Beaufort Securities

08:20 13 Sep 2017

Beaufort Securities Breakfast Alert: Strat Aero, Altus Strategies, Falanx Group, Katoro Gold, Petards Group plc

Today's edition features:

- **Altus Strategies (LON:ALS)**
- **Falanx Group (LON:FLX)**
- **Katoro Gold (LON:KAT)**
- **Strat Aero (LON:AERO)**
- **JD Sports Fashion (LON:JD)**
- **Petards Group (LON:PEG)**

Markets

Europe

The FTSE-100 finished yesterday's session 0.17% lower at 7,400.69 whilst the FTSE AIM All-Share index was down 0.14% at 1,008.88. In continental Europe, the CAC-40 finished 0.62% higher at 5,209.01 whilst the DAX was up 0.40% at 12,524.77.

Wall Street

In New York last night, the Dow Jones closed 0.28% higher at 22,118.86, the S&P-500 ended 0.34% firmer at 2,496.48 and the Nasdaq was also up 0.34% at 6,454.28.

Asia

In Asian markets this morning, the Nikkei 225 was recently up 0.52% at 19,879.69, while the Hang Seng was down 0.29% at 27,889.95.

Oil

In early trade today, WTI crude was 0.02% lower at $48.22 per barrel and Brent was down 0.24% at $54.14 per barrel.

Headlines

'Pay outpaces house prices' in many areas

More than half of Britain has seen wages rise faster than house prices in the last 10 years, research by a mortgage lender has suggested. Edinburgh and Birmingham are among the 54% of areas where pay has outpaced property prices since 2007, the Yorkshire Building Society found. Yet the gap between wages and house prices has widened dramatically in other areas. The building society suggested this had accentuated a north-south divide. Across London and much of southern England, it has become "increasingly difficult for first-time buyers and those wanting to move up the housing ladder", said Andrew McPhillips, chief economist at the Yorkshire Building Society. "However, the north of England, Wales and Scotland present a different picture entirely, with many places more affordable than they were before the credit crunch," he said. "While some northern cities, such as Manchester, are less affordable than they were in 2007, in much of the north of England, Scotland and Wales, the gap between earnings and house prices is around a third of the average for London."

Source: BBC News

Company news

Altus Strategies (LON:ALS, 10.12p) - Speculative Buy

Altus Strategies, the natural resources project generator company focused in Africa, announced yesterday trenching results from its Agdz copper-silver project in central Morocco. The company has completed a 275m reconnaissance trenching programme with a combined strike length of 4km and widths up to 0.5km. The trenches have an average depth of 0.5m and targeted bedrock below strongly weathered surface material covering the Amzwaro and Makarn prospects. Mapping has confirmed the presence of alteration zones as well as copper oxide and sulphide mineralisation. Another trenching programme comprising seven trenches up to 200m each has been planned in conjunction with further detailed structural and alteration mapping with the aim to locate and test the continuity of mineralisation and altered structures to define potential drill targets.

Our View: We are encouraged with the results from the reconnaissance trenching programme that has successfully correlated ground magnetic and surface sampling data with the presence of copper mineralisation and alteration zones. The results are not surprising given the that the project is located within an establish copper-silver mining district and is 14km southwest of the Bouskour copper mine. We look forward to the next round of trenching and mapping that will focus on the continuity of mineralisation and alteration zones to define potential drill targets. In the meantime, we maintain our speculative buy on the stock.

Beaufort Securities acts as corporate broker to Altus Strategies plc

Falanx Group (LON:FLX, 7.25p)

Falanx, the global intelligence and cyber defence provider, has announced the official launch of its proprietary technology 'MidGARD' which deals with the detection and control of cyber threats within both large institutions and SMEs. The technology can be rapidly deployed, is very scalable and will be marketed both directly and via channel partners. Falanx has also announced that Richard Morrell, a well-known and highly experienced industry practitioner, has joined the business from Gartner to lead development of this technology platform. This is a very significant step forward for FLX we believe, one which could totally transform the outlook for this business. Beaufort Securities' Forecasts and Recommendation TBC.

Beaufort Securities acts as corporate broker to Falanx Group Limited

Katoro Gold (LON:KAT, 3.50p) - Speculative Buy

Katoro Gold, the Tanzania focused gold exploration and development company, announced today that the Tanzanian National Environmental Management Council (TNEMC) has assessed the terms of reference for the execution of the Imweru gold project's environmental impact statement. TNEMC has now issued a registration letter for the ESIA. Receipt of the letter confirms successful completion of Phase 1 of the ESIA and permission to continue with Phase 2, being the establishment of the environmental baseline for Imweru, in preparation for the final environmental certification during Phase 3. Phase 2 has already commenced. The Imweru gold deposit has a current JORC-compliant mineral resource estimate of 515,110oz of gold comprising 82% in the Inferred and 18% in the Indicated categories.

Our View: The Tanzanian Government continues to generate negative attention worldwide as it focuses on how companies value extracted minerals and commodities within country. However, we note that this has limited impact on Katoro given Imweru's early stage of development. We are encouraged with the pace of development at Imweru as Phase 1 of the ESIA has been approved and Katoro has moved on to Phase 2 by compiling the necessary environmental data for the baseline study. We look forward to submission of the Mining Right Application, which is scheduled for October 2017. In the meantime, we maintain a Speculative Buy recommendation on the stock.

Beaufort Securities acts as a corporate broker to Katoro Gold plc

Strat Aero (LON:AERO, 0.08p) - Under Review

The AIM quoted international aerospace company focused on the Unmanned Aerial Vehicle ('UAV') sector, yesterday released its unaudited half year report for the six-month period ended 30 June 2017. Highlights for the period included a 38% growth in revenue: US$568,553 (2016: US$410,740), leadings to a 57% reduction in Operating Loss: US$910,222 (2016: US$2,093,743). The all-important cash balances at the period-end amounted to US$371,896 (2016: US$275,428). During the period, a significant restructuring of costs was achieved, with further rationalisation opportunities identified in order to position its operations for growth, including the transitioning of Geocurve to focus on recurring contracts and build reputation as an innovative sector leader. Meanwhile, the upgrading and revamping of training course AUTQ is helping it gain traction. With an eye on continued cost elimination, management is implementing a new Financial Planning and Control System, while the Corporate HQ has been revamped and combined into single office with Geocurve. Iain McLure, CEO of Strat Aero plc, commented, "The continued implementation of a robust strategy and rationalised cost base has delivered a clear improvement in Strat Aero's performance in the first six months of the year. I am pleased to report that all indications point towards this trend continuing in the coming months and this, together with a number of exciting projects coming to fruition across the Group, renews my optimism in Strat Aero's ability to become a leading provider of services and training within the UAV industry and deliver meaningful value to the Company's shareholders."

Our View: 2017 to date, has seen Strat continue to re-focus on its key strengths and experience. These comprise Survey and Inspection (via Geocurve), along with Training and ad hoc consultancy services, while strategic rationalisation has witnessed the Board's knife cutting deep into last year's hefty consultancy, professional and personnel cost burden, while also minimising outflows from its US operations and renegotiating its short-term loan facilities. So far, so good! Operational progress was also reported during Q2, with five new contracts from three new clients being landed; although each presently remains of relatively small value, they demonstrate long-term opportunity characterised by the potential to deliver regular, repeating revenues. More immediately, however, the Board still has to cope with its businesses' inherent cyclicality of revenue and cost cycles as it secures such progress. Recognising this, Executive Chairman, Graham Peck, noted that his Board expects to "…strengthen our balance sheet in coming months to ensure that the business is adequately funded through to break even and the directors will consider a range of options including debt and equity". While current liabilities had been reduced to US$0.87m by the half year stage (from US$1.422m at the end of 2016), net monthly cash burn remained uncomfortably high at around US$165k which, although likely to fall slightly further in the second half, suggests the balance sheet will begin to run on 'empty' not long from now. So an effort to plug this funding gap is clearly Strat Aero's immediate priority, while also detailing a vision to shareholders as to when it might be possible for its operations to begin standing on their own feet. Assuming these two hurdles can be safely negotiated, Beaufort recognises that Strat's early-mover advantage in a rapidly developing sector that is already crying out for professional services and facilitation, has potential to establish foundations capable of delivering high profitability and long-termvisibility. Geocurve's adoption by a number of higher profile customers and early evidence of traction for its Asian training programmes will be the first evidence of this. The shares, which presently trade below their nominal value, appear to factor-in absolutely nothing for this. For now, however, Beaufort will retain its 'Under Review' recommendation in anticipation of the Board tackling its immediate challenges.

Beaufort Securities acts as corporate broker to Strat Aero plc

JD Sports Fashion (LON:JD, 373.40p) - Buy

JD Sports Fashion ('JD Sports'), the leading retailer of sports, fashion and outdoor brands, yesterday announced its interim results for the 26 weeks ended 29 July 2017 ('H1 FY2018'). During the period, revenue advanced by +41% to £1,367.2m, while on a like-for-like ('LFL') basis, store revenue grew by +3%, against comparative period (H1 FY2017). Gross profit margin fell by -0.7% to 47.4% due to weaker Sterling and increased contribution of the lower margin Outdoor businesses acquired last year. Operating profit and pre-tax profit both rose by +33% to £103.3m and £102.7m, respectively, leading to basic earnings per share of 8.09p, up +36%. Net cash at period end stood at £222.7m compared to £231.8m a year ago. On the operational front, JD & Size? increased its net stores by 38 to 606 stores (JD: 569 stores, Size?: 37 stores), including first JD stores in Australia and 2 additional stores in Malaysia. Overall, Sports Fashion fascias reduced total stores by 20 to 1,030, while Outdoor fascias opened 3 stores and closed same number leaving total stores unchanged at stores at the period end. JD Sports' Chairman, Peter Cowgill commented "This is another pleasing result demonstrating the strength of our highly differentiated multichannel proposition and our ability to prosper in an increasingly competitive market for athletic inspired footwear and apparel". The Group declared an interim dividend of 0.26p per share, up +4%, to be paid on 5 January 2018. The Group is planning to provide a trading update including its key Christmas period in early January.

Our View: JD Sports' performance for H1 FY2018 remained strong delivering another record pre-tax profit, which increased by +33% against the strong comparative (H1 FY2017: PBT +73%). The results were supported by both Sports Fashion (86% of revenue) and Outdoor (14% of revenue) fascias where latter has made a first positive contribution (£0.1m) to the Group operating profit since acquisition. Although slowing from last year's frantic pace, the Group's core UK and Ireland Sports Fashion fascias LFL sales growth of +3% was still encouraging, empowered by its ongoing investments in multichannel capability to drive digital innovation and mobile technologies both instore and online. The Sports Fashion fascias introduced new ranges from Sik Silk, Tommy Hilfiger and Calvin Klein during the period, while continuing to seek further brand partnerships. The Outdoor fascias' performance was lifted by the recently acquired Go Outdoors business. Management confirmed that this acquisition will enhance the division's performance in the longer-term as it begins to realise operational synergies. Looking forward, it also noted H2 momentum has continued at similar levels to H1, which translates into full year pre-tax profit guidance at the upper end of the market's £268m to £290m expectations. Capital expenditure guidance for FY2018 has now been lifted to £160m (FY2017: £88m), given that the Sprinter business in Spain has reached its warehouse capacity and the Group expects to incur majority of the expenditure associated with a new site in Alicante (land €15m plus fit out €20m) this year, together with its ongoing international store rollout expenses. The UK retail sector is expected to be impacted by weaker Sterling-led inflation which eats into disposable income and impacts consumer confidence. The sector will also have to absorb other increased costs including National Living Wage and business rates. We consider, however, the Group retains encouraging momentum and its ongoing international expansion strategy will mitigate some of these costs and provide further growth potentials. The Group's balance sheet remains robust with strong cash generation adequately financing its international expansion. We are encouraged by the Group's continuing progress and given the Board's continued confident to its outlook, Beaufort maintain its Buy rating on the Shares, while closely monitoring sentiment for seasonally significant H2.

Petards Group (LON:PEG, 27.25p) - Speculative Buy

Petards, a developer of advanced security and surveillance systems, yesterday announced its interim results for the 6 months ended 30 June 2017 ('H1 FY2017'). During the period, revenue advanced by +8% to £8.0m with a gross margin of 38.6%, up from 35.2% against the comparative period (H1 FY2016). EBITDA grew by +18% to £925k and pre-tax profit rose by +6% to £503k, leading to basic earnings per share of 1.39p, up +2%. As the period saw net operating outflow of £218k (H1 FY2017: inflow £122k) due to increased working capital in rail business, cash balance at the period end stood at £1.5m (end-FY2017: £2.3m), while the Group remained free of band debt. On the operational front, the Group added Stadler Bussnang AG to its customer list by securing £4.3m contract to supply Petards eyeTrain, an on-board digital CCTV systems, and Automatic Selective Door Opening ('ASDO') systems in March 2017. Beside Stadler, the Group also received a further £3m contract from Bombardier Transportation to supply Petards eyeTrain systems. Petards' Chairman, Raschid Abdullah, commented "Against this backdrop and on-going customer discussions for new projects, the Board continues to be confident about the Group's future prospects".

Our View: Petards reported a strong performance for H1 FY2017, continuing its recent progress by winning several contracts for its eyeTrain systems. In particular, the £4.3m contract secured from Stadler was an important step forward for the Group as it further strengthens its product position as 'system-of-choice' across the industry. Stadler is a well-known, global system provider of train manufacturing and maintenance services, operating in 18 countries with 7,000 employees. It manufactures a wide range of products, including high speed trains, intercity, regional and commuter trains, trams, tram-trains and underground trains. Successful delivery of the current project brings potential for long-term relationship to roll-out Petards' various products to other vehicles manufactured by Stadler. An addition of Stadler lead to 6 of the world's top 10 rolling stock manufactures now in Petards' customer list, with 4 of which have current projects with the Group (Stadler, Siemens, Great Western Railway and Hitachi Rail Europe Limited). Post period, the Group also won a £1.0m contract from the Ministry of Defence and £0.5m from Leonardo MW (previously Agusta-Westland). The Group's order book at the period end increased by +20% to c.£24m, of which £8m is scheduled for delivery in the H2 FY2017 and £11m for FY2018, providing excellent visibility. Petards ended the year with good cash position of £1.5m with no debt, after financing product development and projects from own resources. As such, the Board anticipates positive cash flows to return in Q3 and Q4 FY2018 as existing contracts progress to advanced phases. The Share have increased by approximately +60% year-to-date, currently valued at FY2017E and FY2018E P/E multiples of 13.0x and 11.9x, having seen its shares fall back in May after its Chairman reduced its holdings (now 3.2% holder). In view of the continue positive progress along with a strong order book, Beaufort retains its Speculative Buy recommendation on the Shares.