

CLS Holdings: Commercial real estate trading at 65% discount to NAV¹

Company:	CLS Holdings (CLI)	Market Cap:	£280m (70.52p)
Industry:	Commercial real estate	Net debt:	£1bn (50.7% LTV)
Country:	UK, Germany, France	Net asset value:	£784m
Date:	24-25 th June 2025	Revenue:	£114m
Dividend:	3.98p (5.69%)	Free cash flow:	£15m
Entry:	£270m (67.86p)	Target:	£400m (100p) (+42%)

Why CLS Holdings?

- A heavy 65% discount to net asset value
- Whilst net rental income is set to decline, net interest expense is expected to decrease by equal amount, keeping profit margins intact
- Heavy £57m and £46m capex in 2022 and 2023 is now down to mid £20m
- Half of 18.5% UK's high vacancy rate is down to two newly refurbished properties, which could provide upside of ~£1m (The Coade) and ~£4-5m (Artesian/Prescott Street) to rental income (~5%)
- Potential sale or 50/50 partnership of transforming Spring Gardens into residential properties (Citadel Place), which could narrow the discount to net asset value

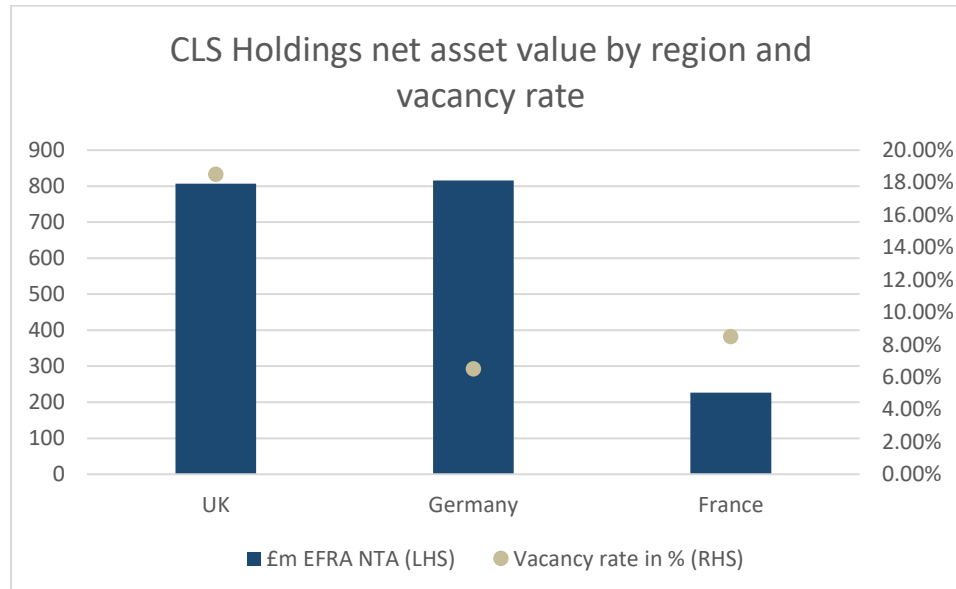
Risks

- Spring Gardens makes up £12m (>10%) of their £114m annual rental income. The lease to the National Crime Agency is expiring in September 2026 and will further reduce net asset value
- Redevelopment of Spring Gardens into Citadel Place would cost ~£200m vs. ~£80m land value
- Artesian and The Coade have been vacant for a relatively long time after refurbishment
- High loan-to-value (LTV) at over 50%

¹ all assumptions and observations are based on internal modelling and data analysis

About CLS Holdings

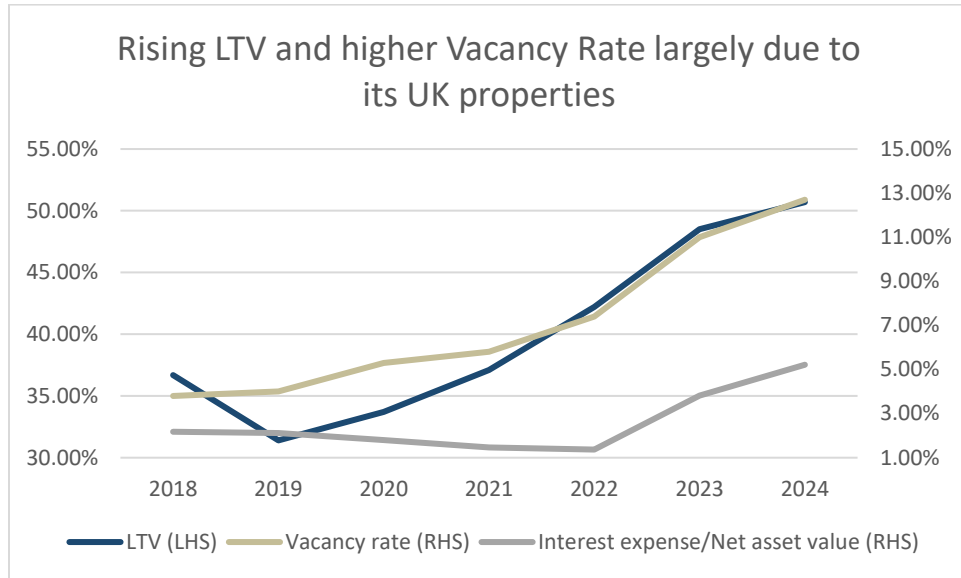
CLS Holdings is a commercial real estate firm with around 81 properties and 719 tenants operating in the UK (44%), Germany (44%) and France (12%)². The company focuses on 2nd tier central locations and locations that are within close reach to central areas in London, large cities in Germany and mostly in Lyon & Paris in France. This makes their offices appealing in terms of price and this is why over ¼ of their tenants are contracted by governments, especially in the UK where 43% of UK rental income is due from the government as of 2019 (outdated, but in my opinion/view likely still a similar number today)³. The total value of CLS's property portfolio amounted to £1.85bn as of December 2024, with a net asset value after debt of £784m compared to a market capitalisation of £270m. The decline in equity is largely due to rising loan-to-value (LTV), rising interest expense and rising vacancies in recent years. Specifically, between 2019 and 2024, the LTV climbed from 4% to 12.7%, interest expense/net asset value rose from 2.1% to 5.2%, and vacancies rose from 4% to 12.7%. At the same time, capex increased from £16.7m in 2019 to as high as £57.2m in 2023 and the company paid out generous dividends without cutting debt despite the higher interest rates.



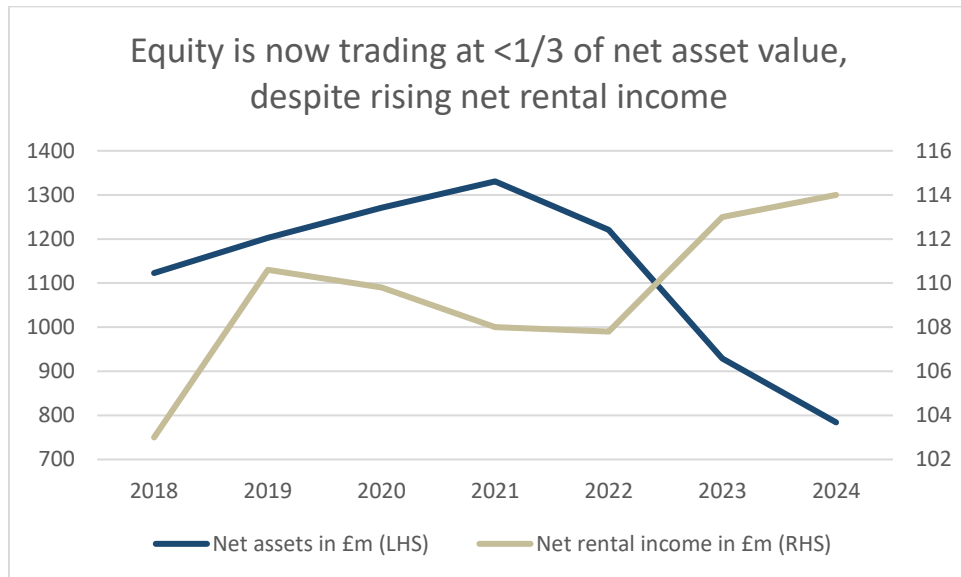
Source: CLS Holdings annual reports, 2024 presentation

² <https://www.clsholdings.com/investors/financial-reports-presentations> annual report 2024

³ <https://www.sharecast.com/news/news-and-announcements/cls-holdings-achieves-revenue-growth-in-robust-results--3780015.html>



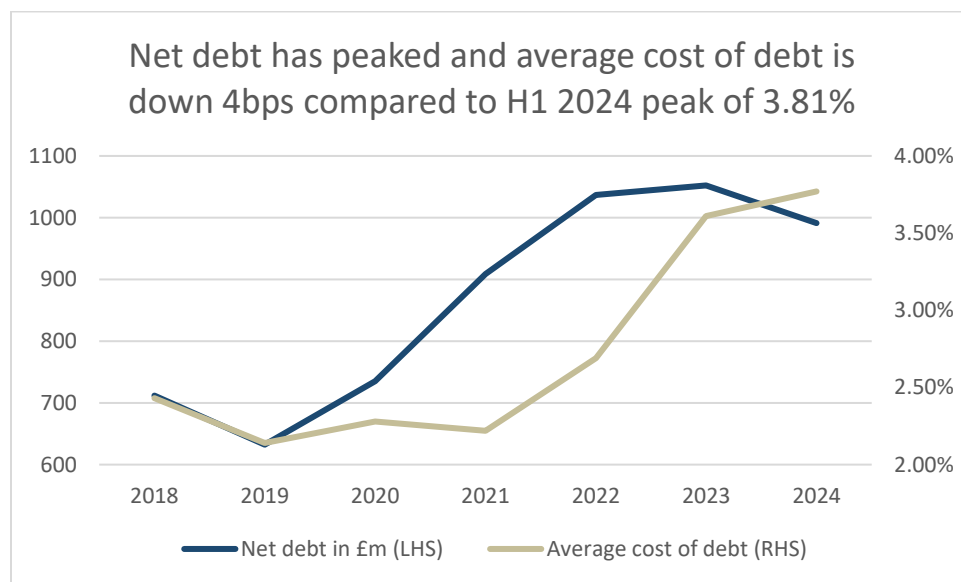
Source: CLS Holdings annual reports



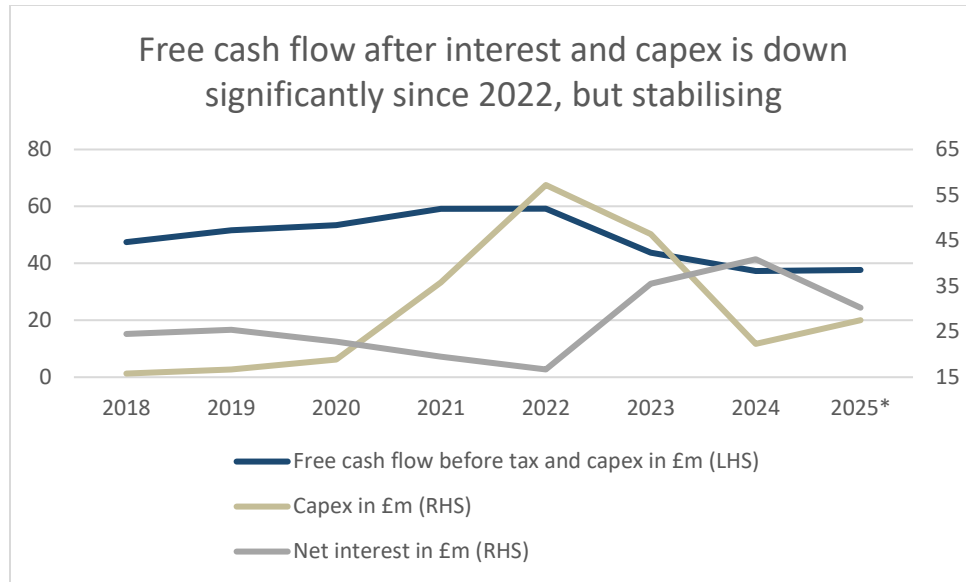
Source: CLS Holdings annual reports

The Turnaround

The combination of higher vacancies and higher interest expense is the worst that can happen to a commercial real estate business. As a result, this will naturally lead to a higher LTV due to lower valuations and the need to refurbish the idle properties to attract new tenants, which can often be a “self-fulfilling doom loop”. However, the details suggest that there could be a turnaround ahead. Whilst the UK has a high vacancy rate of 18.5% as of December 2024 (compared to 6.7% in Germany and 8.3% in France), half of this vacancy rate is due to two properties (The Coade and Artisan/Prescott Street) – both were refurbished, came to the market in 2024, but re-letting is taking longer than expected. However, once re-let, the two properties could add £6-7m to their £114m annual rental income (pre-disposals) according to current market prices in the respective region (confirmed by management). This could mean that vacancies are starting to drop in 2025. At the same time, the rising interest expense is set to drop through the company’s £270m disposal target by end of 2025, of which £200m has been executed as of June 2025. According to my own estimates and that of management, the £200m disposals will lead to a decline in average cost of debt to 3.57%, down by 20bps. At the same time, net rental income is set to drop by around £10m from the £200m disposals, leading to stable free cash flow year-on-year, if other rental income would not climb. Finally, capital expenditures have started to come down after reaching a peak of £57.2m in 2022 and are expected to be around £25-30m in 2025 and 2026 – higher than the £15-20m pre-pandemic period, but lower than in recent years.



Source: CLS Holdings annual reports



Source: CLS Holdings annual reports

Citadel Place: A key asset for the Turnaround

While the turnaround appears to be in play, there is one key asset that will be key in this development: Spring Gardens/Citadel Place. Spring Gardens is one of the company's oldest, yet most profitable assets, occupied by their largest single tenant, the UK's National Crime Agency (NCA). The asset generates £12m in annual rent (>10% of 2024 annual rent), but the tenant is set to leave by September 2026. Spring Gardens likely has debt of around £40-50m considering a land value of £80-100m and a 50% LTV. With the NCA leaving, the property is set to be redeveloped into a 500-unit 1–2-bedroom residential area called Citadel Place. This redevelopment is set to cost around £200m with a net asset value of £340-380m and either a 50/50 partnership is sought, or the land and project is sold entirely (all according to management).

In summary, there are plenty of triggers to turn the company around by reducing the vacancies, interest expense and LTV:

1. The company manages to dispose of another £70m in assets
2. The two newly refurbished properties (The Coade and Artesian) in the UK sign new tenants
3. A sale or partnership for Citadel Place is agreed

Concluding thoughts

The one aspect I haven't covered in this note is refinancing risk. All debt is tied to the specific properties and with £372.4m (over 1/3 of total debt) coming due this year, there are some refinancing risks. However, the disposals of £200m to date have lowered this risk and management believes that by mid-August 90% of the refinancing is done. Therefore, a 64% discount to net asset value is no longer justified and I view an upside of as much as 42% in the equity valuation over the next few months as possible.



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