



## Fixed Interest



### Alpha Plus Holdings PLC 5% 31/03/24 - Buy

15th March 2016

Issue Price	100
Credit Rating	N/A
Risk Rating	Medium
GRY	5%

#### The Issuer:

Alpha Plus Holdings Plc (“Alpha”) operates 12 independent schools, 14 nurseries and 4 sixth form colleges.

The majority of the schools and nurseries are located in Central London (Notting Hill, Marylebone and Hampstead in particular). The sixth form colleges include DLD College London and Abbey Colleges, located in Birmingham, Cambridge and Manchester.

Alpha is not a listed company, unlike the majority of the LSE-listed bonds. It is an investment held by DV4 Limited, a private equity fund. Alpha’s chairman is Sir John Ritblat, former Chairman and CEO of British Land.

#### Strategy

Alpha’s strategy is to concentrate on the wealthiest areas of the country where the competition for school places is most vicious. Their portfolio of prep schools, for example, includes Weatherby’s (Notting Hill), Falcon’s (Chiswick), St. Anthony’s (Hampstead), Hilden Grange (Tonbridge) and Pembridge Hall (Notting Hill), all of which have admirable educational records.

#### Business Model

The concentration is on achieving top results and maintaining high teaching standards. At the same time there is a constant upgrading of facilities, redecoration, and building of new extensions to squeeze in extra classrooms.

As long as the schools produce the results, the parents will keep on paying the ever-higher fees (they have increased by more than 6% per annum since 1997).

It is very difficult for new rivals to enter the market and in some places nigh on impossible. This is because the cost of land is likely to be prohibitive or impossible to find in central London and there is the difficulty of getting planning permission (who would want to live next door to a horde of screaming kids?).

Head teachers retain the autonomy to run their schools on a day-to-day basis and once a year compile a budget, which has to be approved by the Head Office.

#### Build and Expand

The Group’s policy of “Build and Expand” has been followed since 2002, which has resulted in increased total student capacity.

Pupil numbers have grown 22% from 3,447 to 4,195 over the last 5 years. The growth has been primarily achieved through the expansion of existing sites.



## Fixed Interest (cont)

### **Credit Analysts View:**

The bond will not be rated at issue.

### **Terms of the bond:**

#### Denomination

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

#### Coupon

The bond pays a 5% coupon in two semi-annual instalments in arrears on 31st March and 30th September in each year until the bonds mature.

#### Redemption

Subject to credit risk, the bonds will be repaid at par on the maturity date, 31st March 2024.

#### Dealing

The bonds are 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 are quoted in the market during trading hours. The bonds can be sold before maturity on the ORB and the prices are supported by prominent investment firms in a market-making capacity.

#### Stamp Duty

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

#### Security

The bond is secured 1.66 times by a first legal mortgage over a portfolio of high quality properties being operated by Alpha as private schools. These were recently valued at £108,820,000 and are predominantly located in Pembridge Square, one of the most prestigious addresses in central London.

#### Covenants

A valuation of the assets pledged as security will take place on at least an annual basis. If, on valuation, the value of the Specifically Mortgaged Premises is less than 1.5x the face value of the Bonds (less the amount of any charged cash or cash equivalents), Alpha will make good the deficiency by charging further Eligible Property and/or cash/cash equivalents (Government or European Investment Bank securities).

### **Summary:**

Alpha's business is very straight forward, easy to understand and provides useful diversification in a bond portfolio. The company has consistently made profits over the last several years. Growth in revenue has been impressive (£79m in 2015 from £53m in 2011) and bears testimony to Alpha's contention that their business is recession proof.

This is the second secured issuance by the company; the first - Alpha Plus Holdings Plc 5.75% 18/12/09 - was issued in December 2012. Upon trading in the secondary market, it immediately rose above par and is currently trading at 107%, equivalent to a GRY of just 3.7%. In addition, the bond has good security as well as strong covenants to protect bond holders further.

All this bodes well for investors and we rate the bond a strong buy.



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## Research Disclaimer



### Research Disclaimer

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