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## **Beaufort Securities Breakfast Alert: Altus Strategies, Ferrum Crescent Limited, ASOS plc, Karelian Diamond Resources Plc, Hummingbird Resources Ltd**

Today's edition features:

- **Altus Strategies (LON:ALS)**
- **Ferrum Crescent (LON:FCR)**
- **Hummingbird Resources (LON:HUM.L)**
- **Karelian Diamond Resources (LON:KDR)**
- **ASOS (LON:ASC)**

### **New Client Portfolio Platform**

We launched our new client portfolio platform on Monday and whilst the vast majority of clients who have attempted to activate their access to the new system have done so successfully, we appreciate that some may have experienced issues. Our Client Services team have been running through the process with clients to help them over the telephone, but due to high call volumes our waiting times have increased. If you are having an issue gaining access to the new platform with the Client ID and Registration Code you have been issued with, please take a look at our step-by-step guide to negotiating the process here.

### **Markets**

#### **Europe**

The FTSE-100 finished yesterday's session 0.14% lower at 7,516.17 whilst the FTSE AIM All-Share index was up 0.24% at 1,032.41. In continental Europe, the CAC-40 finished 0.03% lower at 5,361.37 whilst the DAX was 0.07% lower at 12,995.06.

#### **Wall Street**

In New York last night, the Dow Jones closed up 0.18% at 22,997.44, while the S&P-500 added 0.07% to stand at 2,559.36 and the Nasdaq ended the session 0.01% lower at 6,623.66.

#### **Asia**

In Asian markets this morning, the Nikkei was up 0.13% at 21,363.05 and the Hang Seng declined 0.06% at 28,681.68.

#### **Oil**

In early trade today, WTI crude was up 0.23% at \$52.23 per barrel and Brent was also up 0.45% at \$58.14 per barrel.

## Headlines

### Amazon and eBay warned by MPs about VAT fraudsters

Amazon and eBay are profiting from sellers who defraud UK taxpayers by failing to charge VAT, according to a report by MPs. The report estimates up to £1.5bn has been lost from third-party sellers on online marketplaces not charging the tax on sales they make in the UK. MPs in the Public Accounts Committee criticised HMRC for being "too cautious" in pursuing the "fraudsters". Amazon and eBay said they were working with HMRC on the issue. Labour MP Meg Hillier, who chairs the committee, called online VAT fraud "hugely damaging" for British businesses and taxpayers. She added that "the response of HMRC and the marketplaces where fraudsters operate has been dismal".

Source: BBC News

## Company news

### Altus Strategies (LON:ALS, 8.50p) - Speculative Buy

Altus Strategies has announced it has been granted a new exploration licence in Ethiopia, called Daro, prospective for VMS copper-gold deposits. This licence is 412km<sup>2</sup> and located 95km from the regional capital Mekele. Access is good all year round via surfaced and graded roads. In terms of geology, the licence contains a significant northeast-southwest striking ophiolite complex, an historic mapped copper occurrence and an active artisanal gold mining site.

Our View: Altus is expert at pegging prospective ground and adding value through early stage exploration work. It then has the choice whether to farm down or keep control. Daro is in the same geological domain as Nevsun's Bisha mine and several other VMS discoveries. The nearest are (TSX-V) East Africa Metals' two VMS discoveries 35km away. Altus' next step is very low cost exploration work including mapping and then sediment samples. We have a Speculative Buy recommendation.

Beaufort Securities acts as corporate broker to Altus Strategies plc

### Ferrum Crescent (LON:FCR, 0.05p) - Speculative Buy

FCR, the European lead-zinc explorer, announced yesterday that it has appointed Myles Campion as Executive Director and will lead all future exploration programmes drill on its Toral lead-zinc project in Spain. The Company has also appointed mining consultants, Addison Mining Services of London, to develop a JORC (2012) compliant resource estimate for Toral by the end of 2017, incorporating all historical and recent exploration work. FCR is also currently undertaking a cost review aimed at reducing fixed costs and allowing funds to be deployed operationally to progress the Toral project. A recent drill programme comprising six shallow holes up to 200m in depth confirmed the presence of shallow Pb-Zn mineralisation. These latest results coupled with an extensive historical database will allow FCR to compile a JORC (2012) compliant resource.

Our View: The above announcement is good news for FCR as it continues to develop the Toral lead-zinc project. The recent drill campaign had confirmed shallow mineralisation and management will now, with help from its newly appointed Executive Director and mining consultants, compile all the data for a JORC (2012) compliant resource. We are encouraged with the relatively shallow, high-grade mineralisation of up to 16.1% Zn identified from the previous drill programme and look forward to further updates as management continues to evaluate the economic potential of Toral.

In the meantime, we maintain our Speculative Buy on the stock.

Beaufort Securities acts as a corporate broker to Ferrum Crescent plc

### **Hummingbird Resources (LON:HUM, 38.50p) - Speculative Buy**

Hummingbird Resources, the gold exploration and development company with assets in Mali and Liberia, announced today a review of the Company's activities during Q3 2017. During the period, construction of the Yanfolila mine in Mali continued to progress on time and on budget with first gold pour expected by end of 2017. Several aspects of development are now complete including process design, detailed engineering and procurement, whilst construction is 86% complete. As at 30 September, Hummingbird had US\$56m of cash and is fully drawn on its US\$60m debt facility with Coris Bank International. During Q3 2017, the Company signed a conditional agreement to acquire 50% interest in African Gold Group's Kobada gold deposit in Mali. Kobada has a combined 2.2Moz gold resource, including 0.5Moz of Reserves and is located near Hummingbird's Yanfolila processing plant. Management estimates that Kobada could add an additional 50,000oz of gold per annum to Yanfolila. Post period end, Hummingbird holds a 33.85% interest in Cora Gold, a recently listed gold exploration company with a diverse portfolio of highly prospective drill ready targets in Mali and Senegal. Hummingbird was the previous owner of a number of Cora's tenements.

**Our View:** We continue to be encouraged with the progress being made at the Yanfolila site with approximately 86% of the construction now complete and, more importantly, the project remains on schedule and on budget. With commencement of pre-production mining during Q3 2017 we look forward to full-scale mining operations, plant commissioning and production in Q4 2017. In the meantime, we maintain a Speculative Buy rating on the stock.

Beaufort Securities acts as corporate broker to Hummingbird Resources plc

### **Karelian Diamond Resources (LON:KDR, 0.45p) - Speculative Buy**

Karelian Diamond Resources, the diamond exploration company focused in Finland, announced an updated work programme for the Kuhmo region of Finland. This is the area where a diamond was discovered by Karelian (as announced on 31 January 2016). An extensive work programme is currently underway to locate the kimberlite body from which the diamond originated. The work programme entails till sampling, ground geophysics and analysis of airborne geophysics as well as scanning electron microscopy (SEM) on samples showing high indicator counts. Work to date has considerably narrowed the search area for the source of the diamond. These results suggest that the sample is within a couple hundred meters of the kimberlite source. The anomaly has been closed off 500m in an up-ice direction.

**Our View:** We are encouraged with the new work programme designed to identify the source of the diamond discovered earlier this year. The recent identification of G9 and G10 garnets within till samples suggests that the kimberlite source could be nearby given that these indicator minerals are associated with diamondiferous kimberlites. The presence of indicator minerals combined with the discovery of a diamond within till sample adds to the prospectivity of the Kuhmo region. We look forward to further updates as Karelian continues to search for a kimberlite source in the region. In the meantime, we maintain a Speculative Buy on the stock.

Beaufort Securities acts as a corporate broker to Karelian Diamond Resources Plc

### **ASOS (LON:ASC, 5,750.00p) - Buy**

ASOS, a global online fashion retailer, yesterday announced its preliminary results for the 12 months ended 31 August

2017 ('FY2017'). During the period, Group revenues advanced by +33% to £1,923.6m, while it increased by +27% on a constant exchange rate basis ('CER'), against the comparative period (FY2016). On a reported basis, total retail sales rose by +34% (CER: +27%) to £1,876.5m, comprised of +16% growth in the UK to £698.2m and +47% (CER: +36%) growth in international to £1,178.3m. Within international retail sales, US saw +46% (CER: +31%) growth to £261.6m, EU rose +45% (CER: +34%) to £544.1m, while Rest of World ('ROW') recorded +52% (CER: +42%) growth to £372.6m. Retail gross margin during the period rose by +10bps to 48.6% (FY2016: 48.5%), and due to increased investment in operating resources, operating cost widened by +33% to £878.7m, though maintaining operating cost ratio at 45.7% (FY2016: 45.3%). Capital expenditure during the year amounted to £168m as the Group made investment in technology and logistics. Pre-tax profit excluding exceptional items (one off legal settlement costs of £20.9m and loss from discontinued operations of £10.1m) therefore rose by +26% to £80m, leading to diluted earnings per share of 76.6p, up +24%. Cash and cash equivalents fell by -8% to £160.3m. On the operational front, the Group completed the phase one transition of its warehouse site from Eurohub 1 to Eurohub 2, and said US warehouse plans are progressing well. ASOS's CEO, Nick Beighton, commented "It's been a great year for ASOS, with continued growth in sales and profits. The new financial year shows continuing momentum in the business. We are confident we are positioning ASOS to be the world's number one destination for fashion loving twentysomethings".

**Our View:** ASOS reported a good performance for the FY2017, delivering record sales at upper end of the guidance, and record profit slightly ahead of market expectations. The growth was seen across all regions and the Group's Retail gross margin improved by +10bps, helped by higher proportions of full price sales. UK sales growth further dipped to +16% amid more promotional market, leading to International retail sales now account for 63% (FY2016: 57%) of total retail sales. Looking at the KPIs, the Group has expanded its number of active customers by +24% year-on-year to 15.4 million, with improvements in both average basket value and average order frequency by +2% to £25.16 and +5% to 3.22 times per active customer, respectively. Total visitors increased by +24% and total order rose by +30% during the year, implying conversion rate improvement of +20bps to 3.0%. The Group's investment in technology (including new digital platform on both sites and apps, roll out of ApplePay globally, and new fulfilment software for Eurohub 2) has helped to achieve these figures and visits through mobile device now stands at 70.3% (FY2016: 65.5%). Looking ahead, the Group noted that FY2018 has started "well" and increased its reported sales growth guidance to +25%-30% (previously: +20%-25%) with stable EBIT margin at c.4%, in line with market expectations. Capex is anticipated at £200m-£220m, reflecting accelerated investment in technology and logistics, which means the Group is likely to see negative free cash flow in FY2018, while this is expected to return to positive from FY2019 onwards. Reflecting these, Beaufort forecasts pre-tax profit to be around £102.4m for the F2018E. For the medium-term, reported sales guidance remained unchanged at c.20%-25% growth per annum with a c.4% EBIT margin. As Beaufort was increasingly concerned about the further squeeze in margin from ongoing investment into price for topline growth, the Group stating its medium-term EBIT margin guidance at c.4% somewhat reassured us the level of its future profit growth. Beaufort expects the UK performance will likely to remain impacted by relatively dull consumer confidence (3% CPI inflation in September) and rising costs, but stronger international sales, which now stands at 63% of the total retail sales, will drive the Group forward. Beaufort reiterate its Buy rating on the Share.

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