



Fixed Interest



CLS Holdings 5.5% 31/12/2019 - Buy

28th August 2012

Price	100
Credit Rating	N/A
Risk Rating	Medium
Coupon	5.5%

The Issuer:

CLS Holdings Plc (“CLS” or the “Group”) is a multinational property investment company with net assets of £379.7m, generating profits primarily from the surplus of rental income (7%) over the cost of debt (3.7%). Profit before tax for the six months to 30 June 2012 was £27.1m.

CLS has been listed on the London Stock Exchange since 1994. The directors of the business have a substantial shareholding and are thus directly aligned with the successful performance of the business.

CLS invests predominantly in modern, high quality office properties in selected major European cities: 45% of the portfolio is in London, 26% in France, 21% in Germany and 8% in Sweden. The Group believes that over the long-term this spread of locations provides the advantages of diversification into major European markets.

The Group is a long-term investor, and manages its portfolio actively, using its own in-house property management team. This helps ensure the buildings are well managed to meet the needs of its tenants. At 30 June 2012, the occupancy rate was 96.5%, which is testament to its success in attracting and retaining tenants; occupancy has remained above 95.5% consistently over the last five years. Government tenants (including the Home Office and the Ministry of Works and Pensions) across the portfolio represent 41% of the total rental income, with major corporations (including BAE Systems) representing another 28%. Approximately 66% of the Group’s rent roll is index-linked to the relevant indices in the respective countries. Long-term leases are put in place in order to achieve stable cash flows (the average lease is 7.4 years).

CLS believes in having a wide range of financing sources. Its strategy is for each property asset to be in its own wholly-owned subsidiary with its own separate financing arrangements, typically using bank debt and Group equity. This helps to ring-fence each property and its related debt from affecting the rest of the Group, helping to minimise risk to the Group as a whole. Net loan to value at 30 June 2012 was 56%. The Group also maintains a high level of liquid resources (cash and corporate bond investments) which provide operational flexibility.



Fixed Interest (cont)

Credit Analysts View:

The issue does not carry a credit rating. However, considering the covenants that are designed to protect bondholders, this would not put us off buying the bond.

Terms of the bond:

Denomination

The bond has a face value of just £100, although it is not possible to subscribe for less than £2,000. Thereafter, the bonds can be bought and sold in multiples of just £100.

Coupon

The bond pays a 5.5% coupon in two semi-annual instalments in arrears on 30th June and 31st December in each year until the bonds mature.

Redemption

Subject to credit risk, the bonds will be repaid on the maturity date, 31st December 2019.

Dealing

The bonds will be traded on the London Stock Exchange's electronic Order Book for Retail Bonds (ORB), which was launched in response to private investor demand for easier access to trading bonds with the aim of providing a transparent and efficient mechanism for UK retail investors to access the bond markets. The bonds are tradeable instruments and prices will be quoted in the market during trading hours. The bonds can be sold before maturity on the ORB and the prices are supported by Canaccord Genuity Limited in a market-making capacity.

Stamp Duty

No UK stamp duty is payable on the issue or transfer of the bond or on its redemption.

Security

The bond is senior, unsecured debt of CLS Holdings PLC. This means that if CLS becomes insolvent, you may recover your investment in priority to subordinated debt holders and shareholders of CLS. However, you could still lose some or all of the money you have invested. Note that the bond has the following covenants in place, whereby the issuer undertakes to:

- (i) Maintain an Interest Coverage Ratio (Gross Profit in relation to Net Finance Costs) of at least 1.4:1
- (ii) Maintain an Equity Ratio (Equity in relation to Total Assets) of at least 22.5%
- (iii) Not to pay any dividends or redeem share capital, if such event would result in CLS having less than £250m of equity

Summary:

The bond looks good value against the 1% offered by the benchmark Treasury gilt with the same maturity.

With the general consensus forecasting a long period of low interest rates, the issue looks attractive.

The senior ranking of the bond combined with covenants and the steady course steered by CLS's management through the last property market fall (they sold 40% of the Group's property portfolio between 2006 and 2008) suggests that the bond offers a good risk/return ratio. Similar issues have traded above par after admission to trading and with a target raising of just £50m, we expect this bond to do the same.



GIBRALTAR ASSET MANAGEMENT
STOCKBROKERS & INVESTMENT MANAGERS

Research Disclaimer



Research Disclaimer

Gibraltar Asset Management is a trading name of Gibraltar Asset Management Limited, is a member firm of the London Stock Exchange and is authorised and regulated by the Financial Services Commission. Research: Neither the information nor the expressed opinions in this document constitute or intend to be an offer, or a solicitation of an offer, to buy or sell relevant securities (i.e. securities mentioned herein and options, warrants, or rights to or interests in any such securities). The information and opinions contained in this document have been compiled from, and based upon generally available information and independent research undertaken by ourselves which has been qualified and reviewed by our portfolio managers for suitability or appropriateness. However, the accuracy or completeness of the analysis cannot be guaranteed. Confidentiality: The information in this document and any attachments may contain proprietary information some or all of which may be legally privileged. It must not be disclosed to or used by persons other than the intended recipient. If received in error, please notify us immediately and then delete this document. Content: Please note that the content of this document may be e-mailed and may be intercepted, monitored or recorded for compliance purposes. Copyright: Copyright in this document and any attachments created by Gibraltar Asset Management Limited belongs to Gibraltar Asset Management Limited unless otherwise stated. Care: Gibraltar Asset Management Limited shall not be liable to the recipient or any third party for any loss or damage howsoever arising from this document and / or its content, including if e-mailed, loss or damage caused by virus. It is the responsibility of the recipient to ensure that the opening or use of this document and any attachments shall not adversely affect systems or data. Contact: Telephone +350 200 75181 Mail: gam@gam.gi Website: www.gam.gi