March 8, 2021

Zacks Small-Cap Research

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UC Asset LP (UCASU-OTCQX)

UCASU: Strategizing post-pandemic

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 29% premium 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 quickly took actions to strengthen its portfolio early in the pandemic and boosted its cash reserves in late 2020, selling $2.5 million in properties generating an estimated $1 million in gross profit.

Current Price (03/05/21)	$2.00
Valuation	**$4.50**

SUMMARY DATA

52-Week High	**$2.40**
52-Week Low	**$0.32**
One-Year Return (%)	**N/A**
Beta	**N/A**
Average Daily Volume (sh)	**29**
Shares Outstanding (mil)	**6**
Market Capitalization ($mil)	**$11**
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 2021 Estimate	**50.0**
P/E using 2022 Estimate	**N/A**
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 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2019					N/A A
2020					N/A E
2021					N/A E
2022					N/A E

Net change in net assets per unit

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2019					$0.07 A
2020					-$0.17 E
2021					$0.04 E
2022					$0.08 E

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

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COMPANY UPDATE

UC Asset LP plans to report full 2020 financial results this month. Fourth quarter 2020 results were aided by the profitable sale of a large tract of land outside Dallas for $1.3 million and sale of an Atlanta residential property for its full asking price of $1.35 million. By mid-year, the Company expects to have anywhere from $4-7 million in cash it can deploy in the post-pandemic economy, with a focus on commercial and mixed-use development.

2020 both accelerated and slowed changes in real estate. Contrary to initial expectations, residential real estate was a bright spot as remote working and learning created demand from buyers looking for larger spaces and/or relocation from city centers. In the commercial market, landlords and lenders have retained tenants/owners through temporary forbearance, postponing normal market pressures. In addition, many qualified investors have been ready to deploy funds to this sector. As a result, investment property values have yet to freefall.

In April 2020, UC Asset began 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; however, continued rent/mortgage forbearance in the commercial markets limited new investment opportunities through 2020. It is reasonable to expect that these supports will not continue indefinitely, making 2021 likely a better year for commercial investment opportunities.

Projections in December 2020 from CBRE Group Inc. suggest that property values for apartments, offices and retail real estate will likely not stabilize until the second half of 2021. In addition to lingering economic pressures from the pandemic, property owners will face the cost of back debt and the need to make capital investments to retool for health protocols that will likely extend beyond the current pandemic. Importantly, approximately $430 billion in commercial real estate debt comes due in 2021, which may further push property owners to seek new investors or liquidate their properties – both of which create opportunities for real estate investors such as UC Asset.

UC Asset is currently pursuing two investment strategies:

Commercial real estate mortgage support: 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.

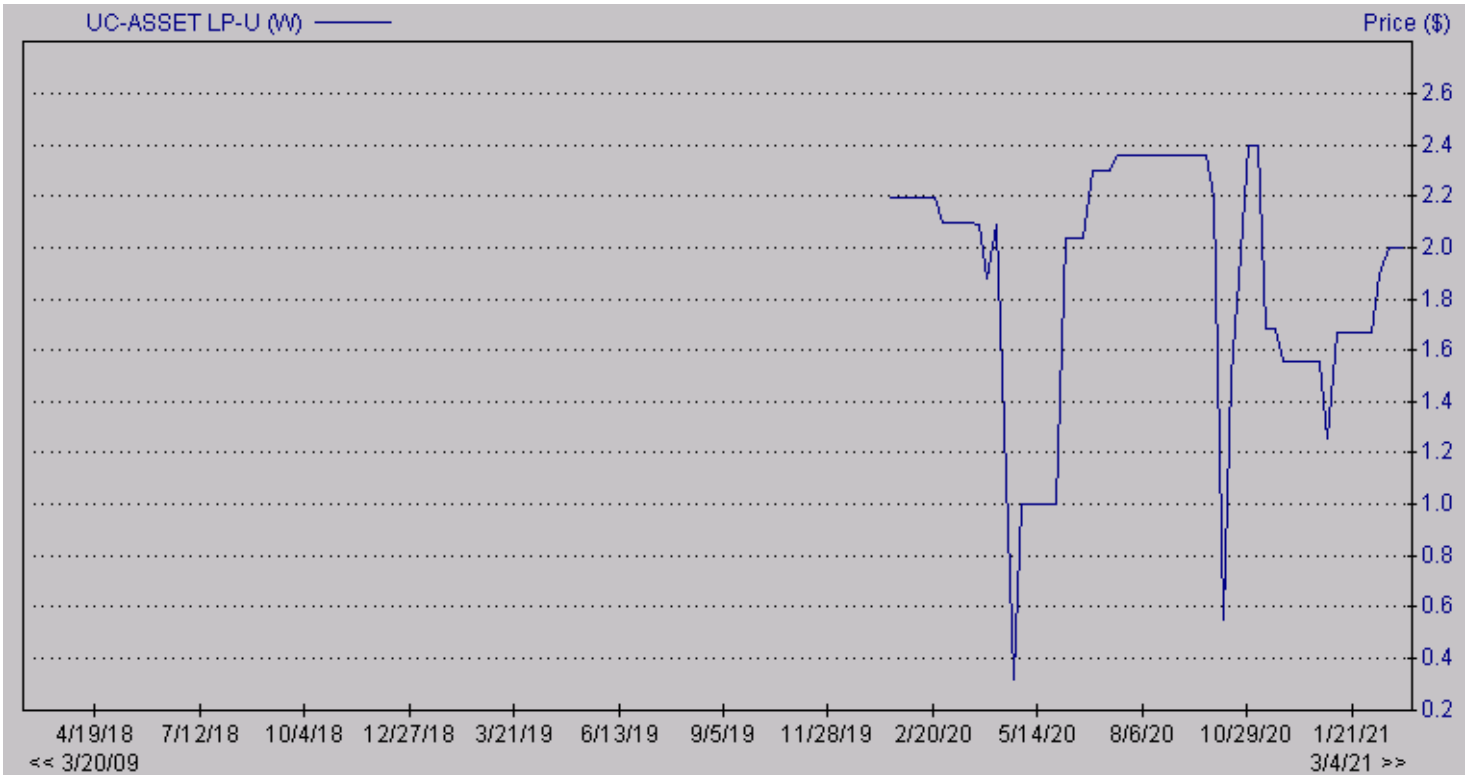
However, UC Asset's management recognizes that the commercial mortgage support program has a limited investment window and the start has been somewhat slow. Lenders, landlords and government mandates have postponed demand and there is significant competition from other investors.

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).

At the end of December, UC Asset announced an initial capital commitment of $1 million to pilot its SHOC strategy. According to management, the goal is to form a $10 million portfolio of shared home office properties over the next year.

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.

HISTORICAL STOCK PRICE



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