# August 2015 Monthly

## Companies Covered

Alliance Pharma (APH)
City of London Investment Group (CLIG)
Empresaria (EMR)
Futura Medical (FUM)
Grafenia (GRA)
Lombard Risk Management (LRM)
MedicX Fund (MXF)
Murgitroyd (MUR)
Primary Health Properties (PHP)
PPHE (PPH)
REA Holdings (RE.)
Real Good Food (RGD)
Sanderson (SND)
Tethys Oil AB (TETY.ST)
United Cacao Limited SEZC (CHOC)
Verona Pharma (VRP)

## Highlights this month

- **Alliance Pharma (APH)** trading update of 13th July was positive and a new FD appointed.
- **City of London Investment Group (CLIG)** The July trading update was in line with expectations.
- **Futura Medical (FUM)** Published the outcomes of a Phase II clinical trial last month.
- **Lombard Risk Management** AGM reiterated positive Q1 trading. 5th August Global Sales & Marketing Director appointed.
- **PHP** Interim results are due on 20th August.
- **Real Good Food (RGD)** results are due at the end of this week.

# Contents

# About Hardman & Co

## *Connecting interesting companies with interested investors*

Our experience and research expertise allow us to add insights to both companies and investors. We provide the bridge to enable interesting companies to connect with interested investors. Our reputation for integrity and authority has been established over nearly 20 years.

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- ***Investor Engagement:*** We have a unique solution to bridge the gap between companies and investors through roadshows and retail investor forums
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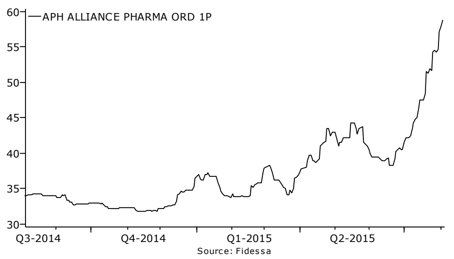
- ***Specialist Valuation Service:*** A broad span of clients from leading corporate lawyers to Ivy League foundations use our expertise in valuations

# Alliance Pharma (APH)




| **Price (p)** | **59.5** |
|---|---|
| Mkt cap (£m) | 138.3 |
| Shares (m) | 232.4 |
| Sector | Pharma and Biotech |
| Market | London AIM |
| Broker | Numis Securities |
| Website | www.alliancepharma.co.uk |

Description: Alliance Pharma acquires, markets and distributes mature pharmaceutical brands, generating relatively predictable cash flow.

**A specialty pharmaceutical company based on a 'buy-and-build' model. Developed since 1998 through a series of 27 deals, it has built up a portfolio in excess of 60 products. APH is profitable, cash generative, has low gearing and progressive dividend policy.**

**Positive trading update:** The trading update for the 6 months ending June 2015, released on 13th July, was in line with our forecasts. Sales are reported to have been c.£22.8m, an increase of 6.6% over H1 2014, which includes 5 month-contribution from MacuShield. Excluding this sales were broadly flat; its key brand, Hydromol rose 10% to £3.3m, offsetting the expected decline in Nu-Seals. No further breakdown was provided.

**New Finance Director appointed:** Andrew Franklin is to join the Company on 28th September as FD, previously having been GM European tax and planning for Panasonic Europe (2012-15), Finance Director for Genzyme Therapeutics Ltd (2010-12) and various roles at Wyeth (1998-2010).

**Outlook:** The return of ImmuCyst (bladder cancer treatment) is expected in Q3 2015. The Company remains uncertain of volumes as Sanofi ramps up production but, with supply problems still facing its competitor, the opportunity remains significant for APH as it re-enters the c. £7m UK market.

**Risks:** Although full generic competition to Nu-Seals is factored into our forecasts (-60% in H2 2015), the Irish regulator (HPRA), as of 31 July 2015, has yet to determine whether this is the case.

**Investment summary and share performance:** The share price has performed very strongly over the past month, rising 36% and underpinned by above-average trading volumes, as the market reflected on the trading statement and future outlook for growth. Trading on FY15 prospective PE of 16.7x with a 2014-2018 EPS CAGR estimate of 10%, EV/EBITDA of 12.1x with a FCF yield of 6.1%. The dividend yield is 1.9% and 3.1x covered. **Interim results are due to be released on 9th September.**

| Dec Year End | FY13 | FY14 | FY15E | FY16E | FY17E | FY18E |
|---|---|---|---|---|---|---|
| Sales (£m) | 45.3 | 43.5 | 47.6 | 51.0 | 54.4 | 57.5 |
| EBITDA (£m) | 14.6 | 12.5 | 14.1 | 15.3 | 16.3 | 17.3 |
| Operating profit (£m) | 13.3 | 11.2 | 12.0 | 13.1 | 14.2 | 15.2 |
| PBT (£m) | 12.0 | 10.2 | 11.3 | 12.5 | 13.6 | 14.9 |
| EPS (p) | 3.7 | 3.2 | 3.4 | 3.7 | 4.1 | 4.5 |
| DPS (p) | 0.9 | 1.0 | 1.1 | 1.2 | 1.3 | 1.5 |
| Net (debt)/cash (£m) | (25.2) | (21.1) | (20.5) | (17.5) | (12.1) | (4.0) |
| Net debt/EBITDA (x) | 1.7 | 1.7 | 1.5 | 1.1 | 0.7 | 0.2 |
| P/E (x) | 16.2 | 18.4 | 17.5 | 16.1 | 14.5 | 13.2 |
| EV/Sales (x) | 2.7 | 2.7 | 2.4 | 2.2 | 2.1 | 1.9 |
| EV/EBITDA (x) | 8.2 | 9.3 | 8.2 | 7.4 | 6.9 | 6.4 |
| FCF Yield (%) | 12.7 | 8.6 | 9.7 | 10.7 | 11.8 | 12.8 |
| Dividend Yield (%) | 1.5 | 1.7 | 1.8 | 2.0 | 2.2 | 2.5 |

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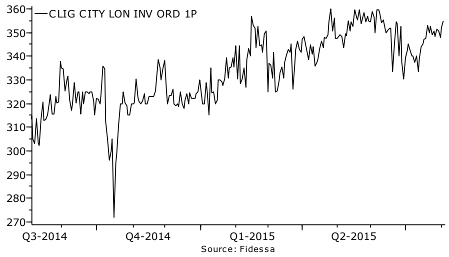
# City of London Investment Group
(CLIG)

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|---|---|
| **Price (p)** | **350.3** |
| Mkt cap (£m) | 94.3 |
| Shares (m) | 26.9 |
| Sector | Financial Services |
| Market | London Full List |
| Broker | Canaccord Genuity |
| Website | www.citlon.co.uk |

**Description:** City of London is an investment manager specialising in using closed end funds to invest in emerging markets.

**July's trading update gives a solid set of figures for the full year despite difficult market conditions in Q4. Profit after tax came in at £6.5m and, as expected, an unchanged full year dividend of 24p is once again covered by earnings.**

Emerging equity markets have been weak since the last update in April, but a combination of new business and good performance has kept funds under management at $4.2bn. Over the financial year as a whole FUM have grown 8% in US Dollars against a fall of 5% in the MSCI Emerging Markets Index supported to new business and outperformance.

There is mixed news on new business. The full year inflows of $477m to emerging markets and $255m to new strategies are pretty much in line with targets. Unfortunately emerging market outflows of $437m mean net inflows of only $40m in that area.

A key issue for investors is the return to dividend cover for the full year. Profit after tax was £6.49m, slightly behind our estimates due to weak markets and a slight strengthening of sterling since April. The dividend was kept unchanged for the full year and is covered 1.1 times by earnings.

| May/June Year End * | FY13 | *FY14 | FY15E | FY16E | FY17E |
|---|---|---|---|---|---|
| Sales (£m) | 29.4 | 24.2 | 25.4 | 25.7 | 28.8 |
| EBITDA (£m) | 8.6 | 7.2 | 8.9 | 9.9 | 11.8 |
| Operating Profit (£m) | 8.4 | 7.0 | 8.7 | 9.7 | 11.6 |
| PBT (£m) | 8.9 | 7.2 | 8.8 | 9.7 | 11.7 |
| EPS (p) | 24.9 | 20.7 | 26.1 | 28.4 | 34.1 |
| DPS (p) | 24.0 | 24.0 | 24.0 | 24.0 | 27.0 |
| Net (debt)/ Cash (£m) | 10.1 | 10.2 | 12.0 | 13.4 | 14.4 |
| Net cash/EBITDA (x) | 1.2 | 1.4 | 1.3 | 1.4 | 1.2 |
| P/E (x) | 14.1 | 16.9 | 13.4 | 12.3 | 10.3 |
| EV/Sales (x) | 2.9 | 3.5 | 3.2 | 3.1 | 2.8 |
| EV/EBITDA (x) | 9.8 | 11.7 | 9.2 | 8.2 | 6.8 |
| FCF Yield (%) | 12.2 | 6.7 | 8.6 | 8.5 | 10.7 |
| Dividend Yield (%) | 6.9 | 6.9 | 6.9 | 6.9 | 7.7 |

**Note: Financial year end changes from 31 May to 30 June in 2014, so FY14 is 13 months*

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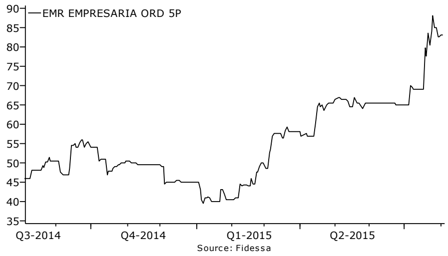
# Empresaria (EMR)

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|---|---|
| **Price (p)** | **84.5** |
| Mkt cap (£m) | 38.7 |
| Shares (m) | 45.8 |
| Sector | Recruitment |
| Market | London AIM |
| Broker | Shore Cap |
| Website | www.empresaria.com |

**Description:** Multi-brand international recruitment agency, with 100 offices in 19 countries, with focus on specialist segments of the market.

**Empresaria's share price leapt by 27% in July driven by increasing recognition of the progress that it continues to make, by the removal of a potential stock overhang and by the slew of good news elsewhere in the sector yet it still continues to be valued at a material discount to its peers. We would expect this discount to narrow assuming Empresaria continues to deliver as expected.**

**Strong sector newsflow:** It's been a good month for positive newsflow elsewhere in the sector, despite currency headwinds, with all stocks rising. Robert Walters reporting interim profits up 74% with strong net fee income and profit growth across all regions. Michael Page reported a positive Q2 update with all four regions performing well and Hays released positive Q4 IMS announcing L4L net fee income growth of 9% (constant currency).

**Improvements coming through:** We expect Empresaria to have also enjoyed a first half; its Q1 IMS revealed good like-for-like growth with all regions and business segments profitable and growing and is 'on course' to meet market expectations for the full year. Currency moves makes for some uncertainty but any impact is translation, not transaction. Sterling has strengthened verses the euro but it is partly offset by Asian currency. Empresaria typically makes 60% of its profits in H2 as temporary employment demand is stronger in the summer.

**Cash flow is growing:** Empresaria's improving cash flow is increasing its ability to grow the business. Total debt fell to £9.8m at end 2014 from £15.2m in 2013 leaving Empresaria well placed to invest further. It announced in mid-June that it has increased its holding in PT Monroe by 10bps to 90% for £0.3m and we would expect further activity. During 2014 Empresaria opened new offices in Manchester, Hong Kong, Malaysia, Chile and Mexico and acquired a 75% stake in Ball and Hoolahan in December for an initial cash payment of £1.0m.

**Attractive valuation:** The three large, mid-cap UK quoted staffers (Hays, Page and SThree) are trading on forward PERs of 23.1x (FY15E, unweighted average). The small cap staffers (Harvey Nash, Hydrogen, Matchtech, Robert Walters, Staffline) are trading on 15.6x (FY15E, unweighted average). Empresaria is trading on a FY15E PER of 9.5x.

| Dec Year End | FY12 | FY13 | FY14 | FY15E | FY16E |
|---|---|---|---|---|---|
| Sales (£m) | 194.3 | 194.4 | 187.9 | 193.3 | 200.6 |
| Net Fee Income (£m) | 43.9 | 42.6 | 44.6 | 48.0 | 50.1 |
| Operating profit (£m) | 5.4 | 6.0 | 6.6 | 7.6 | 8.4 |
| PBT (£m) | 4.6 | 5.4 | 6.1 | 7.1 | 7.8 |
| EPS (p) | 5.6 | 6.2 | 8.0 | 8.9 | 9.7 |
| DPS (p) | 0.4 | 0.4 | 0.7 | 0.7 | 0.7 |
| Net (debt)/cash (£m) | (14.5) | (15.2) | (9.8) | (9.5) | (8.6) |
| Net debt/EBITDA (x) | 2.3 | 2.2 | 1.3 | 1.1 | 0.9 |
| P/E (x) | 15.1 | 13.6 | 10.6 | 9.5 | 8.7 |
| EV/NFI (x) | 1.2 | 1.3 | 1.1 | 1.0 | 0.2 |
| EV/EBITDA (x) | 8.4 | 7.8 | 6.6 | 5.8 | 0.9 |
| FCF Yield (%) | (2.1) | 9.3 | 12.1 | 10.9 | 10.9 |
| Dividend Yield (%) | 0.5 | 0.4 | 0.8 | 0.8 | 0.8 |

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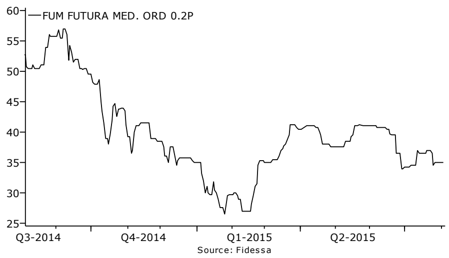
# Futura Medical (FUM)




| **Price (p)** | **34.0** |
|---|---|
| Mkt cap (£m) | 33.7 |
| Shares (m) | 99.0 |
| Sector | Pharma and Biotech |
| Market | London AIM |
| Broker | N+1 Singer |
| Website | www.futuramedical.com |

**Description:** Development of drugs and medical devices and their commercial exploitation; products includes condoms, erectile dysfunction, enhanced sexual control, pain relief and delivery technology.

**Futura Medical has proprietary transdermal technology which can be incorporated into formulations of well characterised drugs to improve performance and extend their uses. Market reaction to the headline data from the pain portfolio trial has been disappointing, as this has reduced risk and should have provided a catalyst to value appreciation. Publication of the full statistical analysis in September should be received better.**

**CSD500/blue diamond:** Successful on-line launch in Holland and Belgium has been followed by entry into the retail market in Holland through 600 drug stores. Work on extending the shelf-life towards the two-year industry norm is largely complete and regulatory filings are expected towards the end of this year.

**Trials:** Headline data for the two anti-inflammatory drugs (diclofenac and ibuprofen) produced responses that were significantly better than placebo, and 'similar' to formulations of current gold standards. A pivotal 192 patient trial with MED2002 for erectile dysfunction commenced in June with the study expected to report in 1H 2016.

**Valuation:** After drifting recently, we expected these results to cause a re-valuation of the shares and to regain positive momentum. FUM is still forecast to reach break-even and become cashflow positive in 2018. Our risk-adjusted DCF has risen from 110p to 126p per share. Any licensing deal would provide further upside potential.

**Risks:** Clinical trials always carry risk, but with the 1o end-point being 'non-inferiority', these risks were minimised. Greatest risk is the timing of licensing deals and commercial, where any delay impacts the time to cashflow breakeven and profitability.

**Investment summary:** Commercialisation of its first three products is key over the next 18 months, driving cashflow, and providing potential for valuation uplift. Pain trial results reduced the risk, increased the DCF valuation to 126p, and improved the probability of finding an attractive licensing partner from pharmaceutical majors.

| Dec Year End | FY12 | FY13 | FY14 | FY15E | FY16E |
|---|---|---|---|---|---|
| Sales (£,000) | 75 | 371 | 44 | 200 | 300 |
| Royalties (£,000) | - | - | - | 600 | 1,750 |
| EBITDA | (2,325) | (2,386) | (3,345) | (3,797) | (3,833) |
| Operating profit | (2,327) | (2,390) | (3,350) | (3,802) | (3,837) |
| PBT | (2,308) | (2,381) | (3,302) | (3,604) | (3,719) |
| EPS (p) | (2.7) | (2.7) | (3.3) | (3.2) | (3.0) |
| DPS (p) | - | - | - | - | - |
| Net (debt)/cash | 2,817 | 991 | 9,492 | 6,306 | 3,172 |
| P/E (x) | (15.0) | (15.4) | (12.6) | (13.0) | (13.5) |
| EV/Sales (x) | 503.8 | 101.9 | 858.7 | 188.9 | 125.9 |
| EV/EBITDA (x) | (16.3) | (15.8) | (11.3) | (10.0) | (9.9) |
| FCF Yield (%) | n/a | n/a | n/a | n/a | n/a |
| Dividend Yield (%) | n/a | n/a | n/a | n/a | n/a |

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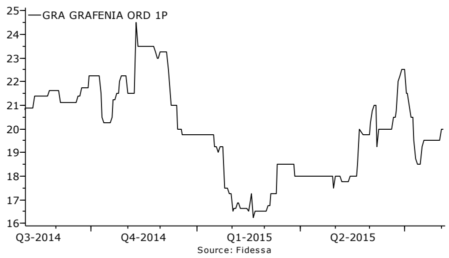
# Grafenia (GRA)

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|---|---|
| **Price (p)** | **20.5** |
| Mkt cap (£m) | 9.6 |
| Shares (m) | 47.1 |
| Sector | Support Service |
| Market | London AIM |
| Broker | N+1 Singer |
| Website | www.grafenia.com |

**Description:** Printing for SMEs via franchise offices and online. 63% UK, 37% overseas primarily Holland.

**The shares continue to base build post the results, which were announced on 8th June. As anticipated, Group sales fell 12.6% to £17.0m but PBT rose by 13.2% to £0.86m (2014: £0.76m). We are confident of dividend growth, backed by strong cash generation.**

This is a business where significant change has been initiated and results are coming through clearly. Not least, as a marker to significant evolution, is the ongoing significant rise in gross margins. The business is transitioning to a mix much richer 'online'. The gross profit increase (as a percentage of revenue) from 56.1% to 58.7% is evidence of this.

For some five years now, there have been a series of new businesses launched capturing the existing print clients and adding new ones. The latest to make a meaningful positive impact on the numbers (just starting its profit upswing) is Marqetspace. The 'big picture' is that traditional print volumes decline whilst the end clients for print demand more in terms of design and web-enablement. During the past year Marqetspace and Nettl were launched. The former business line exited last FY at a rate of £1m annualized sales.

During the current year we expect sales to exit at a run rate of £3m pa. Grafenia states: "We believe that the scope exists to develop Marqetspace into a £10m channel over a time period of approximately three years." The other new business line of FY15 was Nettl, established to capture web design and digital media. This is a significant market – above the commoditised ultra-high volume end where websites and created for a small number of £00s, but still with the focus on SMEs. The link between print, templates, design and website creation is a logical one. For Marqetspace, the success is clear and is building. Nettl's launch was more recent and it now has a handful of large stores in this format.

| March Year End | FY12 | FY13 | FY14 | FY15 | FY16E |
|---|---|---|---|---|---|
| Sales (£m) | 21.8 | 20.7 | 19.4 | 17.0 | 17.0 |
| EBITDA (£m) | 3.4 | 2.6 | 2.6 | 2.5 | 2.5 |
| Operating profit (£m) | 1.3 | 0.9 | 0.8 | 0.9 | 0.9 |
| PBT Adj. (£m) | 1.3 | 1.1 | 0.8 | 0.9 | 0.9 |
| EPS Adj. (p) | 2.3 | 2.1 | 1.8 | 1.8 | 1.8 |
| DPS (p) | 2.6 | 2.6 | 1.3 | 1.5 | 1.6 |
| Net (debt)/cash | 1.8 | 1.4 | 1.4 | 1.3 | 1.3 |
| Net debt/EBITDA (x) | cash | cash | cash | cash | cash |
| P/E (x) | 8.9 | 9.7 | 11.4 | 11.4 | 11.4 |
| EV/Sales (x) | 0.4 | 0.4 | 0.4 | 0.5 | 0.5 |
| EV/EBITDA (x) | 2.3 | 3.2 | 3.2 | 3.3 | 3.5 |
| FCF Yield (%) | 18.7 | 8.3 | 9.3 | 9.3 | 10.9 |
| Dividend Yield (%) | 12.5 | 12.7 | 6.4 | 7.3 | 7.8 |

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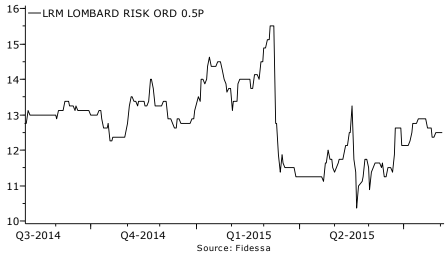
# Lombard Risk Management (LRM)

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|---|---|
| **Price (p)** | **12.4** |
| Mkt cap (£m) | 32.7 |
| Shares (m) | 263.4 |
| Sector | Software & Services |
| Market | London AIM |
| Broker | Charles Stanley |
| Website | www.lombardrisk.com |

**Description:** Lombard Risk provides financial software to banking and asset management clients. Solutions are focused on collatoral and risk management, and regulatory and transaction reporting.

**Over the past year shares have ranged up to 15p, but currently are unchanged on a year ago. This rating still offers plenty of upside if the company can capture some of the upside evidently on offer from global financial regulation compliance software and risk management software.**

On 9th July, at its AGM, the Company stated: "The Company has made a positive start to the new financial year with trading in the first three months ahead of the same time last year. As announced on 21 May 2015 the Board is in the process of seeking to appoint a new Chief Executive and expects to be able to announce further details of this appointment within the next few weeks. The Board look forward to the future with increasing confidence."

Whilst none of this AGM trading update is un-anticipated, it is of course reassuring that the year has started ahead of last. This was absolutely as expected, given that an element of revenue anticipated for FY15 moved just a short number of weeks on into the start of FY16. Further to the slight timing issue of FY15 vs FY16 revenue, there are three key points we would make.

1) Partnering is really building momentum and partnering in most businesses we look at does tend to initially slightly lengthen lead times. This means the partnering enhancement of FY15 will make increasing strides in FY16. Time will tell if this means the likely significant rise in the 'pipeline' will also mean recognised sales expand significantly.
2) Lombard Risk Management has tended to invest significantly for growth and this has impacted free cash flow. We consider part of this is in fact to enable/ facilitate the growth in partnerships, so more information as to that re-investment rate will certainly be shared with investors as the year progresses.
3) The Group is finalising its search for a new CEO. This of course is of great importance for the business, but both its positioning and its 'momentum' is strong.
4) New senior Sales and Marketing appointment.

| March Year End | FY12 | FY13 | FY14 | FY15 | FY16E |
|---|---|---|---|---|---|
| Sales (£m) | 12.8 | 16.8 | 20.4 | 21.5 | |
| EBITDA (£m) | 3.0 | 5.3 | 6.0 | 4.4 | |
| Operating profit (£m) | 2.5 | 4.0 | 4.5 | 2.3 | |
| PBT (£m) | 2.5 | 3.9 | 4.4 | 2.3 | |
| EPS (p) | 1.1 | 1.7 | 2.1 | 0.9 | No |
| DPS (p) | 0.055 | 0.065 | 0.075 | 0.080 | Estimates |
| Net (debt)/cash (£m) | (2.4) | 0.2 | 2.3 | 2.2 | At Present |
| Net debt/EBITDA (x) | nm | (0.0) | (0.4) | (0.5) | |
| P/E (x) | 11.5 | 7.3 | 5.9 | 13.8 | |
| EV/Sales (x) | 2.7 | 1.9 | 1.5 | 1.4 | |
| EV/EBITDA (x) | 11.7 | 6.2 | 5.1 | 6.9 | |
| FCF Yield (%) | (5.2) | 4.0 | (1.5) | 0.3 | |
| Dividend Yield (%) | 0.4 | 0.5 | 0.6 | 0.6 | |

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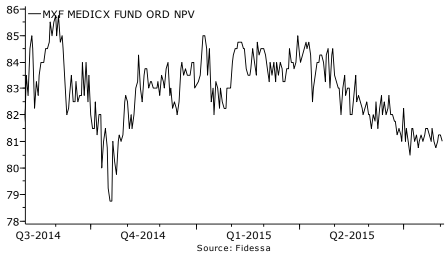
# MedicX Fund (MXF)




| | |
|---|---|
| **Price (p)** | **81.0** |
| Mkt cap (£m) | 294.4 |
| Shares (m) | 363.4 |
| Sector | Real Estate |
| Market | London Full List |
| Broker | Canaccord Genuity |
| Website | www.medicxfund.com |

**Description:** Investing and holding modern UK medical property (eg. doctors' surgeries)

**It would be wrong to look at this stock solely as a yield play, nonetheless the dividend is a significant attraction and the equity structure is designed to pay a sustainably growing dividend income as an investor.**

The MedicX Fund's portfolio is substantial, with an annualised rent roll now over £34.0m. We would highlight two investment drivers.

First, the dividend. Historic dividend cover rose to 67% for H1. It is essential to be aware that this definition of dividend cover excludes revaluation gains (and also performance fee and fair value on reset of loans). As rents are contractually prevented from falling (and the average term is 19 years, with borrowing interest rates fixed), the revaluation gains are a key part of the model. To exclude them is reasonable as they are not cash (unless crystallised by a disposal) but it is conservative as it enables future potential re-gearing of the balance sheet which is a cash factor. We calculate dividend cover for the full year at 62% and 64% for FY16E.

Secondly, the portfolio has a secure level of gearing with £291m net debt and £566m property assets (both as of estimated September 2015): net loan to value of 51.4%. This provides geared upside to market movements in asset values. We shall return to the scope for upward movements in asset values in later publications, but in terms of 'market issues' there is a growing positive 'mood music.' This was referred to by Assura a couple of weeks ago.

As of its 21st July AGM, Assura, a listed UK real estate business operating in very similar markets to MedicX Fund, stated the following: "Whilst there is a lead time between initiation and completion, we look forward to seeing developments return as a significant contributor to growth in the future…."

| Sept Year End | FY12 | FY13 | FY14 | FY15E | FY16E |
|---|---|---|---|---|---|
| Income (£m) | 16.6 | 25.5 | 29.5 | 33.9 | 38.4 |
| Operating profit (£m) | 12.2 | 20.2 | 21.8 | 26.7 | 30.6 |
| Interest (£m) | (7.1) | (11.0) | (13.0) | (13.9) | (15.8) |
| Declared profit | 2.6 | 9.7 | 20.4 | 25.8 | 24.8 |
| PBT Adj.(i.e. pre revaln) (£m) | 5.0 | 9.4 | 8.8 | 12.8 | 14.8 |
| EPS Reported (p) | 1.1 | 3.6 | 5.9 | 7.0 | 6.2 |
| EPS Adj. (p) | 2.1 | 3.3 | 2.5 | 3.5 | 3.7 |
| DPS (p) | 5.6 | 5.7 | 5.8 | 5.9 | 6.0 |
| Property acquisitions | 145.2 | 95.0 | 65.0 | 50.0 | 80.0 |
| Net (debt)/cash (£m) | (190.0) | (246.7) | (255.2) | (291.0) | (341.0) |
| Dividend Yield (%) | 6.9 | 7.0 | 7.2 | 7.3 | 7.4 |
| Price/NAV | 1.28 | 1.28 | 1.23 | 1.17 | 1.13 |
| NAV (p) | 63.5 | 63.1 | 65.8 | 69.0 | 71.8 |

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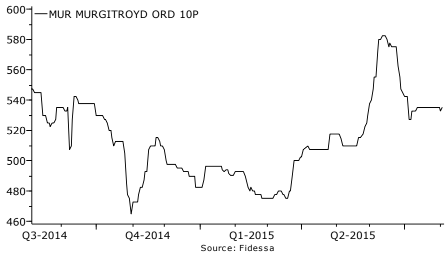
# Murgitroyd (MUR)




| | |
|---|---|
| **Price (p)** | **543.5** |
| Mkt cap (£m) | 48.5 |
| Shares (m) | 8.9 |
| Sector | Support Services |
| Market | London AIM |
| Broker | N+1 Singer |
| Website | www.murgitroyd.com |

**Description:** Murgitroyd is a leading firm of patent attorneys. It is based in Glasgow, with a network of offices around the UK, Europe and the US.

**We anticipate results being announced first half September. € FX weakness is factored into FY15E. For FY16 therefore, there could be some currency headwind – but would affect estimates only if € weakened significantly from here. € is some 13% lower against Sterling than the rate for much of last year but the rate of weakening has been modest recently. Recall that, given its Continental European office network, Murgitroyd incurs cost in € and, as such, has an inbuilt offset to reduced revenues resulting from € weakness.**

The currency debate is not, however, the main driver for Murgitroyd, far from it. In any case, there is exposure to the US$ Sterling exchange rate, as well as the £:€ rate. So the impact on FY16E numbers was anticipated when initiated.

Trading environments are price sensitive. As RWS (a competitor in the area of patent filings through its inovia business) stated in its June results, UK markets are competitive as well as Continental Europe. Other IP-related markets Murgitroyd address are unlikely to be immune from this price pressure. Murgitroyd is well placed across a number of geographies, particularly the USA. However sales pipelines can be relatively extended. Thus, the US macro-economic upturn would not be expected to have an immediate impact, but it should support FY16E.

1H15 saw US sales growth of 22% to £7.5m (39% of Group). FY16E should be usefully over 40%. It certainly would appear anecdotally that the US is in growth mode currently. Whilst US background is robust, EPO data has USA growth rates through the cycle as negative, indeed slightly worse than the other large markets (as measured by the EPO) of Germany and Japan (source Eurostat, ec.europa.eu). By World Intellectual Property Organization (WIPO) statistics, China is a much more significant market.

| May Year End | FY12 | FY13 | FY14 | FY15E | FY16E |
|---|---|---|---|---|---|
| Sales (£m) | 35.7 | 36.0 | 38.4 | 40.0 | 41.0 |
| EBITDA (£m) | 4.7 | 4.8 | 4.4 | 4.6 | 4.9 |
| Operating profit (£m) | 4.5 | 4.6 | 4.1 | 4.2 | 4.4 |
| PBT (£m) | 4.4 | 4.5 | 4.1 | 4.2 | 4.4 |
| EPS (p) | 36.1 | 37.0 | 32.5 | 34.0 | 35.0 |
| DPS (p) | 12.0 | 12.5 | 12.9 | 14.0 | 15.5 |
| Net (debt)/cash (£m) | (4.6) | (3.2) | (1.3) | 0.7 | 1.0 |
| Net debt/EBITDA (x) | 1.0 | 0.7 | 0.3 | (0.2) | (0.2) |
| P/E (x) | 15.0 | 14.7 | 16.7 | 16.0 | 15.5 |
| EV/Sales (x) | 1.5 | 1.4 | 1.3 | 1.2 | 1.2 |
| EV/EBITDA (x) | 11.2 | 10.8 | 11.3 | 10.4 | 9.7 |
| FCF Yield (%) | 3.5 | 4.6 | 4.1 | 4.7 | 5.2 |
| Dividend Yield (%) | 2.2 | 2.3 | 2.4 | 2.6 | 2.9 |

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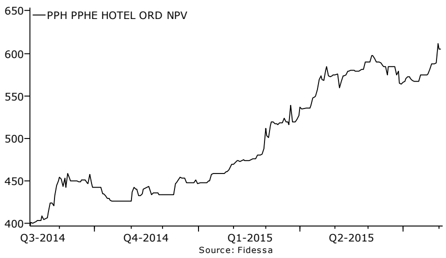
# PPHE (PPH)




| Price (p) | 609.9 |
|---|---|
| Mkt cap (£m) | 253.3 |
| Shares (m) | 41.5 |
| Sector | Travel & leisure |
| Market | London (Main) |
| Broker | finncap & Oriel |
| Website | www.pphe.com |

**Description:** Owns, co-owns, leases, franchises and manages a portfolio of 4* hotels in Europe under the Park Plaza brand.

**PPHE, the owner and operator of Park Plaza hotels in Europe, is trading well and is making significant progress on its key projects: four projects are on site and the three major refurbishment projects also nearly ready to start. This is increasingly reflected in its share price: PPHE's share price rose by 8% in July, by 30% in the last six months and by 55% in the last 12 months yet it continues to trade at significant discounts to NAV and to its peers.**

**Investing for tomorrow:** Over the next two years PPHE plans to add 1,000+ rooms to take the portfolio to c10,000 rooms by 2019. This will cost c€200m in capex to this end. All projects are financed and the group LTV is c.56% (latest valuation). Work is progressing well on the 494-room hotel, close to Waterloo Station, the 177-room Park Plaza, Nuremberg and the 184-room Riverbank extension and the 168-room hotel near Park Royal. The 352-room Art'otel Hoxton, London is still in planning stage. These are all big projects so we would expect results to come through from FY16.

**Good start to the year:** PPHE reported a good start to the year but Q1 is the quietest and trickiest quarter to forecast. Looking forward, Sterling strength versus the Euro makes the outlook slightly more uncertain as it could dampen demand for the London hotels. However, Regional UK is performing strongly which should help to offset any London weakness. We do not forecast currency and use the rate of £1:€1.36.

Large refurbishment projects at existing hotels are due to start later this year at the Park Plaza Victoria, Amsterdam and Park Plaza Sherlock Holmes, London which will impact shorter-term earnings but this is reflected in our forecasts.

Trading on a +15% discount to NAV, 3.3% dividend yield: The investment case continues to gain traction, yet the current share price trades on a PE of 11.4x for FY15 and still represents +15% discount to FY15 NAV per share. The 3.3% dividend yield is attractive, safe (3.0x covered) and should grow.

| Dec Year End | FY12 | FY13 | FY14 | FY15E | FY16E |
|---|---|---|---|---|---|
| Sales (€m) | 242.1 | 244.8 | 270.4 | 285.5 | 304.3 |
| EBITDA (€m) | 85.6 | 82.9 | 94.8 | 97.0 | 102.1 |
| Operating profit (€m) | 55.1 | 56.2 | 67.5 | 69.5 | 73.6 |
| PBT (Cont) (€m) | 18.4 | 27.3 | 41.6 | 31.1 | 33.7 |
| EPS (c) | 44.0 | 65.0 | 98.0 | 74.0 | 80.0 |
| DPS (p) | 12.0 | 14.0 | 19.0 | 20.0 | 20.9 |
| Net (debt)/cash (€m) | (460.2) | (483.0) | (483.0) | (555.7) | (585.1) |
| Net debt/EBITDA (x) | 5.4 | 5.8 | 5.1 | 5.7 | 5.7 |
| P/E (x) | 19.1 | 12.9 | 8.6 | 11.4 | 10.5 |
| EV/Sales (x) | 3.3 | 3.4 | 3.1 | 3.2 | 3.1 |
| EV/EBITDA (x) | 9.5 | 10.0 | 8.8 | 9.3 | 9.2 |
| FCF Yield (%) | 12.1% | 12.0% | 10.9% | 12.0% | 12.0% |
| Dividend Yield (%) | 2.0 | 2.3 | 3.1 | 3.3 | 3.4 |

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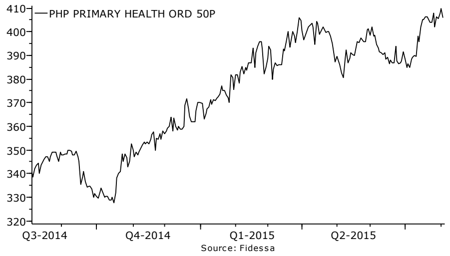
# Primary Health Properties (PHP)




| **Price (p)** | **406.0** |
|---|---|
| Mkt cap (£m) | 451.8 |
| Shares (m) | 111.3 |
| Sector | Real Estate |
| Market | London Full List |
| Broker | Numis Securities/Peel Hunt |
| Website | www.phpgroup.co.uk |

**Description:** PHP lets out GP surgeries to GP partnerships on long term leases. The rent GPs pay is reimbursed by the public sector.

**Interim results are due on 20th August. FY2014 saw strong profit growth driven by lowered costs and expansion in assets held. Most cost reductions came during 1H14, so growth 1H15 vs 1H14 will be greater than 2H15 vs 2H14. Our estimates assume no major portfolio purchase, which should leave modest scope for upgrade.**

As is the norm with PHP, therefore, the 20th August announcement should in essence be "more of the same". We do anticipate 1H15 should see good advances on the cost front relative to 1H14.

PHP has been lengthening its borrowing term and much (not all) tends to be fixed for the term. Policy is not to fix as long as the length of the leases. There will be a crossover in the future reversing the current trend of falling interest rate cost. Old loans currently mature on higher rates than new loans being taken out. This likely will continue into 2016 and probably beyond. Base rates rising neither means that PHP would be advised to fix longer nor does it even mean longer term rates will rise – five year money is currently some 1.70% (plus margin), having oscillated between 1.40% and 2.20% since July 2013.

Looking further ahead (likely a 2017 story), there is some scope for a volume expansion in the market which should bring more scope to grow PHP and would probably do no harm to valuations. As of its 21st July AGM, Assura, a listed UK real estate business similar to MedicX Fund, stated: "Whilst there is a lead time between initiation and completion, we look forward to seeing developments return as a significant contributor to growth in the future….There are positive signs that the importance of fresh investment in primary care infrastructure is now widely recognised, and that the NHS is looking to address this. The launch of the £1 Billion Primary Care Infrastructure Fund, the Five Year Forward View and The Better Health for London report all recognise the role investment in primary care property needs to play in improving efficiencies and health outcomes for the NHS."

| Dec Year End | FY12 | FY13 | FY14 | FY15E | FY16E |
|---|---|---|---|---|---|
| Income (£m) | 33.1 | 42.0 | 60.0 | 65.3 | 71.7 |
| Operating profit (£m) | 27.9 | 35.5 | 52.5 | 57.3 | 63.1 |
| Interest (£m) | (21.8) | (26.9) | (35.5) | (36.2) | (38.7) |
| Declared profit | 1.1 | 20.2 | 36.9 | 31.1 | 34.4 |
| PBT Adj.(i.e. pre revaln) (£m) | 7.3 | 9.5 | 18.2 | 21.9 | 25.2 |
| EPS Reported (p) | 1.6 | 22.7 | 33.2 | 27.0 | 28.2 |
| EPS Adj. (p) | 10.0 | 10.8 | 16.4 | 19.0 | 20.7 |
| DPS (p) | 18.5 | 19.0 | 19.5 | 20.0 | 20.5 |
| Property acquisitions | 98.0 | 291.0 | 75.0 | 60.0 | 80.0 |
| Net (debt)/cash (£m) | (378.0) | (587.0) | (655.0) | 697.0 | 752.0 |
| Dividend Yield (%) | 4.6 | 4.7 | 4.8 | 4.9 | 5.0 |
| Price/NAV | 1.73 | 1.48 | 1.46 | 1.43 | 1.38 |
| NAV (p) | 235.0 | 274.0 | 278.0 | 284.0 | 294.0 |

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# R.E.A. Holdings (RE.)


| | |
|---|---|
| **Price (p)** | **300.3** |
| Mkt cap (£m) | 104.9 |
| Shares (m) | 35.0 |
| Sector | Food Producers |
| Market | London Main List |
| Broker | Mirabaud Securities |
| Website | www.rea.co.uk |

**Description:** R.E.A. is engaged in the operation and further development of a single site palm oil plantation in East Kalimantan, Indonesia. It has also acquired rights in respect of two small coal mining concessions, also in East Kalimantan

**REA's FFB harvested to May 2015 was 230,000 mt compared to 258,000 mt same period last year, down 10.9%. The lower FFB production was mainly due to unusually dry weather patterns across in Kalimantan and Borneo in the 4th Quarter of 2014. The company expects own production in the first half of 2015 to be similar to 1H14.**

Since the end of 2014, REA has upgraded the loading ramp at its oldest mill to facilitate the grading of the deliveries of FFB, and has also enhanced security systems and flow meters to monitor throughput for the mills. We are expecting to see a higher OER in H1 interim as a result. As reported in May's trading update, good progress has been made in REA's PBJ and CDM estate. A fair of planting has been achieved along with further clearing.

The Indonesian government has officially started imposing a levy on CPO or its derivative products shipped abroad last month. The new levy requires exporters to pay $50/mt for CPO and $30/mt for processed palm oil products, when the CIF Rott CPO price drops below $750/mt. As a result, we are expecting a downward adjusted to the company's actual received CPO price. For example, at the current CPO price level (c $630/mt), REA is expected to receive only c. $520/mt after transportation and the levy.

El Nino has been in the news since early this year. According to NOAA, there's a greater than 90% change of El Nino lasting through the coming winter and an 80% chance that it will last into early spring 2016. This is likely to have a negative impact on palm oil production across Asia. However, according to the company, East Kalimantan normally feels the effect towards the back end of the weather cycle. Therefore, REA doesn't see much change in its current production cycle, but it's expected to see the effect of El Nino toward the end of 2015/beginning of 2016.

REA is expecting to announce its interim results at the end of the month.

| Dec Year End | FY12 | FY13 | FY14 | FY15E | FY16E |
|---|---|---|---|---|---|
| Sales ($m) | 124.6 | 110.5 | 125.9 | | |
| EBITDA ($m) | 45.0 | 38.8 | 42.7 | | |
| Operating profit ($m) | 37.8 | 28.1 | 32.1 | | |
| PBT ($m) | 30.6 | 25.2 | 23.7 | | |
| EPS (c) | 33.9 | 15.8 | 40.3 | Estimates | Estimates |
| DPS (p) | 7.00 | 7.25 | 7.75 | Under | Under |
| Net (debt)/cash ($m) | (140.5) | (164.4) | (179.2) | Review | Review |
| Net debt/EBITDA (x) | 3.1 | 4.2 | 4.2 | | |
| P/E (x) | 13.8 | 29.5 | 11.6 | | |
| Dividend Yield (%) | 2.3 | 2.4 | 2.5 | | |
| EBITDA Margin (%) | 36.2 | 35.1 | 33.9 | | |
| Planted Hectare (ha) | 36,794 | 34,062 | 34,614 | 37,614 | 41,614 |
| EV/Planted hectare* ($/ha) | 11,306.4 | 12,916.3 | 13,137.9 | - | - |

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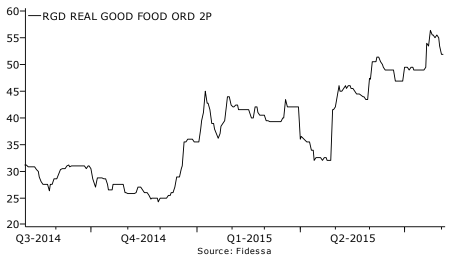
# Real Good Food (RGD)




| **Price (p)** | **51.0** |
|---|---|
| Mkt cap (£m) | 35.5 |
| Shares (m) | 69.6 |
| Sector | Food Producers |
| Market | London AIM |
| Broker | Shore Cap |
| Website | www.realgoodfoodplc.com |

**Description:** Specialist food manufacturing.

**Results are due on Friday. These will show the baleful impact of 2014/15 trading at the Napier Brown sugar distribution business. We anticipate £4m EBIT losses from Napier Brown. In addition there may be some (modest) reorganisation costs there too. Ex this business, now disposed of, the PBT for Real Good Food Group is expected to report a £2.2m profit.**

**FY15E:** The ongoing business is anticipated to register £104.6m sales vs £233m sales for the whole business. The ongoing business is estimated at £2.9m operating profit, £0.7m interest and £2.5m PBT pre an estimated £0.3m reorganisation costs. The entire business' estimated results are outlined in the table below.

**A sea-change in the financials post the (May) disposal:** Sub 1% historic EBITA margins rise to just over 5% in FY16E (ex the disposed business), and we would anticipate a further rise in FY17. Renshaw, the largest ongoing business returned 10.2% EBIT margins in FY14, and is estimated to rise to over 12.0% in FY16E, when it should benefit from the brand and other investment of recent years.

**The disposal consideration plus the WIP release has brought £42m to the balance sheet.** The balance sheet is now cash positive. Operating cash flow is forecast to be about £8m for the year to March 2016, giving free cash flow per share of over 5p, albeit part of this is a benefit from the reversal of the Napier Brown working capital. Even without this, we anticipate significantly positive free cash flow, enhanced by much reduced and more consistent working capital requirements

**Well-invested growth business:** Real Good Food has been investing consistently in facilities, capacity, brand development and marketing, opening new channels – also enhancing senior market-facing sales personnel. Real Good Food comprises a highly value-added set of complementary businesses with strong and developing brands, notwithstanding Garrett Ingredients' exposure to the currently difficult commodity cycles of dairy and sugar.

| March Year End | FY12 | FY13 | FY14 | FY15E | FY16E |
|---|---|---|---|---|---|
| Sales | 305.5 | 265.7 | 272.6 | 232.9 | 111.0 |
| EBITDA | 8.6 | 10.0 | 2.7 | 1.1 | 7.9 |
| Operating profit | 6.2 | 8.0 | 0.5 | (1.5) | 5.7 |
| PBT | 4.5 | 6.5 | (1.2) | (2.9) | 5.2 |
| EPS (p) | 5.3 | 7.0 | (0.4) | (3.2) | 5.1 |
| DPS (p) | - | - | - | - | - |
| Net (debt)/cash (£m) | (28.7) | (25.0) | (31.3) | (39.3) | 2.0 |
| Net debt/EBITDA (x) | 3.3 | 2.5 | 11.6 | 35.7 | (0.3) |
| P/E (x) | 9.6 | 7.3 | n.a. | n.a. | 10.0 |
| EV/Sales (x) | 0.2 | 0.2 | 0.2 | 0.3 | 0.3 |
| EV/EBITDA (x) | 7.5 | 6.0 | 24.7 | 68.0 | 4.3 |
| FCF Yield (%) | -17.2% | 3.1% | -17.5% | -11.3% | 18.9% |
| Dividend Yield (%) | - | - | - | - | - |

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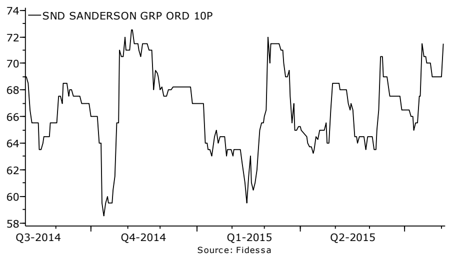
# Sanderson (SND)




| | |
|---|---|
| **Price (p)** | **70.0** |
| Mkt cap (£m) | 37.8 |
| Shares (m) | 54.1 |
| Sector | Software & Computing Services |
| Market | London AIM |
| Broker | Charles Stanley |
| Website | www.sanderson.com |

**Description:** Sanderson Group specialises in multi-channel retail and manufacturing markets in the UK and Ireland.

**Sanderson reported interim results on 9th June and the next trading update is likely to be in October. The underlying trading is robust and with a 9% organic profit rise in 1H15, allied to pre-contracted recurring revenues representing approximately 52% of total revenue, we have confidence that FY15E numbers as estimated below will be achieved.**

Forward visibility is high at Sanderson. There was an order book characterised as "very strong" by the company at the time of the interim results. The order book stood at £2.84m at the interim period end, which was up 15% on March 2014's £2.47m. Continued investment in proprietary solutions using mobile technologies is an important plank to the development of the order book.

We have made our forward estimates for financial results mindful of the solid position of the Group but also that sales cycles remain protracted. As Sanderson achieved an improved intake of sales orders in the period, the protracted sales cycle means that the March order book underpins H2 and the intake in H1 should help both H2 and to a degree H1 of the following year too. 1H15 order intake was £4.94m (£4.27m prior comparable period).

Sanderson is efficiently deploying free cash flow (4.2p/share FY14) through well-executed software product investment to address growth markets and complementary acquisitions. Being highly cash-generative, Sanderson has ample resources to fund bolt-on acquisitions, and execution thus far has been excellent.

| Sept Year End | FY12 | FY13 | FY14 | FY15E | FY16E |
|---|---|---|---|---|---|
| Sales (£m) | 13.4 | 13.8 | 16.4 | 18.5 | 19.8 |
| EBITDA (£m) | 2.2 | 2.4 | 3.2 | 3.7 | 4.2 |
| Operating profit (£m) | 2.0 | 2.2 | 2.8 | 3.3 | 3.7 |
| PBT (£m) | 1.6 | 2.2 | 2.7 | 3.1 | 3.4 |
| EPS (p) | 3.6 | 4.1 | 4.4 | 4.7 | 4.9 |
| DPS (p) | 1.2 | 1.5 | 1.8 | 1.9 | 2.0 |
| Net (debt)/cash (£m) | 4.1 | 3.6 | 6.2 | 6.6 | 7.3 |
| Net debt/EBITDA (x) | | | | | |
| P/E (x) | 19.4 | 17.1 | 15.9 | 14.9 | 14.3 |
| EV/Sales (x) | 2.5 | 2.5 | 1.9 | 1.7 | 1.5 |
| EV/EBITDA (x) | 15.3 | 14.3 | 9.9 | 8.4 | 7.3 |
| FCF Yield (%) | 1.8 | 2.6 | 6.1 | 6.6 | 7.1 |
| Dividend Yield (%) | 1.7 | 2.1 | 2.6 | 2.7 | 2.9 |

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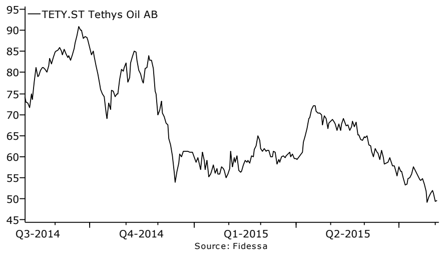
# Tethys Oil AB (TETY.ST)




| | |
|---|---|
| **Price (SEK)** | **49.6** |
| Mkt cap (MSEK) | 1763 |
| Shares (m) | 35.5 |
| Sector | Oil & Gas |
| Market | First North, Stockholm |
| Broker | Remium |
| Website | www.tethysoil.com |

**Description:** Tethys Oil is a Swedish energy company focused on identification and development and production of oil and natural gas assets in the Middle East, North Africa and Europe.

**Drilling continues on the Bedugnis-1 well, Raseiniai licence, onshore Lithuania and given the time-lines indicated we anticipate early results from the well soon.**

Tethy's share price has recently come under some pressure, in-line with the market and declining July crude oil prices.

It is, we think, timely to re-iterating that we believe Tethys to be well-funded and firmly positioned led by a management team that have repeatedly proven their long-term value creation skills.

June production for Omani Blocks 3&4 has been announced at 287,437 barrels of oil, or 9,581 barrels of oil per day.

On Friday (31st July), U.S. crude closed down $1.40, or 2.89%, at $47.12 a barrel with the contract falling on aggregate nearly 21% percent for the month of July, its largest monthly decline since October 2008. Brent crude, which is a close proxy to Omani Blend (on average to within +/- 2%) fell 18 percent overall on the month to $52.21 a barrel. This, of course has had an effect on pricing within the oil sector. We have been here before, and will no doubt be here again. The key question remains one of value creation – and we see plenty of opportunities for Tethys in this regard.

Now, while it may otherwise seem rather quiet on the news front, remember Tethys is actively drilling in Lithuania. The Bedugnis-1 well, the first well on the Raseiniai licence, onshore Lithuania, began drilling on 16th June with a target vertical depth of 1,100 meters with operations expected to continue for 45 days +/-. This should mean early indications of progress from this first well in the very near future.

| Dec Year End | FY11 | FY12 | FY13 | FY14 | FY15E |
|---|---|---|---|---|---|
| Sales (MSEK) | 104 | 584 | 592 | 1,046 | - |
| EBITDA (MSEK) | 84 | 509 | 479 | 753 | - |
| Operating Profit (MSEK) | 83 | 336 | 285 | 404 | - |
| PBT (MSEK) | 69 | 314 | 240 | 350 | - |
| EPS (SEK) | 2.12 | 9.11 | 6.76 | 9.86 | - |
| DPS (SEK) | - | - | - | - | - |
| Production, before government take (bbl) | 423,469 | 1,345,854 | 1,663,069 | 2,765,654 | - |
| Net sales, after government take (bbl) | 147,228 | 776,248 | 850,926 | 1,464,228 | - |
| Average Selling price $/bbl | 107.37 | 110.35 | 106.63 | 103.9 | - |
| P/E (x) | 23.4 | 5.4 | 7.3 | 5.0 | - |
| Cash TSEK | 93 | 248 | 295 | 347 | - |
| Shareholders Equity TSEK | 456 | 860 | 1,100 | 1,675 | - |
| Investments TSEK | 208 | 875 | 289 | 259 | - |

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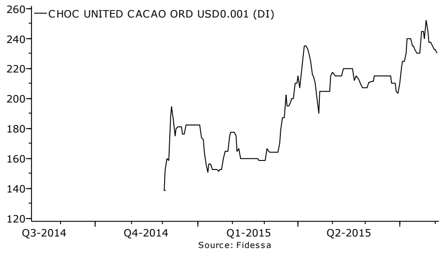
# United Cacao Limited SEZC (CHOC)




| Price (p) | 230.0 |
|---|---|
| Mkt cap (£m) | 42.8 |
| Shares (m) | 18.6 |
| Sector | Food Producers |
| Market | AIM |
| Broker | VSA Capital |
| | Kallpa Securities SAB |
| Website | www.unitedcacao.com |

**Description:** UCL is a commercially scaled cocoa plantation located in the Peruvian Amazon, one of the best locations in the tropical belt for the crop. The company aims to produce high quality, sustainable and fully traceable bulk cocoa and Fine or Flavour cocoa with the goal of achieving premiums above the international traded price.

**Working to become the largest single producer of cocoa in the world, United Cacao Limited SEZC (UCL) seeks to profit from anticipated deficit in supply out to 2020. Listed on the London AIM on 2nd December, UCL now has more than 1,150ha of cocoa planted, comprising of 70% with the high yielding Ecuadorian variety CCN51, and 30% with aromatic varieties.**

At 1,111 trees per ha, this represents almost 1.28m trees now planted. UCL's objective is to complete planting of some 2,000ha by end 2015. The company now owns some 3,760 ha of private, freehold land that is fully zoned and that was pre-approved for agricultural purposes since 1997.

The pre-operating loss at \$2.88m (FY13: \$0.67m) and pretax loss of \$2.98m (FY13: \$0.70m) were larger than our forecast of a pretax loss of \$2.5m. 3rd Party Services were somewhat higher than expected, attributable to the IPO and marketing related processes. Cash was also utilised faster than we expected due to accelerated development and capex in 2H 2014.

Borrowing from the palm oil sector model, UCL is also supporting the development a small farmer programme (PAPEC), possibly up to another 3,250 ha to give local agricultural families an economic stake in the global growth in demand for cocoa.

On 22nd June this year, the company's shares were admitted for trading on the Lima Stock Exchange (Bolsa de Valores de Lima, or "BVL"), Peru, under the trading symbol "BVL:CHOC". The Ordinary Shares are fully fungible between the two exchanges; however, the Ordinary Shares trade in US Dollars on the BVL. The BVL is also a participant of the Mercado Integrado Latinoamericano ("MILA"). Through MILA, the BVL is increasingly integrated with the regional equity markets in Colombia, Chile and Mexico. CHOC is the second listing on the BVL so far this year and is now amongst the Top 75 largest companies by market capitalization on the exchange.

| Dec Year End | FY14 | FY15E | FY16E | FY17E | FY18E |
|---|---|---|---|---|---|
| Sales (\$m) | - | 0.0 | 0.5 | 2.4 | |
| EBITDA (\$m) | (2.5) | (1.5) | (2.9) | (4.1) | |
| Operating profit (\$m) | (2.5) | (1.5) | (3.0) | (4.2) | |
| PBT (\$m) | (2.5) | (1.4) | (3.2) | (5.1) | |
| EPS (c) | (18.0) | (7.5) | (14.5) | (23.4) | No |
| DPS (p) | - | - | - | - | Estimates |
| Net (debt)/cash (\$m) | (16.4) | (10.4) | (1.0) | 10.5 | At |
| Net debt/EBITDA (x) | - | - | - | - | Present |
| P/E (x) | - | - | - | - | |
| Dividend Yield (%) | - | - | - | - | |
| EBITDA Margin (%) | - | - | - | - | |
| Planted Hectare (ha) | 556 | 2,000 | 3,250 | 3,250 | |

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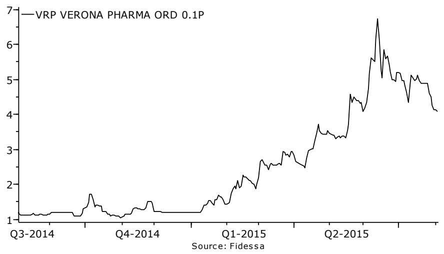
# Verona Pharma (VRP)




| | |
|---|---|
| **Price (p)** | **4.0** |
| Mkt cap (£m) | 40.4 |
| Shares (m) | 1009.9 |
| Sector | Pharma and Biotech |
| Market | London AIM |
| Broker | N+1 Singer |
| Website | www.veronapharma.com |

**Description:** Verona Pharma plc is a UK-based biopharmaceutical company focused on development of innovative prescription drugs to treat respiratory diseases with significant unmet medical needs, such as COPD, asthma & cystic fibrosis.

**Verona is developing first-in-class drugs that treat unmet medical needs in respiratory disease. RPL554 is being fast-tracked to commercialisation by focusing on a $3.2bn market segment poorly serviced by existing drugs. Key Phase II trial results are due to be announced during September. Despite the recent share price appreciation there remains a significant mis-match between the current EV (£34m) and a potential inflection point on positive Phase II data, especially when considering that median valuations for Phase II respiratory assets have headline valuations of $285m (£190m), or 19p per share.**

**Products:** RPL554, a first-in-class dual PDE3/PDE4 inhibitor with both bronchodilatory and anti-inflammatory activity, is in clinical development for three indications. Initially, as an add-on for acute exacerbations in COPD patients. However, the drug has potential also in the maintenance therapy of COPD patients, and in cystic fibrosis.

**Newsflow:** September will be an important month for the group. Apart from publication of interim results for 2015, the company is scheduled to announce headline data following use of RPL554 in COPD patients for the efficacy stage of its phase II trial.

**Valuation:** To date, about £10m has been invested in R&D to get VRP where it is today, compared to an EV of £34m. Positive outcomes from the phase II trial with RPL554 in COPD, due 2H'15, would provide a value inflection point and allow negotiations with potential licensing partners.

**Risks:** The main risk is that a product fails in clinical trials. Also, even when drugs have completed clinical development there remain regulatory and commercial risks. Rising cash burn on R&D spend and corporate infrastructure over the next three years is likely to require further capital increases.

**Investment summary:** Historically, efficacy of PDE inhibitors has been positive, but putative drugs have failed due to side effects. Positive safety outcomes, even at high doses, has de-risked the Phase II efficacy part of this COPD trial, where a positive outcome would result in a significant increase in shareholder value.

| Dec Year End | FY12 | FY13 | FY14 | FY15E | FY16E |
|---|---|---|---|---|---|
| Sales | 0 | 0 | 0 | 0 | 0 |
| Royalties | 0 | 0 | 0 | 0 | 0 |
| Underlying EBIT | -2,585 | -2,630 | -3,601 | -8,308 | -4,693 |
| Reported EBIT | -2,653 | -2,817 | -3,793 | -8,510 | -4,905 |
| Underlying PTP | -2,565 | -2,627 | -3,571 | -8,264 | -4,688 |
| Statutory PTP | -2,633 | -2,814 | -3,763 | -8,466 | -4,900 |
| Underlying EPS (p) | -0.8 | -0.7 | -0.3 | -0.7 | -0.3 |
| Statutory EPS (p) | -0.8 | -0.7 | -0.3 | -0.7 | -0.4 |
| Net (debt)/cash | 961 | 604 | 9,970 | 2,567 | -1,242 |
| Shares issued | 1,002 | 1,802 | 13,103 | 100 | 100 |
| P/E (x) | - | - | - | - | - |
| EV/sales (x) | - | - | - | - | - |
| Dividend Yield (%) | - | - | - | - | - |

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