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## Beaufort Securities Breakfast Today Nostra Terra Oil & Gas, Lansdowne Oil & Gas, Regency Mines, Pendragon Group and others

### The Markets

**Market opening:** Markets are likely to open lower today. FTSE 100 futures were trading 6 points down at 7:00 am.

**New York:** Wall Street traded higher on news of Actavis' acquisition of Forest Laboratories for US\$25bn. However, a series of disappointing economic data relating to the gauge of US home builder confidence and New York factory activity capped gains. S&P 500 edged up 0.1%.

**Asia:** Markets are trading mixed. Investors await the release of minutes from the FOMC meeting later today. Nikkei shed earlier gains to close 0.5% lower on some profit-taking by investors. Hang Seng was trading 0.3% higher at 7:00 am.

**Continental Europe:** Equities traded volatile following subdued economic data from Germany and mixed corporate updates. Italy's political developments were still in focus. Germany's DAX remained flat, while France's CAC 40 edged down 0.1%.

**Crude oil:** On Tuesday, prices of Brent and WTI crude oil increased 1.2% and 2.1%, respectively. The spread between the two varieties stood at US\$8 per barrel.

**UK small caps:** Yesterday the FTSE AIM All-Share index closed 1.54 points (+0.18%) higher at 880.15.

### Today's news

#### **Scotland can issue own bonds 2015 onwards**

Chief Secretary to the UK Treasury, Danny Alexander, announced that Scotland would be entitled to sell its own bonds 2015 onwards. This would result in enhanced funding sources for the country even as borrowing remains limited to £2.2bn. However, the bonds would not be guaranteed by the UK government.

#### **China reduces US Treasury holdings in December**

Data from the US Treasury department showed that China reduced its holding of US government bonds by US\$47.8bn to US\$1.27trln in December.

### Company News

#### **Drax Group (LON:DRX)**

Drax Group announced its preliminary results for the year ended 31st December 2013 yesterday. Revenue advanced to £2.1bn from £1.8bn in 2012 as the retail Haven Power delivered 8.1 terrawatt (TWH) of sales, up from 5.1 TWH in 2012. However, EBITDA lowered 23% to £230m owing to rising carbon costs. As a result, underlying earnings per share dropped 32% to 35.3p. In April, the group converted first of its six units to burn biomass. Drax has built up the solution to deliver 630 megawatts (MW) burning standard biomass with efficiency comparable to coal. During the year, construction of two wood pellet plants in the US, Amite with a capacity of 450,000 tonnes per annum (tpa) each, and a

port facility at Baton Rouge named Morehouse showed good progress and remained in budget. Drax expects to start commercial operations at Amite and Baton Rouge in Q1 2015 and at the Morehouse in Q2 2015. The group plans to transform a coal unit to operate as an enhanced co-firing unit from May 2014, which is likely to draw 0.9 Renewables Obligation Certificates (ROCs) per MW hour. The group announced a final dividend of 8.9p per share vis-à-vis 10.9p in 2012. Drax expects further weakening of spreads in 2014 owing to a mild winter.

Our view: The dual pressure of ending of carbon emissions allocation in the EU Emissions Trading System (EU ETS) and the introduction of carbon support prices in the UK from 1st April 2013 dented the profitability of Drax in 2013. Yet, better-than-expected underlying earnings numbers and on track running of all the construction projects bodes well for the shareholders of Drax. Separately, the group's increased focus towards generation of renewable energy by burning sustainable biomass seems justified for containing costs. With strong fundamentals, higher focus towards renewable energy and massive potential of its projects, we are confident about the future growth prospects of the company and assign a Buy rating.

### **Lansdowne Oil & Gas (LON:LOGP)**

Yesterday, Lansdowne Oil & Gas shared an announcement from its partner Providence Resources relating to the Standard Exploration Licence (SEL) 1/11, containing the Barryroe oil field, wherein the former has a 20% interest. The field is situated 100 m down the water in the North Celtic Sea Basin. The authorities have conditionally granted the partners a 180 sq km increase in the extent of the SEL 1/11 licence for the first phase of the exploration licence. This increase was allowed on account of potential extension of the Barryroe oil field to the south and southeast. The stock was up 5.4% yesterday.

Our view: The approved increase in extent of the SEL 1/11 licence underpins the potential extension of the license area even amidst the lack of any wells therein. Future exploration and development work on the area could lead to a notable increase in the overall resource potential of the field. Besides, a potential farm-out deal for the B-roe prospect and appointment of Richard Slape (a highly experienced professional) as the commercial director present additional upside for Lansdowne. However, with lack of any significant drilling work ahead, we do not see much opportunity for the company to unveil the underlying potential of its acreages and thus, assign a Hold rating to the stock.

### **Nostra Terra Oil & Gas (LON:NTOG)**

Yesterday, Nostra Terra Oil & Gas announced its participation in one more well at the Chisholm Trail prospect in Oklahoma, US. Nostra Terra has decided to buy 20% working interest (WI) in the Gant 1-22H or CT14 well, which is operated Ward Petroleum. Initially, a horizontal well is being planned, targeting a total depth of 11,750 feet, to test the Hunton formation and is likely to cost around US\$843,600 to Nostra Terra. The well is expected to be drilled in H1 2014. Nostra Terra also plans to take a net WI of 20% in any subsequent wells in the 640 acre unit.

Our view: Participation in the CT14 well marks Nostra Terra's largest WI till date in any well at the Chisholm Trail prospect. The recently secured facility of US\$25m and cashflows from existing production are likely to result into a smooth progress of future development work on this well as well as on other projects of Nostra Terra. Besides, prospective horizontal wells in at least two other formations – Mississippi and Woodford, provide an additional upside. Given these positives and a rapid pace of well planning and permitting at the Chisholm Trail play, we reiterate a Speculative Buy.

### **Pendragon (LON:PDG)**

Yesterday, Pendragon reported results for the full year ended 31st December 2013. Revenue advanced 6% y-o-y to £3.8bn driven by the used and new sectors. On an underlying basis, profit before tax was up 21% to £44.2m and the basic earnings per share (EPS) advanced 15% to 2.3p per share. On like-for-like (LFL) basis, volumes of new retail sales were up 17% y-o-y while used vehicle division saw volumes rising 7% with steady margins. New retail sales volumes of the UK motor division increased 18% LFL over the year. Retail aftersales increased 3% in H2 2013 on account of higher sales of new cars. With 13.3 million visitors for the websites Evanshalshaw.com, Stratstone.com and Quicks.co.uk, online visitors soared 22%. The Board of Pendragon announced a final dividend of 0.3p compared to

0.1p last year. In 2014, the company expects to perform strongly and in-line with forecasts.

Our view: Pendragon witnessed steady volume growth in the UK, with increasing attraction of its websites. The easy and favourable credit terms in the UK also augmented the overall volumes growth for the company. About 70% of the sales of Pendragon are bought through credit. Currently, Pendragon runs over 250 retail outlets and holds the portfolio of brands like Stratstone, Evans Halshaw and Quicks. Pendragon's recent focus on establishing position in the unexplored areas of the UK, like Bristol, Ipswich, Norwich, may somewhat affect the prospects of immediate returns for the shareholders. Moreover, the performance of Stratstone and Evans Halshaw division seemed to be slightly below expectations despite a steady market environment. In light of mixed signals about the company's future prospects, we recommend a Hold rating for now.

### Regency Mines (LON:RGM)

Regency Mines Plc, the mining exploration and mineral investment company with interests in nickel and other minerals in Australia, Papua New Guinea and Sudan, reports positive news from its Australian development partner, Direct Nickel Ltd ('DNI'). DNI has announced the successful outcome of the Demonstration Programme on the DNI Process carried out between January and December 2013 at the DNI test plant in Perth, WA. DNI, is a company in which Regency is a 7% shareholder, the developer of the DNI Process and Regency's joint venture partner in the Mambare nickel-cobalt laterite project in Oro Province, Papua New Guinea.

This update should be read in conjunction with Beaufort's initiation report on Regency Mines plc that was released on 13th December 2013.

Key takeaways from the programme were:

The DNI Process has proved to be simple and safe to operate on a continuous basis

Metal recoveries for pay metals Ni, Co, Fe and Mg match laboratory results with +90% for Ni

+95% recycling of nitric acid achieved

High standards of occupational health, safety and environment demonstrated

A working, accurate process model has been developed and verified

Commercially available 304 stainless steel remains the construction material of choice

Water and energy balances have been confirmed

A simplified flowsheet has resulted in reduced processing capital costs

Processing operating costs of US\$2.00 to \$3.00/lb (before credits) have been confirmed as feasible for some markets such as Indonesia

MHP (mixed hydroxide intermediate product) grades of 32%Ni were achieved, with scope to further improve identified.

Our view: Right now, some nickel laterite deposits are valued at less than a dollar per pound of contained resource. A breakthrough treatment capable of significantly reducing capital and operating costs through high volume, continuous and ecologically-favourable processing, has the potential to dramatically revalue any such world-class prospects. Regency Mines has positioned itself with exactly this opportunity, having joint-ventured Mambare with the developer an advanced, potentially ground-breaking process technology. Importantly, a major validation of this treatment has now been published. The very positive outcome can be expected to spark external interest from major industry players seeking both to participate in Regency Mines immediate opportunity and its rights to additional licensing.

These long-awaited and much anticipated results are of significant importance. The advantages, in both process and economics, of the DNi Process need no longer be spoken of as hypothetical or potential, but can be described as actual. This development comes at an opportune time for countries that wish to achieve greater value from nickel projects. Indonesia, for one, has banned nickel ore exports and from 2014 requires in-country processing, and others may soon follow leading to significant opportunities for DNi processing plants to be established worldwide. This news could be transformational for a share price that, seemingly, discounts the scenario down to zero and currently reflects less than the sum-of-parts of the Group's remaining quoted investments and participations.

Beaufort Securities Limited acts as joint corporate broker to Regency Mines plc.

### **Pathfinder Minerals (LON:PPF)**

Pathfinder Minerals announced the appointment of Mr. Henry Bellingham, former Minister for Africa for the UK government, as Non-executive Chairman with immediate effect. Mr. Bellingham has experience in conflict resolution and earlier held non-executive board positions in other AIM-listed companies. His major and immediate focus would be to solve the legal dispute with Pathfinder's previous local partner General Jacinto Veloso over the ownership of heavy mineral sand deposits in Zambezia province, Mozambique. The stock advanced 5.3% in yesterday's trade.

Our view: Appointment of Mr. Henry Bellingham as Chairman, with wide exposure to legal work across various governmental and private entities, is likely to address the pressing need to resolve the ongoing legal battle with General Jacinto Veloso. With vast industry experience and deep understanding of Africa, Mr. Bellingham seems well-suited to pursue Pathfinder's interests. A positive final judgement in relation to the Mozambique assets would provide a big boost to Pathfinder. We issue a Speculative Buy.

### **Economic News**

#### **UK CPI**

The UK consumer price index (CPI) declined 0.6% m-o-m in January, offsetting the 0.4% increase in December and faring below the market expectation of a 0.5% fall, the Office for National Statistics (ONS) said yesterday. On y-o-y basis, consumer inflation eased to 1.9% in January from 2% in December, coming in lower than the expectation of 2%. Core consumer prices, which exclude energy, food and tobacco, increased 1.6% y-o-y vis-à-vis the market forecast of 1.9%; this was also slightly lower than the 1.7% rise reported in December.

#### **UK PPI output**

The UK producer price index (PPI) output rose 0.3% m-o-m in January, following a flat reading in December, the Office for National Statistics said yesterday. Economists expected prices to remain unchanged for yet another month. On y-o-y basis, the prices rose 0.9% in January vis-à-vis 1% in December, but exceeded economists' forecast of 0.7% increase.

#### **Germany ZEW survey**

The Centre for European Economic Research/ZEW reported that Germany's economic sentiment declined to 55.7 in February from 61.7 in January vis-à-vis the market estimate of a marginal drop to 61.5. Meanwhile, the gauge of current situation assessment climbed to 50 in February from 41.2 in the preceding month, exceeding the market expectation of 44.

#### **US Empire manufacturing**

The New York Empire State index dropped to 4.48 in February from 12.51 in January, the manufacturing survey by the New York Federal Reserve revealed yesterday. Economists forecasted a lesser improvement to 8.5 in February. The measure of new orders index fell to -0.21 from 10.98 in January, while the shipments index declined to 2.13 from 15.52. The prices paid index slipped to 25 from 36.59, while the prices received index advanced to 15 from 13.41.

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