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To: Charles Long; Elliot Hance
Subject: FW: Breakfast Today, 16th September 2016
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To: Kazunaga Senga
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Breakfast Today

Friday 16th September 2016

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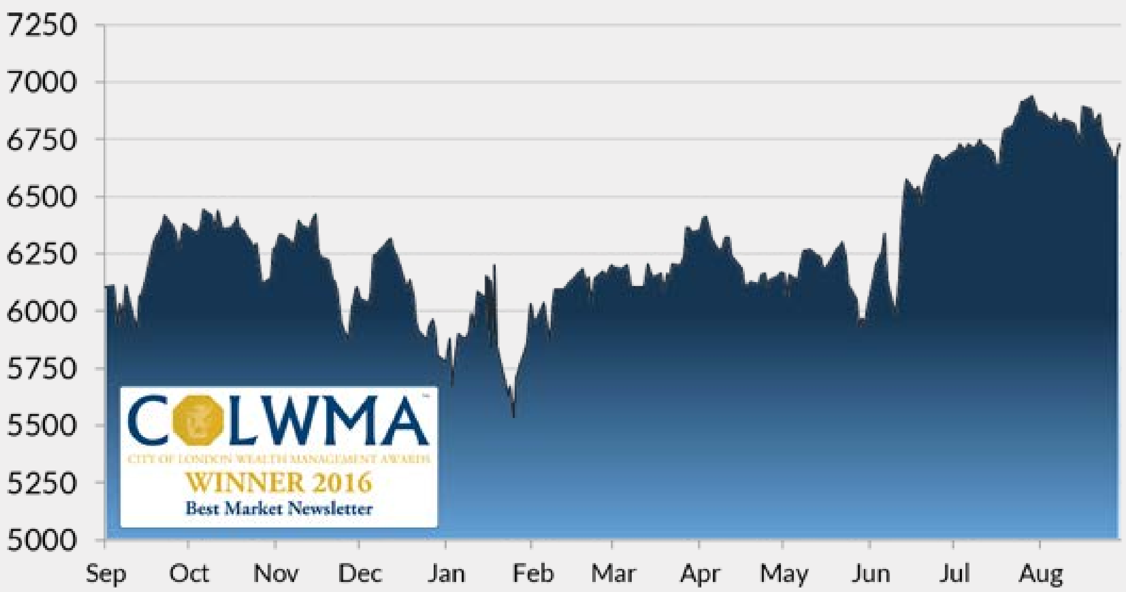
FTSE-100



FTSE-100 1 Year Chart

"Have the central banks run out of ideas? Traders are hearing this common narrative, and it's starting to worry. Globally ultra-low rates are on offer everywhere while every viable corner to apply stimulus has been sought out, but all to little net effect. Yesterday, Bundesbank President, Jans Weidmann, even took the opportunity to remind the European Central Bank that its easy-money policies could curb productivity, undermine banks' ability to lend while keeping inefficient enterprises alive. His views are shared by other senior bankers who are keen to stop even deeper ECB interventions in financial markets and fire similar warning shorts across Mario Draghi's bows. A week before the FOMC gathers for its September meeting, with members having already openly aired their sharply contrasting opinions, many are now suggesting that, as difficult as it sounds, some sort of concerted, global political intervention will be required to help policymakers recreate globally sustainable economic conditions, with a view to first getting growth and inflation back on predictable trend. All very worrying, but Ignoring the bigger picture for now and instead playing the shorter game, the principal US indices all rose broadly yesterday, led by the expectation interest rates will remain unchanged this month, tech stocks put in good gains while also seeing some recovery of previous day losses for energy stocks. This was enough for all 30 components of the Dow to close higher. With the Chinese, Hong Kong and the South Korean markets closed in Asia for their Mid-Autumn Festival holiday, Japan traded higher as its tech stocks followed the NASDAQ's lead and the ASX saw major commodity plays regain some of their confidence. Today's EU summit in Slovakia should grab some headlines, as leaders contemplate life without the UK and the Union's future existential challenges. The UK is not scheduled to release any important macro data and no major corporates are due to release earning figures today, although investor's will be keen to hear a response from Deutsche Bank which learned overnight of the US$14bn penalty proposed by the US to resolve the ongoing mortgage probe in its territory. The FTSE-100 is seen drifting some 10 points lower during opening trade on relatively light volumes."

- Barry Gibb, Research Analyst

Markets

Europe

The FTSE-100 finished yesterday's session 0.85% higher at 6,730.30, whilst the FTSE AIM All-Share index closed 0.02% higher at 802.16. In continental Europe, markets ended higher, as soft economic data released in the US weakened prospects of an interest rate hike by the Fed. Germany's DAX and France's CAC 40 gained 0.5% and 0.1%, respectively.

Wall Street

Wall Street ended in the green, driven by a rally in technology stocks. Investors digested a mixed set of economic data released in the US. The S&P 500 advanced 1.0% in yesterday's trading session.

Asia

Equities are trading higher, tracking the gains in global markets. Investors are waiting for the key central bank meetings in the US and Japan. The Nikkei 225 increased 0.7%. The Hang Seng remained closed on account of a public holiday.

Oil

Yesterday, Brent oil prices increased 1.6% to US$46.59 per barrel, while WTI prices rose 0.8% to US$43.91 per barrel.

Headlines

Bank of England maintains its interest rate at 0.25%

Bank of England (BoE)'s Monetary Policy Committee voted unanimously to keep the bank rate at 0.25%, government bond purchases at £435bn, and corporate bond purchases at £10bn. BoE increased its growth forecast to 0.3% q-o-q from the previous estimate of 0.1%. It also expects inflation to reach the 2% target in the first half of 2017.

Company news

Jubilee Platinum (JLP.L, 3.38p) – Speculative Buy

Jubilee has published an operations update for the month of August. Dilokong continues to perform well while Hernic is on time and on budget, with commissioning targeted for December. At the Dilokong chrome project (which Jubilee calls its DCM Project) the plant produced 10,430 tons of fine chrome, up c.8% from June. This generated revenues of ZAR 13.15 million or £0.74m, up 7% versus July. Attributable earnings at the project level for July are £0.31m versus £0.29m in July.

Our view: *The Dilokong chrome operation is an important and profitable business for Jubilee, however Jubilee will soon be a platinum producer too. Dilokong continues to produce high grade platinum tailings material and Jubilee has been investigating whether to build its own flotation plant or get the material toll treated. This work should be concluded soon and if the toll treatment route is taken, Jubilee will be receiving its first platinum revenue stream in the near term. Of course the Hernic chrome and platinum project is also under construction so this should generate cash from 1Q17.*

Beaufort Securities acts as corporate broker to Jubilee Platinum plc

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Kibo Mining (KIBO.L, 8.25p) – Speculative Buy

Kibo Mining, the exploration and development company focused on energy and mineral projects in Tanzania, announced today that has signed a Memorandum of Understanding (MoU) with General Electric International (GE) with respect to the development of the Mbeya Coal to Power Project (MCPP). The MoU provides for GE and its affiliates to supply equipment, technology and services to the MCPP power plant. In additional, GE will explore opportunities where it can assist Kibo in bringing the project to successful financial close. Kibo and GE are in discussions to set out in detail the terms and conditions of their collaboration into a binding agreement.

Our view: *Today's announcement is positive news given GE's technical expertise and reputation within the power sector. Although still early in discussions of a potential partnership, the interest that GE is showing in the MCPP Is very encouraging. We look forward to the details and conditions of the MoU which could potentially lead to a binding agreement in the development of the MCPP power plant. In the meantime, we maintain a Speculative Buy on the stock.*

Beaufort Securities acts as corporate broker to Kibo Mining plc

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Prospex Oil & Gas (PXOG.L, 1.52p) - Speculative Buy

Prospex announced that Hutton Poland (in which Prospex has a 49% interest) has hired a drilling company for the first well at Kolo. The Boleslaw-1 well will be drilled to 1500m and test two sandstone reservoir targets (one at 900m at one near 1500m). Spudding is expected in November and drilling should take 32 days to reach total depth. The main outstanding items before drilling can start is the environmental permit and drilling permit (Plan Ruchu). The former is expected later this month, after which the Plan Ruchu should be a formality.

Our view: *Prospex is progressing towards its original target of spudding in November and well testing before the year end (N.B. the well test is a 25 day programme so will start but is unlikely to be completed in December). Near term newsflow will include the environmental permit being issued, drilling permit (Plan Ruchu), mobilisation and spudding. We have a 3.0p target price, and Speculative Buy recommendation.*

Beaufort Securities acts as corporate broker to Prospex Oil & Gas plc

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Booker Group (BOK.L, 181.70p) - Hold

Booker Group (Booker) released a trading update for the 12 weeks to 9th September 2016 (Q2 FY 2016). Group sales, including Budgens and Londis, rose 15.2% in the same period last year, with non-tobacco sales up 15.5%. Booker's Like-for-like (LFL) sales and LFL tobacco sales dropped 0.4% and 3.5%, respectively, while non-tobacco LFL sales increased 0.9%. Net cash position as at 9th September 2016 stood at around £105m. Booker remains on track to meet expectations for the year ending 24th March 2017. The group would announce interim results for the 24 weeks to 9th September 2016 on 13th October 2016.

Our view: *Booker delivered decent performance in Q2 FY 2016. Sales increased with good performance from the catering and retail divisions of the group. However, tobacco sales were negatively impacted by the ban on small stores displaying tobacco products, resulting in decline in LFL sales. Booker made good progress in the integration of Budgens and Londis. Nonetheless, the market remains challenging and we are yet to see the impact of Brexit on consumer behaviour. In light of the mixed outlook, we downgrade the rating to Hold from Buy.*

REQUEST A CALL FROM A BROKER REGARDING THIS RECOMMENDATION

GlaxoSmithKline (GSK.L, 1,624.0p) - Buy

GlaxoSmithKline (GSK) reported positive results from its phase III study of investigational shingles vaccine Shingrix. The results showed the vaccine has 90% efficacy in adults aged 70 years and older, which is maintained for at least four years. Vaccine efficacy was maintained across various age groups included in the study, ranging between 90% in people aged 70–79 (95% confidence interval: 83–94%) and 89% in those aged 80 years and above (95% confidence interval: 74–96%). The high efficacy is in line with the results of the ZOE-50 trial, a study in people over 50 years old, which was presented and published last year, showing 97% efficacy (95% confidence interval: 93–99%. Additionally, a pooled analysis of data from the ZOE-70 and ZOE-50 trials showed the candidate vaccine effectively reduced the risk of subsequent chronic neuropathic pain, also known as postherpetic neuralgia (PHN). The results were published in the New England Journal of Medicine (NEJM).

Our view: *The aforementioned news is positive development for GSK. This is the first instance that such high efficacy is established in a vaccine candidate for older people. On approval, the vaccine could be used to prevent shingles and the pain associated with it, which would significantly impact the health and quality of life. Last month, GSK signed an agreement with Verily Life Sciences LLC, an Alphabet* *company, to form Galvani Bioelectronics (Galvani) for research, development and commercialisation of bioelectronic medicines. The agreement brings together health and technology firms to develop miniaturised, precision electrical therapies. Galvani would benefit from GSK's world-class drug discovery, development expertise and deep understanding of disease biology. It would also benefit from Verily's world-leading technical expertise in miniaturising low-power electronics, device development, data analytics and software development for clinical application. Galvani would initially focus on establishing clinical proof of concept in inflammatory, metabolic and endocrine disorders, including type two diabetes. We believe the formation from Galvani would accelerate GSK's progress in the bioelectronics field. In light of the on-going developments in GSK, we maintain a Buy rating on the stock.*

REQUEST A CALL FROM A BROKER REGARDING THIS RECOMMENDATION

WM Morrison Supermarkets (MRW.L, 208.10p) - Hold

WM Morrison Supermarkets ('Morrison'), one of the UK's largest Supermarket operator, yesterday announced its interim results for the half year ended 31 July 2016 (H1 FY2017'). During the period, total turnover fell slightly by -0.4% to £8.03bn, while like-for-like ('LFL') sales excluding fuel and tax grew by +1.4%, against the comparable period (H1 FY2016). With operating margin improved by 0.26% to 2.6%, underlying operating profit (before tax and restructuring cost) increased by +11% to £207m. Reported pre-tax profit was £143m, up +13.5%, resulting basic earnings per share rose by +2.4% to 4.70p. Net debt reduced by £477m to £1,269m and free cash flow stood at £558m (H1 FY2016: £479m). On the operational front, the Group confirmed it is making good progress towards restructuring and announced strategic partnership with Amazon, Timpson and Ocado. The Group has disposed a stake in Fresh Direct post the period end. Morrison has laid out 6 priorities; (1) To be more competitive; (2) To serve customers better; (3) Find local solutions; (4) Develop popular and useful services; (5) To simplify and speed up the organisation; and (6) To make core supermarkets strong again. Morrison's Chairman, Andrew Higginson commented "The new team has made a real difference and delivered further good progress across the board in the first half. We remain on track to deliver improved profits and returns for shareholders." The Group declared interim dividend of 1.58p per share, up +5.3%.

Our view: *Morrison checked-out with robust result for H1 FY2016, exceeding the consensus analyst expectation on both LFL sales growth as well as pre-tax profits. Something of a landmark event, given positive half-year LFL seen for the first time in 4 years! It was particularly strong in Q2, when the Group saw +2% increase in LFL sales growth. Morrison's peers are yet to announce their own interim result, however, we believe there are realistic chance where Morrison has outperformed. The Group achieved free cash flow target of £2bn, 6 months in advance, and* *delivered first £5m of the incremental £50m-£100m pre-tax profit target during the period. Having delivered this, the Group has set a new targets of; (1) Cost savings to exceed £1bn by end FY2017; (2) Working capital improvement target increased from £800m to £1bn; and (3) End-FY2017 net debt target lowered from £1.4bn-£1.5bn to c.£1.2bn, and net debt expected to fall to less than £1bn by the end of FY2018. Its Chairman praised the new team, led by its CEO, David Potts who joined the Group in 16 March 2015 after leaving Tesco, whose contribution has made a "real difference". Morrison has closed 7 stores during the period, bringing total closure for the last two years to 28 stores (or 5% of the space). As a part of restructuring, the Group has also broadened its customer reach through strategic partnership with Ocado (recently negotiated new terms) enabling more customers to shop at Morrisons.com and with Amazon for wholesale agreement. Moreover, the Group has also partnered with Doddle and Timpson to enable "one-stop-shop", in line with its strategy to develop popular and useful services. We believe online and wholesale agreement will increase the sales, while Doddle and Timpson will likely to boost the footfall to the stores, which fits perfectly to the modern customer behavior of low volume, more frequent 'top-up' shopping. The Group's strengthened balance sheet driven by significant deleveraging and strong free cash flow, together with management confidence for further improvement has pave the way for increased interim dividends, in line with its new policy of sustainable dividend covering c.2x the underlying earnings. The management confirmed in the analyst conference call that the Group will continue to invest in pricing and will return "surplus capital to shareholders at appropriate time". Although this may result in unwanted consequence of price war and food price deflation, Morrison seem to have gathered momentum to push forward. The management so far sees no impact on customer sentiment from the Brexit and said it sourcing most from the British suppliers compared to others, which provide some comfort towards Brexit related foreign currency cost concern. We are encouraged by the Group's progress and more optimistic about the Group's future performance. At this moment, however, we remain more favorable to Sainsbury who traded at FY2017E P/E of 11.7x along with dividend yield of 5.1% to Morrisons (FY2017E P/E of 20.3x and yield of 2.5%). Beaufort retains its Hold rating on the shares for now, but will consider upgrading to Buy following review of forthcoming results from its sector peers.*

REQUEST A CALL FROM A BROKER REGARDING THIS RECOMMENDATION

Next (NXT.L, 4,957.0p) - Buy

Next declared results for the half year ended July 2016 (H1 FY 2017). Total sales rose 2.6% y-o-y to £ 1,957.1m. Next's Retail division reported a 0.1% increase in sales to £1,083.6m, with net new space contributing +2.8% to growth. Full price sales were down -3.2%. Next's Directory division sales rose 7.1% to £821.2m, with full price sales growth of +5.5%. Pre-tax profit dropped 1.5% to £342.1m, while EPS increased 0.8% to 188.6p, enhanced by the effect of share buybacks. Underlying surplus cash generated from operations in the first half stood at £233m. Overall, net cash outflow for H1 FY 2017 stood at £96m and net debt increased from £850m at the beginning of the year to £946m at the end of July. On the operational front, Next rolled out its mobile website (m.next.co.uk) to all handheld devices. The company maintained its upper and lower range of full-year guidance, with total full price sales of -2.5% to +2.5%, pre-tax profit of £775m–£845m (-5.6% to +2.9%) and earnings per share of -2.5% to +6.3%. The group declared interim dividend of 53p, in line with the previous year, to be paid on 3rd January 2017.

Our view: *Next performed resiliently in H1 FY 2017, considering the damage from slowing pre and post the Brexit consumer confidence vote had already been factored in, in addition to the weather hit in March and April. Sales were boosted by higher number of stock for sale, with clearance rates slightly ahead of the management's expectations. For the current year (FY 2017), the Group is well-positioned to cope with sterling weakness, as it has fully hedged all currency exposures. For FY 2018, the impact of a weak sterling would be partly mitigated by factors such as pre-referendum hedging and euro and dollar revenue. While consumer demand is likely to remain subdued for the remainder of the year and year-on-year performance in Q3 would be challenging given last year's strong comparative, Q4 is expected to read better. This is subject to winter this year, as last year saw a warm quarter. The group's mobile website was well received with conversion rate increasing 16% from 4.9% to 5.7%. Next plans to increase net trading space by 350,000 sq ft this year, bringing its portfolio to 8 million sq ft, substantially more than the forecast in March. In light of the above argument, we maintain a Buy rating on the stock.*

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Economic news

Eurozone CPI

As per final released by Eurostat, Eurozone's CPI rose to 0.2% in August, in line with the market expectations. On an m-o-m basis, consumer prices increased 0.1% in August, after a 0.6% fall in July.

US retail sales advance

US retail sales advance fell 0.3% m-o-m in August, after a revised rise of 0.1% in July, the US Commerce Department said yesterday. Excluding the sales of motor vehicle and parts, retail sales dropped 0.1% in August, after a 0.4% drop in July.

US initial jobless claims

Initial jobless claims in the US increased by 1,000 to 260,000 for the week ended 10th September, the Labor Department reported yesterday. Economists expected the claims to increase to 265,000. The four-week moving average slipped 500 to 260,750 last week.

US PPI final demand

The US producer price index (PPI) for final demand remained flat in August, following a 0.4% decline in July, the Bureau of Labor Statistics stated yesterday. The markets expected a 0.1% increase in demand. Core producer prices, excluding food and energy, rose 0.3% in August, from a flat reading in July. On a y-o-y basis, PPI remained unchanged in August, after a 0.2% fall in the previous month.

US empire manufacturing

The US Empire State manufacturing index for general business conditions improved to -2.0 in September, from -4.2 in August, the manufacturing survey by the Federal Reserve Bank of New York revealed yesterday. Economists had expected a reading of -1.0.

US industrial production

Industrial production in the US dropped by 0.4% in August after climbing by a revised 0.6% in July, the Federal Reserve announced yesterday. Markets were expecting output to drop by 0.2%.

Weekly diary

Click here to see all next week's planned corporate and economic announcements.

Recommendations

During the three months to end-August 2016, the number of stocks on which Beaufort Securities has published recommendations was 297, and the recommendations were as follows: Buy - 112; Speculative Buy - 118; Hold - 63; 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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