IN NET ASSETS (\$000)								
Fiscal year	2017A	2018A	2019A	2020E	2021E	2022E	2023E	2024E
Income (interest)	9	5	13	46	16	16	46	58
<b>Operating Expenses</b>								
Management fees	(143)	(155)	(170)	(180)	(213)	(268)	(295)	(316)
Professional and other expenses	(109)	(86)	(213)	(242)	(254)	(266)	(279)	(293)
Investment mortgage expense	0	0	0	(17)	(187)	(390)	(401)	(160)
<b>Net unrealized loss before inv gains</b>	<b>(243)</b>	<b>(236)</b>	<b>(370)</b>	<b>(393)</b>	<b>(638)</b>	<b>(908)</b>	<b>(929)</b>	<b>(711)</b>
Unrealized (loss)/gain on investments	874	(26)	744	(873)	837	1,466	850	992
<b>Net investment income/(loss)</b>	<b>631</b>	<b>(261)</b>	<b>374</b>	<b>(1,265)</b>	<b>199</b>	<b>558</b>	<b>(79)</b>	<b>282</b>
<b>Net increase/(decrease) in net assets from operations</b>	<b>631</b>	<b>(261)</b>	<b>374</b>	<b>(1,265)</b>	<b>199</b>	<b>558</b>	<b>(79)</b>	<b>282</b>
<b>Net increase/(decrease) in net assets per unit</b>	<b>0.14</b>	<b>(0.05)</b>	<b>0.07</b>	<b>(0.22)</b>	<b>0.03</b>	<b>0.08</b>	<b>(0.01)</b>	<b>0.04</b>
Weighted avg units outstanding (000s)	4,368	5,000	5,636	5,719	6,149	6,864	7,424	7,807
<b>Net Asset per unit (\$)</b>	<b>1.74</b>	<b>1.67</b>	<b>1.55</b>	<b>1.36</b>	<b>1.58</b>	<b>1.79</b>	<b>1.80</b>	<b>1.90</b>
BALANCE SHEET (\$000s)								
Fiscal year	2017A	2018A	2019A	2020E	2021E	2022E	2023E	2024E
Residential portfolio inv	7,533	8,228	8,668	7,499	7,574	7,801	8,191	8,601
Commercial portfolio inv	0	0	0	313	3,072	5,589	6,560	7,183
Property, plant & equipment	37	34	51	49	50	50	52	53
Cash and equivalents	179	135	91	378	381	381	783	1,002
<b>Total Assets</b>	<b>7,749</b>	<b>8,397</b>	<b>8,810</b>	<b>8,240</b>	<b>11,077</b>	<b>13,822</b>	<b>15,586</b>	<b>16,839</b>
Accrued expenses	146	45	53	48	48	48	48	48
Mortgage on commercial investments	0	0	0	399	1,300	1,482	2,174	1,995
Partners' capital	7,603	8,352	8,757	7,792	9,729	12,292	13,364	14,796
<b>Total Liabilities and Capital</b>	<b>7,749</b>	<b>8,397</b>	<b>8,810</b>	<b>8,239</b>	<b>11,077</b>	<b>13,822</b>	<b>15,586</b>	<b>16,839</b>
CASH FLOW STATEMENT (\$000s)								
Fiscal year	2017A	2018A	2019A	2020E	2021E	2022E	2023E	2024E
Net increase/(decrease) in net assets from operations	631	(261)	374	(1,265)	199	558	(79)	282
<b>Adjustments</b>								
Net unrealized losses/(gains) on portfolio investments	(874)	26	(744)	873	(837)	(1,466)	(850)	(992)
Changes in working capital/ other items	(12)	(103)	(27)	(51)	4	4	5	5
<b>Net operating cash flows</b>	<b>(255)</b>	<b>(339)</b>	<b>(397)</b>	<b>(444)</b>	<b>(634)</b>	<b>(905)</b>	<b>(924)</b>	<b>(706)</b>
Investments in portfolio partnerships and loans	(5,573)	(1,867)	(2,381)	(904)	(2,000)	(2,600)	(100)	(500)
Repayments in partnerships and loans	2,094	1,151	2,685	936	0	0	0	0
<b>Net investing cash flows</b>	<b>(3,479)</b>	<b>(716)</b>	<b>304</b>	<b>32</b>	<b>(2,000)</b>	<b>(2,600)</b>	<b>(100)</b>	<b>(500)</b>
Contributions from partners	2,650	1,106	0	300	1,737	2,005	1,151	1,151
Distributions to partners	(24)	(236)	0	0	0	0	0	0
Portfolio investment mortgage	0	0	0	400	900	1,500	275	275
Other	25	141	48	0	0	0	0	0
<b>Net financing cash flows</b>	<b>2,651</b>	<b>1,011</b>	<b>48</b>	<b>700</b>	<b>2,637</b>	<b>3,505</b>	<b>1,426</b>	<b>1,426</b>
<b>Net change in cash during period</b>	<b>(1,083)</b>	<b>(43)</b>	<b>(45)</b>	<b>288</b>	<b>3</b>	<b>0</b>	<b>401</b>	<b>219</b>

Source: Company filings, Zacks Investment Research

# HISTORICAL STOCK PRICE



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