Net Asset Value and Investment Update

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GCP Asset Backed Income Fund Ltd
21 April 2020

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(the "Company" or "GCP Asset Backed")

LEI: 213800FBBZCQMP73A815

Net Asset Value and Investment Update

GCP Asset Backed, which invests in asset backed loans, announces that as at 31 March 2020, the unaudited net asset value ("NAV") per ordinary share of the Company (including current period revenue) was 99.93 pence.

NAV

The NAV performance for the period is a negative movement of 2.40 pence and a fall of 2.35 per cent.

The Board, after due consideration to advice from the independent Valuation Agent and recommendations from the Investment Manager, has determined that some changes to the discount rates to reflect the movements in pricing of risk across the market as a whole, caused by the uncertainties associated with the COVID-19 pandemic, is prudent. Despite the strong profitability and cash flow for GCP Asset Backed and its subsidiary (the "Group") for the period to 31 March 2020, these adjustments to the discount rates described below contributed to an overall discount rate increase of 106 basis points across the portfolio.

The Board and the Investment Manager remain confident that the Group's diverse portfolio of assets continues to perform well and offers strong downside protection even in current markets.

Independent Valuation Agent (Mazars) comment

The spread of COVID-19 and the associated impacts on economic activity have led to significant volatility in both the equity and debt capital markets, as well as to other market indicators such as interest rates, forecast inflation and forecast power prices.

In general, our valuation policy is to revalue infrastructure assets only on the basis of material and sustained shifts in underlying market data and/or of significant project level events. Our current conclusion is that, at this early stage of the COVID-19 virus outbreak, although the market shifts are significant, they are volatile and not yet sustained. In addition, we are aware of transactions that have closed in recent weeks or are proceeding in the sector without any apparent changes to expected pricing. Accordingly, we do not currently have any direct current market evidence that the pricing of assets by market participants has changed.

However, in light of recent market developments - in particular a notable widening of spreads in the credit markets; an increased, albeit as yet unrealised, risk of interruption to debt service or default; and the potential for prolonged economic disruption as a result of COVID-19 - we have agreed with the Investment Manager that it would be prudent to recognise these increased risks by way of raising the discount rate on selected parts of the Fund's portfolio where it is believed the risks are greater. We would expect that as the impact of the pandemic becomes clearer, the valuation will be revisited on a specific asset basis where this is relevant.

Portfolio Update

The period to 31 March 2020 was strong for the Company, with principal and interest payments received as expected[1], generating an increase in NAV of 0.30 pence per share after the payment of dividends in the period.

At the present time, the Company has not received any requests from borrowers to defer payments for the upcoming quarter, although one borrower is expected to rely on its debt service reserve account to service its quarterly payment (see further details under Community Facility below).

The Investment Manager has been working closely with the Group's borrowers to ensure it fully understands the impact of COVID-19 on their businesses. The Investment Manager is confident that the Group's portfolio remains highly defensive, by diversity of sector, borrower and through the customary protections that are afforded to debt providers.

Although there has been clear disruption across parts of the portfolio, uninterrupted debt service is continuing and the expectations of the long term returns to the Company have not changed. Nonetheless, there is inherent uncertainty as to what the medium and long-term effects of the pandemic will be (as well as the duration of these effects).

The Investment Manager believes that it is prudent to make the adjustments to discount rates that have been applied to the portfolio at this time. High-level commentary on the sectors in which discount rates have been adjusted is included below. However, the Investment Manager remains confident of the inherent protections in the portfolio. The remaining portfolio of assets that have not been revalued have not seen their operations affected by the crisis.

The Investment Manager will be holding a webinar on 29 April at 10am to provide more detail on the portfolio. For any investor interested in joining, please e-mail zoe.french@graviscapital.com.

1. As previously reported by the Company the CHP and ROC loan referred to below remains in default and no payments are expected on this loan until the anticipated sale completes.

Care Homes -Discount Rate 121bps increase

The Group has lent to four care homes. The homes remain well staffed, having ramped up staffing of nurses in late February in anticipation of potential staffing issues caused by the COVID-19 outbreak and all have adopted the Government guidelines. The portfolio of homes was revalued in January and at that time the loan to value ratio of the homes was 53 per cent.

The Investment Manager anticipates that as care homes are prioritised for staff and resident testing for COVID-19 to more effectively manage the risk of infection, the implied increase in risk premium will narrow.

Co-living - Discount Rate 150bps increase

The Group has a facility in place with a security package comprising of 9 operational assets, 2 assets in construction and 16 sites in pre-development. The borrower provides a mixture of long stay and short stay accommodation to young professionals.

Since the COVID -19 outbreak, the short stay business has been severely impacted with enforced closures, whilst the long stay accommodation has proved resilient with many residents continuing to reside in the assets. Due to the refinancing that occurred on this asset in February, the borrower is currently in a strong cash position with the ability to weather the impact of the drop in occupancy. The borrower is looking at several strategies to maximise revenue on their sites, including:

- advanced discussions with the relevant local health department to fully let out one of its short stay buildings for key workers;
- pausing early development work on several sites; and
- reallocating short stay rooms to long stay rooms.

These assets were revalued as part of the recent financing with an LTV of less than 65 per cent.

Community Facility - Discount Rate 900bps increase

The Company has provided a loan to a facility which houses a variety of small businesses, including bars, food outlets, co-working space and studio space. This facility has been closed as a result of COVID-19 in accordance with Government guidance.

The borrower has furloughed all non-essential staff and is taking advantage of various government support packages. The facility has been well capitalised and has a supportive equity backer. Cash outflows are now at minimal levels, with enough available cash to ensure the borrower can remain operational for at least 12 months of closure, if so required.

The facility has a debt service reserve account which has enough funding to make all payments of principal and interest due until March 2021. The Group has a loan outstanding of £2.8m which is 44.30 basis points of NAV.

CHP and ROC Engines - Discount Rate unchanged

The Group has recently signed a sale and purchase agreement ("SPA") for this loan which defaulted in March 2019. Completion of the SPA is subject to two conditions; firstly, OFGEM approval of the stage two RHI application and secondly, lockdown restrictions being lifted to enable construction to start.

The buyers are continuing to work on the transaction, incur legal costs and have all funding in place.

Nurseries - Discount Rate 61bps increase

The Group has lent to five nurseries, four of which are operational, with one in construction. The nurseries have 320 children registered to attend. In accordance with government guidance the nurseries are closed, other than for the continued provision of childcare to children of key workers.

The nurseries have asked for continued payments from parents at a significant reduction during this period, but have given parents the option of withdrawing children from the nursery. To date, this has resulted in a net reduction of five cancelled places. The current waiting list is in excess of the places available and the borrower remains confident it will fill all places once re-opening dates are announced.

The borrower benefits from business interruption insurance which has been confirmed will pay out for the COVID-19 interruption and has made significant cuts to operational costs during the lockdown period.

Waste Facility - Discount Rate 100bps increase

The Group has lent to a waste facility which processes c.130,000 tonnes per annum of commercial, industrial and household waste. The facility produces a refuse-derived fuel which is supplied to a large building supply company under a long-term contract for burning in its cement kilns.

As a result of COVID-19, usual waste flows have been disrupted, with commercial and industrial waste significantly reducing and household waste increasing. These changes are impacting the collection and processing routes of waste, resulting in throughput dropping to the facility. It is also likely in the coming weeks that the cement kilns at the offtaker will be turned off. Each of these factors is impacting the usual operations of the facility.

The facility offers an attractive route to recycle waste and it is expected that excess waste from household collections will start to be diverted to the facility over the coming weeks. Due to the high quality of the fuel produced, other offtake routes are available including the supply of power stations, including stations operated by the majority equity owner.

Boilers - Discount Rate 100bps increase

A discount rate movement has been recorded on the Group's loan to a borrower providing boiler installation and maintenance services due to the uncertainty of payments being received by the borrower from consumers.

To date there has been no material uptick in late or deferred payments and the borrower continues to operate a full boiler repair and maintenance service, with plumbing and heating engineers classed as key workers, in accordance with Government guidelines.

Bridging Loans -Discount Rate 50bps increase

The Group has lent to several parties which provide bridging loans secured against residential property. The loans are at a low loan-to-value ratio (less than 65 per cent) and typically have secondary protection in place, including personal guarantees. The discount rate has widened on this loan as refinancings, sales and lettings are all currently impacted by the Government imposed lockdown.

The underlying bridging loans are not regulated mortgages so no obligation exists to offer payment holidays to the underlying bridging party.

Mezzanine Loans -Discount Rate 153bps increase

The discount rate for mezzanine loans across the portfolio has been increased as a result of the increased general market perception of risk these loans offer. This rate has been applied to all mezzanine loans across the portfolio regardless of the LTV ratio, which in all cases is sub 65 per cent.

Construction Assets -Discount Rate 237bps increase

All construction assets have had a discount rate movement due to potential impacts on build timetables. The portfolio currently has 18 per cent of its assets in construction. Work is continuing on all sites, though on a reduced scale in accordance with government guidelines, except for one project in Dublin where all work has been suspended. The Dublin site was two weeks away from completion and running two months ahead of schedule.

The Investment Manager and the Board continue to monitor events as they develop and further announcements will be made as and when appropriate.

Share Buybacks

Over the quarter, the Company purchased 517,000 of its own shares at an average price of 70.89p, to be held in treasury. The buybacks were conducted at a significant discount to the December 2019 quarter end NAV announced on 17 January 2020, The Company's shares are currently trading at a significant discount to the March quarter end NAV of 16.94 per cent which the Board and Investment Manager continue to monitor closely.

Outlook

Overall, the Investment Manager remains positive for the outlook of the portfolio. The loan book remains highly defensive and diverse. The loan book performed extremely strongly both prior to the onset of COVID-19 and during the period. The Investment Manager remains encouraged by the financial position of our borrowers, the steps each borrower is taking in managing an unprecedented situation and the support which they are receiving from their equity investors.

The defensive nature of the portfolio means significant income will continue to be generated and distributed as dividends. The Company is in a robust position with significant levels of cash on its balance sheet and it has access to a £50m credit facility. In addition the Investment Manager continues to seek out attractive lending opportunities that may present themselves during this time.

For further information, please contact:

Gravis Capital Management Ltd +44 (0)20 3405 8500

David Conlon

Dion Di Miceli

Investec Bank plc +44 (0)20 7597 4000

Helen Goldsmith

Denis Flanagan

Neil Brierley

Buchanan/Quill +44 (0)20 7466 5000

Helen Tarbet

Sarah Gibbons-Cook

Henry Wilson

Notes to Editors

GCP Asset Backed is a closed ended investment company traded on the Main Market of the London Stock Exchange. Its investment objective is to generate attractive risk-adjusted returns primarily through regular, growing distributions and modest capital appreciation over the long term.

The Group seeks to meet its investment objective by making investments in a diversified portfolio of predominantly UK based asset back loans which have contracted, predictable medium to long term cash flows and/or physical assets.

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