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## Beaufort Securities Breakfast Alert: Premier African Minerals, Bovis Homes, Hammerson and Mineral and Financial Investments

"With the US markets closed for a public holiday and little in the way of significant macro data to shape sentiment, yesterday's equity trading in London was largely driven by corporate events. Top of these was Heinz's apparent 'amicable' withdrawal of its approach on Unilever (ULVR.L), although disappointing full year results also knocked Bovis Homes (BVS.L) hard while RBS (RBS.L) shares celebrated the news that its management had abandoned efforts to sell Williams & Glyn. The fact that Unilever shares only gave back half of Friday's gains was testament to the opinion that Heinz, backed by dealmaker Warren Buffett, is considered unlikely simply walk away from a proposal that it will have spent months intricately crafting. So the corporate 'dance' has now moved behind the scenes, with Heinz ultimately wishing to arrive at a recommended merger although it is, of course, is permitted to make another unsolicited approach in six months' time. Meanwhile, there will be the opportunity to trade volatility in both their shares, as contradictory stories inevitably ebb and flow. During this morning's Asian trading, HSBC (HSBA.L) also kicked off the banking sector's reporting season with a drop in pre-tax profits and dividend declaration much as anticipated, although a US\$1bn share buy-back following US\$2.5bn in 2H'2016 rather disappointed investors. This left the Nikkei leading the regions gains despite the US\$ being broadly stronger against all local currencies, while the Hang Seng and Shanghai Composite went in opposite direction and the ASX trod water. Economic releases due from the UK this morning include January Public Sector Net Borrowing followed by a 10:00hrs speech to MPs from The Governor of the Bank of England. The EU is due to provide Markit PMI for February, while the US also details Markit PMI and its Redbook along with speeches from FOMC members Patrick Harker and John Williams. UK corporates due to report also include Anglo American (AAL.L), BHP Billiton (BLT.L), InterContinental Hotels (IHG.L), Galliford Try (GFRD.L) and Wood Group (WG.L). Traders will also be listening out for more news from Greece, which has taken a small but significant step with respect to re-commencing its bailout negotiations as the Greek government agrees with Eurozone Finance Ministers to receive a technical team in Athens. The London equity market is seen opening quietly this morning, with the FTSE-100 expected to be down 10 points or so in opening trade."

- Barry Gibb, Research Analyst

### Markets

#### Europe

The FTSE-100 finished yesterday's session little changed at 7,299.86, whilst the FTSE AIM All-Share index dipped 0.01% to 907.82. In continental Europe, the CAC-40 finished down 0.05% at 4,864.99 whilst the DAX was 0.60% higher at 11,827.62.

#### Wall Street

In New York last night, Wall Street was closed for the Presidents' Day public holiday.

#### Asia

In Asian markets this morning, the Nikkei 225 had risen 0.7% to 19,386.62, while the Hang Seng fell 0.33% to 24,066.88.

#### Oil

In early trade today, WTI crude was up 0.47% to \$53.65/bbl and Brent was down 0.04% to \$56.16/bbl.

### Headlines

HSBC shares down as annual profit falls 62% Shares in HSBC (HSBA.L) have fallen after the bank saw a sharper-than-expected drop in annual profits for 2016. The \$7.1bn (£5.7bn) pre-tax profit is 62% lower than the \$18.9bn reported a year earlier. HSBC attributed the fall to a string of one-off charges, including the sale of its operations in Brazil. It said its

performance had been "broadly satisfactory" given "volatile financial conditions" but warned a rise in global protectionism was a concern. HSBC shares were down by 3.5% in Hong Kong.

## Company news

### **Mineral and Financial Investments (LON:MAFL, 11.62p) - Speculative Buy**

Mineral and Financial Investments Limited (MAFL), an investment company that focuses on the natural resources sector, announced yesterday that it raised £350,000 from the issue of 4.375M shares at a price of 8p per share. The funds raised will be used to back potential new investments and general working capital purposes. MAFL is a 49% shareholder of TH Crestgate, a private Swiss-based investment company that owns 85% of the Lagoa Salgada copper-zinc project in southern Portugal. TH Crestgate is currently drilling four holes totally 1,700m on Lagoa Salgada to test for the potential of copper mineralisation within a porphyritic intrusion.

Our view: We eagerly await drill results from the Lagoa Salgada project, which is highly prospective for copper and zinc mineralisation. Drilling is currently targeting an IP anomaly extending south of the existing resource which could have potential for copper porphyry style mineralisation. We look forward to initial assay results in the coming weeks and maintain a Speculative Buy rating on the stock.

### **Premier African Minerals (LON:PREM, 0.78p) - Speculative Buy**

Premier African Minerals, the South and Western Africa focused mineral explorer and developer, announced today an update on its RHA tungsten mine and its lithium/tantalum exploration project both located in Zimbabwe. Shaft upgrades have now been completed and terms for the contract mining by African Mining and Exploration (Afmine) have been finalised at RHA. Under terms of the agreement, up to 16,000t of ore per month from underground operations will be delivered to the plant and at the same time 24,000t per month will be delivered from the open pit operations, all commencing in March 2017. The Company also announced assay results from its Zulu lithium and tantalum project where a recent drilling programme was designed to test the 3.5km strike length of the deposits. Lithium mineralisation was intercepted over 15.63m grading 1.54% Li<sub>2</sub>O, including 4.31m grading 2.16% Li<sub>2</sub>O (DDH ZDD-3). Drill hole ZDD-15 returned 5.6m grading 1.46% Li<sub>2</sub>O, including 1.97m grading 2.04% Li<sub>2</sub>O.

Our view: The conclusion of the mining contract is an important milestone for restarting operations at the RHA tungsten mine. The contractor, Afmine, has also elected to take its second payment of £100,000 in equity. With shaft upgrades now complete and implementation of the XRT ore sorter continuing, we expect commissioning of the mine to begin soon. We are also encouraged by initial drill results at Zulu, while tantalum assay results are still pending we note the high-grade lithium intersected in ZDD-3, up to 3.3 Li<sub>2</sub>O. We look forward to initial start-up at RHA in the coming weeks and additional drill results from the Zulu lithium and tantalum project. In the meantime, we maintain a Speculative Buy rating on the stock.

Beaufort Securities acts as corporate broker to Premier African Minerals plc

### **Bovis Homes (LON:BVS, 755.00p) - Buy**

Reporting finals for the year ended December 2016, management detailed a clear set of priorities to deliver operational improvements following a difficult year. Although revenues grew by 11%, basic earnings fell by 5% as operating margins declined by 2.1% and ROCE fell by 1.3%. Weakness in the production process and a high level of customer service issues led to a one-off £7m customer care provision. The focus of 2017 has therefore been to reset operations, while delivering clear operational priorities which will result in a deliberate slowing in the Group's rate of production. Management has adopted a strategic and structural review to ensure it delivers the highest possible future returns from Bovis' valuable land assets, having added over 3,000 plots to its high-quality consented landbank. With a strong financial position at year end, with net cash increasing to £38.6m, the Board recommended an increase of 13% to the total 2016 dividend taking the payout to 45p/share.

Our view: Amongst the basket of UK housebuilders, Bovis is the one that has messed-up. A great shame, particularly given that it occurred during an extended period that history will almost certainly rank as offering close to ideal trading conditions, one in which management should be 'making hay' rather than 'fixing a leak'. Target completion volumes for 2017 are now expected to be some 10% to 15% below the 2016 level, before anticipating a return to normal industry

production trend levels; new customer care staff have been recruited and management are reviewing regional programmes to improve Board-level controls. The background market remains generally supportive, with overall demand conditions across the UK unchanged on H2'2016, although house price inflation is muted while build costs are presently running at 4%+, in line with that being experienced across the sector. So the interim CEO appears to be taking the right steps, which to some extent includes altering management culture, and hopefully this will be built upon when a new, permanent replacement has been installed. Assuming this takes place before the end of the first half, and that he/she builds upon the steps already taken as well as bringing a background capable of running the business through the inevitable cycles that national housebuilders suffer, the operations that emerge should become a more predictable, and therefore more valuable, operation. Following yesterday's 10% hit on the shares, Bovis now trades on a deep discount to its peer sector in terms of 2018E P/TNAV, standing at 0.90x compared with 1.4x while also offering a sector-beating 6% coupon. The shares look cheap, but given that they continue to carry greater than average risk, Beaufort has retained its 'Buy' recommendation while lowering its price target from 925p/share to 840p/share.

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Contact us +44 (0)1202 770386 [action@proactiveinvestors.com](mailto:action@proactiveinvestors.com)

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