STOCKS | FUNDS | INVESTMENT TRUSTS | PENSIONS AND SAVINGS

CHRISTMAS & NEW YEAR BUMPER ISSUE | VOL 19 / ISSUE 50 / 21 DECEMBER 2017 / £4.49

# SHARES

WE MAKE INVESTING EASIER

OUR TOP PICKS FOR 2017 **10.3%** AVERAGE GAIN

**3** FUNDS TO THRIVE NEXT YEAR

# 10 SUPERB STOCKS FOR 2018

WHAT DOES **DISNEY'S** BID FOR FOX MEAN FOR **SKY** SHAREHOLDERS?

WHY **MONEY DASHBOARDS** COULD PROVIDE A CLEARER PICTURE OF YOUR FINANCES

DISCOVER THIS YEAR'S **BEST PERFORMING** INVESTMENT TRUSTS

**SMALL CAPS** WITH BIG NEWS IN 2018

WE LOOK AT **FTSE 350** STOCKS GOING **CHEAP**

**BONUS SPOTLIGHT** REPORT INSIDE

# Come and join the community of investors

Sharing wisdom and ideas among like-minded individuals can be a rewarding experience

History tells us that smaller companies outperform larger ones and 2017's UK stock market performance certainly backs that up. The FTSE AIM All-Share index has increased by approximately 20% in value this year, nearly twice that of the FTSE 250 and four times greater than the FTSE 100, according to SharePad.

All-in-all, the markets have been very good to investors over the past year, perhaps a surprise to many people given the political risks clouding the outlook at the start of 2017.

*Shares*' annual portfolio of stocks has beaten the market this year and many of our individual stock suggestions throughout the year in the digital magazine have gone on to make significant capital gains.

Admittedly we're not perfect and there have been some disappointments along the way, yet that comes with the territory. Many fund managers will tell you they always have something disappointing in their portfolios and they learn from their mistakes – we also do; and so should you.

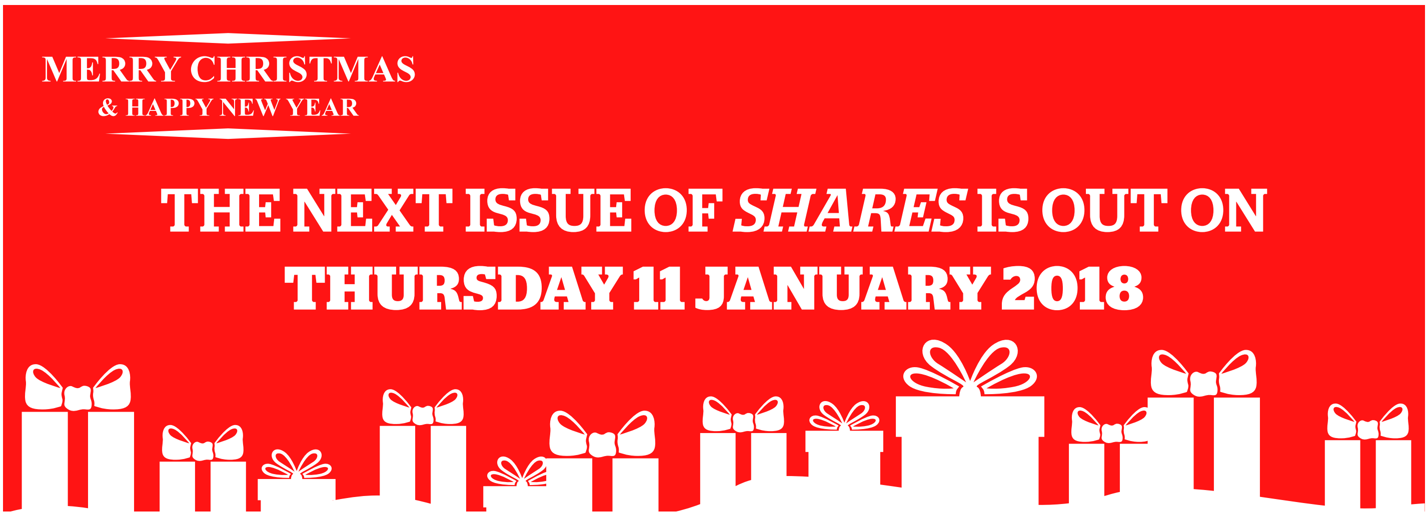
Sharing mistakes and successes is paramount to helping other investors and learning from them.

I've been very interested in the comments made by a growing community of investors on social media this year; impressed by how some people are happy to share their wisdom and not simply ramp up stocks for personal gain.

It's healthy to be part of a community and I encourage anyone who doesn't use Twitter to give it a go. *Shares* is active on social media and we've also recently launched a chat forum on our website, giving readers a place in which to discuss investment ideas and processes with like-minded individuals. Although still in its early days, we hope to build up this community in 2018 and we look forward to engaging with you through the forum.

I hope you enjoy this bumper edition of *Shares* and we'll be back on Thursday 11 January 2018 with the next issue of the digital magazine. In the intervening period there will be plenty of new stories on our website to keep you abreast of market activity over the festive period.

Thank you for reading the digital magazine and website and I wish you the best of luck with your investments in 2018. On a final note, I would like to wish you all a Merry Christmas and a Happy New Year. (DC)



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## BROKER RATINGS EXPLAINED:

We use traffic light symbols in the magazine to illustrate broker views on stocks.

Green means buy, Orange means hold, Red means sell.

The numbers refer to how many different brokers have that rating.

Eg: 4 2 1 means four brokers have buy ratings, two brokers have hold ratings and one broker has a sell rating.

The traffic light system gives an illustration of market views but isn't always a comprehensive list of ratings as some banks/stockbrokers don't publicly release this information.

# What does Disney-Fox deal mean for Sky shareholders?

Pay-TV business is at the centre of wider deal between global media giants

Anyone owning shares in **Sky (SKY)** may be confused as to what's going to happen to their investment given a twist to the media group's takeover.

For the past year shareholders have been waiting for 21st Century Fox's £10.75 per share takeover offer for Sky to complete.

Disney has now struck a deal to buy assets from Fox for $52.4bn including a 39% stake in Sky.

The Competition and Markets Authority (CMA) is due to give its verdict in March 2018 on whether Fox can buy the remaining 61% of Sky it doesn't already own.

If that deal is approved then Fox will complete its acquisition and Sky shareholders will get the cash they've patiently expected. Fox would then transfer its full ownership of Sky to Disney.

> THERE ARE SERIOUS RISKS FACING THE BUSINESS IF SKY IS NOT TAKEN OVER

Disney's bid for Fox is seen in some quarters as improving the chances of the deal being approved given that it does not have the baggage associated with Rupert Murdoch's Fox.

However, if the CMA blocks the deal, then Disney would only be left with the 39% of Sky it is initially inheriting from Fox.

UK takeover rules require someone owning more than 29.9% of a business to make a mandatory offer for the rest of the company. Disney has asked to be exempt from these rules, according to *Financial Times*.

The newspaper also reports hedge fund Polygon, which owns 1% of Sky, is lobbying the Takeover Panel to ensure the rule is enforced and argues Disney should be offering £13 per share in these circumstances.

There is also the possibility of a wider rebellion against the Fox bid from minority Sky shareholders as they look to squeeze more money out of Disney.

Away from the M&A activity, a recent channel-sharing deal with **BT (BT.A)** (15 Dec) could reduce some of the pressure Sky faces from sports rights inflation.

However, Shore Capital analyst Roddy Davidson thinks there are serious risks facing Sky if it is not taken over.

'Specifically we believe that concerns over UK consumer weakness, growing competition, future pricing power, content cost inflation (including the imminent Premier League auction) and the potential erosion of its subscription base could result in a significant de-rating of its stock,' he says. (TS)

# Tough festive trading to put retailers to the test

Investec anticipates difficult Christmas period, but identifies pockets of opportunity for 2018

In a research note warning of a 'difficult Christmas' for the retailer sector, investment bank Investec notes the sector nonetheless contains some 'interesting valuations'. It identifies stocks to appeal to most investment styles while highlighting its top 2018 picks.

In Investec's view, the coming 12 months is 'set to be another difficult year for most retailers', traditional brick and mortar operators having to profitably adapt store portfolios and increase the flexibility of their business models as shopping continues to migrate online.

More promisingly, the analyst team also points out the gradual unwinding of inflation is likely to see real wage growth return in the first half of the year. 'There is also potential for easing input cost pressure,' it says.

'The sector contains some interesting valuations, with an increasing risk to being underweight the sector in our view. As always, stock picking remains key,' says Investec.

Its 2018 picks include growth stocks with upside risk to forecasts, namely **JD Sports Fashion (JD.)**, 'a play on the growing athleisure sector', *Superdry* brand owner **SuperGroup (SGP)** and international multi-brand online growth story **Boohoo.com (BOO:AIM)**.

Investec's other picks are preferred value stories with attractive yields in the form of car parts-to-bicycles seller **Halfords (HFD)** and **N Brown (BWNG)**, 'a recovery story focused on the growing, fragmented plus-size market.' (JC)

### CHRISTMAS TRADING REPORTING CALENDAR

| | |
|---|---|
| 03 Jan 2018 | Next |
| 09 Jan 2018 | Morrisons, Majestic Wine |
| 10 Jan 2018 | Sainsbury's, Ted Baker, Gear4music |
| 11 Jan 2018 | Tesco, Marks & Spencer, Boohoo.com, Debenhams |
| 12 Jan 2018 | B&M European Value Retail |
| 16 Jan 2018 | JD Sports Fashion |
| 18 Jan 2018 | Halfords, N Brown, ASOS |
| 23 Jan 2018 | Dixons Carphone |

## Heavyweights join OneMedia board

FORMER BBC chairman Michael Grade and his business partner Ivan Dunleavy are set to join the board of digital music rights business **One Media IP (OMIP:AIM)** after investing £375,000 (18 Dec).

One Media has a catalogue of more than 250,000 'nostalgic' tracks. Part of what attracted Grade to One Media is its TCAT service which helps record companies root out copyright abuses. The shares gained nearly 30% on the news to 5.5p. (TS)

## Another video games developer joins stock market

VIDEO GAMES developer **Sumo (SUMO:AIM)** is set to join the stock market today (21 Dec), having raked in almost £40m of new money in a well-supported fundraise.

Sumo, which has contributed to hit franchises including *OutRun 2*, *Hitman* and *Sega & Sonic All-Stars*, wants to 'continue to grow organically as one of the leading co-developers of AAA-rated gaming titles in the world'. (JC)

## Purplebricks pasted on cost concern

ONLINE ESTATE agent **Purplebricks (PURP:AIM)** saw its share price come under some pressure after a mixed set of first half results (13 Dec). The business remains loss-making despite group revenue rising 150% to £46.8m in the period.

Investment bank UBS says cost increases needed to support the business long-term may be higher than the market anticipates. At 382.5p the stock still trades at nearly four times its December 2015 stock market flotation price. (TS)

# UK water companies facing earnings, dividends pressure

The situation could be bad news for investors in Pennon, Severn Trent and United Utilities

UK WATER SUPPLIERS could face significant earnings and dividend pressure as industry watchdog Ofwat plays hardball on operating costs and debt financing.

The regulator has published its early findings for the next five year price review period, which runs from 2019. The methodology of allowed cost of capital, equity and debt returns that suppliers can earn from their regulated water supply networks has been cut from the current 3.6% to 2.3%.

This proposal is not a final outcome as there will be further consultation through 2018 before a final decision is made. Yet it does send a message that Ofwat is demanding greater operational efficiencies from the water suppliers to provide a better deal for UK consumers.

If these proposals stick it could impact an average of 30% of earnings for the UK's three major stock market-listed suppliers, **Pennon (PNN)**, **Severn Trent (SVT)** and **United Utilities (UU.)**, according to investment bank UBS.

> OFWAT IS DEMANDING GREATER OPERATIONAL EFFICIENCIES FROM THE WATER SUPPLIERS

There could also be a significant knock-on effect to these companies' ability to maintain growth in shareholder dividends.

Water companies typically have dividend policies that promise a few percentage points growth over and above the retail price index (RPI). In the past that's protected investor's income against inflation. (SF)

## Regulators take aim at trading platforms

### Changes to complex derivative trading rules may upset big players

THE BIGGEST derivative trading platforms on the market have been shaken by European and UK regulators' focus on their activities.

Those impacted include the UK's largest player **IG Group (IGG)** which along with **CMC Markets (CMC)** and **Plus500 (PLUS:AIM)** suffered heavy share price losses on 18 December.

The European Securities and Markets Authority (ESMA) and Financial Conduct Authority (FCA) want to clamp down on the marketing and sale of binary options and contracts for difference (CFD) to retail customers.

They also want to restrict the amount of leverage customers are offered and protect them from incurring large losses.

IG blasted the plans to reduce leverage limits, saying the restrictions are 'disproportionate and go beyond what is needed to protect consumers'.

The company also says that limiting the amount of leverage will push customers wanting to use more borrowed funds (leverage) into the hands of offshore unregulated businesses. It adds this could potentially result in 'poor client solutions'.

All three companies are less worried with restrictions on binary options as these products account for inconsequential parts of their business.

CMC seems supportive of the regulators' plans, saying it will create a 'level playing field'. The company adds it is 'well positioned to take advantage of market opportunities that will arise from these proposals'. (DS)

## SHARES IN LUCECO NEARLY HALVE ON VALUATION MISTAKE

LIGHTING MANUFACTURER **Luceco (LUCE)** slumped by 45% in value on 15 December after a mistake with valuing the company's products. It downgraded full year post-tax profit guidance by 21% to £13.2m.

Gross margins have weakened as a result of the Chinese currency renminbi strengthening against the US dollar (in which many of Luceco's products are priced), alongside ongoing weakness in the pound and increased commodity costs.

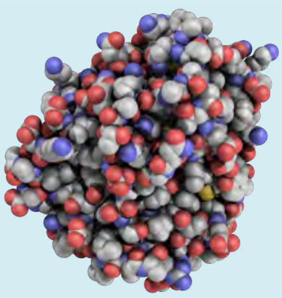
## Science kit micro-cap rises by more than 150% in a day

MASS SPECTROMETRY instruments minnow **Microsaic Systems (MSYS:AIM)** has finally burst to life, in terms of its share price.

Shares in the £5m micro-cap business soared 152% in a single day (the stock was up 363% at one point) after unveiling an extension to a biotechnology research partnership that may eventually lead to a scalable market.

The agreement is focused on medical bioprocessing and diagnostics. Bioprocessing uses living cells to test applications. Mass spectrometry is a form of materials science that measures the mass-to-charge relationship of substances, used in many industrial applications.

Microsaic designs mass spectrometry machines small enough to be desktop mounted. After years of seeding various industries (food testing was at one time a great hope) it still lacks any reasonable scale and runs at a loss.

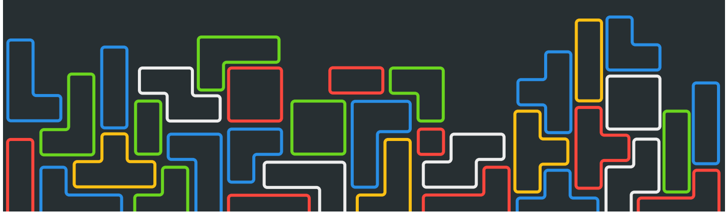


## KEYWORDS STUDIOS HAS MADE 26 ACQUISITIONS IN 4.5 YEARS

VIDEO GAME services provider **Keywords Studios (KWS:AIM)** has made an astonishing 26 acquisitions since joining the stock market in July 2013.

Last week alone it made two deals worth a combined $28m. The large number of acquisitions is helping Keywords to broaden its skill set and become an important provider of technical services to the global video games industry.

The business was founded in 1998 and now has 42 facilities in 20 countries.



# BURFORD CAPITAL
(BUR:AIM) £11.60

## Gain to date: 58%

**Original entry point:**
**Buy at 734p,** 9 March 2017

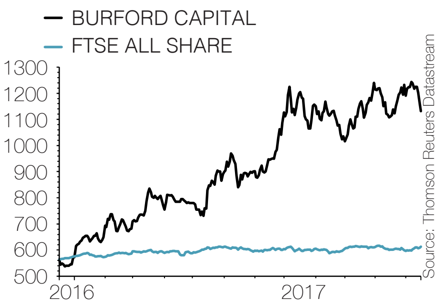
LITIGATION FINANCE provider **Burford Capital (BUR:AIM)** is up nearly 60% since we flagged its attractions in the spring and its market value has increased more than eight-fold since the beginning of 2016.

We still rate Burford as an excellent business, but a few issues prompt us to lock in our gains. A recent setback, including the departure of key figures from the acquired Gerchen Keller Capital (GKC) business, together with a lofty valuation mean we now see a risk the shares will drift lower in the short-term.

Notably house broker Liberum has downgraded the stock from 'buy' to 'hold'. House brokers will almost never put out a 'sell' recommendation on their corporate clients so going to 'hold' should be seen as a negative.

Analyst Justin Bates says: 'We continue to believe in the longer term growth story for Burford, as the leader in the burgeoning litigation finance market.

'However, based on the combination of 1) downgrades to 2017/18 forecasts, largely due to the timing of performance fees, 2) disappointing news that the GKC principals will be leaving the business, and 3) recognising the incredibly strong share price run year-to-date, up 110%, we believe the shares are now trading around fair value.'




**SHARES SAYS:** ↘
**In the long-term Burford still looks an attractive proposition but we feel now is a good time to lock in a tasty profit in anticipation of a period of share price weakness. (TS)**

**BROKER SAYS:** 4 1 0

# MARLOWE
(MRL:AIM) 382.5p

## Gain to date: 23.4%

**Original entry point:**
**Buy at 310p,** 23 March 2017

THE BOSS OF fire and water safety specialist **Marlowe (MRL:AIM)** says July's acquisition of Ductclean UK is the best acquisition the company has ever made.

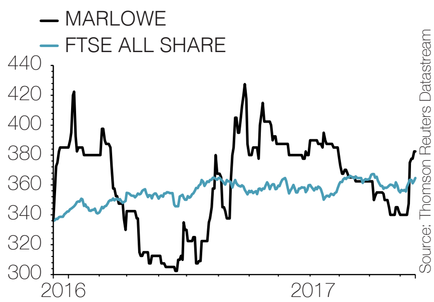
Chief executive Alex Dacre says the ventilation maintenance industry has better growth prospects than fire and water because many companies don't realise they need do it in order to meet safety legislations.

Dacre says Marlowe has already managed to cross sell ventilation maintenance services to existing fire and water customers including Bourne Leisure which operates the *Haven* and *Butlins* holiday parks.

Marlowe's half year results on 11 December showed 90% rise in pre-tax profit before one-off items to £2.4m and 104% hike in revenue to £36m, boosted by acquisitions.

Dacre reckons the group achieved 3.5% to 4% organic revenue growth.

The water treatment and air hygiene division has seen a 4% rise in operating margins following four acquisitions. The fire services division hasn't seen uplift in margin yet as it is still building route density and scale, says Dacre.




**SHARES SAYS:** ↗
**The shares aren't cheap on 30 times forecast earnings for 2018, yet Marlowe has proved it is able to find good acquisitions with further deals expected next year. The essential nature of its services justifies a premium rating. (DC)**

**BROKER SAYS:** 2 0 0

# SIGMAROC

(SRC:AIM) 42.25p

## Loss to date: 2.3%

**Original entry point:**

**Buy at 43.25p,** 26 October 2017

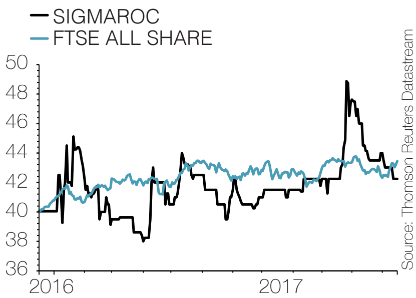
BUILDING MATERIALS company **SigmaRoc (SRC:AIM)** has made another acquisition in its efforts to become a niche player in the pan-European construction industry. It has raised £13.9m to fund the £10.25m acquisition of Poundfield Products which specialises in patented concrete products and systems such as retaining walls.

Other examples of products include blast proof barriers which have been installed at Heathrow airport and coastal defence walls.

Poundfield made £1.5m underlying EBITDA (earnings before interest, tax, depreciation and amortisation) and £7.4m revenue in 2016. It is expected to enhance SigmaRoc's earnings per share in the first full year of ownership.

SigmaRoc will use spare land from a previous acquisition to house a new production site in London for Poundfield whose principal operations are based in Ipswich.

Max Vermorken, chief executive of SigmaRoc, believes a London site will give it a cost advantage versus competitors due to lower transport costs of being able to serve the Capital's infrastructure developments.




He says Poundfield has in the past had licencing agreements to serve Europe and the US which is something that will be revisited soon.

**SHARES SAYS:**

**SigmaRoc is gaining momentum with its buy-and-build strategy. Patient investors should expect decent rewards in time. (DC)**

Janus Henderson
INVESTORS

THIS IS AN ADVERTISING PROMOTION

# 2018 OUTLOOK FOR UK LARGE CAP EQUITY INCOME

**Job Curtis, fund manager**
**The City of London Investment Trust plc**

The world is currently enjoying a period of synchronised economic growth. The economies of the developed countries as well as emerging markets are expanding. The key improvement over the last eighteen months has been from the Eurozone, which has at last moved forward, in response to the stimulatory policy of the European Central Bank.

The large capitalisation part of the UK stock market has a spread of multinational companies which are benefiting from global growth. For example, commodity prices, such as for iron and oil, reflect increased demand as economies grow. Combined with greater discipline in capital expenditure from companies, this has led to much more favourable operating conditions for mining and oil companies. In the mining sector, Rio Tinto, BHP Billiton and Anglo American have made large dividend increases over the last year. In the oil sector, there is greater confidence in the sustainability of the BP and Royal Dutch Shell dividends. BP has recently announced a share buyback and Royal Dutch Shell the return to an all cash dividend (by cancelling the scrip alternative).

UK domestic stocks have been somewhat out of favour given the uncertainty over Brexit. But this has left some very interesting share price valuations. For example, the two largest Real Estate Investment Trusts, Land Securities and British Land, are trading at discounts to their underlying assets of around 30%. Their dividend yields of over 4% are backed by the rental income from high quality tenants on long leases. The dividend yield of over 5% from housebuilder Taylor Wimpey also looks interesting given its strong balance sheet and the underlying demand for new houses in the UK.

Overall, we are confident in the sustainability of the UK equity dividend yield of 3.7%, as measured by the FTSE All Share Index. By contrast, the UK Bank Rate is only 0.5%, even after the recent 25bps increase and commentators are expecting at most an increase of 50 bps to 1.0% during 2018. UK Government bond yields also look low relative to the equity market with 10 year yields at 1.25% and 30 year yields at 1.85%. While equities will always be the more volatile asset class, we believe that the risk compared with reward remains favourable for UK equities for the year ahead.

# SHARES BEATS THE MARKET AGAIN

## THE FINAL RESULT IS IN FOR OUR ANNUAL PORTFOLIO OF STOCKS

**10.3%**
**Average gain**

### SHARES' 10 FOR 2017

| Company | Entry price (p) | Price now (p) | % gain / loss |
|---|---|---|---|
| **Ideagen** | 64.25 | 93.5** | 45.5 |
| **Devro** | 165.5 | 229.75 | 38.8 |
| **Ithaca Energy** | 86 | 118.5* | 37.8 |
| **DCC** | 5850 | 7275 | 24.4 |
| **Hotel Chocolat** | 281.5 | 347.5 | 23.4 |
| **RSA Insurance** | 565 | 613 | 8.5 |
| **Tracsis** | 520 | 515 | -1.0 |
| **ITV** | 194.6 | 166.7 | -14.3 |
| **Capital Drilling** | 49.9 | 36.5 | -26.9 |
| **Serco** | 141 | 94.6 | -32.9 |

| | | | |
|---|---|---|---|
| **AVERAGE** | | | **10.3** |
| **FTSE All-Share** | **3798.38** | **4130.87** | **8.8** |

Entry prices taken 16 Dec 2016. Latest prices taken 18 December 2017. Ideagen and Ithaca 'price now' is the price at which we exited the trade
*We took profit on 9 Feb following Delek's takeover bid
**We took profit on 25 May 2017

Our portfolio of picks for 2017 has achieved 10.3% average gain versus 8.8% from the FTSE All-Share. Among the selection, one of our stocks was taken over; one defied the retail sector sell-off to deliver handsome gains; and another has bounced back after a difficult period in 2016, just like we said it would.

Overall we're pleased with the performance although the portfolio wasn't without its weak spots. A mixture of operational issues, weak sentiment and external factors caused three of our selection to incur double-digit share price losses.

## STRIKING IT RICH

Our faith in North Sea oil producer Ithaca Energy paid off as its largest shareholder Delek Oil came in with a £517m takeover bid in March. We encouraged investors to book a handsome profit at that stage and the deal subsequently went through in June despite grumbling from some shareholders that the price paid was on the low side.

We also took profit during the year on our best performer, compliance-based information management software provider **Ideagen (IDEA:AIM)**. A well-received acquisition and a series of contract wins helped lift the shares to more than 90p and at the time we felt the valuation looked up with events.

Our contrarian view on sausage skin maker **Devro (DVO)** also paid off. We rightly viewed the shares as being oversold on a profit warning in November 2016. Successful delivery of a turnaround programme and expansion in China, South East Asia and Russia were all well received by the market in the interim.

High end chocolatier **Hotel Chocolat (HOTC:AIM)** has won favour in its first full year as a public company despite a challenging consumer backdrop. With earnings forecasts consistently upgraded through the course of the year, it has demonstrated that the right businesses on the high street can continue to thrive, backed by a multi-channel offering which includes partnerships with the likes of online giant Amazon.

Support services group **DCC (DCC)** performed well and delivered nearly 25% share price gain. First half results reported in November showed adjusted operating profit up 14.4% to £122.5m and a 10% hike in the dividend to 40.89p.

**RSA Insurance (RSA)** has proved something of a damp squib; the shares are in positive territory but only in line with the wider market.

## NURSING SOME LOSSES

**Capital Drilling (CAPD)** enjoyed a storming start to the year where it followed a buoyant mining sector higher.

Unfortunately exposure to troubles in the Tanzanian mining sector caused investors to panic about its near-term earnings. The market was also unimpressed by a reduction in dividend payments.

Support services business **Serco (SRP)** was our best performer in 2016 and we thought its turnaround story had legs for 2017. That was a mistake. The shares weakened in February after the group posted a 14% fall in full year underlying profit and have struggled ever since.

We underestimated the risks to the **ITV (ITV)** story when originally picking the stock, as a sharp decline in advertising sales weighed on the share price.

Transport tech business **Tracsis (TRCS:AIM)** recently bounced back from a mixed start to the year but the upwards share price momentum didn't last long. Much of the frustration has been around the failure to identify an acquisition to satisfy its buy-and-build strategy. Price competition in its traffic and data services division has also been unhelpful. (TS)

# 10 SUPERB STOCKS FOR 2018

# OUR PICKS IN A NUTSHELL

**AB Dynamics** is an excellent way to play the thriving electric vehicle industry.

**Alliance Pharma** is a lower risk pharmaceutical play with potential to deliver strong growth.

**Biffa** looks undervalued given decent profit growth expectations and operating in a defensive market.

A robust buy-to-let mortgage lending market bodes well for **Charter Court Financial Services** which is trading on a bargain valuation.

Defensive, cash generative **Dignity** has the expertise to deal with competitive threats.

We think **Dixons Carphone** has the right skills to bounce back after a troublesome year.

**DotDigital** is a fast-growing technology business with high-quality profit and it pays a dividend.

Niche publisher **Future** is positioned for growth and the likely resumption of dividends in 2018 illustrates how the business has regained strength.

We are backing underdog **Johnson Matthey** for its potential electric vehicle breakthrough and underappreciated business resilience.

**Sage** is a reliable FTSE 100 company with accelerating growth and income upside.

# AB DYNAMICS (ABDP:AIM)

We believe **AB Dynamics (ABDP:AIM)** is at a major turning point in its life and could see significant share price gains for several reasons.

It is slap bang in the middle of the electric vehicle revolution. The company has a growing portfolio of unique testing products critical to developing and launching increasingly sophisticated vehicles.

Its order book is at an all-time high and we believe its services will be in very strong demand over the coming years. As such, it justifies a premium valuation.

The automotive industry is undergoing a radical change with both traditional players and tech firms developing electric vehicles. They all need to be tested for safety and efficiency, either in a live environment or using a simulator.

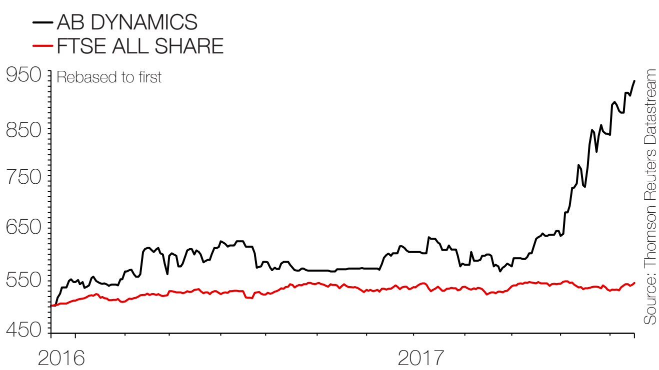
AB Dynamics not only has the necessary solutions but it also has relationships with the top 25 automotive companies in the world who are already using its products and services.

Car makers want to do repeat tests to check everything works and AB Dynamics' robots can do anything a test driver can do and repeat it with great accuracy. It generates a huge amount of data which can then be analysed to help produce the optimal driving machine.

'If you look at the top 20 companies in the world in terms of research and development spend; six of those are car companies,' said outgoing chief executive Tim Rogers at a recent investor event.

The company is forecast by stockbroker Panmure Gordon to secure its first order for a new vehicle driving simulator developed in partnership with Williams F1 in the current financial year.

'More work is now done on a computer but there comes to a point where you need a prototype,' said Rogers. 'Wouldn't it be nice if the driver could get in at an earlier stage and drive a model?' That's where its simulator comes in.




**EXCELLENT WAY TO PLAY THE THRIVING ELECTRIC VEHICLES INDUSTRY**

AB Dynamics raised £5.4m in 2016 to recapitalise the company, finish a new manufacturing facility and support its R&D functions. It has grown its software capabilities and created new roles internally.

It is now close to appointing a new chief executive to drive corporate development. Rogers recently said at an investor conference that the candidates are 'extremely high calibre' and that he wouldn't have got the job had he applied. 'The company needs someone familiar with larger revenue and the M&A process,' he commented.

The group is forecast to grow pre-tax profit from £5.9m in 2017 to £8.9m in 2018. It ended the 2017 financial year with close to a £10m net cash position. (DC)

| | |
|---|---|
| **SHARE PRICE:** 937.5P | **DIVIDEND 2018:** 3.7P |
| **MARKET CAP:** £181M | **DIVIDEND YIELD 2018:** 0.4% |
| **EPS 2018:** 38.2P | Refers to the financial year ending 31 August |
| **PE 2018:** 24.5 | Source: Shares, Panmure Gordon |

**BROKER SAYS:** 2 0 0

# ALLIANCE PHARMA (APH:AIM)

**LOWER RISK PHARMACEUTICAL PLAY WITH POTENTIAL TO DELIVER STRONG GROWTH**

Chippenham-based **Alliance Pharma (APH:AIM)** is ideal for investors who want exposure to the pharmaceutical industry without the risks of developing new drugs.

The company acquires and licenses pharmaceutical and healthcare products and delivers these to patients.

The shares look cheap against its forecast growth. Based on consensus forecasts the company trades on a price-to-earnings to growth ratio for 2018 of just 0.58 times. Anything below 1.0 can imply good value on this metric.

Alliance Pharma sells its products to over 100 countries through direct channels, joint ventures and a large distribution network. Half of its sales are generated in the UK, with a quarter in Europe and the remaining 25% generated elsewhere in the world.

It drives growth through targeted marketing for what it describes as its 'bedrock' products. These typically require modest promotion to maintain meaningful sales due to limited competition.

Examples include Haemopressin to treat extremely dilated sub-mucosal veins and Flamma, a product that soothes skin after sunburn.

'Bedrock' products comprise half of overall sales and provide a reliable source of cash flow to invest in acquisitions or marketing. Additional growth comes from bolt-on acquisitions where it can take drugs being produced by smaller firms and channel them through the company's wider distribution footprint.

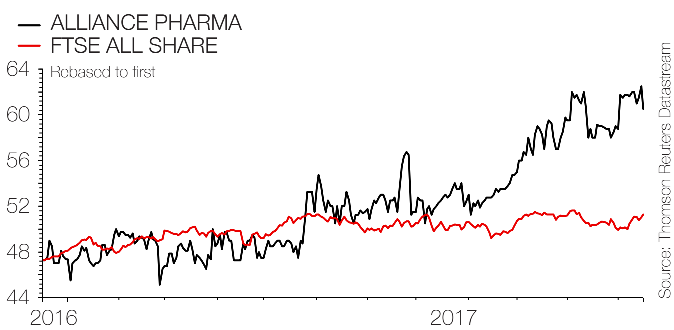
The company recently acquired rights to topical anaesthetic gel Ametop from **Smith & Nephew (SN.)** for $7.5m and worldwide rights for **TyraTech's (TYR:AIM)** head lice treatment Vamousse for $13m.

The deals are expected to boost earnings immediately, with Numis analyst Sally Taylor having nudged anticipated earnings per share for the year to 31 December 2018 up 3% and by another 4% for the following year.

There is the odd fly in the ointment. Nausea treatment Diclectin failed to get marketing approval from the UK's regulator, the Medicine and Healthcare Products Regulatory Agency (MHRA) in August. This is unlikely to have any impact on financial forecasts in the near term.

Discussions between the drug's licensor Duchesnay and the MHRA are expected to continue into 2018.

We are reassured by the group's strong cash flow generation, which is forecast to increase by more than 10% in 2018 to £23.7m based on FinnCap's forecasts. (LMJ)




| | |
|---|---|
| **SHARE PRICE:** 61.38P | **DIVIDEND 2018:** 1.5P |
| **MARKET CAP:** £286M | **DIVIDEND YIELD 2018:** 2.4% |
| **EPS 2018:** 4.8P | Refers to the financial year ending 31 December |
| **PE 2018:** 12.8 | Source: Shares, FinnCap |

**BROKER SAYS:** 2 0 0

# BIFFA (BIFF)

We're perplexed as to why waste management group **Biffa (BIFF)** trades on such a low valuation given the relatively defensive nature of its business and expectations for sustained profit growth.

Many investors at the moment seem happy to pay price to earnings multiples in excess of 20 for any company that is showing decent growth. It therefore seems bizarre that a company like Biffa is left behind, trading on a mere 13.5 times earnings.

Biffa operates in a structural growth market. An expanding population living longer and in a greater number of houses (and working in a greater number of offices or other business premises) all equates to a greater volume of waste being created.

Exacerbating that situation is increased legislation on the waste industry, such as pressure to reduce items being sent to landfill and ensure more items are recycled.

Biffa is well placed to capitalise on this situation as it collects, processes and recycles waste and it also produces energy, all from the UK.

Stockbroker Numis forecasts pre-tax profit rising by 30% in the current financial year to £58.7m, before reaching £64.9m the year after.

The biggest contributor to Biffa's group profit is its Industrial & Commercial (I&C) division which provides services to 72,000 customers including retailers John Lewis and **Next (NXT)**. It continues to buy small rival I&C businesses to boost its scale and capacity.

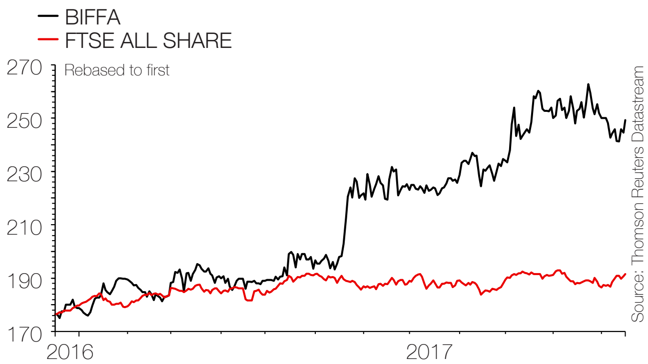
The division enjoyed a 7.4% underlying operating margin in 2017, up from 5.7% in 2016. Margins are improving thanks in part to maximising route density. This involves winning extra work so its trucks are picking up from a greater number of addresses per street which means extra income without lots of extra cost.

**UNDERVALUED DEFENSIVE FIRM WITH DECENT PROFIT GROWTH EXPECTATIONS**

Next year should see Biffa decide whether it will build energy-from-waste plants in the UK, in partnership with US specialist Covanta. It believes the UK needs to expand its current infrastructure to convert more rubbish into fuel or energy.

Biffa insists it would only use proven technology should it decide the economics stack up on the projects. It says it won't delve into the more radical energy-from-waste techniques which have dogged various third party schemes in the UK over the past few years.

The last reported net debt position was £272.2m and its net debt to EBITDA (earnings before interest, tax, depreciation and amortisation) ratio was a comfortable 1.9 times. (DC)




| | |
|---|---|
| **SHARE PRICE:** 253.38P | **DIVIDEND 2018:** 6.58P |
| **MARKET CAP:** £634M | **DIVIDEND YIELD 2018:** 2.6% |
| **EPS 2018:** 18.8P | Refers to the financial year ending 31 March |
| **PE 2018:** 13.5 | Source: Shares, Numis |

**BROKER SAYS:** 4 1 0

# CHARTER COURT FINANCIAL SERVICES (CCFS)

We think recent float **Charter Court Financial Services (CCFS)**, which joined the stock market on 29 September 2017, has the ability to hit the ground running as a public company.

It is a highly specialised bank, focusing mainly on the professional buy-to-let market. This sector has traditionally been dominated by private investors. Tax and regulatory changes to buy-to-let rules announced last year now make it less appealing to amateur private landlords and shifting focus to more serious professional operators.

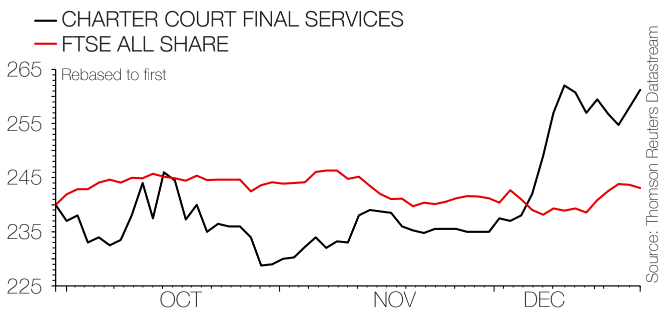
Charter Court fits neatly into the 'challenger' end of the market and its closest peer in terms of business model is **OneSavings Bank (OSB)**. Charter Court has some impressive past performance to help it stand out from the crowd; it doubled its loan book in 2015 and again in 2016 with impairments (or bad loans) running at zero.

Aside from buy-to-let mortgages, it also provides second charge mortgages and bridging loans. It has the capacity to grow in this space as more mainstream lenders tend to steer clear of the complex underwriting criteria put in place by the Prudential Regulation Authority.

The company has targeted 20% loan book growth and a return on equity of around 25% in the medium term. If it can hit these numbers then the current valuation looks way too low.

The Wolverhampton-based lender has a higher risk appetite than some of its peers according to Ian Gordon, an analyst at Investec. While banking and risk-taking are not considered a good combination in today's market, the success in keeping a lid on impairments to date suggests the company is good at managing these risks.

Charter Court is a well-capitalised bank. It has




**ROBUST BUY-TO-LET MORTGAGE MARKET BODES WELL FOR THIS CHEAP VALUATION STOCK**

a common equity tier one ratio of around 13% to protect against economic shocks. It operates in a niche part of the market which the large incumbents are not active in, so it has more limited competition.

Although the UK economic outlook is somewhat uncertain, the company is well used to navigating a volatile backdrop having been set up in the teeth of the financial crisis back in 2008.

Investec forecasts pre-tax profit of £109.1m in 2017, £130.6m in 2018 and £159.4m in 2019, demonstrating the impressive growth potential for Charter Court.

Gordon at Investec says he believes investors should at least double their money on a three-year view and he says Charter Court is a 'shockingly cheap bank'. (DS)

| | |
|---|---|
| **SHARE PRICE:** 251.88P | **DIVIDEND 2018:** 6.0P |
| **MARKET CAP:** £602M | **DIVIDEND YIELD 2018:** 2.4% |
| **EPS 2018:** 39.4P | Refers to the financial year ending 31 December |
| **PE 2018:** 6.4 | Source: Shares, Investec |

**BROKER SAYS:** 5 0 0

# DIGNITY (DTY)

Reports of the demise of **Dignity (DTY)** are exaggerated and a fierce share price sell-off of the UK's second biggest funeral services and biggest private cremations provider is a buying opportunity.

We believe the share price weakness in this high quality, cash generative company, renowned for an unrelenting focus on customer service, is overdone.

A dependably solid third quarter update on 13 November revealed 5% underlying operating profit growth to £79.4m year-to-date. It also left full year guidance intact.

However, the statement confirmed the UK's only listed funerals play continues to see rising competition in funerals and pre-arranged funeral plans.

These are high margin yet unregulated industries attracting new entrants. This is impacting Dignity's funeral services pricing power, one of the key tenets of the industry consolidator's bull case.

But under chief executive Mike McCollum, Dignity is pushing for the regulation of the funeral and pre-arranged funeral plan markets.

Hopefully, incoming regulation would stop funeral parlour operators that fail to provide minimum care standards from entering or participating in the market, while also squeezing out those who pursue aggressive funeral plan sales tactics.

Dignity still has attractive medium-to-long term opportunities to consolidate fragmented markets. Highly cash generative, Dignity is able to leverage its strong balance sheet to fund further acquisitions of established funeral businesses, or additional returns of capital to shareholders.

Crucially, it can reinvest the cash generated by the underlying business to regain market share.

Investment in its digital strategy is expected to cost £1m in full year 2017 and could rise in future years, though this looks a sensible spend to develop Dignity's competitive position online. Dignity is also introducing new, more affordable services to appeal to more price sensitive customers.

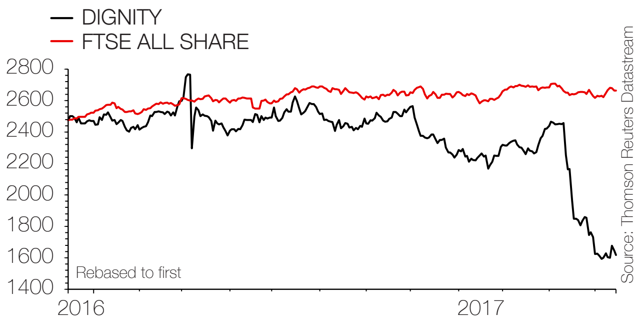
As such, we believe Dignity, whose long-run track record of meeting or beating expectations is exceptional, can successfully fight back.

Dignity is still on course to deliver around 8% annual earnings per share (EPS) growth over the medium term, assuming normal mortality trends, despite the fact competition is intensifying.

Broker Panmure Gordon is a buyer with a £27.50 price target for Dignity implying 63% upside. For 2018 it forecasts £83.4m pre-tax profit (2017: £77.4m), rising to £89.9m in 2019.

Estimated 2018 EPS of 135.1p (2017: 123p) is forecast to rise to 145.7p in 2019, with the dividend progressing from 28.5p next year to 31.4p in 2019. (JC)

**HAS THE EXPERTISE TO DEAL WITH COMPETITIVE THREATS**




| | |
|---|---|
| **SHARE PRICE:** £16.91 | **DIVIDEND 2018:** 28.5P |
| **MARKET CAP:** £857M | **DIVIDEND YIELD 2018:** 1.7% |
| **EPS 2018:** 135.1P | Refers to the financial year to 31 December |
| **PE 2018:** 12.5 | Source: Shares, Panmure Gordon |

**BROKER SAYS:** 2 3 0

# DIXONS CARPHONE (DC.)

We don't believe specialist electrical and telecoms retail business **Dixons Carphone (DC.)** will stay in the doldrums for long.

The shares have been hit by a combination of an August 2017 profit warning, signs of fragile consumer confidence and a squeeze on discretionary big ticket spend.

Nevertheless, we think the risk versus reward ratio has improved post half year results on 13 December. Chief executive Sebastian James announced plans to revive the UK mobile business and flagged strong festive sales momentum.

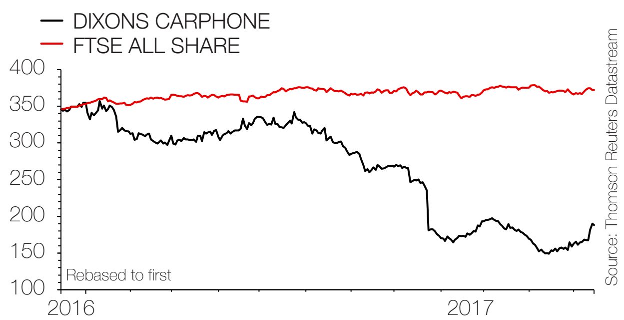
The £2.2bn cap is best known for its *Carphone Warehouse* and *Currys PC World* brands, though it also provides an array of business-to-business (B2B) services.

Competitive strengths include enviable electricals and mobile market shares, a leading specialist multi-channel position and deep supplier relationships, which hold the key to clinching market share across the UK and Ireland, Nordics and Greece.

Admittedly, half year results showed a slump in pre-tax profit to £61m (2016: £154m), struck after £58m of UK & Ireland write-downs. There was also a downgrade to the top end of full year pre-tax profit guidance, narrowed to a £360m-to-£400m range, although free cash flow was significantly improved to £169m (2016: £64m).

More encouragingly, Dixons Carphone highlighted market share gains across consumer electronics and white goods and a record Black Friday in all geographies. Cyber weekend best sellers included large TVs, headphones and smart tech products.

James believes 'we can, over time, reduce the complexity and capital intensity of our mobile business model, and increase the simplicity and profitability of what we do', potentially implying store closures. Actions to improve profitability while retaining market dominance offer a positive New Year catalyst for the shares.





**HAS THE RIGHT SKILLS TO BOUNCE BACK AFTER A TROUBLESOME YEAR**

Carphone Warehouse faces rising competition and handset prices as well as changing customer habits. First-half like-for-like UK & Ireland mobile sales fell 3%, impacted by the delayed launch of the *iPhone X* and consumers holding on to handsets for longer.

Numis forecasts a sharp drop in pre-tax profit to £370m (2017: £489m) for the year to April 2018, ahead of a small recovery to £375m in 2019.

Dixons now trades on a low price-to-earnings ratio of 7.6 times with a generous 6% yield. We think the bad news is more than priced in and just meeting these conservative estimates could provide a catalyst for the shares to move much higher in 2018.

If they stay low for too long, we wouldn't be surprised to see the company become a takeover target. (JC)

| | |
|---|---|
| **SHARE PRICE:** 190.35P | **DIVIDEND 2018:** 11.3P |
| **MARKET CAP:** £2.2BN | **DIVIDEND YIELD 2018:** 5.9% |
| **EPS 2018:** 25.0P | Refers to the financial year ending 30 April |
| **PE 2018:** 7.6 | Source: Shares, Numis |

**BROKER SAYS:** 10 6 1

# DOTDIGITAL (DOTD:AIM)

People are increasingly shopping online; that means retailers have to find clever ways in which to connect with consumers digitally and drive traffic to their websites. AIM-quoted **DotDigital (DOTD:AIM)** plays a vital role in this task and we believe 2018 will be another strong year for the company.

DotDigital's core technology platform, Dotmailer, provides marketers with a cloud-based single solution to design, create, personalise and monitor campaigns. Mainly using email, it has also built extra functionality to include text messaging and social media, such as live chat, Facebook messenger and Apple business messenger.

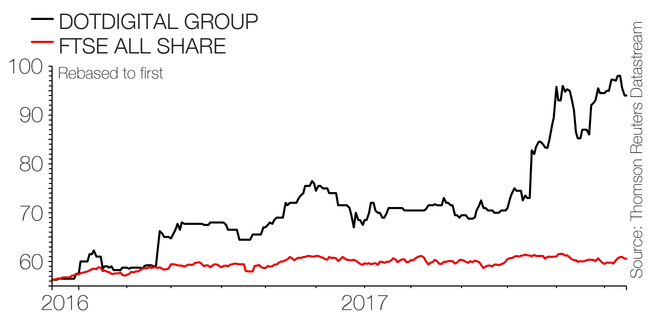
Importantly, Dotmailer can be easily integrated into a client's customer relationship management software, plus other third party e-commerce tools. Customers include well-known brands such as *Superdry*, *CNBC*, *Converse* and *Fred Perry*.

The company is enjoying very strong growth. Revenues have jumped from £12.2m to £32m in five years, but not at the expense of profit. Pre-tax profit has more than doubled to £8.1m over the same spell. Importantly, DotDigital enjoys consistently great cash generation and even pays a modest dividend.

Debt-free, the company had £20m of net cash on the books before its recent £11m acquisition of Cheltenham-based Comapi, which added technology functionality and a bigger footprint in the Far East.

Investors can expect growth, particularly in the US, to accelerate now the company has set up a New York base, and strengthened its existing partner reseller network.

Last year US revenues were £3.9m, just 12%




## FAST-GROWING TECH BUSINESS WITH HIGH-QUALITY EARNINGS

of the group total, which shows the scale of that opportunity, while the Far and Middle East are great target markets.

Recurring income equal to 81% of overall sales last year bolsters reliability of future revenue, while a long trend of driving existing clients to spend more on Dotmailer provides security on tomorrow's profits.

If there is a potential sticking point it's the already racy rating. A year-end 30 June 2018 price-to-earnings multiple of 32.3 suggests that a fair bit of excitement is already in the price.

But we can think of many UK-quoted technology companies trading on far heftier ratings, many of them without the growth profile, cash generation or dividends of DotDigital.

In 2017 rankings from research consultancy Megabuyte, DotDigital came in the top 10 of all UK-quoted technology businesses.

We could see the shares hitting levels around 150p over the coming 12 months. (SF)

| | |
|---|---|
| **SHARE PRICE:** 97P | **DIVIDEND 2018:** 0.7P |
| **MARKET CAP:** £286M | **DIVIDEND YIELD 2018:** 0.7% |
| **EPS 2018:** 3.0P | Refers to the financial year ending 30 June |
| **PE 2018:** 32.3 | Source: Shares, N+1 Singer, FinnCap |

**BROKER SAYS:** n/a

# FUTURE (FUTR)

Investors should back **Future's (FUTR)** continuing transition from old fashioned operator in the structurally challenged publishing industry to an innovative global platform for specialist media.

Interest in the story is picking up, helped by the company saying in November that it may restart dividends in the current financial year.

The shares have already responded well in 2017 as the company has got better at making its content pay and we think there is further upside to come.

Future is split into two divisions – Media and Magazine. The Media division, currently around 40% of the business but growing fast, has three revenue streams: e-commerce, display advertising and events.

The Magazine division derives revenue from news trade, subscriptions and advertising. Among the better-known titles in its portfolio are *Techradar* and *Total Film*.

Newspaper and magazine publishers continue to struggle with falling sales and have struggled to get readers to pay for their relatively generic content, but consumers have shown a greater willingness to pay for specialist and niche content which they are unable to get elsewhere.

In a recent report on trends in the media sector, consultant PwC noted 'fans' spend more and show greater loyalty. Future's titles, covering topics from films to computer games and photography, are often a conduit between fans and their enthusiasm or hobby.

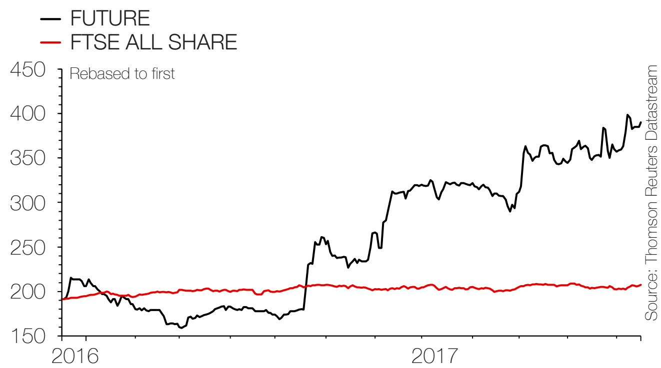
Taking advantage of this situation, the company aims to monetise a single article through several avenues including e-commerce, licensing and digital advertising.


**POTENTIAL DIVIDEND RESUMPTION ILLUSTRATES HOW THE PUBLISHER HAS REGAINED STRENGTH**

As well as growing organically the company is looking to buy other publishing assets and applying this same model to them.

Home Interest, a portfolio of home improvement events and magazines, was acquired from **Centaur Media (CAU)** for £32m in July 2017, part-funded by a share placing at 250p per share. Its integration should help demonstrate to the market Future's ability to maximise returns from content assets.

Free cash flow increased from just £100,000 in the 12 months to 30 September 2016 to £8.2m in the year just gone and the strong cash generation has helped keep a lid on net debt, which is less than one times earnings. This leaves plenty of scope to pursue further deals and pay a dividend. (TS)




| | |
|---|---|
| **SHARE PRICE:** 394.88P | **DIVIDEND 2018:** 0.2P |
| **MARKET CAP:** £179M | **DIVIDEND YIELD 2018:** 0.05% |
| **EPS 2018:** 21.6P | Refers to the financial year ending 30 September |
| **PE 2018:** 18.3 | Source: Shares, N+1 Singer |

**BROKER SAYS:** 1 0 0

# JOHNSON MATTHEY (JMAT)

Chemicals firm **Johnson Matthey (JMAT)** is a misunderstood business offering plenty of value to investors bold enough to own a share experiencing waves of negative market sentiment.

We've picked the FTSE 100 business for its underappreciated play on electric vehicles (EVs) and significant growth potential from its Health arm. Underpinning this bullish view is the belief that its core emission controls business will be strong enough to cope with any downturn in the diesel market.

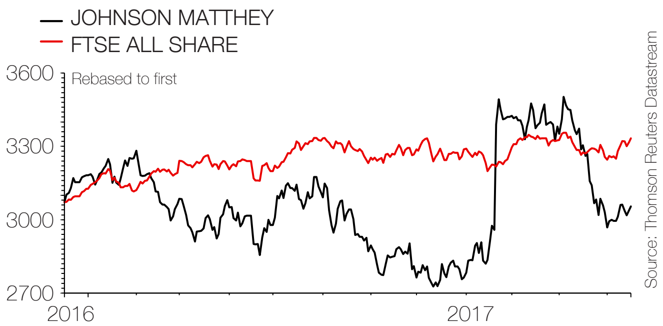
Approximately 60% of its sales in 2017 came from catalysts used to reduce emissions from vehicles and industry. There is some concern in the market that a switch to electric vehicles puts this division in terminal decline.

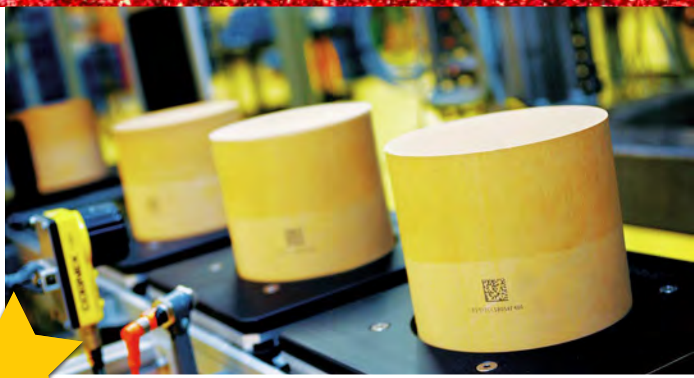
We think that's being too pessimistic, particularly as the diesel industry is unlikely to disappear completely. Investment bank Morgan Stanley actually believes that Johnson Matthey's auto catalyst sales will keep growing for at least the next 10 years. It forecasts 4.8% compound annual growth rate over this period. A key sales driver will be stricter emissions regulations in Asia.

Against this backdrop of a potentially more stable business than some investors expect, we're really excited by the company's electric vehicle battery technology.

It has developed enhanced lithium nickel oxide (eLNO) cathode material which could disrupt the market. According to Morgan Stanley, the material offers 20% to 25% more energy density and less cobalt compared to nickel manganese cobalt (NMC) cathode materials used in other electric vehicle batteries.

A predicted shortfall in cobalt supply versus



**WE'RE BACKING THE UNDERDOG WHOSE BUSINESS IS MISUNDERSTOOD**

demand is likely to push up the price of the commodity. Therefore vehicle manufacturers may favour a battery using technology such as Johnson Matthey's given the reduced cobalt requirement.

It is worth noting that eLNO is still at the concept stage. Johnson Matthey has patented the technology and is in the process of building a pilot plant. Positive progress will be important to winning the market over and convincing sceptics that it can play a major role in the EV industry.

The Health division could deliver double-digit growth beyond 2020, according to Morgan Stanley. Johnson Matthey is a global supplier of active pharmaceutical ingredients and custom pharma services such as toxicological studies, development and commercial manufacturing of drugs. It has invested over the last couple of years in its European and US manufacturing capacity.

For the group as a whole, pre-tax profit is forecast to rise by 3.2% to £477m in the year to March 2018. (LMJ)

| | |
|---|---|
| **SHARE PRICE:** £30.66 | **DIVIDEND 2018:** 85.3P |
| **MARKET CAP:** £5.9BN | **DIVIDEND YIELD 2018:** 2.8% |
| **EPS 2018:** 213.2P | Refers to the financial year ending 31 March |
| **PE 2018:** 14.3 | Source: Reuters, Morgan Stanley |

**BROKER SAYS:** 10 4 2

# SAGE (SGE)

FTSE 100 constituent **Sage (SGE)** is just the sort of relatively safe, cash generative, dividend paying company we think investors will chase through an uncertain 2018.

Sage has become one of the UK's leading software and enterprise tools suppliers. While it is best known for accounting services like payroll and tax processing, it can also bolt on extra functions like human resources and customer relationship management. That might sound dull but these are business critical applications.

That means the company's typical smaller and medium-sized enterprise customers are sticky, making future revenues very predictable. The Sage model also throws off lots of cash, with surplus funds funnelled into growing dividends likely to yield a respectable 2.2% over the year.

For the year to 30 September 2017 Sage reported £1.31bn of recurring revenue, or 76% of its £1.72bn total.

Now at the end of a three year transition phase, designed to embrace cloud software functionality and bolster recurring revenues, Sage is ready to accelerate growth. The company is aiming for high single-digit organic revenue expansion after several years of low to mid-single digit rates.

Organic growth may be bolstered by bolt-on acquisitions, such as those of Fairsail, Compass and Intacct last year, which helped add clever technology and extend its global footprint.

Margin improvements should mean profit grows faster than revenue. Activities like selling surplus office space and streamlining sales and marketing teams have been done but much of the benefit has yet to shine through in reported figures.

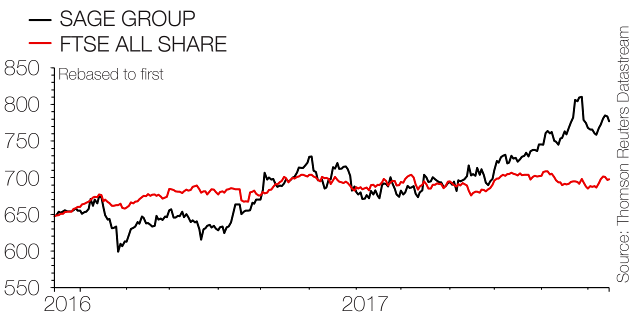
Cross and upselling extra functionality is another avenue, one that should be helped by plans for a single business cloud platform.

**RELIABLE FTSE 100 COMPANY WITH ACCELERATING GROWTH**

The biggest challenge facing Sage is competition. *QuickBooks*-owner Intuit and MYOB are established while relative newcomers such as Xero and KashFlow are growing fast. Yet the global market is vast with plenty of opportunity to sell to businesses.

Sage's shares had a decent run in 2017 but we believe there is more upside through 2018 as the market wakes up to the growth story gear change.

With more questions than answers facing investors as we enter 2018 we believe trusted company shares will earn premium valuations. A 25-times price-to-earnings multiple, assuming modest earnings outperformance, could imply a £10 share price before 2018 is over. (SF)




| | |
|---|---|
| **SHARE PRICE:** 785.5P | **DIVIDEND 2018:** 17P |
| **MARKET CAP:** £7.4BN | **DIVIDEND YIELD 2018:** 2.2% |
| **EPS 2018:** 34.8P | Refers to the financial year ending 30 September |
| **PE 2018:** 22.6 | Source: Shares, Stifel |

**BROKER SAYS:** 8 5 5

## LOTS MORE TO DISCOVER IN THIS BUMPER EDITION OF SHARES

**3 FUND PICKS FOR 2018**
– p29 –

**THE BEST PERFORMING INVESTMENT TRUSTS IN 2017**
– p31 –

**19 SMALL CAPS EXPECTING BIG NEWS**
– p42 –

**CHEAPEST STOCKS IN THE FTSE 350**
– p47 –

**OPEN BANKING & THE LAUNCH OF MONEY DASHBOARD SERVICES**
– p38 –

# Three funds with the right ingredients to reward investors in 2018

AJ Bell expert picks products for different risk appetites


BY **RYAN HUGHES,** HEAD OF FUND SELECTION AT **AJ BELL YOUINVEST**

## TROY TROJAN (GB00B01BP952)

With equity markets around all-time highs and fixed interest markets looking challenged now that interest rates have started to increase around the world, a multi-asset solution that takes an absolute return mind set could prove sensible for a cautious or first time investor.

While Troy Trojan, managed by Sebastian Lyon, looks to deliver growth over the long term, importantly it has a very clear eye on protecting capital. The manager takes a top down view, trying to anticipate what is happening in the global economy and looks at monetary and fiscal policy as well as valuation metrics on different asset classes.

Typically, the equity exposure will have a quality bias with the manager taking a long term approach, often holding stocks for many years.

The portfolio has exposure to equities, bonds, cash and gold, making it well diversified and giving investors an instant portfolio.

Investors should recognise that if equity markets keep on rallying hard, this fund will lag, however, it should come into its own if markets become more volatile.

If this does happen, this fund is well placed to protect investors, particularly as the manager is currently defensively positioned with around 30% of the portfolio in cash and 8% in gold related investments.

| TROY TROJAN: PAST PERFORMANCE (TOTAL RETURN) | |
|---|---|
| 1 YEAR | 5.39% |
| 3 YEARS ANNUALISED | 6.54% |
| 5 YEARS ANNUALISED | 4.61% |
| 10 YEARS ANNUALISED | 6.26% |

Source: Morningstar, as at 14 Dec 2017
Refers to O Acc version


Troy Trojan's holdings include gold-related investments

ONE FOR MEDIUM RISK INVESTORS

| CRUX EUROPEAN SPECIAL SITUATIONS: PAST PERFORMANCE (TOTAL RETURN) | |
|---|---|
| 1 YEAR | 24.98% |
| 3 YEARS ANNUALISED | 18.52% |
| 5 YEARS ANNUALISED | 16.24% |
| 10 YEARS ANNUALISED | n/a |

Source: Morningstar, as at 14 Dec 2017
Refers to I Acc GBP version

## CRUX EUROPEAN SPECIAL SITUATIONS (GB00BTJRQ064)

The European economy has been recovering strongly during 2017 with every sign this is likely to continue into 2018 as corporate earnings continue their good momentum.

However, with many years of political troubles blighting the region, it is an area that has remained unloved by many investors despite having a huge array of interesting companies.

With this supportive backdrop, the Crux European Special Situations fund could be well placed to benefit. This business was formed by veteran European manager Richard Pease who has been successfully investing in the region for over 30 years.

Pease focuses on companies that have exceptional management and a market leading position combined with a strong financial position.

These companies should then be in a position to generate excess cash which can be reinvested to accelerate growth or returned to shareholders through dividends.

Pease uses his many years' experience to identify good management teams and is happy to invest in a high conviction manner away from the benchmark, taking a long term view.

This approach typically finds more opportunities in medium and smaller companies and while it can be more volatile than its competitors, it is proof that talented bottom-up stock pickers can add significant value.

When combined with the fact that Crux is an owner managed asset manager that is driven to succeed and the highly supportive economic backdrop in Europe, 2018 could be a very interesting year for the fund.

## BAILLIE GIFFORD JAPANESE (GB0006011133)

Japan had a strong year in 2017 as the economic reforms that have been taking place over the past few years continue to bear fruit.

The tailwinds remain in place for 2018 and coupled with a rapidly improving shareholder focus from company management should help the Japanese market move higher next year.

The well-resourced team at Baillie Gifford are one of the strongest around and are well placed to cope with the forthcoming retirement of the head of the team Sarah Whitley.

The team believe companies that can offer above-average growth in earnings will be rewarded over time and they focus on companies that can deliver sustainable growth.

In addition, they are not scared of investing in younger companies as well as turnaround opportunities which results in a portfolio of between 45 and 65 names with a wide range of different growth opportunities but often bearing little resemblance to the benchmark.

Importantly with Japan, the managers are prepared to be patient, having very low turnover and holding their companies for a long period of time, allowing the superior earnings growth to be reflected in the share price.

For higher risk investors, who are comfortable with some degree of volatility, this fund could be an interesting choice for the forthcoming year.

ONE FOR ADVENTUROUS INVESTORS

| BAILLIE GIFFORD JAPANESE: PAST PERFORMANCE (TOTAL RETURN) | |
|---|---|
| 1 YEAR | 26.38% |
| 3 YEARS ANNUALISED | 23.63% |
| 5 YEARS ANNUALISED | 22.37% |
| 10 YEARS ANNUALISED | 12.11% |

Source: Morningstar, as at 14 Dec 2017
Refers to B Acc version

# Which were the most rewarding investment trusts in 2017?

We analyse the top 10 performers to see what drove their performance

Some of the best performing investment trusts in 2017 have been aided by favourable market conditions as global markets continue to grow.

Top of the pile is **Independent Investment Trust (IIT)**, which delivered a total return of 71.6% which is the share price gain and dividend income. Its portfolio has this year included various high-flying tech stocks, beverage companies and housebuilders, all of whom have generally enjoyed positive share price movements or paid generous dividends.

TOP OF THE PILE IS INDEPENDENT INVESTMENT TRUST, WHICH DELIVERED A TOTAL RETURN OF 71.6%

In second place is **Manchester & London Investment Trust (MNL)** which has returned 64.9% this year. Its portfolio is filled with the big US tech firms which have enjoyed a solid run in 2017.

### RIDING THE RECOVERY IN EUROPE

Small cap-focused investment trust **TR European Growth Trust (TRG)** delivered a 53.6% return, helped by more positive conditions in Continental Europe and a paying special dividend.

At full year results in October, fund manager Janus Henderson

| BEST PERFORMING INVESTMENT TRUSTS IN 2017 | | | | |
|---|---|---|---|---|
| | Name | EPIC | Price* | Total return 2017 (%) |
| 1 | Independent Investment Trust | IIT | 661.25p | 71.6 |
| 2 | Manchester & London Investment Trust | MNL | 444.38p | 64.9 |
| 3 | TR European Growth Trust | TRG | £11.75 | 53.6 |
| 4 | Syncona | SYNC | 202.4p | 51.9 |
| 5 | Macau Property Opportunities Fund | MPO | 182.5p | 51.1 |
| 6 | Baker Steel Resources Trust | BSRT | 43.25p | 50.4 |
| 7 | JPMorgan Chinese Investment Trust | JMC | 292.5p | 48.9 |
| 8 | Pacific Horizon Investment Trust | PHI | 307.63p | 48.3 |
| 9 | Baillie Gifford Shin Nippon | BGS | 855.5p | 47.9 |
| 10 | Phoenix Spree Deutschland | PSDL | 330p | 44.0 |

Source: SharePad. Covers the period 1 Jan to 8 Dec 2017. *Latest share price data taken 8 Dec 2017

said the largest contributor to positive performance was research and development drug discovery company Evotec which increased by 290% in value in the financial year ending 30 June 2017.

Also benefiting from stronger European activity is **Phoenix Spree Deutschland (PSDL)** which has delivered 44% total return this year and is exposed largely to German residential property.

It focuses on the high growth Berlin market having exited other areas to focus on the country's capital. It benefits from the peculiarities of the German property market where there is less interest in owning houses compared to the UK with a greater focus on renting.

**PACIFIC HORIZON INVESTMENT TRUST HAS BENEFITED FROM A STRONG PERFORMANCE IN TECHNOLOGY STOCKS IN THE ASIA EX-JAPAN REGION HELD IN ABUNDANCE**

## BENEFITING FROM ASIAN EXPOSURE

Two trusts focused on emerging markets, being Baillie Gifford-run **Pacific Horizon Investment Trust (PHI)** and **JPMorgan Chinese Investment Trust (JMC)**, achieved similar returns this year with just below 50% total return.

Pacific Horizon has benefited from a strong performance in technology stocks in the Asia ex-Japan region held in abundance.

These stocks have rallied this year and the trust's manager Ewan Markson-Brown believes the rising wealth of the middle class in Asia is going to be a big driver of global growth over the next 20 years. He thinks that the markets do not appreciate this yet.

Pacific Horizon has also benefited from exposure to India, a growing economic powerhouse that some predict to be the 'new China' in terms of global significance. Markson-Brown is described as a 'big picture' person, looking at the macro themes impacting the markets he's invested in.

JPMorgan Chinese Investment Trust has four separate fund managers running its portfolio. The managers say in a statement that the fund's outperformance has been driven primarily by individual stock selection rather than sector allocation which 'had little impact on returns'.

Certain stocks such as Ping An Insurance have contributed most to the performance due to rising rates and solid financial results.

Another Baillie Gifford-run trust among this year's top performers is **Baillie Gifford Shin Nippon (BGS)**. Fund manager Praveen Kumar looks for small Japanese companies with good growth prospects and takes a three to five year view on them.

**Macau Property Opportunities (MPO)** bounced back with a 51.1% year to date return thanks to strong economic growth and increasing visitor numbers in Macau.

Three years ago, Macau was rocked by China's anti-corruption campaign, which hit the gambling industry and the economy. In the first half of 2017, Macau's economy grew by 10.9%, driven by a strong rebound in gaming revenue and tourist visitors, according to the Macau Property Opportunities' manager Sniper Capital.

**MACAU PROPERTY OPPORTUNITIES BOUNCED BACK WITH A 51.1% YEAR TO DATE RETURN THANKS TO STRONG ECONOMIC GROWTH AND INCREASING VISITOR NUMBERS IN MACAU**

## TAPPING INTO LIFE SCIENCES

**Syncona (SYNC)** generated 51.9% total return for investors as it deployed a strategy to commercialise life science technology and treatments for patients.

Elsewhere, a recovery in the mining sector helped **Baker Steel Resources Trust (BSRT)** to generate just over 50% total return. It seeks long term capital growth by focusing on shares in natural resources firms to exploit value in market inefficiencies and pricing anomalies. (DS/LMJ)

# Why Bankers Investment Trust has the right characteristics to thrive

It offers growth and income from a diverse global portfolio of stocks

Anyone concerned about toppy-looking equity markets, rising inflation and the uncertainties arising from Brexit may wish to look at **The Bankers Investment Trust (BNKR)**. It has a range of characteristics which could potentially help beat the aforementioned pressures and deliver a positive outcome for investors.

Investing globally with a goal of generating higher long-term returns than UK investors could achieve in the domestic market, Bankers specifically aims to exceed the long-term growth of the FTSE All-Share Index and to grow its dividend ahead of the Retail Prices Index (RPI), one measure of inflation in the UK. It has increased its dividend every year for the past 50 years.

**THE BANKERS INVESTMENT TRUST**
ANNUAL PERFORMANCE INCLUDING INCOME*

| | PRICE | NAV |
|---|---|---|
| 2017 | 27.6% | 19.4% |
| 2016 | 14.2% | 24.9% |
| 2015 | 8.9% | 5.2% |
| 2014 | 1.4% | 6.3% |
| 2013 | 38.5% | 22.4% |

*Refers to the 12 months ending 30 September, apart from 2017 which is 12 months to 29 September. Past performance is not a guide to future performance.
Source: Janus Henderson / Morningstar

### WHAT IS BANKERS' STRATEGY?

Lead manager Alex Crooke, in place since 2003, aims to invest in attractively valued, cash generative firms that themselves pay a growing dividend. Crooke decides upon the trust's geographical allocation and is also responsible for UK stock picking.

Bankers' regional portfolios are managed by some of Crooke's colleagues within asset manager Janus Henderson; they cover North America, Europe ex-UK, Asia Pacific, Japan and emerging markets.

All of Bankers' fund managers follow a bottom-up stock picking approach and a value investment style. The investment trust is diversified with 197 holdings across geographical regions.

Bottom-up investing is an investment approach that focuses on the analysis of individual stocks and de-emphasises the significance of economic cycles and markets cycles.

'We have the objective to grow the dividend ahead of RPI inflation,' explains Crooke. 'We don't mind buying some growth stocks, but we have value bias to the stocks we try and own.'

## HOW HAS IT PERFORMED?

Managers of the aforementioned regional portfolios 'all run their sleeves with the same value tilt', continues Crooke, who adds that the team like companies with strong cash flow characteristics.

Reassuringly, Bankers has a strong long-term record of outperforming its FTSE All-Share benchmark in both share price and net asset value (NAV) terms, achieving its objective of compensating investors for the extra risk of investing outside the UK by achieving superior returns to the domestic market.

As at 31 October 2017, Bankers' 10 year share price total return of 158.4% compares very favourably versus the 71% total return generated by the benchmark.

Investors must appreciate that past performance is not a guide to future performance. The value of an investment in Bankers and any income generated from the trust can rise as well as fall in value as a result of market and currency fluctuations.

## WHAT HAVE THE FUND MANAGERS BEEN UP TO?

The outlook for global equity investors is not without risk. Many stock markets around the world are testing new highs, notably in the US, while investors also need to be aware of geopolitical risks such as North Korea and the Brexit negotiations.

Against this backcloth, Bankers' flexible approach to allocating between markets, and focus on cash-generative companies trading at attractive valuations, may find favour with investors.


### BANKERS' TOP TEN HOLDINGS

| COMPANY | WEIGHTING |
|---|---|
| BP | 1.8% |
| Apple | 1.7% |
| British American Tobacco | 1.5% |
| American Express | 1.5% |
| American Tower | 1.4% |
| Alphabet | 1.3% |
| Facebook | 1.3% |
| Samsung Electronics | 1.3% |
| Royal Dutch Shell | 1.3% |
| Xylem | 1.3% |

Source: Janus Henderson Investors. Data as at 31 October 2017

'In February, we took some money out of America and allocated funds towards Europe and China,' recalls Crooke.

North America portfolio manager Ian Warmerdam pruned positions in highly valued US growth stocks, enabling Bankers to redeploy funds into Europe and Asia where valuations and yields were at a discount to North America.

Nevertheless, among the exciting US growth names still nestling in the portfolio are *iPhone* maker Apple, Google's parent company Alphabet and Facebook. Crooke is also bullish about the growth to come from credit card names American Express, Visa and Mastercard.

## WHICH OTHER STOCKS DOES IT LIKE?

Readers will perhaps be less familiar with another US company in Bankers' top 10, though it offers a play on sustainability. Xylem is a global water technology company that takes its name from the tissue that transports water in plants.

'It is the global leader in big filtration plants and desalination and should do well as water and environmental standards start to tighten up,' says Crooke.

Another US growth stock held in the fund is Delphi Automotive, a producer of vehicle components for car makers which has just split into two companies; one producing powertrains, the other developing self-driving systems and similar new technology.

Delphi recently acquired self-driving start-up NuTonomy for $450m, a deal speeding up its plans to supply carmakers with autonomous vehicle systems. 'We think the auto sector is quite cheap and there are opportunities to own the parts manufacturers,' says Crooke, also invested in Japanese components and sensor systems giant TDK Corporation.

## REDUCING DEBT EXPOSURE

Gearing on the trust has been reduced to 3%, reflecting Crooke's wish to bank some profits following strong equity market showings.

Gearing is the ability to borrow money to invest that money on behalf of shareholders and is a tool uniquely available to investment trust managers, rather than managers of open-end funds. Gearing represents the proportion of debt to equity. The net gearing ratio is calculated by dividing the total debt, including long and short-term liabilities and bank overdrafts, by the total shareholder equity.

Investment trusts often use debt to increase the pool of money from which they can make investments if they feel market conditions are favourable. Reeling in the debt position, as represented by the gearing ratio, can be a sign that a fund manager is more nervous about the near-term outlook for markets.

'We think equities look good value and for patient holders there are good opportunities out there,' Crooke explains, 'but we've been keeping our powder dry. We did put some money into Japan and that has stormed forward.

Bankers has taken a stake in Pets at Home

### BANKERS' GEOGRAPHICAL FOCUS

| TERRITORY | WEIGHTING |
|---|---|
| North America | 26.8% |
| United Kingdom | 26.5% |
| Pacific Region | 16.6% |
| Europe | 15.8% |
| Japan | 11.6% |
| Emerging Markets | 2.7% |

Source: Janus Henderson Investors. Data as at 31 October 2017.

'There's a slightly better tone to dividends,' adds Crooke, flagging data from Janus Henderson that shows a surge in global dividends in the third quarter (Q3) of 2017, jumping 14.5% on a headline basis to $328.1bn, comfortably a Q3 record.

## WHAT'S HAPPENING WITH SOME OF BANKERS' UNDERLYING HOLDINGS?

As the global economy continues its post-crisis normalisation, confidence is improving, many company's profits are growing and income investors are benefiting as growth feeds through into higher dividends.

In the oil sector, where Bankers owns both **BP (BP.)** and **Royal Dutch Shell (RDSB)**, Crooke insists 'we are seeing the cash cover there improving – these dividends are better underpinned.'

Royal Dutch Shell in November 2017 announced plans to cancel its scrip dividend, introduced in early 2015 in the wake of falling oil prices, and return to delivering the payout entirely in cold, hard cash.

Scrip dividends are ones paid in the form of new shares. Companies occasionally go down this route to preserve cash. The downside is an increase in the number of shares in issue.

Though cautious on the UK consumer, Crooke owns **JD Wetherspoon (JDW)** 'because it is *the* value proposition in the pub companies sector'.

He's also been buying soft drinks group **Britvic (BVIC)** whose full year results (29 Nov 2017) revealed better than expected profits buoyed by cost savings as well as a surge in free cash flow.

'We quite like a bit of restructuring as there's the ability to benefit from earnings recovery,' says Crooke, who has also been buying currently unloved UK pet specialist **Pets at Home (PETS)** as the company tries to improve its business and margins through restructuring. (JC)

# Why you will soon be able to access all your financial information in one place

Various online dashboards are being launched to help you have a clearer picture of your assets and liabilities

From January 2018, major UK banks will be required to provide your bank account balances and transaction histories to an investment platform, personal financial planning app or other service provider that you authorise to receive this information.

This will enable you to view your bank account information alongside the other financial information they hold and provide you a more complete and 'immediate' view of your finances in one place.

The platform or service provider must have the required permissions from the FCA, a financial regulator, and you will need to log on and input your bank security credentials to authorise your bank to deliver the information to the provider.

There are detailed rules and requirements in place to protect the security of your data and to ensure it is not misused.

Initially information may only be available for current accounts, from the major banking groups, but over time this will be extended to cover savings accounts, credit cards and loans from all banks. You will also eventually be able to initiate payments from your bank account via an investment platform, personal financial planning app or other service provider.

### EVOLUTION OF THE SERVICE

You may think this is not a new service as some personal financial planning apps have used 'screen scraping' technology to enable customers to view details of all their bank accounts on an app for some time. However, so far the take-up of these apps has been relatively limited.

The implementation of the new 'open banking' rules, and the publicity surrounding them, will (we believe) lead far more people to appreciate the value of being able to view details of all of their savings, investments and debts in one place and give them more confidence that this can be done in a safe and secure manner.

It is important to stress that using such money dashboard services will be entirely voluntary.

## WHO WILL OFFER THE SERVICE?

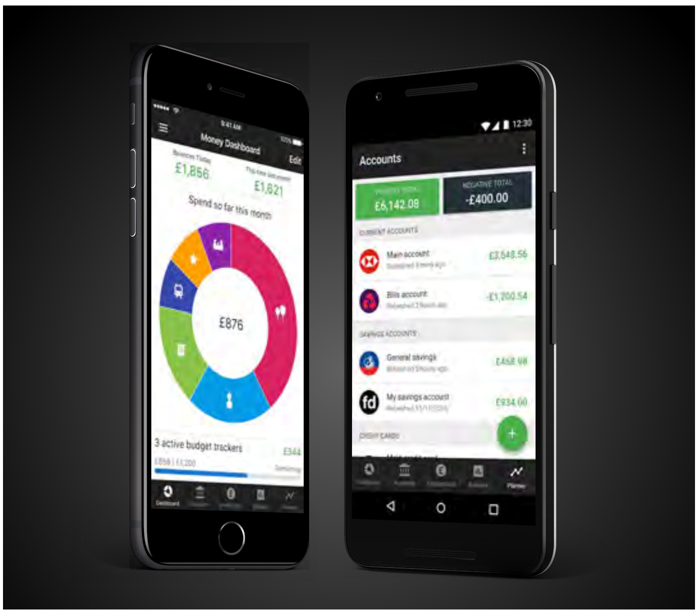
AJ Bell Youinvest is expected to be one of the first mainstream investment platforms to launch a service, enabling its customers to view details of all of their savings, investment accounts and loans, in one place, through its secure website or mobile app.

The service, to be called AJ Bell Youinvest Mywealth, is planned for launch in early 2018. It will enable customers to input, and update, information themselves or authorise their banks and investment providers to provide information electronically making use of open banking and screen scraping technologies.

In the banking industry, HSBC will next year introduce a service called Beta which will enable its customers to display information on various third party bank accounts, loans and credit card information in one place.

Several apps already offer limited banking and saving account aggregation services including Moneysupermarket-owned OnTrees, although that proposition is presently closed to new customers due to capacity issues.

Other examples include Money Dashboard which has a personal finance assistant and budget planner app which aggregates your bank accounts and monitors your spending habits. Pariti is an app-based service to encourage you to pay off debt and start saving.




Money Dashboard

## GIVING YOU A SINGLE VIEW OF ASSETS AND LIABILITIES

All of these services have a common goal. They want to help individuals to manage their money by providing a clearer picture of current asset values and monetary habits.

Let's say you have excess cash in your current account earning a poor return. When viewed against investments and debt, you may realise now is a good time to redeploy that cash to pay down some borrowings such as overpaying part of your mortgage.

You may also want to top up your Stocks and Shares ISA if you've not used up your full £20,000 annual allowance. Or it may make you realise that now is a good opportunity to increase contributions into your pension or SIPP.

## WHAT IS OPEN BANKING?

Open banking is a general term to describe new bits of regulation including something called PSD2, also known as the European Payment Services Directive 2.

From January 2018, the major UK banks will have to allow their customer data to be shared online with third parties via application programming interfaces (APIs).

Some financial companies and personal finance apps will eventually allow individuals to initiate payments from their bank account, held with a third party, without having to log out of their website (or app) and log on to a second website/app.

For example, you may log on to your ISA provider's website to view your investments and, at the same time, be able to view details of your current bank account and credit card balance on their site.

Having reviewed this information, you would then be able to initiate a payment to your credit card or make an additional subscription to your ISA, from the same website. That's far more convenient than having to log in to a series of websites or apps to settle your monthly bills and invest any spare cash.

## HOW WILL AJ BELL YOUINVEST'S MYWEALTH SERVICE WORK?

You will find a Mywealth tab alongside your AJ Bell Youinvest ISA, SIPP or dealing account when you log on. From here, you can manually enter as many assets and liabilities held with third parties as you wish.

This could be, for example, a NatWest current account, Barclaycard credit card, cash savings account with Yorkshire Building Society, a Stocks and Shares ISA held with Alliance Trust Savings and a mortgage from Virgin Money.

You would enter the latest value of each asset or liability so it can be displayed alongside existing assets already held with AJ Bell Youinvest.

The values of your AJ Bell Youinvest accounts will be updated each time your log in but, where you have entered details of other assets manually, you will need to update the values yourself from time to time.

Where information about these assets is available to you online, there will be an option to have their values updated automatically, if you are comfortable providing log-in details to enable this service.

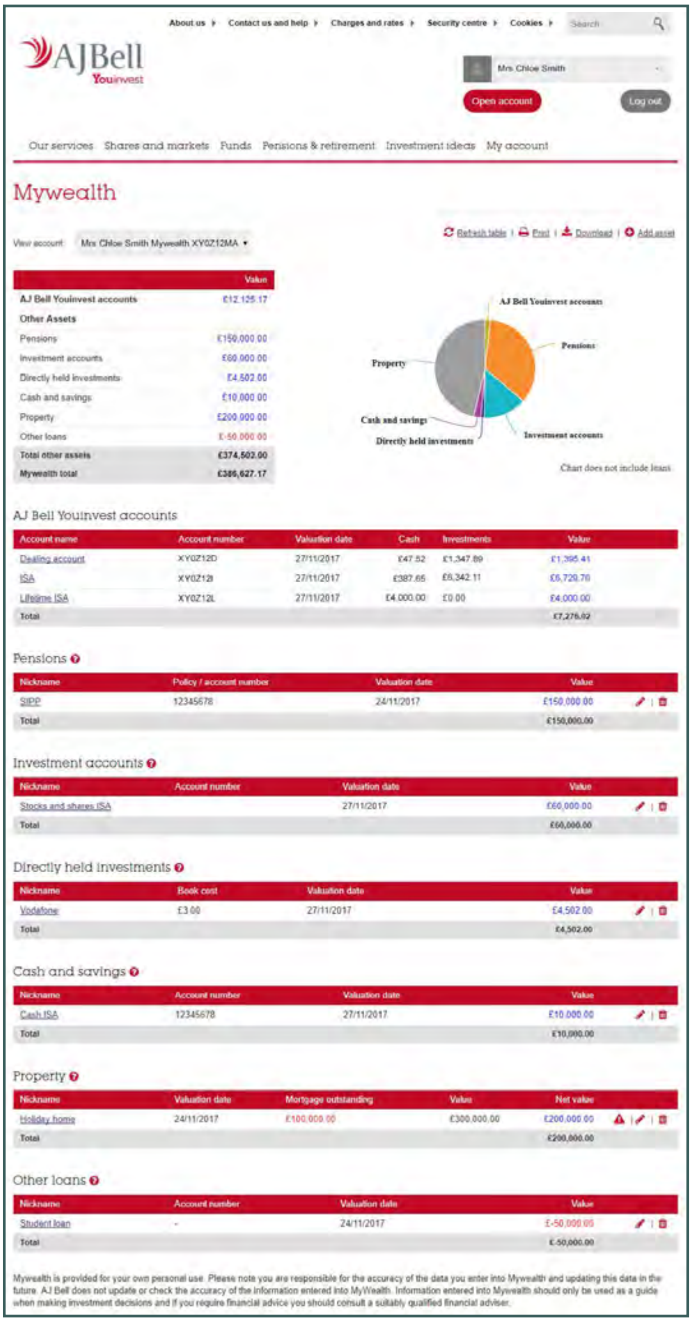
The regulatory regime is designed to ensure the security of your personal data, including any log-in details you provide to a third party aggregator. The information provided to your investment platform on your other assets and liabilities will be encrypted and stored securely and the platform will not have access to your secure log-in details for your other investment accounts.

## POTENTIAL TO TRANSFORM HOW PEOPLE MANAGE THEIR MONEY

'We believe that the introduction of open banking will lead to a radical change in the way people choose to access information about their savings and investment accounts, and the scope of this change will extend far beyond bank accounts,' says Andy Bell, chief executive of AJ Bell.

'The value of being able to view details of all of your assets and liabilities in one place and, if you choose, to have the values updated automatically each time you log in should not be underestimated. This will make it much easier for many people to manage their finances effectively, with a minimum of fuss.

'We will only send prompts to customers when




AJ Bell Youinvest Mywealth is planned for launch in early 2018

we can help them,' adds Bell. 'For example, customers will be able to set themselves reminders shortly before a fixed term deposit is due to expire, so that they have time to find a replacement, or to remind them to maximise their pension contributions or ISA subscription before the end of the tax year.

'Our service will evolve over time in response to feedback from our customers. In time, we may be able to point out to someone they are paying many hundreds of pounds in annual administration charge across their ISAs. By consolidating their ISAs they could cut their administration charges by a certain amount, for example.'

So-called 'nudges' are designed to help individuals better understand their personal situation and get the most out of their money. They should also appeal to individuals who do not want to spend time staring at a screen trying to comprehend their overall wealth position, but whom would welcome some basic pointers.

The likes of AJ Bell Youinvest, HSBC and other financial providers won't provide financial advice in terms of telling you which products to buy or sell. Only companies authorised to provide individual financial advice would be able to suggest specific stocks, funds or bonds.

## DO YOU KEEP A RECORD OF YOUR ASSETS?

Think about how you currently monitor your assets and liabilities. We believe people fall into three camps: a) don't keep a record, b) use a spreadsheet or c) write it down in a notebook.

Having a single view through an online money dashboard service would be highly beneficial, in our view.

It may show you have surplus cash sitting idle in a savings account which could be used to clear a credit card incurring high levels of interest.

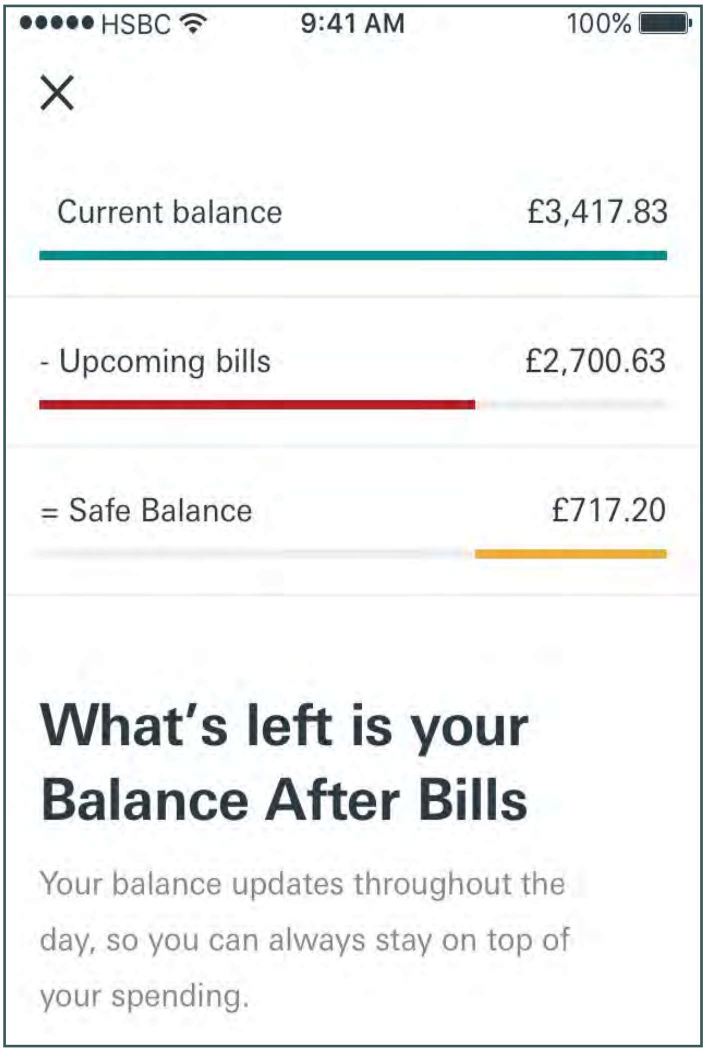
Or it may help you realise you have too many investments in illiquid assets such as wine or fine art, and that you're reaching the age when it would be better to have more liquid assets should you require cash at short notice.

## WHAT WILL HAPPEN TO YOUR DATA?

Privacy is a big concern around open banking and data aggregation. Individuals will want to ensure their personal data isn't being used by someone else for monetary gain. The revenue model of some personal finance apps will, in time, involve selling your data to a third party such as an insurance company who may look at spending habits to better assess risk.

Offering these services will cost companies money as they will have to develop sophisticated technology systems. Naturally they will want to recoup that money somehow.

One alternative to selling data to a third party is charging a fee for account aggregation, similar to the way people are starting to pay for data storage in the cloud or the ability to view all social media networks in one place.




HSBC Beta

Another route may be to offer the service free as a reward for customer loyalty or having a certain amount of assets held directly with the provider.

Most people are used to paying some sort of administration fee with their investments and it certainly seems the banking industry is heading in the same direction. Therefore bundling account aggregation fees in with other charges may not be too hard to stomach.

What's almost certain is that the concept of account aggregation has much more momentum behind it now compared to 15 years ago. Back then, financial services companies like Egg offered account aggregation services which failed to resonate with consumers as they simply weren't ready to manage their money in such a way online.

We're now a nation accustomed to having information at the click of a button and accessing all your assets in a single place is no longer considered a radical proposition. (DC)

SMALL CAPS POISED

# FOR BIG NEWS IN 2018

## WE LOOK AT 19 STOCKS PRIMED TO DELIVER MAJOR EVENTS IN THEIR CAREER

BY THE SHARES TEAM

Investors are spoiled for choice when it comes to small cap stocks with exciting events. As a taster for what's to come in 2018, we've scoured the markets to look for some of the most interesting activities.

Read on to discover 19 stocks either expecting big news in the very near future or ones which are in the middle of developments which could have a big impact on their longer term prospects.

**CASHED UP AND READY TO GO**

Technology business **Crossrider (CROS:AIM)** is sitting on net cash of $68.7m and a big focus is how it might invest this money to accelerate growth.

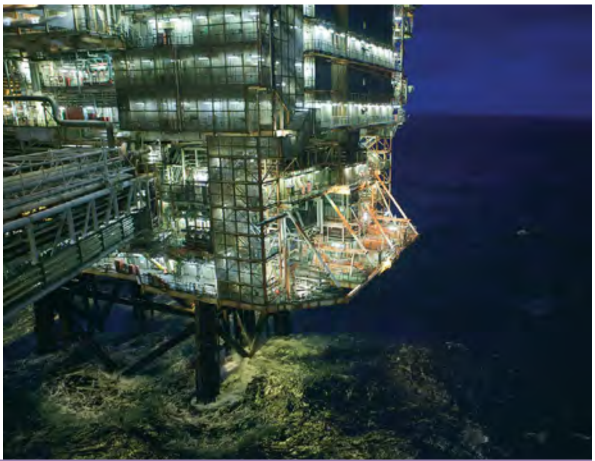
Under chief executive Ido Erlichman, who took over in 2016, the company has successfully shifted focus from add-on applications and related advertising for internet browsers to wider distribution of third-party apps through its platform.

Shore Capital analyst Ben McSkelly says Crossrider's strong balance sheet can allow management to pursue more deals to build out the B2C (business-to-consumer) proposition. 'Upon any further deals, we expect the benefits of cross and upselling to increase with leverage to the underlying platform,' he comments.

**SERICA'S MAJOR BREAKTHROUGH**

Assuming it completes as planned in the middle of 2018, **Serica Energy's (SQZ:AIM)** £300m deal with oil major **BP (BP.)** for its Bruce, Keith and Rhum fields will make the company among the largest independent North Sea oil firms by output.

Serica's production is projected to increase seven-fold to 21,000 barrels of oil equivalent per day, 85% of which will be natural gas. The deal is structured so most of the cost is being met by future cash flow.



SERICA'S PRODUCTION IS PROJECTED TO INCREASE SEVEN-FOLD TO 21,000 BARRELS OF OIL EQUIVALENT PER DAY, 85% OF WHICH WILL BE NATURAL GAS

Also in the energy space is Oregon-based coal bed methane play **Curzon Energy (CZN)** which joined the UK stock market in October 2017. The company is under the radar of most investors yet this situation may change once it produces first gas from its Coos Bay project, expected by the second quarter of 2018.

The phase one work programme consists of the low-cost workover of five existing wells and the drilling of two new wells, as well connecting them to the Coos Bay Gas Pipeline located close to Curzon's wholly owned existing intra field pipeline.

**POTENTIAL TO BENEFIT FROM RIVAL'S WEAKNESS**

The unsecured lending market has been rocked this year by the implosion of **Provident Financial (PFG)**. The old adage 'one man's loss is another man's gain' rings true as **Non-Standard Finance (NSL)** has been handed a 'once in a lifetime growth opportunity by the failed transformation programme of its largest competitor, Provident Financial' says investment bank Liberum.

Non-Standard Finance poached a number of Provident's staff when the company changed its home lending model. Non-Standard's CEO John van Kuffeler used to be chairman of Provident so has a great deal of experience in the industry.

Liberum is a fan of the smaller company, expecting it to deliver a 44% earnings per share CAGR (compound annual growth rate) between 2017 and 2019.

In the support services sector, deep fat fryers cleaning business **Filta (FLTA:AIM)** is expected to unveil plans for a concerted expansion effort in continental Europe very soon.

It is talking to two master franchise owners in Germany and Benelux about a different way of addressing the European market. Filta recently set up shop in Canada and already has well established operations in the UK and US.

## A TRIO OF MINERS BRACED FOR BIG EVENTS

The mining sector is full of companies hoping to hit milestones in their career during 2018. Among them is gold miner **Avesoro Resources (ASO:AIM)** which is rejigging an existing project in Liberia and buying two mines in Burkina Faso.

Merchant bank Hannam & Partners believes several consecutive quarters of profitable production from the New Liberty mine in Liberia and the Burkina Faso operations could lead to a re-rating of Avesoro's share price.

**Vast Resources (VAST:AIM)** is to reopen the Baita Plai polymetallic underground mine in Romania. It is currently waiting on a mining licence and should be able to start production approximately six months after that event has happened.

In Spain, **Atalaya Mining (ATYM:AIM)** is to start work on an €80m expansion project, upgrading the processing facility at its Proyecto Riotinto copper mine. Construction will start in 2018 and the whole project should be up and running in early 2020.

## MOVING INTO NEW MARKETS

Lipstick-to-eyeshadow specialist **Warpaint London (W7L:AIM)** is moving into the men's market with the £18.2m acquisition of Retra. The deal, which only completed three weeks ago, is expected to enhance earnings and dividends alike. It will allow Warpaint to target male consumers and increase exposure to the attractive international gifting market.

Distributing its wares to Boots, Superdrug and Asda – new customers for Warpaint – profitable, Yorkshire-based Retra's major brands are *Technic*, *Body Collection* and *Man's Stuff*, the latter a new male grooming range spanning shower gels-to-beard oils.

Joint bosses Sam Bazini and Eoin Macleod insist Retra, which also produces white label cosmetics for Asda and Matalan, will 'help to accelerate Warpaint's growth both domestically and internationally'.

DEEP FAT FRYERS CLEANING BUSINESS **FILTA** IS EXPECTED TO UNVEIL PLANS FOR A CONCERTED EXPANSION EFFORT IN CONTINENTAL EUROPE VERY SOON

**EVE SLEEP'S UK OPPERATIONS ARE EXPECTED TO BE PROFITABLE IN 2018**

**Eve Sleep (EVE:AIM)**, the online sleep products retailer behind *Eve*-branded mattresses as well as bed frames, pillows and pyjamas, reckons its UK business will become profitable in the last quarter of 2018. Analysts believe Eve will be profitable on a group basis in 2019.

Investment bank Berenberg says some of its best small and mid-cap investment ideas have involved companies operating in 'apparently benign, slow growth markets (e.g. holidays, soft drinks and gyms)'. It adds: 'Their management teams have exploited the slow-paced characteristics of the underlying market to scale up, disrupt and grow.

'We think that Eve Sleep is another such company: while its underlying market is mature and slow-growing, its price advantage and use of marketing techniques derived from larger online businesses have enabled it to grow a significant presence in the UK mattress market.'

**TECHNICAL EXPERTS PRIMED FOR 2018**

Taking over power industry engineering peer Hayward Tyler for £29.4m has transformed the scale of **Avingtrans (AVG:AIM)**. Revenue of £80m is expected in financial year to 31 May 2018, versus the £22.7m posted by Avingtrans in its last solo 12 month period.

The big challenge for the new owner is to not only integrate Hayward Tyler in the broader group but also improve operational execution given the latter's recent financial losses. Avingtrans' share price has been weak over the past few months, so proof that it can revive Hayward Tyler could be a catalyst to win back the market's favour.

Designing radio frequency semiconductors for communications and industry positions, **CML Microsystems (CML:AIM)** fits neatly in any super-connected, renewable future. The company has struggled for meaningful scale despite a consistent track record for profits. Investment in an expanded product range and new markets (advanced medical devices and smart transport, for example), could change that situation.

Analysts anticipate record revenues of £31.5m in the year to 31 March 2018, partly on solid state data storage demand. Half year results on 21 November saw CML report continued momentum in its business, adding that all of its key indicators had improved and that growth was 'broad based'.

**RECENT IPOS FORECAST TO DELIVER LARGE EARNINGS GROWTH**

Israel's **Ethernity Networks (ENET:AIM)** joined the stock market in June 2017 and has a very limited track record. However, designing virtual and software-based communication networks technology that boosts data speed and efficiency sounds like the right kind of place to be.

Existing infrastructure will eventually start to creak if you believe there will be an explosion in volume and complexity of data. Ethernity's technology may be one solution, if not necessarily the only one. Analysts are hopeful and anticipate this year's implied $1.4m of pre-tax profit will more than double in 2018 and do so again the year after.

Spun out of its Australian parent earlier in 2017, **GetBusy (GETB:AIM)** has built document management software designed to free its customers from paper clutter.

With a lot of product cost already sunk and fresh IPO (initial public offering) funding to fuel sales and marketing initiatives, it is hoped that the company can begin to scale up.

Implied operating leverage means an increasingly significant percentage of these new sales will fall straight to the bottom line, hence the near-three-fold jump in pre-tax profit forecast in 2018.

**DRUG STOCKS AWAITING MAKE-OR-BREAK NEWS**

The pharmaceuticals space in 2018 is jam-packed with potentially game-changing clinical trial results.

Drug developer **ImmuPharma (IMM:AIM)** is expecting Phase III results in the first quarter of 2018 for lupus treatment Lupuzor. Analysts speculate the drug could hit multi-billion dollar annual sales if the tests are successful and the drug gets approved by the regulators.

**MotifBio (MTFB:AIM)** believes its drug Iclaprim for serious skin infections could be approved by the US Food and Drug Administration and a product licence confirmed by the end of 2018, having recently completed the two necessary Phase III trials.

Skin health life science company **SkinBioTherapeutics (SBTX:AIM)** should complete human trials next year, being part of the process to develop its cosmetic skin care product and ultimately commercialise it.

**N4 Pharma (N4P:AIM)** expects results in April 2018 from human pilot clinical trials on its reformulated version of Sildenafil, most commonly known as Viagra. If this goes well, the data would be used to determine steps forward for a clinical trial, which could help to commercialise the drug in the US and EU.

Drug discovery firm **Verseon (VSN:AIM)** expects to put two drug programmes into clinical trial in 2018. One is trying to tackle anticoagulation, which helps to prevent blood clots, and the other focuses on a condition that could impair vision known as diabetic macular edema.

THE PHARMACEUTICALS SPACE IN 2018 IS JAM-PACKED WITH POTENTIALLY GAME-CHANGING CLINICAL TRIAL RESULTS LIKE

SKINBIOTHERAPEUTICS

# FTSE 350 STOCKS GOING CHEAP

## WE LOOK FOR MID TO LARGE CAP STOCKS TRADING ON LOW VALUATIONS USING THREE POPULAR METRICS

We've run some numbers to see which FTSE 350 stocks come out as the cheapest based on three of the most popular valuation metrics.

It is important to remember that some stocks will be cheap for a reason, so make sure you always research each one thoroughly before making an investment decision.

| FTSE 350: LOWEST PE | | | |
|---|---|---|---|
| COMPANY | SECTOR | PRICE | PE* |
| TBC Bank | Banks | £16.40 | 2.5 |
| BGEO | Banks | £34.22 | 3.0 |
| Ferrexpo | Industrial Metals & Mining | 254.2p | 5.7 |
| Petrofac | Oil Equipment and Services | 456.9p | 6.0 |
| Evraz | Industrial Metals & Mining | 309.2p | 6.4 |
| Dixons Carphone | General Retailers | 174.25p | 6.5 |
| International Consolidated Airlines | Travel & Leisure | 639.75p | 7.0 |
| 3i | Financial Services | 885.5p | 7.1 |
| Galliford Try | Housebuilders | £12.21 | 7.4 |
| Stobart | Industrial Transportation | 276.35p | 7.4 |

*Based on forecast earnings for latest financial year still to be reported. Source: SharePad. Data taken 13 Dec 2017

THE PE (price to earnings) ratio is a simple way of establishing the value of a share. It is calculated by taking the latest share price and dividing it by the earnings per share of the company.

Fast-growing companies can often command a PE multiple in excess of 20; slow, pedestrian companies tend to be valued around 10 to 14 times earnings in a normal market; and companies with either financial and/or trading problems will inevitably have a PE ratio below 10.

However, you can occasionally find stocks with a PE below 10 because the market has misunderstood its situation, creating an opportunity to buy something which may progress to a higher valuation in time.

The trick for investors is to look at the low PE names and judge which companies have been unfairly marked down and could re-rate once they've shown the ability to succeed.

## SHARES RALLY AND STILL CHEAP

**International Consolidated Airlines (IAG)** looks cheap on a PE basis, despite its share price having already risen by 43% this year. It has enjoyed earnings upgrades which has pushed up its valuation.

Full year profit is expected to jump by nearly a fifth this year as the *British Airways* owner benefits from improving ticket prices, cheaper fuel and the collapse of rivals.

The depressed valuation at oil services firm **Petrofac (PFC)** reflects the damage wrought after it was raided by the fraud squad earlier this year.

Numis has a 'buy' recommendation on the stock and a 600p price target. However, the continuing investigation by the Serious Fraud Office, centred on alleged bribery, corruption and money laundering associated with contracts in Kazakhstan makes this a very high risk stock.

Even if any fine doesn't match the £1bn+ knocked off the company's valuation, the damage to its reputation could undermine future business.

Construction firm **Galliford Try (GFRD)** has seen its valuation hit by problems on legacy contracts. However, the company has a plan to boost profit by more than 60% out to 2021 driven by its housebuilding and regeneration divisions.

## WHAT DO HIGH PE RATIOS MEAN?

If low PE ratios help you spot cheap companies, including some that are cheap for a negative reason then high PE ratios can do the reverse. They can help to identify companies which are either grossly overvalued or where the market is happy to pay a premium because growth prospects are very good.

If you are either bearish about the market and believe a big correction is coming or reckon all the big upside on future sales growth has already been factored in to a company's share price, then going 'short' – i.e. betting the share price will fall – on high-PE stocks may be a strategy to consider.

It is also worth remembering that highly-rated stocks can fall fast on the slightest bit of bad news, another reason why it can pay to be negative on equities with high PE ratios.

Current examples of stocks with high PE ratios include food delivery group **Ocado (OCDO)** which trades on 250 times forecast earnings. Software firm **Sophos (SOPH)** trades on 120 times forecast earnings.

# STOCKS ON A LOW PEG RATIO

| FTSE 350: LOWEST PEG | | | |
|---|---|---|---|
| **COMPANY** | **SECTOR** | **PRICE** | **PEG** |
| Vedanta Resources | Mining | 678.5p | 0.2 |
| BGEO | Banks | £34.22 | 0.2 |
| Nostrum Oil & Gas | Oil & Gas Producers | 320.2p | 0.2 |
| Provident Financial | Financial Services | 824.5p | 0.2 |
| Hiscox | Nonlife Insurance | £13.71 | 0.2 |
| Beazley | Nonlife Insurance | 485.05p | 0.3 |
| Acacia Mining | Mining | 169.95p | 0.3 |
| TBC Bank | Banks | £16.40 | 0.3 |
| KAZ Minerals | Mining | 754.5p | 0.4 |
| Balfour Beatty | Construction & Materials | 276p | 0.4 |

*Based on forecast earnings for latest financial year still to be reported. Source: SharePad. Data taken 13 Dec 2017

THE PEG (price to earnings to growth) ratio is a measure of value that combines a company's price to earnings (PE) ratio and its rate of earnings growth.

A low PEG indicates you'll pay a low price for future earnings growth, anything below a reading of 1.0 is considered cheap.

Banking group **BGEO (BGEO)** is cheap on both a PE and PEG basis, perhaps due to a lack of investor understanding of Georgia as a country and its financial/economic situation.

Formerly known as Bank of Georgia, BGEO provides retail and corporate banking plus wealth management.

It will split the group into two during the first half of 2018, being the banking business and the investment business. The latter's assets include a 57.8% stake in London-listed **Georgia Healthcare (GHG)** and various interests in real estate, utilities, beverages and insurance.

Last month investment bank Jefferies gave a glowing appraisal of BGEO's third quarter performance, saying the business was ticking all the boxes of its 'buy' thesis. It notes the banking business mix is shifting towards the higher return retail side plus loan growth was strong.

## REASONS BEHIND DISCOUNTED VALUATION

When examining stocks which look like bargains based on valuation metrics it is important to consider the context. According to Sharepad's data doorstep lender **Provident Financial (PFG)** trades on a price to earnings to growth ratio of just 0.2.

This requires a measure of faith in the company's ability to hit earnings forecasts. It is questionable if this faith is warranted given multiple profit warnings in 2017 and probes by the Financial Conduct Authority into various parts of the business – the latest involves Provident's Moneybarn sub-prime car finance business.

Non-life insurers **Beazley (BEZ)** and **Hiscox (HSX)** see their own figures skewed by the hundreds of millions of pounds worth of losses associated with an unusually active US hurricane season. Hurricanes Harvey and Irma lead to a big hit to 2017 profit.

The earnings growth forecast for 2018 is therefore just a recovery to somewhere approaching previous levels, rather than representing material progress for either business.

# STOCKS ON A LOW EV/EBITDA RATIO

| FTSE 350: LOWEST EV/EBITDA | | | |
|---|---|---|---|
| COMPANY | SECTOR | PRICE | EV/EBITDA* |
| Acacia Mining | Mining | 169.95p | 1.8 |
| Evraz | Industrial Metals & Mining | 309.2p | 3.5 |
| Anglo American | Mining | £13.75 | 3.6 |
| Petrofac | Oil Equipment & Services | 456.9p | 3.7 |
| Centamin | Mining | 139.7p | 3.9 |
| Ferrexpo | Industrial Metals & Mining | 254.2p | 3.9 |
| Thomas Cook | Travel & Leisure | 116.6p | 3.9 |
| BHP Billiton | Mining | £13.82 | 4.1 |
| Rio Tinto | Mining | £35.19 | 4.5 |
| International Consolidated Airlines | Travel & Leisure | 639.75p | 4.5 |

*Based on forecast earnings for latest financial year still to be reported. Source: SharePad. Data taken 13 Dec 2017

EV/EBITDA stands for enterprise value to earnings before interest, tax, depreciation and amortisation. The valuation metric arguably has a key advantage over PE as it factors in a company's debt position. EV is the market value of its equity plus its total borrowings. It essentially tells you how much a buyer would have to pay to acquire the whole company rather than the equity part of it.

EV/EBITDA is a popular way to measure a company's pre-interest, pre-tax gross operating cash flow. You have to consider that many companies have different depreciation, amortisation and tax, all of which distort earnings per share numbers. Using EBITDA helps to remove those distortions.

There are some downsides of using EBITDA such as the fact that it ignores differences in accounting policies such as revenue recognition and the capitalisation of costs.

## MINING SECTOR GOING CHEAP

The accompanying table of stocks on a low EV/EBITDA multiple is dominated by mining companies. Commodity prices can be very volatile so perhaps investors are sceptical over the accuracy of earnings forecasts.

Looking at recent analyst commentary on **Anglo American (AAL)** for example, being one of the stocks on our table, it looks cheap on an EV/EBITDA basis, so too with a strong free cash flow yield, yet many analysts aren't too excited given uncertainty over its main commodities, plus macro and operational risks.

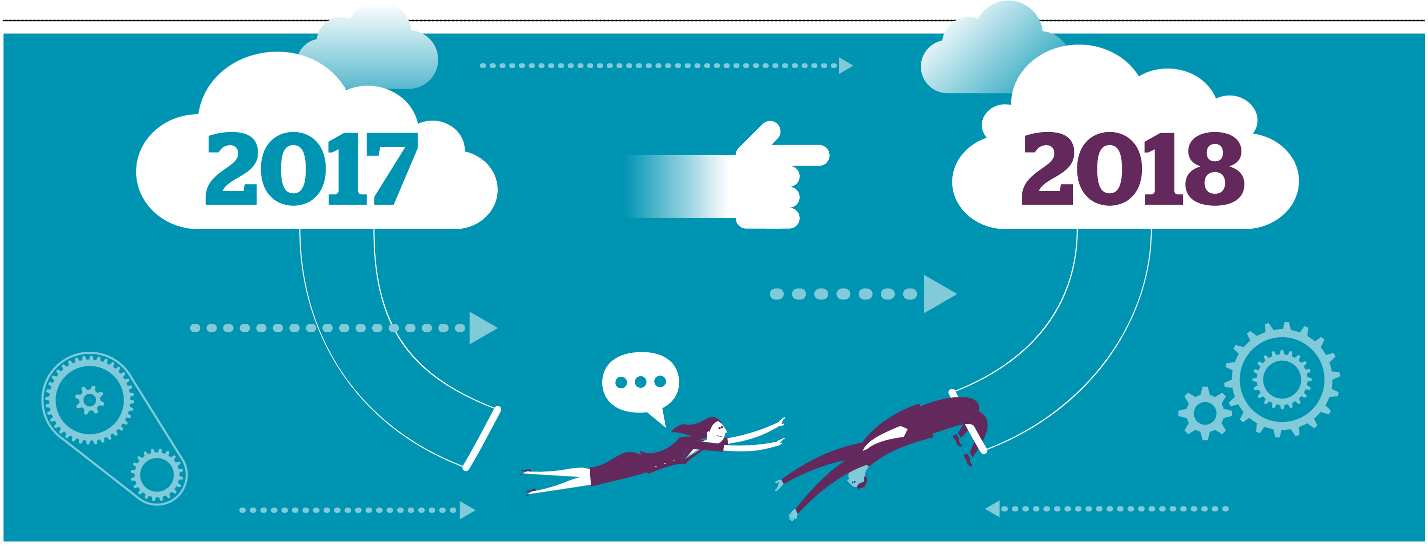
It may still be worth looking at the list of 'cheap' miners if there are specific commodities on which you have a positive view, assuming the relevant stocks are producers of said commodities.

Elsewhere on our list is travel agent **Thomas Cook (TCG)**; it faces stiff competition from online travel agents and low-cost airlines, perhaps why it is trading on a low EV/EBITDA multiple.

'Thomas Cook remains in the middle of a transformational restructuring to combat competitive intensity,' says investment bank Berenberg. 'The costs of the restructuring are significant, while the steps being taken are not, so far, resulting in any easing in any of the challenges faced, although profitability has improved.' (DC/TS)

# Why there could be changes to the VCT and EIS marketplace

Fundraisings could become smaller and investments riskier after April 2018




Investors could see fewer opportunities in the venture capital trust (VCT) and Enterprise Investment Scheme (EIS) space in the 2018/19 tax year following changes introduced in the Autumn Budget.

Schemes could also become riskier, meaning you will need to take even greater care when deciding which vehicles to back with your money.

## WHAT HAS CHANGED?

The Chancellor announced in November that in order for VCT and EIS funds to continue to benefit from tax relief after April 2018, they will have to invest in companies seeking genuine long-term growth and where there is a risk to the investor's capital.

Schemes that look for defined returns and that intend to provide 'capital preservation' for investors will be excluded.

This essentially means providers will no longer be able to make investments in asset-based businesses, for example schools, hospitals, self-storage and restaurants where property is a key part of such businesses' operations.

The Chancellor also said the Government will double the amount of money individuals can invest through EIS each tax year from £1m to £2m. But this is only if the amount over £1m is invested in 'knowledge intensive' companies.

## HOW WILL IT AFFECT INVESTMENTS?

The shift away from asset-based businesses will impact several providers in the EIS and VCT industries.

Mark Brownridge, chief executive of the EIS Association, says around £400m was invested by EIS providers into capital preservation assets last tax year. This will now need to be deployed to growth assets.

Brownridge claims this will actually result in more exciting opportunities for individual investors because they will be backing high growth companies. But he warns that investors will need to be mindful of the greater risks they are taking on.

'Following the changes EIS will be more about the investments than the tax reliefs,' Brownridge adds.

Paul Jourdan, chief executive of VCT provider Amati, believes the new risk to capital condition will remove any remaining capital preservation-type strategies.

The Association of Investment Companies (AIC) says the VCT industry will face 'significant challenges' in complying with these rule changes.

## HOW IS THE INDUSTRY RESPONDING?

The clampdown on safer schemes is not a complete surprise. In August, a Treasury consultation paper said capital preservation was the central focus of too many VCT investments, leading some providers to halt fundraising.

Albion Capital suspended fundraising for one of its six VCTs, the Albion VCT, in September because it thought the rules for investment in asset-based businesses would be changed in the Budget.

Will Fraser-Allen, deputy managing partner at Albion Capital, says the board is currently reflecting on the measures announced in the Budget and what changes are required to Albion VCT's asset-based investment policy.

Other providers who have had a leaning towards asset-backed investments in the past include Puma and Downing.

Downing's chief executive Tony McGing claims it won't need to alter its investment focus.

'We continue to expand our growth investment team, and have invested some £30m in early-stage growth and ventures businesses over the year to September 2017,' he says.

## WILL THERE BE FEWER OPPORTUNITIES?

In addition to the 'risk to capital' test, VCTs face other challenges.

The Chancellor announced that for accounting periods after 6 April 2019, VCTs must hold

> **WE LIVE IN A WORLD WHERE BEING AN ENTREPRENEUR IS SEEN AS A GOOD THING AND IF YOU ADD TO THIS THE SIGNIFICANT TECHNOLOGY CHANGES THAT ARE TAKING PLACE, IT GIVES RISE TO A SIGNIFICANT NUMBER OF INVESTMENT OPPORTUNITIES**

at least 80% of their assets in qualifying investments – up from the current requirement of 70%. This reduces the proportion of assets VCTs can hold in cash, bonds, unit trusts and OEIC funds.

What's more, at least 30% of all new funds raised from 6 April 2018 will have to be invested in qualifying investments within 12 months.

Jason Hollands, managing director of business development and communications at Tilney, believes the new rules, plus the fact that there was a surge in fundraising this year, will result in lower levels of VCT fundraising in the 2018/19 tax year.

This means there won't be as many opportunities for individual investors.

'I also think this may ultimately prompt some VCTs to return cash to shareholders as tax-free dividends where they feel they can't put it to work in businesses of sufficient quality and at a sensible price within the time constraints,' Hollands adds.

## IS THIS A REPEAT OF THE 2015 CLAMPDOWN?

Providers say the changes are far less significant than the rules that came into effect in November 2015. They prohibited managers from investing in management buyouts (MBOs) – something which several VCTs had been doing up until that date.

It resulted in several VCTs lowering their fundraising levels or not raising any money at all in the year that followed.

Mark Wignall, managing partner at Mobeus Equity Partners, says: 'The (latest) Budget is far less radical than the clampdown on MBO investments. It is a realignment of the rules and it reaffirms what most VCTs have already been doing and will continue to do – invest to finance the expansion of high growth companies.'

He says the impact will be far worse in the EIS market, where a 'significant portion' of investments have been going into capital preservation or 'artificial' schemes.

Albion's Will Fraser-Allen says there may be fewer very large fundraisings next tax year, but he thinks most providers will be able to find enough high growth, innovative companies to invest in.

'We live in a world where being an entrepreneur is seen as a good thing and if you add to this the significant technology changes that are taking place, it gives rise to a significant number of investment opportunities,' he states. (EP)

# Lessons from the British Steel pension debacle

What to consider if you're thinking about quitting a defined benefit pension scheme

The furore engulfing the British Steel pension scheme brings to light some of the key issues savers need to consider if they are thinking about ditching their guaranteed defined benefit (DB) pension in favour of the flexibility of a defined contribution (DC) plan.

British Steel's 130,000 member scheme is being closed as part of a deal struck between Tata Steel, the company responsible for paying the pensions, and The Pensions Regulator to secure the future of the Port Talbot plant in South Wales.

Members have been given the choice of entering the industry lifeboat fund (known as the Pension Protection Fund) and receiving lower payouts, moving to a new company scheme, or transferring out to a private scheme such as a SIPP.

Amid uncertainty about the future of the scheme and the pensions it is obliged to pay out, press reports surfaced of members being targeted by salesmen attempting to coerce them to give up their valuable benefits.

Many said they regretted their decision to transfer out and had not fully understood the impact it would have on their retirement.

So if you're considering quitting your DB scheme, here are a couple of things you should consider:

## 1. UNDERSTAND THE VALUE OF WHAT YOU'RE GIVING UP

You may well be offered an eye-watering, lottery win-type sum of money to leave your DB scheme. There have been reports of members being offered somewhere in the region of 30 times their annual pension as a lump sum to transfer – meaning a £10,000 a year DB pension converts to £300,000 in a DC scheme.

But remember there is a reason you're being offered such a big chunk of cash – namely that your DB pension is extremely valuable.

## 2. WHAT ARE YOUR PENSION PRIORITIES?

Whether or not to transfer will depend on your own personal circumstances and goals. Some people will already feel they have enough secure income to fund their day-to-day spending and are therefore able to cash-in the rest (although remember this will be taxed in the same way as income).

Others will be attracted to the tax treatment of DC pensions which allows you to pass on your entire fund tax-free if you die before age 75 or at your recipient's marginal rate if you die after this age. Furthermore, you can now pass it on to anyone – it doesn't need to be a spouse or dependant.

If your DB pension is worth £30,000 or more you'll be required to speak to an FCA-regulated financial adviser – a crucial part of the process in helping inform your decision.

Whatever you decide, remember that your pension first and foremost needs to provide an income that lasts throughout your retirement – a period that could last 30 years or more. In most cases, keeping your DB pension will remain the best way to do this.

Tom Selby,
Senior analyst, AJ Bell

## FRIDAY 22 DECEMBER

**UK STOCK MARKET CLOSES AT 12:30PM**

**AGMS**

| | |
|---|---|
| BOS Global | BOS |
| KCR Residential | KCR |
| Mobile Streams | MOS |
| Red Rock Resources | RRR |

**ECONOMICS**

**UK**

GfK Consumer Confidence

## MONDAY 25 DECEMBER

**UK STOCK MARKET CLOSED**

## TUESDAY 26 DECEMBER

**UK STOCK MARKET CLOSED**

## WEDNESDAY 27 DECEMBER

**AGMS**

| | |
|---|---|
| Sirius Petroleum | SRSP |

## THURSDAY 28 DECEMBER

**EX-DIVIDEND**

| | | |
|---|---|---|
| British American Tobacco | BATS | 43.6p |
| BT | BT.A | 4.85p |
| Cambria Automobiles | CAMB | 0.75p |
| The Diverse Income Trust | DIVI | 0.75p |
| Dart | DTG | 1.5p |
| Fulcrum Utility Services | FCRM | 0.7p |
| FIH | FIH | 1.5p |
| Grainger | GRI | 3.26p |
| Halma | HLMA | 5.71p |
| Inland Homes | INL | 1.2p |
| KCOM | KCOM | 2p |
| Morses Club | MCL | 2.2p |
| NewRiver Retail | NRR | 5.25p |
| PROACTIS | PHD | 1.4p |
| RPC | RPC | 7.8p |
| Schroder Asia Pacific | SDP | 5.6p |
| Focusrite | TUNE | 1.95p |
| Value and Income Trust | VIN | 2.7p |
| Xafinity | XAF | 2.1p |

## FRIDAY 29 DECEMBER

**AGMS**

| | |
|---|---|
| Andalas Energy & Power | ADL |
| Eco Atlantic Oil & Gas | ECO |
| Regency Mines | RGM |
| Sabien Technology | SNT |
| Secure Property Development | SPDI |

**UK STOCK MARKET CLOSES AT 12:30PM**

## MONDAY 1 JANUARY

**UK STOCK MARKET CLOSED**

## TUESDAY 2 JANUARY

**ECONOMICS**

**UK**

Manufacturing PMI

## WEDNESDAY 3 JANUARY

**TRADING STATEMENTS**

| | |
|---|---|
| Next | NXT |

**AGMS**

| | |
|---|---|
| Applied Graphene Materials | AGM |

**UK**

**ECONOMICS**

Construction PMI

## THURSDAY 4 JANUARY

**ECONOMICS**

**UK**

Mortgage Approvals

Services PMI

**EX-DIVIDEND**

| | | |
|---|---|---|
| Anglo Pacific | APF | 1.5p |
| Auto Trader | AUTO | 1.9p |
| Bisichi Mining | BISI | 1p |
| British Land | BLND | 7.52p |
| Baronsmead Second Venture Trust | BMD | 4.5p |
| BP | BP.A | 4p |
| BlackRock Frontiers Investment Trust | BRFI | $0.04 |
| Cerillion | CER | 2.8p |
| Dairy Crest | DCG | 6.3p |
| European Investment | EUT | 13.5p |
| Experian | EXPN | $0.14 |
| F&C Private Equity Trust | FPEO | 3.55p |
| Foreign & Colonial Investment Trust | FRCL | 2.7p |
| Hibernia REIT | HBRN | €0.01 |
| Henderson European Focus Trust | HEFT | 1.4p |
| Henderson European Focus Trust | HEFT | 20.5p |
| International Biotechnology Trust | IBT | 13.5p |
| ITE | ITE | 2.5p |
| James Latham | LTHM | 4.5p |
| McCarthy & Stone | MCS | 3.6p |
| Martin Currie Global Portfolio Trust | MNP | 0.9p |
| Murray International | MYI | 11p |
| Next | NXT | 45p |
| Paragon Banking | PAG | 11p |
| PHSC | PHSC | 0.5p |
| Qatar Investment Fund | QIF | $0.03 |
| Schroder European Real Estate Investment Trust | SERE | €0.02 |
| Shires Income | SHRS | 3p |
| Standard Life Private Equity Trust | SLPE | 6p |
| Stride Gaming | STR | 1.5p |
| UP Global Sourcing | UPGS | 3.5p |

## FRIDAY 5 JANUARY

**ECONOMICS**

**UK**

BRC Shop Price Index

## MONDAY 8 JANUARY

**INTERIMS**

| | |
|---|---|
| Micro Focus International | MCRO |

**TRADING STATEMENTS**

| | |
|---|---|
| AO World | AO. |

**ECONOMICS**

**UK**

Halifax HPI

## TUESDAY 9 JANUARY

**FINALS**

| | |
|---|---|
| Safestore | SAFE |

**INTERIMS**

| | |
|---|---|
| Games Workshop | GAW |
| Ilika | IKA |

**TRADING STATEMENTS**

| | |
|---|---|
| Morrison Supermarkets | MRW |
| Persimmon | PSN |
| Topps Tiles | TPT |

## WEDNESDAY 10 JANUARY

**FINALS**

| | |
|---|---|
| Shoe Zone | SHOE |

**INTERIMS**

| | |
|---|---|
| SuperGroup | SGP |

**TRADING STATEMENTS**

| | |
|---|---|
| PageGroup | PAGE |
| Sainsbury's | SBRY |
| Ted Baker | TED |
| Tullow Oil | TLW |
| Taylor Wimpey | TW. |

**AGMS**

| | |
|---|---|
| Tharisa | THS |

**ECONOMICS**

**UK**

Industrial Production

Construction Output

Manufacturing Production

## THURSDAY 11 JANUARY

**TRADING STATEMENTS**

| | |
|---|---|
| ASOS | ASC |
| Barratt Developments | BDEV |
| Booker | BOK |
| Debenhams | DEB |
| Hays | HAS |
| Jupiter Fund Management | JUP |
| Marks & Spencer | MKS |
| Tesco | TSCO |

**AGMS**

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| Fenner | FENR |

**EX-DIVIDEND**

| | | |
|---|---|---|
| Baring Emerging Europe | BEE | 19p |
| Brewin Dolphin | BRW | 10.75p |
| Patisserie | CAKE | 2.4p |
| Character | CCT | 10p |
| Connect | CNCT | 6.7p |
| DotDigital | DOTD | 0.55p |
| Majedie Investments | MAJE | 6.25p |
| On The Beach | OTB | 1.9p |
| QinetiQ | QQ. | 2.1p |
| Sky | SKY | 10p |
| WH Smith | SMWH | 33.6p |
| Urban & Civic | UANC | 2p |
| UDG Healthcare | UDG | $0.1 |
| Workspace | WKP | 8.84p |

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www.sharesmagazine.co.uk/market-diary

**KEY**

- **Main Market**
- **AIM**
- **Fund**
- **Investment Trust**

THIS WEEK: 18 PAGES OF BONUS CONTENT

FIRST SENTINEL

PARA RESOURCES

PHOENIX GLOBAL MINING

UNION JACK OIL

XTRACT RESOURCES

# SHARES SPOTLIGHT

## *Mining, Oil & Gas*

INCLUDES COMPANY PROFILES, COMMENT AND ANALYSIS

DECEMBER 2017

# Introduction

**Welcome to *Spotlight*, a bonus magazine which is distributed eight times a year alongside your digital copy of *Shares*.**

It provides small caps with a platform to tell their stories in their own words and this edition is dedicated to the natural resources space.

The company profiles are written by the businesses themselves rather than by *Shares* journalists.

They pay a fee to get their message across to both existing shareholders and prospective investors.

These profiles are paid-for promotions and are not independent comment. As such, they cannot be considered unbiased. Equally, you are getting the inside track from the people who should best know the company and its strategy.

Names appearing this time include Toronto-listed miner Para Resources and UK onshore oil and gas producer **Union Jack Oil (UJO:AIM)**. We also take a look at the wider oil industry onshore in the UK and review the performance of major commodities through the course of 2017.

Some of the firms profiled in *Spotlight* will appear at our investor evenings in London and other cities where you get to hear from management first hand.

Click here for details of upcoming events and how to register for free tickets.

Previous issues of *Spotlight* are available on our website.

# UK onshore oil & gas – a snapshot

*FinnCap oil analyst Dougie Youngson on why the UK onshore oil and gas sector needs a shake up*

In late November **IGas (IGAS:AIM)** hosted an industry event on the UK shale sector in conjunction with Ineos and Cuadrilla. The event was well attended by both the sell and buy side and comprised a series of presentations from academia, industry and political commentators.

Cuadrilla is currently drilling and its CEO Francis Egan came prepared with a section of freshly cored Bowland Shale. Cuadrilla is the most advanced of the shale players and will be drilling and fracking two wells. IGas is drilling next year with Ineos still at the planning stage and aiming to submit between 10 and 20 applications in 2018.

There was a lot of discussion on planning. UKOOG (UK Onshore Oil & Gas) was very diplomatic on how difficult it is to receive planning approval for onshore oil and gas projects in general, not just for shale.

The key difficulty here is that decisions are made at a national level, but are then managed at a local level. These two levels of management do not make for good bed fellows.

Former Labour MP Natasha Engel gave a rather amusing account of her experiences dealing with the anti-frackers. An interesting aspect of her presentation was that those with strong opinions (for and against) fraccing make up a tiny, but very vocal minority.

> “DECISIONS ARE MADE AT A NATIONAL LEVEL, BUT ARE THEN MANAGED AT A LOCAL LEVEL. THESE TWO LEVELS OF MANAGEMENT DO NOT MAKE FOR GOOD BED FELLOWS”

KEY FACTS

| 200 | 453 | 300 | £38M | 5 |
|---|---|---|---|---|
| LICENCES | LICENCED BLOCKS | OPERATING OIL & GAS WELLS | PAID IN TAX | WELLS DRILLED IN 2016 |

## WHAT HAS TO HAPPEN

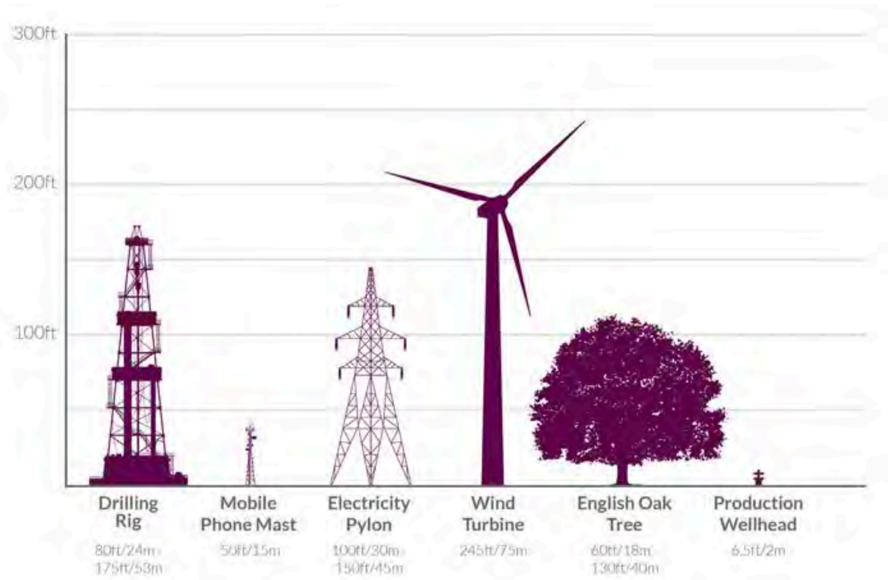
The silent majority is actually undecided and needs to be engaged with in order to educate them and steer them away from the anti-fracker fallacies. One anecdote was almost Daily Mail-esqe. The anti-frackers had argued that the shale industry would drive down house prices, when she pointed out that the demonstrators would be more likely to have a detrimental impact on house prices all of a sudden the demonstrator's posters were taken down from living room windows.

I've long been of the view that the onshore sector needs it equivalent of the Wood Review which has benefited the offshore sector. If the government does view shale and the onshore sector more widely as being of strategic importance, then it needs to be fully regulated at a national level. Control needs to be taken away from the County Councils and planning needs to be streamlined.

Planning is the key bottleneck for both conventional and unconventional onshore operations and the current system is not fit for purpose. In a recent white paper 'Building a Britain Fit for the Future' the UK government states that shale 'offers the prospect of creating jobs, enhancing the competitiveness of downstream sector and building up supply chain'.

It also estimates that 64,000 jobs could be created generating a new stream of tax revenue as well as providing direct local investment to the communities that host production. These are all sensible goals, but for a meaningful build up of production the regulatory environment needs to change for these goals to be met in an expedient timeframe.

> **THE SILENT MAJORITY IS ACTUALLY UNDECIDED AND NEEDS TO BE ENGAGED WITH IN ORDER TO EDUCATE THEM AND STEER THEM AWAY FROM THE ANTI-FRACKER FALLACIES**




KEY FACTS

| £150,000 | 11 | 300 | 7.5M | 1 |
|---|---|---|---|---|
| AMOUNT PAID IN COMMUNITY BENEFITS | PLANNING APPLICATIONS SUBMITTED | OPERATING OIL & GAS WELLS | BARRELS OF OIL EQUIVALENT PRODUCED | ENVIRONMENTAL IMPACT ASSESMENT (EIA) COMPLETED |

Graphic and stats courtesy of UKOOG

# First Sentinel is proving itself to shareholders with strong investment action

**Website:** www.first-sentinel.com

**First Sentinel (FSEN:NEX]** has been a public company for no more than six months and is already well underway with its mission of value creation for shareholders.

Not only has the company's share price increased by 40% since listing on the NEX Exchange in May 2017, First Sentinel has also strategically positioned itself in numerous strong investment opportunities.

It aims to provide shareholders value through not only maximizing its per share value, but also through quarterly dividend payments once it reaches a comfortable level of profitability from its investment activities.

## STRATEGIC ACQUISITION

On 4 December 2017, First Sentinel announced it had acquired an 80% working

## WHO IS FIRST SENTINEL?

**Categorising itself as an Alternative Investment Company, First Sentinel provides growth capital for public and private company investments across a number of different market sectors**

interest in Australian invoice purchasing company Perennial Enterprises PTY Ltd., a transaction that could potentially transform the company.

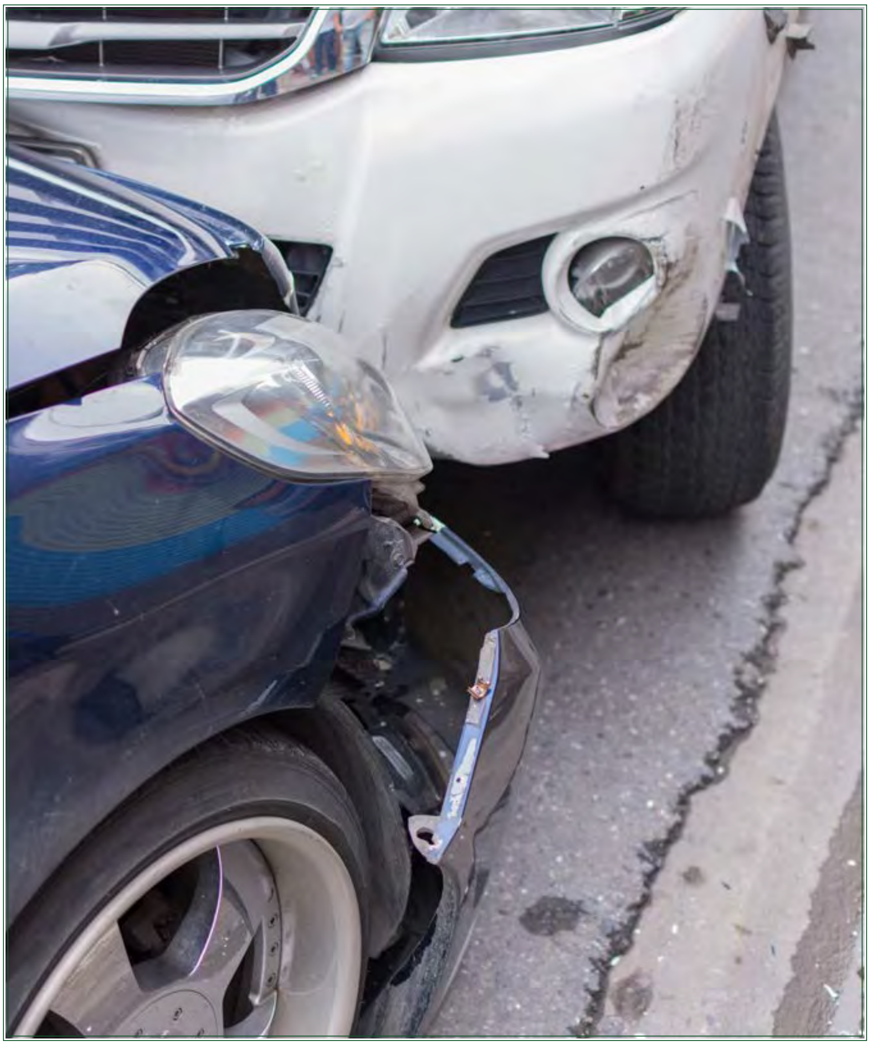
Perennial Enterprises is a Sydney-based, debtor finance/factoring business with a focus towards the crash repair, labour-hire and mining industries. By purchasing their clients' invoices, Perennial unlocks the restriction placed on a business's cash flows due to lengthy payment terms, thus providing businesses with liquidity for their operational needs. This helps businesses push forward faster due to immediate access to valuable working capital.

Perennial purchased AUD$30m of invoices last year. This year, Perennial expects to surpass $60 million in purchased invoices, averaging over $5m per month and doubling the prior year with further significant growth expected in 2018 and beyond. The historic default rates on these invoices have been negligible.

First Sentinel plans to issue a £4m short duration bond which will be listed on the NEX Exchange, insured by an AA rated insurer and pay an annual coupon of 7.5% with interest payments being made every quarter.

With First Sentinel's significant cash injection, Perennial will have the capacity to further increase the level of invoices it purchases.

The bond has a 12 month term and can be renewed after the first year. There is an early redemption facility included for emergencies. Investors should always read the full terms and conditions associated with investment bonds to fully understand the risks of the product.

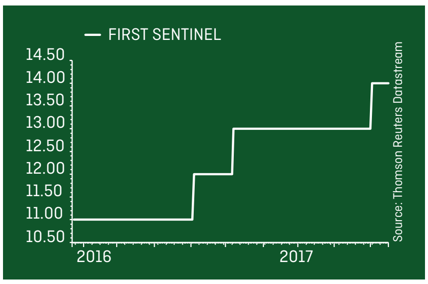


## BOOST TO BALANCE SHEET

First Sentinel's chief executive Brian Stockbridge states: 'By providing investors with the opportunity to participate in a high yield product we will be able to greatly increase the number of invoices purchased by our subsidiary company, Perennial, resulting in the creation of strong investor returns and greatly improving the company's balance sheet and financial health.'

On the equity side, the Perennial acquisition is a transaction that has created a strong and valuable base for First Sentinel. This, along with other smaller, but very high return investments completed during 2017 outlines management's focus on strong value creation.

With a current market capitalisation of less than £2m, First Sentinel currently trades under the symbol FSEN on the NEX Exchange, London. For more information visit First Sentinel's website at **www.first-sentinel.com**, or request more information at **info@first-sentinel.com**.



# Para going for gold from solid foundations

**Website:** www.pararesourcesinc.com

Toronto-listed Para Resources has sought and purchased two projects in highly prospective exploration potential where there is an existing mining and milling operation that can generate cash flow to support the exploration cost.

The purchase of the existing and fully permitted mines and facilities dramatically reduces the exploration risk as the small mining operations are profitable and provide excellent returns as a stand-alone entity.

This is a unique approach to developing 'world class' assets. Para insiders have also invested more than $15 million of their own capital and own approximately 70% of the equity.

Para's management team is seasoned and proven having discovered, built, managed and sold several different mines over the last 40 years.

### WHERE DOES IT OPERATE?

The company has two major projects: the El Limon Mine in Zaragoza, Colombia and the Gold Road Mine in Arizona.

Para bought the El Limon Mine in 2015 with a minority Colombian partner. Para has invested $9m to upgrade and rehabilitate the mill and underground operations. Para now owns 83% of the El Limon project.

In addition, Para acquired 22,000 hectares of mineral rights surrounding the Mill site. This property is the basis of an exploration program that is currently underway. The exploration prospective on the property is evidenced by the presence of hundreds of small artisanal miners who are working the surface or the near surface of the vein system that runs through the OTU valley. This is the same vein system that is being mined at El Limon. There are a series of parallel veins that run for 12 km across the company's property. The El Limon mine is successfully mining that vein system at a depth of 450 meters and the system is open at depth. The average diluted head grade from the underground operation is 7-10 grammes per tonne (gpt).

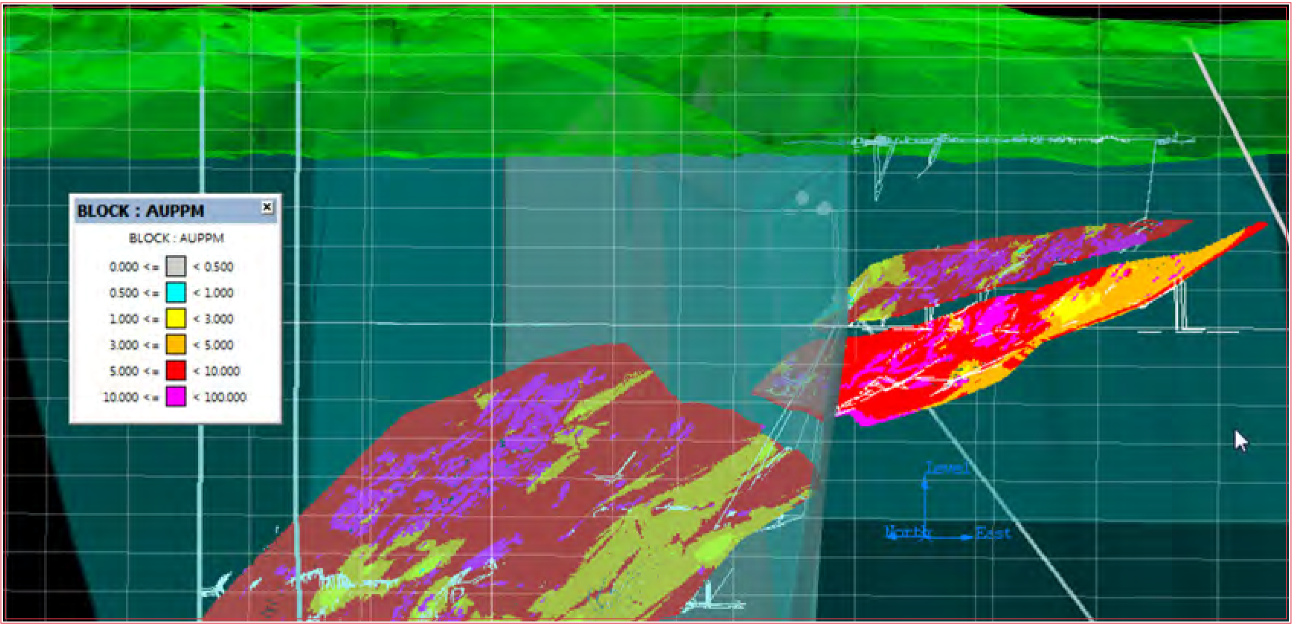
In 2016 and 2017, Para upgraded the mill's capacity from 75 tonnes per day (tpd) to 225 tpd by adding a second ball mill and installing new floatation and cyanide circuits. The mine and mill re-started operations 15 November 2017 and has been running successfully since then.

The production ramp up will be completed by the end of 2017. The company expects the El Limon operation to be cash flow positive in Q1 2018.

The feed for the El Limon mill will come from a combination of ore from the El Limon underground mine and from the small miners who are working on the company's property. The Colombian Government, in an effort to end the use of mercury and to bring these small miners into the formal economy, has a program that allows the mineral rights holder (Para) to formalize these previously illegal operations, thus creating an alternate source of ore for the El Limon mill from these contract miners.

## WHO IS PARA RESOURCES?

**A junior gold mining and exploration company with projects in Colombia and Arizona**




### SMART SOLUTIONS

This solution to dealing with the small miners works out well for the government as they get paid a royalty, the miners who make more money selling the ore to Para and for Para itself as the cost of producing an ounce of gold when acquiring the ore from the small miners is $750 per ounce. In addition, this system prevents the gold that is on the company's mineral concessions from being sold outside of the company's control.

The company's geologists have been mapping and sampling the various small miner workings and are starting to get an understanding of the system in the OTU valley. They believe the El Limon vein is part of the same system that is at surface along the 12km valley. The geochemistry and grade is consistent.

In November 2017 a drilling rig was mobilized to site with the first six targets being the twinning of NI 43-101 non-compliant holes that were drilled in 1997 and 1998. The logs of those holes were very encouraging with gold mineralization from the surface to the end of the holes at an average depth of 100 meters. Average mineralization ranged from 2.73 gpt to 7.4 gpt along the whole length of the hole. Results of this drilling program will be available in early 2018. It is the intention of the company to drill throughout 2018 with a program of approximately 2,500 meters of DDH.

In August 2017, Para, through its 88% owned subsidiary Gold Road Mining Corp., acquired the Gold Road Mine, including patented claims and a mill and processing facility, located in the historic Oatman Mining District in Northwestern Arizona.

### HISTORIC GOLD MINING DISTRICT

The Oatman District is the largest primary gold producing district in Arizona with a historical gold production including Gold Road (not equivalent gold) of more than 2.1 million ounces.

The vast majority of the production has come from two sub-parallel vein systems,

> IT IS IMPORTANT TO NOTE THAT THE MINES STOPPED PRODUCTION WHILE STILL MINING HIGH GRADE ORE. PARA BELIEVES THAT THERE IS SIGNIFICANT POTENTIAL TO RE-OPEN THESE MINES AND TO PROCESS THE ORE AT GOLD ROAD WHICH IS APPROXIMATELY 1KM AWAY ON A PAVED ROAD.

the Gold Road system and the Tom Reed-United Eastern (Tr-Ue vein) system. In addition to these two systems there is a third vein system, the Pioneer-Midnight system, which is southwest of the Tr-Ue system for which production records are mostly unknown.

The distance between these veins is less than 1 kilometer. Para has secured the rights to all of the patented and unpatented claims along the Gold Road and the Tr-Ue veins which includes the sites of the historical underground mines.

These mines mostly ceased production in 1942 as a result of the US war effort. It is important to note that the mines stopped production while still mining high grade ore. Para believes that there is significant potential to re-open these mines and to process the ore at Gold Road which is approximately 1km away on a paved road.


## PLENTY OF EXISTING INFRASTRUCTURE

All mineralization in the district is in epithermal quartz, calcite, adularia veins containing cyanide leachable gold, and silver. The absence of environmentally sensitive constituents (RECRA metals) and acid-generating minerals significantly reduces permitting and reclamation issues. Mining has historically been contained within patented (fee simple land) and most of the exploration potential is on private land.

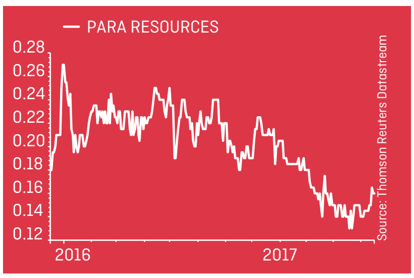
The Gold Road mill is a modern 500 tpd cyanide leach facility designed specifically to treat the Oatman-type mineralized material. Historical recoveries have been in excess of 95%. The facility is fully permitting allowing Para to increase production from 500 tpd mill to 1,000 tpd. A rent evaluation by GPA Global determined that the mill was in excellent shape and could be restarted with minimal cost. A recently updated tailings disposal site has the capacity for 1,750,000 tonnes (10 years at 500 tpd). The tailings are dry stacked.

In December 2017, Para published a NI 43-101 Technical Report on the Gold Road Mine and surrounding mineral claims. The report suggests that an estimated 700,000-ounce resource can be deduced from historical drilling and sampling. The report also recommends a multi-year exploration plan be implemented to test additional targets along strike, down dip and parallel veins to the existing Gold Road Vein with the goal of increasing the resource by another approximate 700,000 ounces.

Para has also commissioned a NI 43-101 compliant Resource Estimate which is expected to be completed by Q1 2018 with the goal of upgrading the identified mineralization into a NI 43-101 compliant resource estimate. That resource estimate will form an integral part of the PEA that will also be completed in Q1 2018. It is the intention of the Company to re-start operations at Gold Road in Q2 2018. An exploration program to quantify the resource if any in the Tr-Ue vein will commence in Q3 2018.

## ON THE LOOKOUT FOR FURTHER DEALS

Para will continue to take advantage of current market conditions to acquire and develop additional highly economic, near-term production assets that have strong exploration and development upside.



# Phoenix is Empire-building in Idaho

**Website:** www.pgmining.com

**Phoenix Global Mining (PGM:AIM)** is working towards reopening the historic Empire Mine in the Alder Creek Mining District in Custer County, Idaho. Operational between 1901 and 1942, the mine closed when its workers were conscripted to fight in the Second World War. During that period, 694,000 tonnes of ore was mined from underground, with an average recovered grade of 3.64% copper, 1.64 grammes per tonne of gold and 53.9 grammes per tonne of silver.

It is estimated by Phoenix's Consulting Geologist that only 5% of the potential ore system has been explored so far and there is significant opportunity to expand the resource through further exploration.

### BARELY SCRATCHED THE SURFACE

'When the mine was first operational, they barely scratched the surface of the available ore resources,' says Ryan McDermott, General Manager of the Empire Mine, whose family has lived in the area for decades, and some of whom worked in the Empire Mine itself.

'You've got to remember that back then workers only mined the very high-grade ore that was visible to the eye and, after working twelve hour shifts in bad lighting, six days a week, your focus deteriorates. There's potentially a lot more down there.' Commenting on the opportunity for Phoenix, McDermott says: 'Reopening the mine now, taking advantage of modern technology, we're able to be considerably more effective and optimise our production.'

To a depth of approximately 130m the copper and zinc minerals have been weathered and these minerals have been converted from sulphide to oxide minerals. The sulphur has been leached out of them. The resulting near surface oxide resource

## WHO IS PHOENIX GLOBAL MINING?

**A BASE METAL EXPLORER AND DEVELOPER ADVANCING THE EMPIRE MINE IN IDAHO INTO OPEN PIT COPPER OXIDE PRODUCTION, WITH ADDITIONAL UPSIDE AVAILABLE FROM POTENTIAL UNDERGROUND DEVELOPMENT**

is the initial focus for open pit mining producing copper cathode from a solvent extraction / electrowinning (SX-EW) plant at the rate of 7,000 tonnes a year.

Below the oxides surface cap the sulphide minerals offer an exciting exploration target around, below and along strike of the old Empire Mine workings. Work has started on reopening the old workings to enable underground sampling and drilling and a surface drilling programme into these deeper higher-grade sulphides has started.

## EXTENSIVE HISTORIC DRILLING

The extensive drilling previously completed in the near surface oxides by previous owners, the drill samples and assay results of which are available, mitigates much of the geological and developmental risks. Historically more than 24,000m of drilling data from 287 holes, with an additional 28 infill holes drilled by Phoenix since its IPO at the end of June 2017, has boosted the total all-category NI43-101 and JORC compliant ore resources to 19.4 million tonnes, containing 90,547 tonnes of copper, 6,411,703 ounces of silver, 165,686 ounces of gold plus 51,925 tonnes of zinc giving a contained metal value in excess of $1bn based on current metal prices.

Testament to the company's confidence in the value prospects of the Empire licence area, Phoenix recently expanded its land position by 70%, adding over 564 acres comprising 33 mining claims immediately to the north of Empire Mine and along the strike of the known Empire skarn orebody. These new claims, known as the Horseshoe Block, include the previously producing Horseshoe Mine, which until as recently as 1979 produced copper, lead, zinc, silver and gold.  With this extension, the company nearly doubled its mining and exploration footprint, giving exciting promise for the future.

Further diversifying its resource portfolio, in October 2017 the company acquired two highly sought-after and prospective copper-cobalt properties in the Idaho Cobalt Belt, located in a historically productive area near the aptly named town of Cobalt.

## NEW PROJECTS

Situated approximately 100 miles north of the Empire Mine, the Bighorn and Redcastle properties span a combined 1,180 acres and provide Phoenix with valuable exposure to a most strategically important source of cobalt, which has now become irreplaceable as a technology metal.

Somewhat problematically, 65% of the world's cobalt resources come from the Democratic Republic of Congo. The increased demand fuelled by the electric vehicle revolution, has nearly tripled prices from $25,000 a tonne last year to an all-time high of $68,000 this December. With demand expected to rise further and **Rio Tinto (RIO)** predicting a deficit by 2020, Phoenix is arguably entering this market at a highly strategic time.  Early stage exploration is underway to identify drill targets in early 2018.

The rise in electric vehicle production will also have positive implications for copper demand; an average car contains around 22kg of copper whilst an electric vehicle requires around three times more at around 75kg.

Accordingly, Phoenix is keen to fast track the open pit oxide resource into production. A preliminary feasibility study is currently underway, with production start-up scheduled for 2020, and drilling has also commenced on the deeper sulphide resource.

## STRONG LOCAL SUPPORT

In support of future development, the flagship Empire Mine is ideally situated next to the historical mining town of Mackay, where the local community understands and supports the industry. Locals are keen to see the mine reopen and many have family who were employed there before it closed. 'There's no better place in the world for a mining operation than Idaho', says CEO Dennis Thomas.

Support for the project extends all the way to the state governor C L 'Butch' Otter; 'Mining laws differ from state to state but Idaho definitely secures a place in the top five,' adds Ryan McDermott. 'People are proud of their mining culture and welcome the investment in the local community that comes with it. This provides a stable environment for us to work, adding value and security to all stakeholders.'

UNION JACK OIL

# Union Jack Oil flies the flag

## Website: www.unionjackoil.com

The directors of **Union Jack Oil (UJO:AIM)** see the UK onshore arena as being an attractive target for investment in hydrocarbon projects where the company is active in a relatively low cost operating environment and where the licensing regime is fully transparent.

The board of directors, David Bramhill, Joe O'Farrell, Graham Bull and Ray Godson are all very experienced in the UK oil sector and have been involved for decades in the development and corporate activity in respect of several listed companies.

Union Jack has adopted a low-cost, non-operating business model, typically acquiring minority interests in late stage projects, thus minimising risk and cost exposure to individual wells which are considered to have excellent scope with the drill bit for future discoveries, the Wressle-1 discovery in which Union Jack holds an 15% interest being a prime example.

### WHAT ASSETS DOES UNION JACK HAVE?

The company has acquired interests in nine licences located in the East Midlands

## WHO IS UNION JACK OIL?

### AN AIM-QUOTED OIL AND GAS PRODUCTION AND EXPLORATION COMPANY WITH A FOCUS ON OPPORTUNITIES WITHIN THE UK ONSHORE HYDROCARBON SECTOR

## UNION JACK'S LICENCE PORTFOLIO

**PEDL180** and **PEDL182** Wressle and Broughton North 15% interest

**PEDL005(R)** Keddington Oilfield 20% interest

**PEDL143** Holmwood 7.5% interest

**PEDL253** Biscathorpe 12% interest

**PEDL241** North Kelsey 20% interest

**PEDL201** Burton on the Wolds 10% interest

**PEDL209** Laughton 10% interest

**EXL294** Fiskerton Airfield Oilfield 20% interest

**PEDL203** Kirklington 16.67% interest

**PEDL118** Dukes Wood 16.67% interest

Source: Union Jack Oil

and the Weald Basins, both being established hydrocarbon producing provinces.

The East Midlands and Weald Basins are proven to have all the elements of commercial systems, a source rock with sufficient organic content, maturity, a viable migration path, a reservoir and trap formation.

During 2016 and 2017 the company has been on the acquisition trail and two additional, potentially high impact projects, Holmwood and Broughton North are now within its portfolio. In addition, a further 6.67% of PEDL180 and PEDL182 was acquired including the Wressle-1 discovery bringing Union Jack's interest in these licences to 15%.

More recently, two assets, Fiskerton Airfield Oilfield (20%) and an additional 10% further interest in the Keddington Oilfield (20%) have increased the production profile of the company, evenly balancing the company's portfolio and impacting on shareholder perception supporting management's objectives of creating value and reaching a point in the future at which Union Jack is self sustaining.

## WRESSLE-1 DISCOVERY

The Wressle-1 discovery straddles PEDL180 and PEDL182 on the western margin of the Humber Basin, on trend with the producing Crosby Warren oilfield and the Brigg-1 oil discovery.

The Wressle-1 well was drilled in 2014 and was successfully production tested in 2015 flowing an aggregate of 710 barrels of oil per day from four tests in three conventional sandstones.

Wressle is expected, within months, to become a producer from the Ashover Grit reservoir at a controlled rate of 500 barrels of oil per day subject to a successful planning appeal result. Union Jack's income from this development is expected to have a material impact on the company's cash flow generation and to contribute to financing other projects within the portfolio.

As mentioned earlier Wressle is currently the subject of several planning appeals that were heard in November 2017. The result of these appeals is expected to be known on or before 10 January 2018

A Field Development Plan has been submitted to the Oil and Gas Authority and the

results of the independent Competent Persons Report confirmed the commercial attractions of the Wressle-1 discovery.

The Broughton North Prospect is also located within PEDL182 and has been generated from the high quality 3D seismic set acquired during 2012.

The Wressle-1 discovery has significantly reduced the geological risk over PEDL180 and PEDL182 and the acquisition of further interests including Broughton North will benefit the company going forward in any 'add on' development decisions which may follow once Wressle is in commercial production.

## THE HOLMWOOD PROSPECT

In 2016, the company acquired a 7.5% interest in PEDL143 containing the drill-ready Holmwood Prospect from **Europa Oil and Gas (EOG:AIM)**. This is the first Weald Basin licence interest to be introduced to the expanding Union Jack portfolio.

Holmwood is a conventional oil prospect first identified by BP in 1988 and is located just 12 kilometres from, and on trend with the well documented Horse Hill-1 and Brockham discoveries.

Holmwood is expected to be drilled during 2018 and the company has high expectations of the result of this venture.

## FISKERTON AIRFIELD OILFIELD

Union Jack's initial review of historical 3D seismic and drill logs suggests there is upside potential in the oil resources at Fiskerton Airfield. Union Jack are funding a 3D seismic re-processing exercise to assist in re-mapping the area to identify further production opportunities from the reservoir.

Fiskerton Airfield has suffered from a marked lack of investment in recent years. The company plans to enhance the cash flows and profitability by increasing production initially to between 30-40 barrels of oil per day via low cost well interventions.

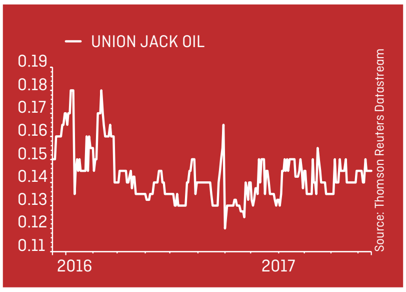
Subject to the results of the 3D seismic re-processing, the Joint Venture partners will investigate the potential to increase further production through in-fill drilling.

## WHAT IS THE PLAN GOING FORWARD?

The company has a well-balanced portfolio of production, development and drill-ready projects.

Administrative and general costs are low and the company remains debt free and has in excess of £1.5m free cash to fund its share of the Biscathorpe and Holmwood conventional exploration wells. The growth of Union Jack is poised to continue without any financial concerns.

The company's strategy of focusing on conventional relatively low risk and low cost onshore production, development and exploration drilling, avoiding early stage and frontier projects is already showing signs of coming to fruition. This allows an opportunity for investors to become involved in a company with a well-balanced asset portfolio with the combined components of production, appraisal, discovery and exploration with guaranteed news flow on numerous projects throughout 2018 and beyond.



# Xtract Resources pursues golden opportunity in Mozambique


**Website:** www.xtractresources.com

Mining firm **Xtract Resources (XTR:AIM)** has a large concession in the Manica district of Mozambique which has several hard rock deposits covered by highly prospective alluvial material.

One of the hard rock occurrences (Fair Bride) has been subject to a Definitive Feasibility Study (DFS) which has demonstrated a robust project. The project which was subjected to the DFS is a seven-year life open pit producing some 35,000 oz of gold per annum with a direct cash cost of $556 per ounce. The capital cost for construction is around $43m and the Manica area is well served by infrastructure.

The company has arrangements in place with three contractors to work the alluvials on a royalty basis with one contractor being

## WHO IS XTRACT RESOURCES?

### AN AIM-QUOTED COMPANY WHOSE FOCUS IS GOLD EXPLORATION AND DEVELOPMENT

issued with a loan account which Xtract may convert to a 35% equity holding. The arrangement with the sub-contractors is expected to produce significant earnings over at least a six-year period and possibly more.

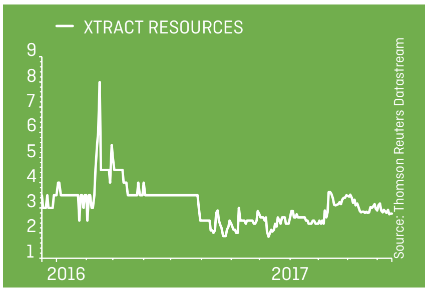
## PURSUING OPPORTUNITIES

The Fair Bride deposit is being fully engineered and project finance is being sought with good response. There are a number of opportunities adjacent to the concession and Xtract is pursuing these opportunities aggressively. The opportunities range from further alluvials to the acquisition of further hard rock occurrences and joint use of installed capacity.

Xtract intend to gain similar positions in Africa with focus being on brown field projects or highly prospective exploration projects where the presence of gold is beyond doubt with significant strike and a requirement for regulatory resource definition.

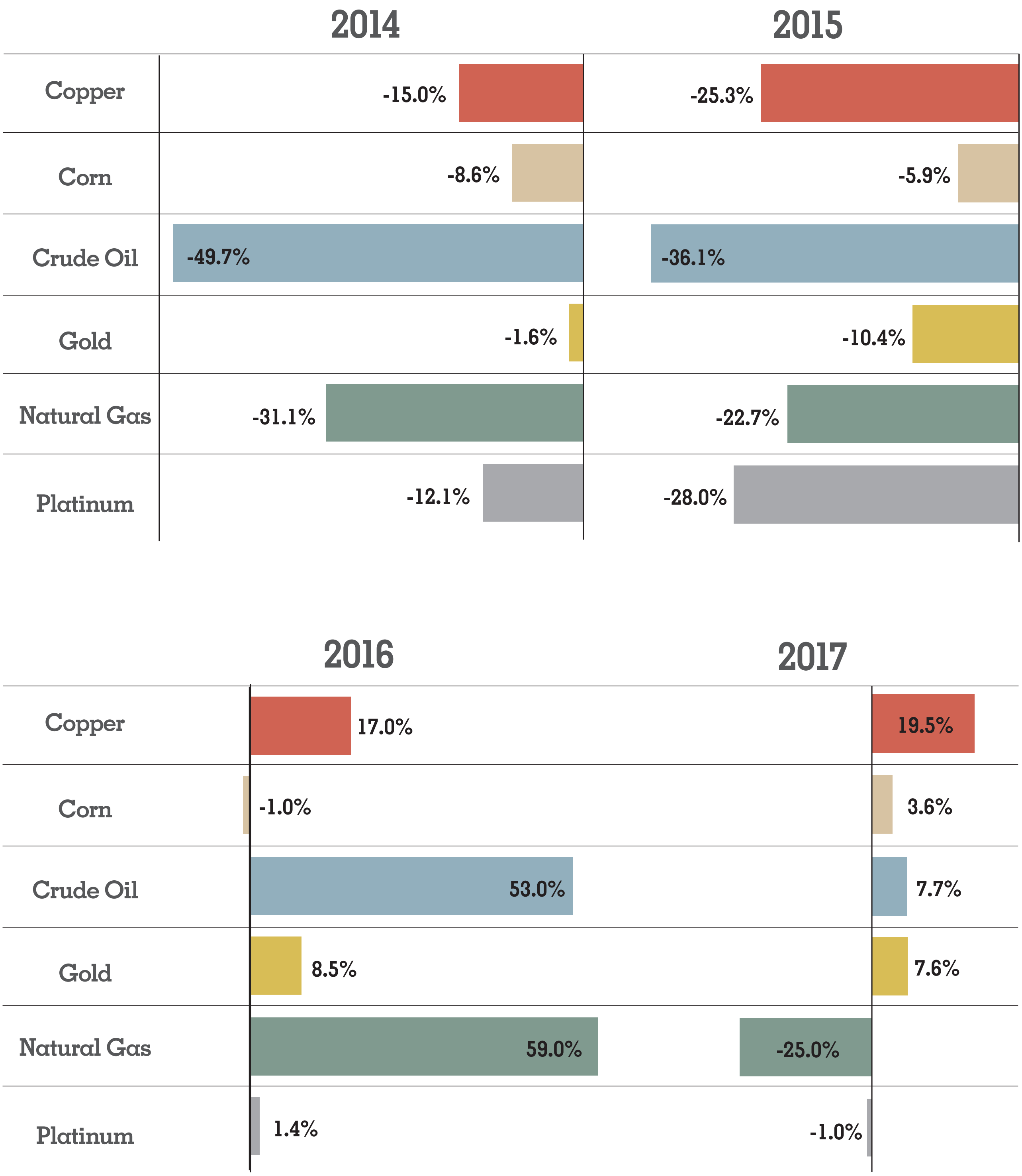
The current market capitalisation is in the region of £10m and the company experiences good daily trading volumes. The chairman and chief executive is Colin Bird who is a seasoned and well-known entrepreneur in the natural resource space. He has formed and floated many companies generally on the AIM and Canadian markets.

> **THE COMPANY EXPERIENCES GOOD DAILY TRADING VOLUMES**



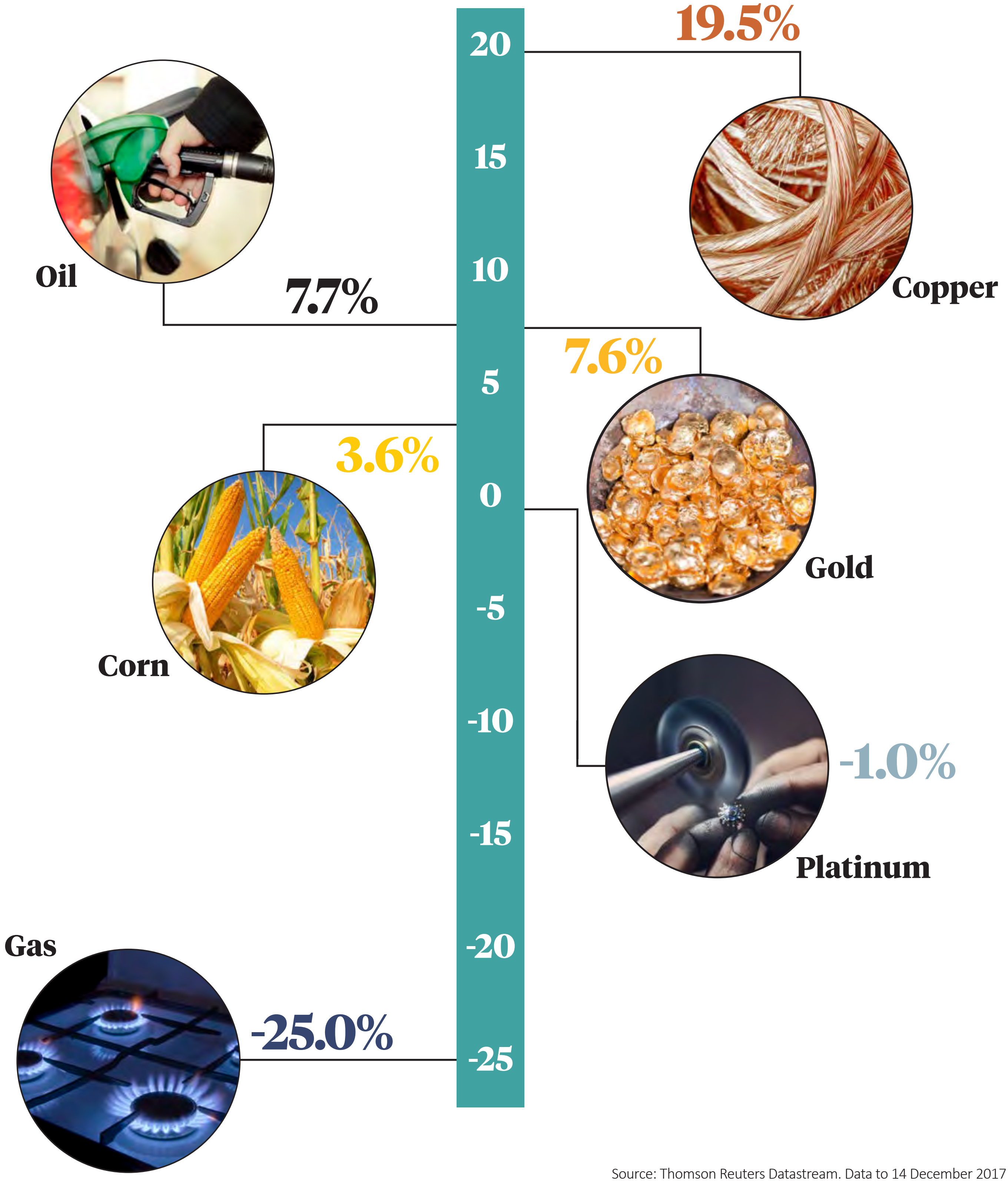


# **Databank** – Commodity price performance 2013-2017




Source: *Shares*, Thomson Reuters Datastream

# Databank – Gain / loss so far in 2017




Source: Thomson Reuters Datastream. Data to 14 December 2017