BEAUFORT SCALE
Issue 1: May
News blowing in from the City

# Welcome

Welcome to the first edition of the monthly newsletter from the Beaufort Securities Research team, *The Beaufort Scale*.

In this new publication we will bring to your attention the companies we have met with during the previous month, giving opinions and thoughts on their management and balance sheets. Whilst our emphasis is at the smaller end of the market, we will also include coverage of FTSE-350 companies.

| Instrument | Value | Change on Month (%) | Year-to-date |
|---|---|---|---|
| FTSE 100 | 6430 | 0.28 | 9.0 |
| FTSE All Share | 3390 | 0.28 | 9.6 |
| FTSE Aim All Share | 708 | -3.22 | 0.1 |
| Dow Jones Industrial Average | 14840 | 1.8 | 13.2 |
| Nasdaq | 3229 | 1.9 | 10.2 |
| CAC 40 | 3857 | 3.4 | 5.9 |
| Xetra Dax | 7914 | 1.5 | 4.0 |
| Nikkei | 13861 | 11.14 | 33.5 |
| Hang Seng | 22737 | 2.3 | 3.5 |
| GOLD $ | 1477 | -7.6 | -11.9 |
| Oil Brent Jun $ | 102.37 | -7.0 | -7.9 |

### *Recession? What Recession?*

Economists love to agree to disagree. It appears that, because we have had lots of bank holidays in 2012, we may not have actually had consecutive quarters of negative growth. The National Institute of Economic and Social Research indicated that output figures may be revised upwards in June to show the UK did not have a second recession. Oh, and of course another reason given is of ‘statistical error’. How many official statistics do we get in a year that are subsequently revised? Can we trust anything from the ONS? Already the three quarters Q4 2011, Q1 and Q2 2012 have been revised down and now we can expect a possible further reduction in June!

At least the ONS came up with the brilliant suggestion that the powers that be should consider longer periods to measure the growth rate as opposed to the current quarterly ones. I suppose from their point of view it means they will only have to revise the new period less often and at greater intervals. But revise the original figures, whatever period they chose, they will - statistical error.

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### *Press Release*

## *Technology and tradition for global financial markets*

The takeover of HB Markets Ltd by Beaufort International Associates Ltd was completed on 28th March 2013, following Beaufort's relocation in late 2012 to HB Market's City offices at Finsbury Pavement in Moorgate. The firm, headed by CEO Tanvier Malik is to be renamed Beaufort Securities Ltd from 1st May 2013, a moderate rebrand that welds together a wealth of experience in Stockbroking, Wealth Management and Capital Markets across the enlarged Beaufort group.

Tanvier expects economies of scale allied to an exceptionally broad reach across retail broking services, wealth management and capital markets to create a significant competitive advantage over their peers. He explains:

*"Beaufort will now operate as a single entity, bringing together the online sharedealing services of SimplyStockbroking, a trading name of Beaufort Asset Clearing Services and HB Markets, with both dealing and capital markets teams also under the same brand."*

**Above: Tanvier Malik, CEO**

Tanvier believes speaking to the markets through what he calls a "single voice" will be the next step for the group to create a global investment house, which will deliver a vast and diverse range of opportunities. And it is clear the combined management, chaired by John Brennan, are equally enthused by the possibilities. Tanvier adds:

*"HB Markets and Beaufort have been established for over 20 years, and through that time have both grown an extensive list of global clients, establishing strong bonds in the process within the retail and SME markets."*

*"To continue to meet the needs of our clients, the new combined management team recognise the importance of adapting to fast changing markets and meeting challenges thrown up by the new financial landscape post credit crunch."*

With a penchant for careful cost control, while ambitious for Beaufort's success Tanvier and his team are keeping a tight lid on spending. He is one of many who believe the days of stockbroker excesses have been consigned to history, but equally that opportunities are there for ambitious employees to contribute to the growth of the firm and participate in its success.

# Small Cap Round-up

Our objective in the Round Up is to highlight a number of stocks we have seen and to be open about our thoughts and views. In addition we will highlight a few Companies we are particularly keen on and why, but detailing only on the previous month's news. Further information is available from your Broker.

## Ariana Resources (AAU, 1.125p) - AIM, Speculative Buy

**April News**

1. Ariana Resources announced the completion of an independent JORC compliant mineral resource estimate for its Salinbas and Ardala properties, in north-eastern Turkey. The two prospects are held jointly with Eldorado Gold Corporation where Ariana holds a 49% stake. Salinbas contains an indicated resource of 180,000 ounces (oz) gold and 820,000 oz silver, with an additional 590,000 oz gold and 3.3 million oz silver in the inferred category. An additional 323,000 oz of inferred resources was identified at Ardala. There is a potential to delineate about 1 million oz (around 500,000 oz net attributable to Ariana) of gold at both prospects, though significant further drilling would be necessary to confirm this potential. Following completion of this initial resource estimate, Ariana will transfer management control of the two properties to Eldorado.

2. Michael de Villiers, a director at the company, bought 500,000 ordinary shares of Ariana at a price of 1.34p per share on 2nd April 2013. The price was at a slight premium to the trading price at the time of 1.3p. The move takes Michael de Villiers' total holding in the company to just under 3.1 million shares or 0.74% of the total issued share capital.

3. Ariana Resources announced that the Kiziltepe sector of its flagship Red Rabbit Gold Project in Turkey successfully completed the public and ministerial consultation process. The process was a part of its Environmental Impact Assessment (EIA) submission to the Ministry of Environment and Urban Planning. There was no opposition to the proposed mine development at Kiziltepe and the site selected for the mine and process plant were considered suitable by the Provincial Directorate. The project now has a clear path to production in 2014 with the last remaining milestone being the environmental certification (EIA), which is expected in Q3 2013.

***Our view:*** *This latest resource estimate marks an important milestone for Ariana Resources in better understanding the Salinbas-Ardala system. Despite the nascent stage in the development of these two prospects, with much exploration work yet to be done, there is potential for the area to host a deposit of about one million oz and perhaps beyond.*

*It was also apparent that the Salinbas gold-silver prospect is related to the Ardala copper-gold-*

*molybdenum porphyry discovered earlier, and represents part of a broader mineralised trend that extends over several kilometres. Given the promising outlook on the prospectivity of this region, Ariana has granted Eldorado the right to take management control of the Joint Venture, so that Eldorado could further expedite the pace of exploration on these prospects given its highly experienced exploration team.*

*Ariana successfully completed the public and ministerial consultation process for the proposed mine development at its flagship Kiziltepe prospect, taking it closer to its first gold production targeted for 2014. Ariana is targeting to build a 150,000 tonnes of ore per annum gold mine at Kiziltepe at an average production of around 21,000 ounces (oz) a year for the first five years. Given the exploration success at the Salinbas-Ardala system and with the Kiziltepe project on track to commence production in 2014, we remain optimistic of the company increasing shareholder value going forward. We maintain a Speculative Buy on the stock.*

Beaufort Securities is Joint Corporate Broker to Ariana Resources.

## Cyan Holdings (CYAN, 0.615p) - AIM, Speculative Buy

**April News**

Cyan Holdings announced that it raised £1m through the conditional placement of 223.3 million shares with new and existing institutional shareholders at a price of 0.45p per share. In addition to the placing shares, Cyan said the investors would be granted warrants to subscribe to an additional 74.4 million new shares at a price of 0.65p per share within a six month period from the date of issue of the warrants. The management plans to use the capital raised for funding both the continued expansion of the company's activities in India as well as to boost its balance sheet, which will assist in the final negotiations with its meter manufacturer partners. The company added that while the Tamil Nadu Electricity Board (TNEB) tender process has been delayed, it now appears to be moving closer to a conclusion.

***Our view:*** *Cyan Holdings will utilize the capital raised to further grow its presence in the highly lucrative Indian market even as it waits for the completion of TNEB's tender attribution process. Cyan has established a strong position in the Indian smart metering market through its association with leading meter manufacturers, system integrators and utility providers. These key partners continue to promote CyLec, Cyan's interoperable smart metering solutions. The Board believes Cyan is in a strong position to win the TNEB tender for the 1.5 million meter units (and ultimately for the whole 18 million units that TNEB plans to replace) which will be transformational for the company in terms of revenue and financial stability. Success at this tender would open up an opportunity to establish the market standard for Automated Metering Infrastructure solutions in India (where more than 100 million smart meters are expected to be installed over the next 10 years). Given Cyan's rapidly growing involvement across several key pilot projects in India demonstrating its CyLec solution, we are optimistic that the company could tap into the massive advance metering infrastructure market in India. We assign a Speculative Buy rating on the stock.*

## ACTA (ACTA, 7.5p) - AIM, Speculative Buy

**April News**

Acta announced that it was launching a back-up power system for the telecom market based on its award-winning hydrogen generator technology, for grid-connected and off-grid applications. Acta's latest product, the Acta Power, incorporates low cost hydrogen generation onsite thereby mitigating the cost and logistical obstacles of hydrogen delivery to base stations, particularly in remote or inaccessible locations. Initial pricing for the system is in the range of €30,000-€40,000, depending on specification. Acta estimates that the price of its product is less than half the current selling price of comparable systems. Moreover, the product's minimal maintenance and service costs make it cost-competitive with battery or diesel systems over a two-three year period, while offering more robust performance and lower theft risk. Acta is developing its first three units to order and anticipates first customer deliveries in the summer of 2013. For the fuel cell system components, Acta has tied up with the technically advanced fuel cell system of FutureE GmbH. The Acta Power system will be available with a 2 kilo-watt (kW) or 4kW power output and with a 500 L/h or 1000 L/h hydrogen generator, and includes flexible, complete wireless GSM communication for remote management, control, alarm and assistance.

***Our view:*** *Acta Power, the company's back-up power system based on hydrogen generator technology could well be a game changer for the company as the product addresses the rapidly growing demand for back-up power systems for telecom base stations in Asia, which is now a key growth market for fuel cell systems. The combination of Acta and FutureE's advanced capabilities will provide a high quality, powerful and cost effective product which could vastly enhance the progress and acceptance of hydrogen fuel cell systems as the next generation of UPS. The last year has been a transformational period for Acta, during which it has signed five new marketing and distribution partnerships, launched eight new products and product modules, and has undertaken the first-time shipment of larger and more advanced electrolyser systems. Acta also welcomed Heliocentris as an investor and strategic partner, increasing its distribution into the educational market within Germany, Africa and the Middle East. Acta also partnered with MBR to rapidly expand its market across south-east Asia. Considering Acta's unique set of patented technologies, robust order book, and the massive potential for back-up power systems in emerging markets, we believe the company is well poised to grow its commercial activities. We maintain a Speculative Buy rating on the stock.*

## *Fastnet Oil & Gas (FAST, 24.875p) - AIM, Speculative Buy*

**April News**

Fastnet Oil & Gas announced a significant increase in the independent resource estimates for its North Celtic Sea Licensing Option 12/5 ('Shanagarry'). The assessment confirmed multiple reservoir targets, comprising both oil and gas reservoirs. It is now estimated that Shanagarry could host an aggregated un-risked P50 prospective resource of 1.298 billion barrels of oil and 1.342 trillion cubic feet (tcf) of gas. Furthermore, the chances of geological success range from 12-14% for oil reservoirs and 5-10% for gas reservoirs. This high potential prospect is located between the existing Kinsale gas field and Barryroe, Ireland's first viable oil field.

***Our view:*** *The significant increase in resource potential at Shanagarry is very encouraging news for Fastnet Oil & Gas. The license covers an area of 123 sq. km. and is comparable in size to the Kinsale gas field and Barryroe oil field structures, making it one of the more significant hydrocarbon-bearing structures in the North Celtic Sea. The management believes that the 3D seismic over Deep Kinsale could see drilling as early as 2014 as part of a multi-well drilling programme with other Celtic Sea operators. SLR Consulting, the consultants in charge of this prospect stated that Shanagarry shares its geologic similarities to both Kinsale and Barryroe, and this could be a major selling point when Fastnet advances a farm-out to bring partners onboard the project. Besides this asset, Fastnet holds an 18.75% economic interest in the Foum Assaka licence in the Agadir Basin, offshore Morocco. It also holds other offshore licensing options in the Celtic Sea (Molly Malone and Mizzen). Having successfully raised £10m fundraising, Fastnet is well placed to provide sufficient funding for the upcoming drilling programmes. Given the immense growth potential of assets held by Fastnet, we are quite optimistic and maintain a Speculative Buy rating to the stock.*

## *Other Companies*

We met Stephen Gutteridge, the relatively new Chairman of **Nighthawk (HAWK-AIM, 4.5p)**, and it is one to keep an eye on. An historic favourite of the private investors, but it had to be rescued 18 months ago. Daily barrels of oil are around the break-even point of 300 bopd. They have a target to raise this to 1,000, definitely one to watch.

Another favourite of the private investors is **Parkmead Group (PMG, Aim 13.25p)** run by Tom Cross as Chairman and CEO and a 27.5% shareholder. Tom Cross was the founder and Chief Executive of Dana Petroleum until its acquisition by the Korea National Oil Corporation in 2010, for over £3bn.

During 2011 and 2012, Parkmead has successfully completed four acquisitions building a balanced portfolio of assets across the entire asset lifecycle. Parkmead currently has interests in twelve UK Continental Shelf (UKCS) blocks across nine licences, two of which are held as operator.

In addition, Parkmead acquired a portfolio of Netherlands onshore assets during 2012, comprising four producing gas fields and two oil fields. In May last year, Parkmead bought DEO Petroleum. DEO's principal asset is its interest in the Perth field in the UKCS. Worth watching.

Three companies that have had bad news in April are detailed below, highlighting the risk inherent in exploration companies.

1. **New World (NEW, AIM, 0.85p)** - third well dry, despite hydrocarbon shows. They have plenty of cash for Denmark and are seeking a farm-in in Belize.
2. **Kea Petroleum (KEA, AIMm 7.125p)** - announced the unsuccessful well drilled in its Mauku permit in the onshore Taranaki Basin. A US$15m well, funded equally under an alliance with Methanex. This follows a successful discovery, which indicated an initial testing production of 700 bopd. Funding issues will focus the company.
3. **Black Mountain (BMZ, AIM-10.25p)** - further delays to earlier promised silver production have arisen. We are aware development brings potential delays, but with little in the way of explanation, credibility begins to be stretched.

Other companies we have seen include **Finsbury Foods (FIF)** which is the UK's number one supplier of premium cake, and second largest supplier of cake to the UK's multiple grocers, with a 20% share of the total pre-packed cake market (65% of revenue). Its bread division (35% of revenue) focuses on speciality and organic bread products. Finsbury Sold its 'free from' business for £21m, upped interim dividend and is concentrating on investment and consolidation. The Company has performed well in testing markets. Not expensive.

**Clean Air Power's (CAP)** prelims showed a great leap in revenue and sales of its Dual Fuel system up from 70 trucks in 2011 to 300 in 2012. It supplies its owned IP Duel-Fuel (TM combustion technology) that can be retro fitted. Volvo are installing on new vehicles. Duel-Fuel is LNG & Diesel and for the big truck market. USA next. Keep an eye out for further traction (sic).

Tiny **Wessex Exploration (WSX)** has a 1.25% interest in the Shell/Tullow/Total project currently drilling offshore Guyane. Current third well dry, but first a success. More importantly Wessex has sufficient funds for the next two wells. It is high risk, but potentially high reward.

Other companies we met include some we were keen on including **Petrel Resources (PET)**, **Software Radio Technology (SRT)**, **Bezant Resources (BZT)**, **Tullow Oil (TLW)**, **Premier Oil (PMO)**, **Eland Oil & Gas (ELA)** and **Providence Resources (PVR)**. Finally, **Surgical Innovations Group (SUN)** has some innovative instruments in the invasive surgery arena which we found attractive, but getting to market may prove challenging. They are probably up to the job.

*If you would like to find out more information about any of the companies featured in the Small Cap Round-up please contact your broker on **020 7382 8300** (London) or **0117 910 5500** (Bristol).*

# City Jargon Explained

Each month we tackle a different subject and explain it in plain English. This month Dan Reed, Senior CFD Broker, explains how **CFDs** can prove a useful weapon in the private investor's arsenal....

**Contracts for Difference... Speculation or Protection... YOU DECIDE?**

In some quarters Derivatives are a swear word that should not be said or heard. The Derivative market received bad press following the credit crunch and the demise of Lehman Brothers, but has the tarnishing of its name been over done?

Derivatives come under many guises, CFDs, Spread Betting, Futures and Options to name but a few. But they are becoming more of a mainstay for the Private Investor's portfolio, especially in these volatile markets. The main basis of the use of derivatives is for pure speculation but many investors use them as a tool for pure protection in their portfolios.

Used in the right manner, be it for speculation or hedging, derivatives have a firm place alongside any equity portfolio. They do fall into the "high risk" category but when risk capital is used for speculation or the benefits of hedging are considered alongside any profits gained, they are a worth considering. Derivatives represent a sensible use of capital for risk exposure if used in the correct leveraged manner. For example, let's take the movement of Taylor Wimpey over the last 6 months, moving from 57p/58p in November to 96p as I write, after the company's trading statement ( on 25th April 2013 ). Now that is obviously a nice profit situation within anyone's portfolio, but stocks that can rise this quickly can also fall at the same rate. This is one area where the use of derivatives can be very beneficial to protect your portfolio.

For example, CFDs could be used here as a protective tool. For limited use of your initial outlay (capital) you can look at shorting Taylor Wimpey to gain you some protection should the price fall. Thus the strong profits that you have gained are marginally protected, subject to the size you want to protect, should any fall in the share price occur.

Likewise, opportunities can arise from a variety of areas within any market, be it Equities, Indices, Commodities, Forex or even Traded Options. Many an asset class can hit clear trading levels; be it areas of support, momentum trades, bouncing of moving averages to name but a few. Alongside that the level of leverage used can be tailored to any requirement, be it aggressive or conservative, or literally as simple as gaining a slightly larger exposure for your initial capital.

The FTSE 100 has a plethora of opportunities for derivative trades on a day-to-day basis. The slow searching process to locate these is something that is carried out by diligent brokers on a minute-by-minute basis. The hunt for an opportunity is something that forever runs through a trader's mind, as derivatives can enable small price movements to generate small profits on an intraday basis.

In the current market the aggressive movements we now see are creating derivative opportunities, be they for protection or speculation. As much as they do attract the fear factor - especially the manner of leverage - used in the correct way their benefits are plain to see. I always say that derivatives could offer benefits to any client's trading strategy, but the key factor is how you use them - the end goal being to seamlessly blend them into your portfolio.

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***CFDs are not for everyone!***
You must be 18 or over and ensure that you understand the risks involved in CFD trading. They may not be suitable for everyone and you may lose more than your initial deposit. CFD accounts are not for risk averse investors. They have the potential for bigger profits through leverage but also big losses if the price moves against you.

## Recommendations

During the three months to end-April 2013, the number of stocks on which Beaufort Securities has published recommendations was 178, and the recommendations were as follows: Buy - 72; Speculative Buy - 73; Hold - 29; Sell - 4.

Full definitions of the recommendations used by Beaufort Securities in its publications and their respective meanings can be found on our website here.

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