

# Beaufort Securities

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## Beaufort Securities Breakfast Alert: Bushveld Minerals Limited, IP Group Plc, MySQUAR Limited, Petards Group plc, Prospex Oil & Gas, Savannah Resources Plc

- Bushveld Minerals (LON:BMN)
- MySQUAR Limited (LON:MYSQ)
- Prospex Oil & Gas (LON:PXOG)
- Savannah Resources (LON:SAV)
- IP Group (LON:IPO)
- Petards Group (LON:PEG)

"While most international markets are likely to be uneventful ahead of tomorrow's FOMC meeting decision, traders in London will this morning be cautiously watching the scheduled release of UK inflation data. Gilts have, of course, participated in the global sell off of government bonds as the world prepares itself for a Trump-inspired bout of reflation; but here the devaluation of Sterling resulting from Brexit injects a further complication for Mark Carney, with many surprised that to date a retail prices have yet to significantly spike upwards, a result that will be compounded further into 2017 should higher crude resulting from production cuts agreed with OPEC hold. The consensus forecast is for RPI to rise to 2.1% for November (up from 2.0% in October and 1.6% in June) and, while economists generally expect the Bank of England to permit the economy to 'run hot' for a period beyond its target figure, they will be gauging the likely date for rates to be hiked upward and the inevitable pressure this will impose on the economy, not least the highly sensitive housing market. Banks and financials were subject to a round of profit taking in the US overnight with the S&P500 sector down 0.9%, reflecting traders' concerns that the President-elect's proposals to revitalise the economy while apparently purposely raising tensions with China spells for a less than smooth transition. Industrials and infrastructure plays, however, managed to keep the Dow Jones in positive territory, although the NASDAQ was the biggest casualty amongst the main indices due to a sell-off of pharmaceutical and biotech issues. Asia remained quiet, with most regional bourses putting in just fractional movements despite China reporting stronger than expected Industrial Output, Fiscal Spending and Retail Sales data for November, leaving just the Nikkei to put in a reasonable performance on continuing Yen weakness relative to the US\$. London this morning will see release of a swath of inflation data, including Consumer Prices, Retail Prices and Producer Prices, along with the House Price Index, while the Fed interest rate meeting commences today along with publication of the Redbook. UK corporates due to provide earnings or trading updates include Balfour Beatty (BBY.L), Bellway (BWY.L), Carpentryright (CPR.L), Eurocell (ECEL.L) and Hunting (HTG.L). Markets will also remain sensitive to any confirmation of Exxon Mobil's CEO, Rex Tillerson, being appointed as Trump's new Secretary of State, while discussions continue amongst oil traders as to whether it is possible to police the recently agreed international production-cuts continue to promote scepticism as to whether the vaunted new target range of US\$60 to US\$70 is in fact possible. London is expected to open quietly this morning, with the FTSE-100 rising between 5 and 10 points in early trade."

- Barry Gibb, Research Analyst

### Markets

#### Europe

The FTSE-100 finished yesterday's session 0.92% lower at 6,890.42, whilst the FTSE AIM All-Share index closed 0.09% higher at 821.15. In continental Europe, the CAC-40 finished 0.07% lower at 4,760.77 whilst the DAX was 0.12% down at 11,190.21.

### Wall Street

In New York last night, the Dow Jones rose 0.2% to 19,796.43, the S&P-500 shed 0.11% to stand at 2,256.96 and the Nasdaq declined 0.59% to 5,412.54.

### Asia

In Asian markets this morning, the Nikkei 225 added 0.41% to 19,234.36, while the Hang Seng lost 0.01% to stand at 22,430.31.

### Oil

In early trade today, WTI crude was down 0.38% to \$52.63/bbl and Brent was down 0.22% to \$55.57/bbl.

### Headlines

#### Trump delays announcement on his business empire

Donald Trump has delayed an announcement on how he plans to separate his business empire interests from his role as US president. The US president-elect had been due to hold a rare press conference on Thursday to discuss how he would deal with perceived conflicts of interest. Mr Trump's spokesperson said the announcement would now come in January. Meanwhile, Mr Trump said he was appointing Goldman Sachs President Gary Cohn as his "top economic adviser". Mr Cohn will head the the White House National Economic Council, a position that will make him one of the most influential voices on economic decisions in the White House.

### Company news

#### Bushveld Minerals (LON:BMN, 1.58p) - Speculative Buy

Bushveld Minerals, a diversified mineral development company, announced today the signing of an agreement between its wholly owned subsidiary, Greenhills Resources, and a consortium of Namibian shareholders to acquire the latter's 49.5% interest in Uis tin project in Namibia. The consortium comprises Namuis Ltd, Havana Investments Ltd and Sweltering Desert Investments Ltd which collectively holds a 49.5% interest in Dawnmin Africa Investments. Erongo Tin holds the remaining 50.5% of the issued share capital of Dawnmin, which is the 85% owner of the Uis tin project with the remaining 15% held by Small Miners of Uis, a Namibia Government owned subsidiary. The Uis tin project comprises three mining licences (ML 134, ML 129 (B1 and C1) and ML 133) the most significant of which is ML 134 with an estimated historical resource of 70.3Mt grading 0.14% Sn. Under terms of the agreement and subject to due diligence, Bushveld will acquire 49% shareholding for a consideration equal to 41M ordinary shares (approximately £0.65m at closing price on 12 December 2016). The proposed acquisition is subject to, amongst other things, regulatory approval and negotiation of definitive agreements, including a share purchase agreement.

Our view: The proposed transaction fits nicely into Bushveld's strategy of consolidating a critical mass of mineable low-cost tin resources and creating a platform for Greenhills Resources as a standalone tin producer with strategic partners. The Uis tin project is a past producing area comprising cassiterite and tourmaline bearing pegmatites that has been mined intermittently between 1924 and 1994. We look forward to further updates on the Uis tin project as well as a definitive agreement. In the meantime, we maintain a Speculative Buy rating on the stock.

#### MySQUAR Limited (LON:MYSQ, 3.12p) - Speculative Buy

MySQUAR, the Myanmar-language social media, entertainment and payments platform whose principal activity is to

design, develop and commercialise Myanmar-focused internet-based mobile applications, yesterday announced that Sandabel Capital LP has agreed to subscribe for an additional Convertible Loan Note with an aggregate principal amount of up to USD 2.0 million (representing USD 1.8 million net of fees to the Company). The proceeds will be used, in order of priority, for working capital purposes, to accelerate the development of new games and applications, and to repay the existing loan from Rising Dragon Singapore Pte. Ltd. in full. The first drawdown in respect of the CLN of USD 500,000 will happen immediately. The second drawdown of USD 350,000 is expected to happen by 31 January 2017; any subsequent requests for drawdowns in amounts of USD 250,000 can be served no earlier than 20 business days after service of any previous request under the CLN agreement. The CLN agreement is for a period of two years. During the two-year term of the CLN, any amounts drawn down under the CLN agreement will be convertible into new ordinary shares in the Company at the Noteholder's discretion. The deemed value of the amount of the loan being converted into new ordinary shares will be at a multiple of 1.1 times the value actually drawn down under the CLN agreement and the price at which the conversion is effected will be at a 12.5% discount to the lesser of the volume weighted average share price for the 20 business days immediately preceding the date of conversion, or the closing bid share price of the Company on the business day immediately preceding the Conversion Date. In addition, MySQUAR will issue 1 warrant to Sandabel and 1 warrant to Beaufort Securities Limited for every 2 Conversion Shares issued. The warrants will be exercisable at 7.5p per share at any time within 3 years from the date on which the warrants are issued. The Conversion Shares will be subject to 12 months' orderly market conditions commencing on the relevant Conversion Date.

Our view: This follow-on investment from Sandabel will allow MySQUAR to execute its business plan in a more aggressive manner, to continue to drive the business towards positive cash flow and, subject to draw down in full of the CLN and satisfactory financial performance of the business, to repay the Rising Dragon credit facility (which will remain in place for future use) in full. While the terms of the CLN do effectively create a stock overhang in a relatively illiquid market, management have taken up the facility in order to service the quite extraordinary momentum the Group's offering - which comprises all their apps, games, Fastsell, VoiP and, of course, MyChat - is now generating. In terms of user account numbers, the count is likely to significantly exceed the 6m suggested back in October and with further portfolio expansion in coming months, MySQUAR is positioned to more than deliver on best expectations. Based on recent progress, management now formally recognises the Company has the very real potential to achieve monthly break-even or better before the end of the current financial year (ended-June 2017). This is something that is unlikely to have been missed by its numerous and very cash-rich global peer group, who remain determined to continue ensnaring players in virgin territories that have successfully participated in an online user 'landgrab'. In this respect, MySQUAR now appears quite dramatically undervalued; Beaufort retains a price target of 21.0p/share and repeats its Speculative Buy recommendation.

### **Prospex Oil & Gas (LON:PXOG, 2.18p) - Speculative Buy**

Prospex announced that the Boleslaw 1 gas well has spudded. Since the well location was chosen in 2Q, the process of selecting the drilling contractor, getting the necessary permits and mobilising has been smooth and efficient. A testament both to management, Hutton Poland the operator, and to the relative ease of doing oil and gas business in Poland. First newsflow from the well will likely be wireline logging in a months time, followed by the flow test.

Our view: This was expected news but good news nonetheless. We look forward to a problem free well and positive results in the new year.

### **Savannah Resources (LON:SAV, 5.88p) - Speculative Buy**

Savannah Resources announced today that it has started drilling at the Ravene deposit in Mozambique, which forms part of the Mutamba/Jangamo heavy minerals sand project being developed by Savannah and Rio Tinto as part of a consortium agreement (see RNS 11 October 2016). The Mutamba project comprises the Jangamo, Dongane and Ravene deposits and has a resource estimate of estimate of 3.5Bt grading 3.8% total heavy minerals (THM), containing 81Mt of ilmenite, 2.2Mt rutile and 3.8Mt of zircon (covering the Jangamo and Dongane deposits only). Savannah holds a 10% interest in the joint project with the right to earn up to 51%, subject to key milestones being met. An auger drill programme is nearly complete and a follow up RC drill programme comprising 3,500m of exploratory drilling is expected to be completed in January 2017. The goal of the RC drill programme is to infill an existing 1,000m x 500m grid to give

enough confidence to complete an Inferred resource estimation for Ravene and include it as part of a scoping study.

Our view: The infill drilling programme should help Savannah define high-grades zones within the Ravene deposit and potentially add to the existing Inferred and Indicated resource for the Mutamba project. We look forward to further project updates including an Inferred resource estimate for Ravene as well as the completion of the scoping study. In the meantime, we maintain a Speculative Buy rating on the stock.

### **IP Group (LON:IPO, 155.20p) - Buy**

Hard on the heels of portfolio company, Oxford Sciences Innovation, raising £230m in new financing IP Group, the developer of intellectual property-based businesses, has announced a further portfolio company, Oxford Nanopore Technologies, has raised £100 million in a new round via a private placement of ordinary shares. Oxford Nanopore, a technology company that has designed and sells the world's only portable DNA/RNA sequencer, plans to use the funds to expand its commercial operations across a range of territories, including in Asia. Following completion of the financing round, IP Group's undiluted beneficial stake of 19.7% in Oxford Nanopore will be valued at £246.3 million, representing an unrealised fair value gain to the Group of £32.5 million. IP Group has committed a further £14.0 million to Oxford Nanopore as part of this funding round which, combined with secondary shares acquired during the year, results in an aggregate investment of £19.5m in 2016. The investment round was led by new investor GT Healthcare, a pan-Asian fund with special reach in China, and existing investor Woodford Investment Management on behalf of its clients. Other new and existing investors also participated in the round.

Our view: These new funds will be used to expand Oxford Nanopore's commercial operations across a range of territories, including Asia with its potentially huge Greater China market. The active community of scientists using the MinION has shown that there are myriad possibilities for real time, scalable DNA sequencing with Nanopore devices. This revolutionary platform effectively changes and shapes the landscape of DNA/single molecule sequencing. The MinION is a portable, real time, long-read, low cost device that has been designed to bring easy biological analyses to anyone, whether in scientific research, education or a range of real world applications such as disease/pathogen surveillance, environmental monitoring, food chain surveillance, self-quantification or even microgravity biology. Commercially available since 2015, the MinION is in use in more than 50 countries, enabling myriad applications within the traditional laboratory environment and in the field. Nanopore sensing technology is fully scalable and the high-throughput, high-sample number PromethION is currently being prepared for release in the PromethION Early Access Programme. The transaction brings the total funds raised by Oxford Nanopore since its formation in 2005 to £351.0 million, which will endeavour to open a potential global annual opportunity estimated to exceed US\$2bn. In continuing to invest in IP Group's portfolio companies, funds such as GT Healthcare are recognising both the unique nature of the intellectual property and long-term market potential being offered through IP Group's portfolio companies. While the Group saw a minor reduction in its NAV at the interim stage to around £685m, progress continues to be made. Other than Oxford Nanopore, both OSI and Ultrahaptics also provide significant medium-term valuation upside. A substantial cash position (some £175m at the half year) suggests it can continue to fully commit to new deployments for more than 2 years without needing to realising any existing gains. The shares have tracked back from the highs achieved some 15 months ago, underperforming the FTSE250 by over 20%, to now stand at an estimated 1.35x NAV. This suggests the shares are trading some 12% below fair value (or 1.5x NAV) and Beaufort accordingly retains its buy rating on the shares.

### **Petards Group (LON:PEG, 25.12p) - Speculative Buy**

Petards, a software developer of advanced security and surveillance systems, yesterday announced that it has secured c.£2m contract to supply Petards eyeTrain, an on-board digital CCTV systems, for Siemens Mobility Division's ('Siemens') Desiro City Electrical Multiple Unit ('EMU') trains. The contract has been placed under the framework agreement entered with Siemens back in 2014, which provides Petards the opportunity to supply Siemens' worldwide rail vehicle business with its train related products and services. Engineering activities will commence immediately with the first equipment deliveries to be made at the end-Q1 2017 and it is anticipated that the project will be completed during 2018.

Our view: Petards' eyeTrain systems continue to be the 'system-of-choice' for a number of rail industry players. The

contract awarded yesterday from Siemens follows an original framework agreement in 2014 and a £1.5m order for the eyeTrain systems in Desiro City EMU trains in March 2015. This further contract demonstrates the scope of the relationship Petards has built with Siemens and, possibly even more importantly, the quality of its offering that is capable of satisfying a blue-chip customer base. The eyeTrain systems provides the trains and their drivers with enhanced capability in the areas of security and surveillance through CCTV coverage, both internal and external, of saloon areas combined with pantograph, forward facing and track debris monitoring. Beside this contract, Petards was also recently awarded a c.£6m new contract with Great Western Railway, €1.2m contracts with Hitachi Rail Europe Limited, £1.2m further contract with Bombardier Transportation, etc. for eyeTrain systems. Yesterday's contract further bolsters the Group's order book for delivery in 2017 and 2018. Beaufort reiterate its Speculative Buy rating on the shares.

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