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Beaufort Securities Breakfast Alert: Anglesey Mining plc, Melrose

Today's edition features:

- **Anglesey Mining (LON:AYM)**
- **Melrose Industries (LON:MRO)**

"The Bank of England remains more inclined to raise its key interest rate than lower it, but clearly is not in a hurry to move policy in any direction. Right now in fact, a hike still seems unlikely either this year or next despite CPI remaining distinctly above target, which is clearly an accommodating stance for a government that will be gridlocked in Brexit negotiations during the period. The MPC, governed by Mark Carney, voted 7-1 to maintain the bank rate at 0.25% yesterday. It also unanimously maintained the asset purchase programme at £435 billion. Within this, it downgraded its 2017 growth outlook to 1.9% from 2%, while lifting 2018 to 1.7% from 1.6%; forecast inflation was also raised to 2.7% for the second quarter of 2017 and then to 2.6% in the second quarter of next year, when it considers early signs of recovery in wage growth should also be evident. Its projections assume, however, a 'smooth' Brexit, with a transition period that largely preserves current trading and other arrangements beyond its three-year forecast period. The EU by contrast raised its 2017 economic growth projection on Thursday, noting the Bloc's revival is strengthening despite geopolitical risks that could undermine its fifth year of recovery. It now targets the 28-country zone's GDP to grow by 1.9% in both 2017 and 2018, up from its February forecast of 1.8%. Sterling weakened somewhat and the FTSE-100 initially moved to the bottom of its morning trading range on the news before rebounding as the press conference got underway. Despite earlier reports UK industrial production had declined for the third consecutive month in March and the trade gap widened notably on higher imports, erasing hopes for an upward revision to the first quarter growth and meeting disappointment from some quarters, the index eventually closed unchanged. By contrast, the STOXX 600 fell off its 21-month high, to end down 0.52% as profit taking from France and Germany continued. While the US dollar climbed against most major currencies during Thursday's European session, as encouraging reports on producer prices and weekly jobless claims backed hopes for a Fed rate hike as early as next month. Following the lackluster performance seen over the past several sessions, however, equities on Wall Street were headed for the one of the biggest falls of the month during early trading which concentrated on disappointing earnings reports and saw Snap fall over 21% leaving the tech-heavy NASDAQ the worst performer amongst the three principal indices, while investors also became worried that consumers are still not sufficiently active to power economic growth as Macy's and Kohl's both tumbled on much wider quarterly losses than expected. Despite recovering much of its composure during late trading, eight of the S&P eleven sectors still declined, with financial, retail, trucking, and software stocks meeting downward pressure and gold stocks standing out as one of the few to buck the trend as the precious metal firmed over US\$6/oz. U.S. government bonds strengthened for the first time in four days as lower stock prices stoked demand for haven assets. On the commodities front, U.S. crude oil production reportedly climbed for the 12th straight week, reaching its highest level since mid-2015 at 9.3 million barrels/day, despite which crude futures gained on Thursday as traders became more positive that production cuts made by OPEC and related producers are finally making a dent on global crude stocks. Others insist, however, that these gains will be short-lived, given the remaining overhang which will shortly be supplied further by resumed production from Libya and Nigeria. In Japan, the Nikkei was hit by the Yen gaining against the US\$, making the country's exports less competitive, while elsewhere the ASX declined 0.7% following pressure on banking and minerals stocks, as the Shanghai Composite recovered from recent liquidity-concern falls and Hong Kong's Hang Seng Index gained marginally. The UK is today not scheduled to release any significant macro data, while the EU is expected to provide just its March Industrial Production data. But Friday is a key date for

US releases, with April Industrial Production, Retail and Consumer Prices due, along with the influential Michigan Consumer Sentiment Index for May. UK corporates expected to detail earnings or trading statements include Provident Financial (PFG.L), TT Electronics (TTG.L), Tyman (TYMN.L) and Hydrodec (HYR.L). A lack of inspiration from the overnight markets, means London investors will remain largely on the side-lines this morning awaiting confirmation from this afternoon's US statistics to confirm whether or not US consumer-driven economic momentum is now faltering. The FTSE-100 is seen opening 5 points either side of unchanged in today's early trading. "

- Barry Gibb, Research Analyst

Markets

Europe

The FTSE-100 finished yesterday's session 0.02% higher at 7,386.63 whilst the FTSE AIM All-Share index was up 0.14% at 974.06. In continental Europe, the CAC-40 finished down 0.32% at 5,383.42 whilst the DAX was 0.36% lower at 12,711.06.

Wall Street

In New York last night, the Dow Jones Industrial Average fell 0.11% to 20,919.42, the S&P 500 lost 0.22% to 2394.44 and the Nasdaq eased 0.22% to 6115.97

Asia

In Asian markets this morning, the Nikkei 225 had fallen 0.53% to 19,855.75, while the Hang Seng firmed 0.08% to 25,144.57.

Oil

In early trade today, WTI crude was up 0.1% to \$47.88/bbl and Brent was up 0.04% to \$50.79/bbl.

Headlines

UK virtual reality firm Improbable raises \$500m

A London-based virtual reality firm has raised \$500m (£388m) in one of the biggest investments in an early stage European technology business. Japan's Softbank is backing Improbable in a funding round that values the business at more than \$1bn. The deal is further evidence that the UK's technology sector can now compete with the best. There may also be relief that despite the cash injection from Japan, Improbable will stay independent. Improbable was founded just five years ago by Herman Narula and Rob Whitehead, who had studied computer science together at Cambridge University. Their aim was to build large-scale virtual worlds and simulations - mainly for games developers but also for other clients who could use them in applications such as modelling transport systems. The company believes it has developed revolutionary technology with its Spatial OS operating system, which it has opened up to other developers. It has partnered with Google to put its system on the search giant's cloud, allowing small developers to create massive simulations without much infrastructure of their own.

Source: BBC News

Company news

Anglesey Mining (LON:AYM, 4.38p) - Speculative Buy

Anglesey Mining announced today an update on the scoping study work being done its 100% owned Parys Mountain copper-lead-zinc project in north Wales. Micon International and Fairport Engineering in collaboration with company personnel have undertaken a scoping study based on the 2012 resource estimate of 2.1Mt grading 6.9% combined base metals (Indicated) and 4.1Mt grading 5.0% combined base metals (Inferred). The initial scope was for 500tpd (165,000tpa) that would mine the resources closest to the surface as a low-capital intensity option with a mine life of 16 years. However, Anglesey has concluded that an accelerated development on the Indicate resources over a shorter mine life should be more economically attractive. Fairport has considered several alternatives including the introduction of dense media separation that could potentially increase the daily throughput rate by c 40% with only a limited increase in capital. As such, Anglesey has asked Fairport and Micon to optimise various production and throughput scenarios between 500 and 1,000tpd. The modified mine production schedules and updated capital cost estimates are expected in the near future.

Our view: The above announcement indicates that more work is required to optimise the potential mineable resources at Parys Mountain for an adequate return on capital invested. Given the recent upswing in base metals and the positive outlook for zinc prices in particular, we still believe Parys Mountain is worth the additional work to complete the scoping study. We look forward to the results of the modified scoping study. In the meantime, we maintain a Speculative Buy on the stock.

Beaufort Securities acts as corporate broker to Anglesey Mining plc

Melrose Industries (LON:MRO, 240.75p) - Buy

Melrose Industries ('Melrose'), a company who buys, improves and sell manufacturing businesses, yesterday provided its trading statement for the performance year-to-date. The Group confirmed that the current trading is in line with management's expectations. Nortek, the manufacturer of innovative air management, security, home automation and ergonomic and productivity solution, which the Group acquired in August 2016 for £2.2bn, continue to improve its performance. Brush, the world's largest independent manufacturer of electricity generating equipment for the power generation, industrial, oil & gas and offshore sectors, on the other hand, sees its market remain challenging. The management noted that it is currently "seeking another acquisition" to create further shareholders value and is "confident of finding a suitable opportunity in due course".

Our view: As usual, it was very brief, but reassuring, update. Importantly, the Group has recently (26th April) completed the transfer of its equity category from Standard to Premium Listing. As a £4.6bn market cap company, such transfers offer the possibility to be included at the bottom end of the FTSE100 Index from 19 June 2017, which means its share price will benefit from the not-insignificant entry of index tracker funds. Back in March, the Group released its full year results which highlighted revenue of £889.3m (FY2015: £261.1m) with underlying pre-tax profit of £96.4m (FY2015: £2.4m), despite declaring a statutory pre-tax loss of £69.3m (FY2015: £30.7m). Melrose has returned £2.4bn in February 2016 to shareholders following the sale of Elster in December 2015, while also declaring a total full year dividend of 2.2p per share. Nortek Inc. was acquired in August 2016 for £2.2bn, financed from the net proceeds of its £1.6bn rights issue along with borrowings of £0.6bn. Net debt at the end-FY2016 was £541.5m (FY2015: net cash £2,451.4m) and will be something to be managed carefully as the Group looking to make next acquisition. Its enviable track record of successful operation and quality of management, plus Nortek's improving performance, reassures shareholders that the Group continues to present an excellent opportunity for strong returns. Beaufort retains its Buy rating on the Shares.

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