

Zacks Small-Cap Research

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UC Asset LP

(OTCQX: UCASU)

UCASU: Zacks Company Report

Our target price for UC Asset is \$4.50 per unit. We use a multiple of 2.5x 2024E net asset value (NAV) per unit of \$2.79, discounted back at 15%. UCASU currently trades at ~1.0x its 2021 per unit NAV. We expect a longer track record, the possibility of accelerated growth, and greater corporate visibility to widen the NAV multiple.

OUTLOOK

2021 was a period of change for UC Asset. It continues to diversify its real estate investment strategies which now include: investing in land and above-ground-properties for cannabis growers, revitalizing underinvested properties in Atlanta and converting them to income-generating assets, and developing 'airbnb'-like properties targeting business travelers.

Current Price (05/31/22) \$1.26
Valuation \$4.50

SUMMARY DATA

52-Week High \$2.72
52-Week Low \$1.00
One-Year Return (%) 5.00
Beta 0.05
Average Daily Volume (sh) 596

Shares Outstanding (mil) 5
Market Capitalization (\$mil) \$7
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 2022 Estimate 126.0

P/E using 2023 Estimate 63.0

Zacks Rank N/A

Risk Level High,
Type of Stock N/A
Industry N/A

ZACKS ESTIMATES

Revenue (millions of \$)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2020					4.5 A
2021					3.5 A
2022					1.0 E
2023					0.1 E

Net income per unit

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2020					\$0.03 A
2021					\$0.12 A
2022					\$0.01 E
2023					\$0.02 E

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

RECENT NEWS

2021 was a period of change for UC Asset. It continues to diversify its real estate investment strategies which now include: investing in land and above-ground-properties for cannabis/hemp growers, revitalizing underinvested properties in Atlanta and converting them to income-generating assets, and developing 'airbnb'-like properties targeting business travelers.

The Company shifted its accounting methodology from fair-market value to historical cost, based on SEC feedback that historical cost methodology is more appropriate given UCASU's more diverse investment strategy. This change may create more volatility in reported results, as gains/losses are recognized when a property is sold, instead of over the entire asset holding period. However, the underlying business activities have not changed.

In 2021, UCASU reported \$3.5 million in investment income including \$2.5 million from the sale of residential portfolio holdings, \$0.9 million in interest income and unrealized investment gains, and \$0.1 million in rental income. At the end of 2021, UCASU we had two houses and one lot in its residential investment portfolio. The Company expects to divest some or all of the properties in the coming years. After expenses, UCASU posted net operating income of \$0.7 million in 2021, compared to \$0.2 million in 2020. UC Asset reported \$0.12 per share net income in 2021, compared to \$0.03 in the previous year. Separately, UC Asset announced a \$0.10 per share dividend for shareholders.

COMPANY OVERVIEW

UC Asset LP invests in real estate in and around Atlanta. In its first four years of operation, the Company focused on improving residential properties to meet growing demand for high-end residential properties in Atlanta's northern suburbs. The demand was generated by a large number of companies relocating to Atlanta and building their offices in Atlanta's northern suburbs, away from the city's traditional business hubs in Buckhead and Downtown Atlanta.

Under the LP structure, the general partner (GP) receives a management fee equal to 2% of assets under management (AUM). In addition, the GP participates in the profits at a rate of 20% above an 8% annualized return to the LPs (compared with 10% prior to January 2020); the GP's share of profits increases to 40% above an 18% annualized return to the Limited Partners.

Strategy 2016-2019: renovating residential real estate to meet changing demand

From 2016-2019, UC Asset focused on acquiring, improving and reselling residential properties. Identifying attractive investment properties and completing improvements in a timely, cost-effective manner were the keys to success. This strategy relied on rapid property turnover and reinvestment and during this time, the Company acquired and monetized nearly 30 properties.

The residential market remained strong through most of 2019, and UC Asset entered 2020 with several properties under contract at prices that would have put the Company on track for \$2 million in cash after the sales. As the pandemic disrupted the economy, real estate sales came to a near halt beginning in March 2020, and three properties in-contract were cancelled. In order to have cash to complete several

other investments, the Company sold two properties to cash buyers at prices below book value to increase its cash reserve.

Pandemic pivot – a blessing in disguise

Economic disruption from the pandemic left many solid businesses with significant, intermediate-term liquidity issues. Those who own properties, or who rent to commercial customers, are finding it difficult to

make mortgage payments – putting their equity at risk. UC Asset identified this situation as a potential opportunity and made strategic adjustment of its investments.

In our view, it turned out to be a blessing in disguise.

- The pandemic caused a shortage of supply of both construction labors and materials, and resulted in an unexpected surge in home demand (particularly in the suburbs), which enabled UCASU to exit a number of properties at better-than-expected prices. Where UC Asset was selling properties below book value in March 2020, a few months later, the Company was selling its remaining residential properties at or above asking price. By the end of 2020, the Company had offset its loss in the first half of the year, and recorded a small annual profit.
- As a result of its divestitures in mid-to-late 2020, till the first half of 2021, UC Asset had \$2.7 million in cash and equivalents on its balance sheet at June 20, 2021, up from \$0.2 million in the year-earlier period. Meanwhile, the pandemic has been much longer than originally anticipated. The commercial support contracts were prefaced on a relatively short time period to return to normality. This may create opportunities in commercial properties, for UC Asset to take advantage of using its strong cash position.

2021 – Back to the Future

In September 2020, 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 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 several years.

The Company acquired its first SHOC property in April 2021. The property is adjacent to downtown Atlanta and across the street from the popular Martin Luther King Jr. Park and Museum.

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

Another strategy is revitalizing historical buildings as a hub for further development. The first is the [Rufus Rose House](#), the only Victorian mansion remaining on Atlanta’s Peachtree Street. Rufus House was added to the National Register of Historic Places in 1977 and was designated a landmark building by the City of Atlanta in 1989. Rufus House has changed hands twice in recent years as plans to convert the building to a restaurant and a performing arts center both failed to materialize. While the Company did not disclose the purchase arrangement for the property, it is seeking to raise funding for renovations primarily through the sale of NFTs. If successful, this is a low-cash way to both acquire and renovate properties, while also building rapport with key community factions.

On September 29, UC Asset unveiled its newest strategy – investing in land and on-ground structures designated for cannabis cultivation, and this will be its primary portfolio strategy for the next 12 – 24 months. The Company plans to invest \$10 million to \$50 million in this strategy, subject to capital raising success. UC Asset originally considered this strategy in 2018, but management believed lacked the resources to do so prudently. With most states moving to decriminalize/legalize cannabis for medical and/or recreational use, management believes that it is a good time to take this step. In 2016, management made a small debt investment in a medical plant grower and signed an LOI with a major hemp farmer in China with the goal of acquiring farmland in China to grow hemp and extract CBD. The recent deal converts the Company's Dallas farmland parcel to medical cultivation, in partnership with local CBD extraction company. The farmland is collateral for UC Asset's debt investment in the partnership and earns an 8% return on stable cash flow. Additional upside is possible through a debt-to-equity conversion.

SENSITIVITIES

Although it has five years as an operating company, UC Asset LP, is still very much an emerging growth story. Results to date have been solid, and management moved quickly to identify opportunities created by the pandemic. In our view, as UC Asset shows that it can identify and execute investment opportunities over time, it will be able to attract a larger stable, buy-and-hold investor base. Sensitivities in our financial and valuation outlook relate to overall economic factors coupled with largely-execution dependent factors including:

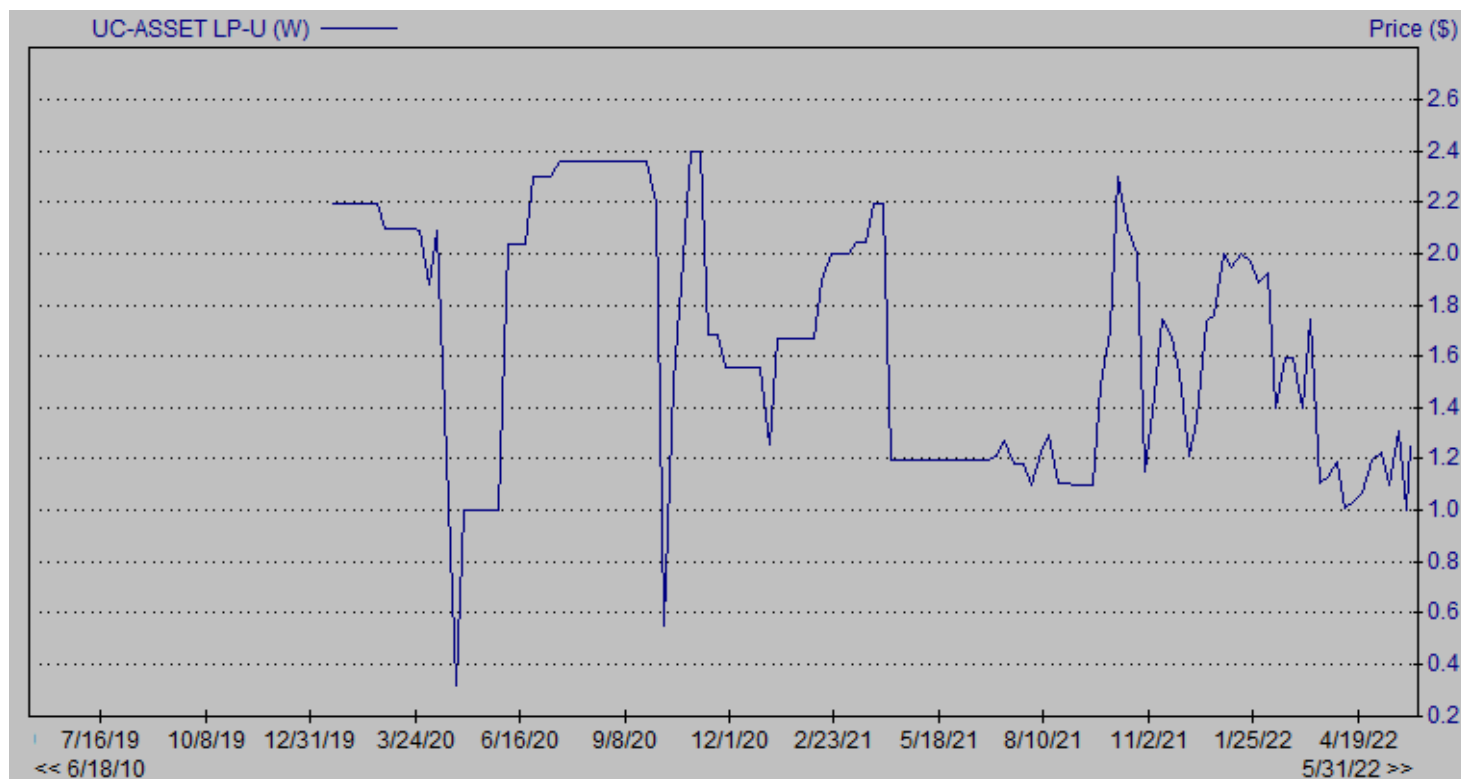
Economic conditions. The pandemic has caused significant disruption in both economy and real estate. While disruption creates investment opportunities, the depth and duration of the pandemic and its impact on the economy will play a large role in how investments perform. Management believes that the current situation will play out very differently from the recession in 2008 in several ways: The 2008 disruption hit real estate and real estate financing first, eventually leading to reduced consumer demand and a slowdown in business.

Real estate demand/trends. Expectations about post-pandemic work and life vary widely. It seems reasonable that more people will work from home, at least part-time. If so, there may be increased demand for homes with dedicated workspaces. Employers may need to maintain their current office square footage to meet social distancing rules, or they may downsize office space that is no longer needed. Consumer-facing businesses, such as food stores, restaurants, convenience stores/gas stations, and gyms, will eventually see demand return to pre-pandemic levels although there may need to be significant reconfigurations to their properties.

Interest rates and decisions about leverage. To date, UC Asset has used cash to acquire and improve each of its investments, insulating the company from changes in interest rates, but also limiting the number and size of its investment opportunities. More recently, however, the Company has created innovative ways for financing its projects. For example, the Company will sell NFTs for the historic Rufus Rose House.

Successful execution of new business models. A key advantage to UC Asset's size and LP structure is the ability to invest in new business models with longer investment horizons, but also with higher potential returns. All three of the Company's current strategies – SHOC, Rufus Rose House and cannabis land – are based on forward-thinking concepts, create innovative ways to raise money and low up-front cash investment and are designed to generate both long-term cash flows and equity upside.

HISTORICAL STOCK PRICE



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