Sanlam Investments

Chagala Group* (CGLO.L)

Cash flow recovery despite the headwinds

Spec Buy

Initiation

11th December 2015

Chagala provides residential accommodation, business space and other services to the numerous staff working for the oil and gas majors in western Kazakhstan. Its main tenant is the NCOC consortium (which includes ENI, Total, Exxon & Shell) investing in the Kashagan field. In November it cancelled its GDR and transferred to a standard listing, so the shares now trade on the main market. This should not only save the company fees, but also make the shares significantly more investable. We use a DCF model to value Chagala, incorporating a 15% discount rate and 2% terminal value growth. This produces a fair value of US$1.53, implying upside of 74% and a P/NAV of 0.37x.

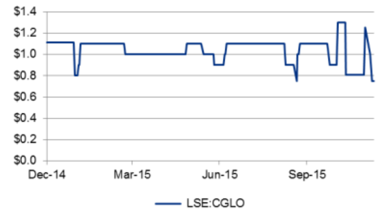
- **Property provider to oil majors:** Chagala's US$100m portfolio includes hotels, long-stay serviced apartments, offices, leisure facilities, restaurants and bars in six locations. There are currently 21,000 m2 of property under development or in design and the company owns 95 hectares of development land.
- **Kazakh market:** Lower oil prices and the sanctions on Russia caused Kazakh GDP growth to slow to 4.3% in 2014. The ADB projects growth slowing further to 1.9% in 2015, before recovering to 3.8% in 2016. However, Chagala is more sensitive to the development of the much delayed Kashagan field in the Caspian.
- **Earnings and dividends:** Following the devaluation of the Tenge we forecast weaker sales and a 20% fall in adjusted earnings this year, despite lower admin costs, depreciation and interest charges. This trend of falling costs (largely in Tenge) should drive improved cash flow and adjusted earnings in FY16. Chagala has a 50% payout policy, so we forecast dividends more than doubling in FY16.
- **Discount to peer valuation:** Chagala trades at a significant discount to its peers on a FY15 P/NAV of 0.21x. Only one comparative company pays a dividend, but with Chagala's dividend forecast to grow we forecast a yield of 3.8% in FY16.

Dec Year End	FY12	FY13	FY14	FY15E	FY16E
Total revenues (US$m)	32.0	33.6	28.2	23.5	20.4
EBITDA (US$m)	9.9	11.1	9.2	8.1	8.5
PBT (US$m)	(28.2)	1.1	2.0	2.0	2.0
Reported EPS (USc)	(117.2)	2.63	6.66	6.66	6.65
Adj EPS (USc)	(13.6)	3.02	3.77	3.02	6.65
DPS (USc)	-	1.88	5.73	1.51	3.32
Free cash flow (US$m)	2.36	8.54	3.32	(1.40)	4.58
Net (debt)/cash (US$m)	(32.9)	(24.8)	(17.7)	(19.5)	(15.6)
Net LTV (%)	23%	19%	15%	19%	16%
NAVPS (US$)	5.54	5.46	4.78	4.17	3.85
EV/EBITDA (x)	5.2	3.9	4.0	4.7	4.0
P/NAV (x)	0.16	0.16	0.18	0.21	0.23
Dividend Yield (%)	-	2.2	6.5	1.7	3.8

Source: Sanlam Securities UK

Closing price	US$0.875
Target price	US$1.53
Market cap	US$19m
Enterprise value	US$38m
Share price as at close	10/12/15

Property company providing residential and commercial space to the oil & gas majors operating in Kazakhstan.



Source: Capital IQ

Chagala Group is a research client of Sanlam Securities UK

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Investment Summary

Providing property & other services to oil majors in the Caspian

Chagala provides property and services to the offshore oil and gas majors, whose large numbers of staff in western Kazakhstan require residential and business accommodation, as well as associated catering, leisure, transport, warehousing and logistics support. The company was established in 1994 and opened its first hotel in Atyrau in 1995. Its operations now include managing 400,000 room nights a year, 20,000 square metres of office space and 14 food and beverage outlets.

Portfolio expanded to six locations

Chagala has grown significantly since 1994 and now includes: hotels, long-stay serviced apartments, offices, leisure facilities, restaurants and bars in six locations, as well as camp facilities catering for remote locations like Aksai, where the oil and gas workers are active. It currently has 21,000 m2 of property under development or in design and the company owns 95 hectares of development land, located close to the existing locations in Atyrau.

Kazakhstan oil sector dominated by Kashagan

Kazakhstan has proven crude oil reserves of 30bn barrels, Eurasia's second largest reserves after Russia. The Kashagan field is the world's largest discovery of oil in the last 30 years, with recoverable reserves of 13bn barrels. The North Caspian Sea Production Sharing Agreement was signed in 2001, but Kashagan has been repeatedly delayed, due to the field's adverse operating environment and complexity, resulting in significant cost overruns. An example of this was in late 2014 when a further US$4bn had to be spent to replace 200km of leaking pipelines.

Kazakhstan economy hit by oil and Russian downturn

Falling global oil prices and sanctions on Russia caused Kazakh GDP growth to slow to 4.3% in 2014, from 6.0% in 2013. Growth is projected to slow further to 1.9% in 2015, before recovering to 3.8% in 2016. A managed currency devaluation in February 2014 strengthened budget revenues, by boosting the Kazakh export market and in July 2015, Kazakhstan decided to shift the Tenge to a freely floating exchange rate to boost growth further.

Strategy to work in partnership with oil companies

Chagala's strategy is to anticipate investment in the Kazakh oil and gas sector and build good quality operations to meet it, using a "build to suit" strategy to reduce risk exposure. It thus intends to continue expanding its position in West Kazakhstan as investment picks up, focusing on good quality tenants with long-term agreements. It will also pursue geographical and client expansion, both within Kazakhstan and beyond, where the value rental market is not fully exploited and expand the tenant base to other businesses, to reach 30% of group revenue by 2020.

Regional property market has limited competition

Chagala faces the most competition in Atyrau, its largest city of operation. Its main competitors are locals and the Marriott Group. There are ten other hotels in Atyrau offering rooms for the business market of a similar quality and size. The occupancy of these hotels averages between 50% and 75% and Chagala does not expect demand to increase in the short term. Chagala has just 6% of the 270,000 m2 of office space in Atyrau, 70% of which is Class A and B. However, in Bautino, there are just two other hotels and they are not of the same quality or price range.

Earnings growth driven by cost savings

Following the devaluation of the Tenge we forecast weaker sales and a 20% fall in adjusted earnings this year, despite lower admin costs, depreciation and interest charges. This trend of falling costs (largely in Tenge) should help drive a sharper improvement in free cash flow and adjusted profits in FY16. We are forecasting a 120% increase in FY16 adjusted EPS. Chagala's dividend policy is to pay out 50% of earnings, so we forecast a DPS of USc 1.7 this year, followed by USc 3.8 in FY16.

NAV of US$100m in 1H15

The fair market value of the portfolio, as at 30 June 2015, was US$100m and the most recent NAV per share was US$4.69, a fall of 2% HoH. The shares are, therefore trading at an 81% discount to reported NAV. We have adjusted the book value for deferred tax liabilities to reach the NAV of US$100m. Forecast valuation gains (deriving from improved asset level profitability) should partially offset the devaluation related impairment, although NAV is still forecast to fall 13% in FY15, followed by 8% in FY16.

Capital structure is strong and improving

Chagala had total debt of US$20.5m and a gross LTV of 19% as at 1H15. We expect this to increase to £25m at year-end following investment in the Uralsk office. In 2016 Chagala will repay US$11.9m of bonds, which will reduce debt levels substantially to less than US$17m. We are forecasting a net LTV of just 16% in FY16, which will see interest cover increase to c.2x and thus improve earnings substantially. This should be made possible by the increase in free cash flow, to c.US$4.5m from next year.

Shares moved to a Standard Listing and main market trading

Chagala has cancelled its GDR listing and transferred its shares to the standard list, so its shares trade on the main market of the LSE as of 18 November, which should not only save the company fees, but also make the shares significantly more investable, thereby hopefully improving the liquidity and attractiveness of the stock.

Fair value of US$1.53 implies a P/NAV of just 0.37x

We have valued Chagala using a DCF model, incorporating free cash flows post interest, a 15% discount rate and nominal 2% terminal value growth. This produces an NPV of US$32m and a fair value of US$1.53, implying potential upside of 74% and a P/NAV of 0.37x at fair value. Chagala trades at a significant discount to its peers on a FY15 P/NAV of 0.21x versus 0.7x. The only other company to pay a dividend is Raven Russia, which has a forecast yield of 8% in both years, but Chagala's dividend is forecast to rise significantly as earnings grow.

Comparative valuations

	Price US$	Mkt Cap US$m	P/NAV (x) 2015E	P/NAV (x) 2016E	Yield 2015E	Yield 2016E
AFID	0.1	136.2	0.13	N/A	0.0	0.0
Mirland*	1.1	109.2	1.30	N/A	0.0	0.0
Raven Russia	0.6	399.4	0.52	0.51	7.9%	7.9%
Average	**0.0**	**644.8**	**0.65**	**0.51**	**N/A**	**N/A**
Chagala	0.9	18.6	0.21	0.23	1.7%	3.8%

Source: Company Data, Capital IQ, Sanlam Securities UK

Valuation

Appraisal value

The fair market value of the portfolio, as assessed by Veritas Brown in the Property Valuation Report dated 30 June 2015, was US$100m. Of this total, US$95m is in completed assets, with US$0.6m in the course of development and US$5m held in land plots.

1H15 Portfolio valuation (US$m)

Developed properties			
Atyrau			**Value**
Chagala Waterfront Hotel	Hotel	(75 rooms) 1,000 sq m	5.19
		Office space, 4,354 sq m	
Chagala Waterfront Apartments	Apartment	(42 units) 1,632 sq m	2.46
Chagala Waterfront Apartments	Apartment	(43 units) 1,903 sq m	1.25
Chagala Centre Office	Office	10,488 sq m Class A	16.25
Chagala Annex 1 Office	Office	1,875 sq m Class A	3.69
Chagala Annex 2 Office	Office	1,377 sq m Class B	1.26
Chagala Annex 3 Office	Office	1,050 sq m Class B	1.01
Chagala Plaza Apartments	Apartment	(41 units) 1,802 sq m	3.28
Chagala Plaza Apartments	Apartment	(41 units) 1,802 sq m	3.13
Chagala Plaza Apartments	Apartment / tech bldng	(64 units) 4,550 sq m	5.65
O'Neill's Pub & office	Restaurant / office	573 sq m	1.27
Garage/Storage facility	Storage facility	3,685 sq m	0.80
Petrovski Restaurant	Restaurant	400 sq m	0.66
Hugo's Restaurant	Restaurant	1,375 sq m	0.44
Townhouses and tech building	Townhouse/tech bldng	33 houses, 6,100 sq m	11.10
Ural Residence and tech building	Residence/tech bldng	(108 units) 8,986 sq m	10.40
Sport and leisure complex	Sports complex	Swimming pool 250 sq	2.84
Bautino			
Chagala Hotel Bautino	Hotel	(147 rooms) 3,890 sq n	10.39
Bautino Guest House	Hotel	(6 rooms) 446 sq m	0.26
Bautino RCP Camp	Land	4.8 hectares	0.43
Aktau			
Chagala Apart Hotel	Hotel	80 units (28 rooms	4.00
		& 52 apartments) 4,446 sq m	
Almaty			
Chagala Head Office	Office	547 sq m Class B	1.55
Uralsk			
Chagala Serviced Apartments	Apartment	(38 units) 2,410 sq m	2.37
Chagala Hotel Uralsk	Hotel	(47 rooms) 2,397 sq m	2.16
Aksai			
Chagala Residential Camp	Camp	(125 units) 5,802 sq m	2.66
			94.52
Properties in the course of development			
Atyrau			
Central Store	Warehouse building	500 sq m	0.57
Properties held for future development			
	Land plots	94.7 hectares	5.28
Total Group properties			**100.37**

Source: Company Data

NAV

We estimate the most recent NAV per share was US$4.69 as reported for June 2015, a fall of 2% from December 2014, on the back of a slight drop in the value of investment property and in turn shareholders' equity. We have adjusted the book value for deferred tax liabilities to reach the NAV of US$100m.

NAV (US$m)

Dec Year End	**2011**	**2012**	**2013**	**2014**	**1H15**
PP&E/Investment property	165.3	139.4	129.5	108.0	107.5
Shareholders' equity	139.6	110.1	108.3	94.6	92.6
Y/E shares in issue (m)	21.3	21.3	21.3	21.3	21.3
BVPS (US$)	**6.57**	**5.18**	**5.09**	**4.45**	**4.36**
Deferred tax liabilities	10.9	7.6	7.7	7.0	7.2
NAV	**150.5**	**117.7**	**116.0**	**101.7**	**99.7**
NAVPS (US$)	**7.08**	**5.54**	**5.46**	**4.78**	**4.69**

Source: Company Data, Sanlam Securities UK

DCF

We have valued Chagala using a DCF model, incorporating free cash flows post interest, a 15% discount rate and nominal 2% terminal value growth. This produces an NPV of US$32m and a fair value of US$1.53, implying potential upside of 74% from current levels and a P/NAV of 0.37x at fair value.

DCF (US$m)

	2015E	**2016E**	**2017E**	**TV**
Free Cash Flow (post interest)	-1.4	4.6	4.6	43.2
DFs	0.99	0.86	0.75	0.24
PVs	**-1.4**	**3.9**	**3.5**	**10.6**
Cost of equity	15%			
TV Growth	2%			
NPV	**32.4**			
FV (US$)	**1.53**			
Upside potential	74%			

Source: Sanlam Securities UK

Comparatives

We have compared Chagala to the main London listed Russian real estate companies: Raven Russia, AFI Development and Mirland Development, which we regard as the most similar peers. Other than loss making AFI, Chagala trades at a significant discount to its peers on a FY15 P/NAV of 0.23x. The only other company to pay a dividend is Raven Russia, which has a forecast yield of 8% in both years, but Chagala's dividend is forecast to rise, as debt is paid off and cash flow grows.

Comparatives

	Price US$	**Mkt Cap US$m**	**P/NAV (x) 2015E**	**P/NAV (x) 2016E**	**Yield 2015E**	**Yield 2016E**
AFID	0.1	136.2	0.13	N/A	0.0	0.0
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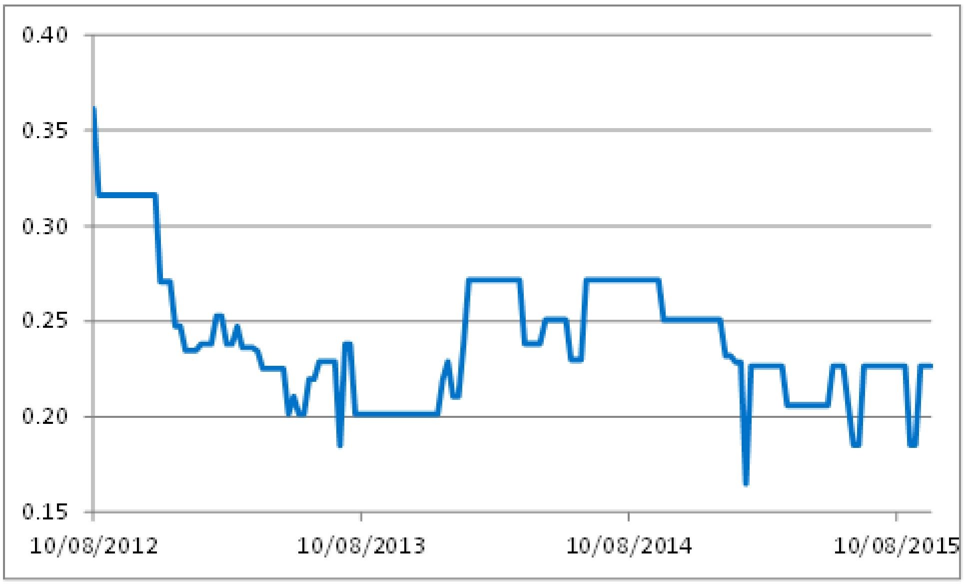
Average	**0.0**	**644.8**	**0.65**	**0.51**	**N/A**	**N/A**
Chagala	0.9	18.6	0.21	0.23	1.7%	3.8%

Source: Company Data, Sanlam Securities UK, Capital IQ

P/NAV

Chagala is trading towards the bottom end of its P/NAV range over the past three years at 0.23x. As the chart shows it traded above 0.35x in 2012, but has not even reached 0.3x since then. While the company was burdened by higher debt and interest costs this was perhaps more justifiable, but now that debt has halved in three years, this appears excessive. We would expect that once the shares are listed on the LSE and more easily tradeable, this discount could start to narrow.

P/NAV (x)



Source: Company Data, Sanlam Securities UK

Risks and mitigation

- The main risks facing Chagala are macro and oil related. Kazakhstan is closely connected to Russia and similarly dependent on commodities, especially oil. However, Chagala's business model is more aligned to the progress of investment in the oil sector than the price of oil, although they can be closely related. Chagala mitigates the potential negative effect of foreign exchange movements by securing dollar based contracts with its tenants and customers.
- Competition is limited, but as the markets Chagala operates in are small, any new buildings could have a significant effect on the market and competitive environment, so Chagala tends to build properties to suit a particular tenant or customer, rather than speculatively.
- The construction environment in which Chagala operates is highly challenging, which is mitigated by avoiding speculative development.
- Kazakhstan's land and property legislation is complex and often ambiguous or contradictory at the central and local levels, but Chagala has been operating in this market for over 20 years, so is generally able to dilute these risks.
- Chagala's business is focused on the oil majors investing in the Caspian and their related service providers. It is especially concentrated on NCOC, so could be exposed to the consortium scaling down its operations. On the other hand these companies are some of the largest in the sector and thus provide good rental covenants.

Company background

Chagala Group is a specialist facility and service provider predominantly targeting the oil and gas companies and their service providers operating in the Caspian region of Western Kazakhstan. Chagala provides residential and office accommodation to its customers and tenants, as well as catering, leisure, transport, warehousing and logistics space to the companies investing in the region.

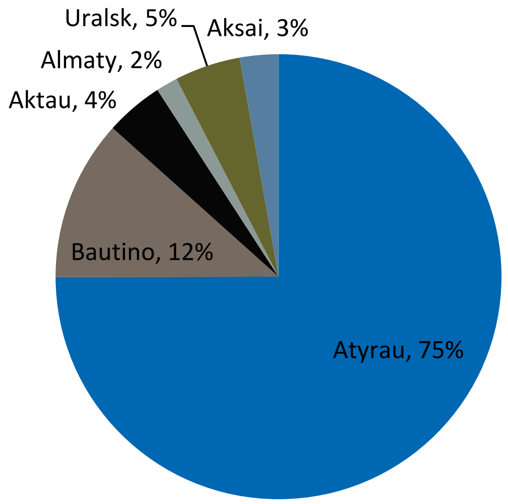
Map of operations in Kazakhstan

Source: Company Data

History

Chagala was established in 1994 and opened its first, low cost hotel, in Atyrau in Western Kazakhstan in 1995. The company has grown significantly since then and now includes: hotels, long-stay serviced apartments, offices, leisure facilities, restaurants and bars in its offering, as well as camp facilities catering for remote locations where the oil and gas workers are active. Chagala was listed in 2007 when its GDRs started trading on the London Stock Exchange.

Split of portfolio by location 1H15



Source: Company Data

Portfolio

The company's operations include managing 400,000 room nights a year, 20,000 square metres of office space and 14 food and beverage outlets. Chagala works closely with its oil and gas clients to plan and develop services and facilities to meet their long term needs. The group is currently active in six locations in Kazakhstan.

Portfolio overview

Aktau	Apart Hotel - 28 hotel rooms, 55 apartments
Atyrau	75 hotel rooms, 334 serviced apartments
	17,000 sqm of fully leased office space
	3,500 sqm of warehousing
	33 Residential Houses
	18 apartments for sale
Uralsk	46 hotel rooms, 36 new serviced apartments
Bautino	147 hotel rooms
	170 bed pilot Residential/Commercial Park
Aksai	125 bed remote camp facility
Almaty	"A" class office building
Various/Ongoing	11 food and beverage outlets
	Social club
	Laguna mall

Source: Company Data

Aktau

Aktau, with a population of 185,000, is Kazakhstan's only commercial seaport. With significant oil-loading and transport infrastructure it is now a centre of increasing importance for the international oil companies (IOCs) operating off-shore. Chagala has developed a hotel and apartment complex offering 28 hotel rooms and 55 apartments, with a total of approximately 6,000 square metres of space. There are only 700 hotel rooms and 55 serviced apartments of varying standards in the whole town.

Aktau assets (US$m)

Chagala Apart Hotel	80 units (28 rooms & 52 apartments) 4,446 sq m	US$4m

Source: Company Data

Aksai

Aksai has a population of c.40,000 and is the operational centre for the Karachaganak oil and gas condensate field (KPO). Phase 1 of the camp opened in March 2009, with 95 rooms (84 bedrooms and 11 apartments) and phase 2 opened in July 2010, bringing on line another 30 units to take the total to 125. There is only one other provider of international standard hotel rooms in Aksai.

Aksai (US$m)

Chagala Residential Camp	(125 units) 5,802 sq m	US$2.7m

Source: Company Data

Almaty

Almaty is the financial and commercial centre of the country and the largest city with 1.5m people. Chagala owns the office building where it has its headquarters (1.2% of total assets) and the Arrowhead JV owns another office building.

Almaty (US$m)

Chagala Head Office	547 sq m Class B	US$1.5m

Source: Company Data

Atyrau

Atyrau is Kazakhstan's administrative centre for the oil and gas companies operating in the Kazakh sector of the Caspian and the base for the Tengiz oil field. With a population of 235,000 it has the highest average per capita income in Kazakhstan. There are approximately 950 hotel rooms, 1,050 serviced apartments and 300,000 sqm of A and B class office space. Atyrau is the centre of Chagala's operations and where the majority of its properties are located, accounting for 76% of the group's 1H15 asset valuation. Atyrau houses the original hotel, plus apartments, office space, restaurants, townhouses, warehouse and an additional land bank for future development. The most recent development was the completion of the Saraishyk apartments at the Atyrau complex in September 2014, the first of four planned apartment buildings intended for the resale market.

Atyrau assets (US$m)

Chagala Waterfront Hotel	Hotel	(75 rooms) 1,000 sq m	5.2
		Office space, 4,354 sq m	
Chagala Waterfront Apartments	Apartment	(42 units) 1,632 sq m	2.5
Chagala Waterfront Apartments	Apartment	(43 units) 1,903 sq m	1.3
Chagala Centre Office	Office	10,488 sq m Class A	16.2
Chagala Annex 1 Office	Office	1,875 sq m Class A	3.7
Chagala Annex 2 Office	Office	1,377 sq m Class B	1.3
Chagala Annex 3 Office	Office	1,050 sq m Class B	1.0
Chagala Plaza Apartments	Apartment	(41 units) 1,802 sq m	3.3
Chagala Plaza Apartments	Apartment	(41 units) 1,802 sq m	3.1
Chagala Plaza Apartments	Apartment / tech bldng	(64 units) 4,550 sq m	5.7
O'Neill's Pub & office	Restaurant / office	573 sq m	1.3
Garage/Storage facility	Storage facility	3,685 sq m	0.8
Petrovski Restaurant	Restaurant	400 sq m	0.7
Hugo's Restaurant	Restaurant	1,375 sq m	0.4
Townhouses and tech building	Townhouse/tech bldng	33 houses, 6,100 sq m	11.1
Ural Residence and tech building	Residence/tech bldng	(108 units) 8,986 sq m	10.4
Sport and leisure complex	Sports complex	Swimming pool 250 sq	2.8
Central Store	Warehouse building	500 sq m	0.6
Land plots		94.7 hectares	5.3
Total			**76.5**

Source: Company Data

Bautino

Bautino is the supply and logistics base for the off-shore oil industry in Kazakhstan's sector of the North Caspian Sea, with a population of just 7,000. Chagala's properties incorporate the 147 room Chagala Hotel Bautino and a pilot 170-bed camp-style accommodation facility to be called the Residential Commercial Park (RCP). The Chagala Hotel Bautino now includes a dining facility and a gymnasium. Bautino accounted for 11% of the 1H15 asset valuation.

Bautino assets (US$m)

Chagala Hotel Bautino	Hotel	(147 units) 3,890 sq m	10.4
Bautino Guest House	Hotel	(6 units) 446 sq m	0.3
Bautino RCP Camp	Land	4.8 hectares	0.4
			11.1

Source: Company Data

Uralsk

Uralsk, with a population of over 230,000 on the Ural river, is the administrative centre for the region surrounding the Karachaganak field (140km away) on the Russian border. The town has just 90 hotel rooms catering to international businessmen. Chagala expanded its accommodation facilities with the addition of 45 serviced apartments in June 2010 and is currently developing a 4,500m2 office centre for KPO.

Uralsk assets (US$m)

Chagala Serviced Apartments	Apartment	(38 units) 2,410 sq m	2.4
Chagala Hotel Uralsk	Hotel	(47 units) 2,397 sq m	2.2
			4.5

Source: Company Data

Minority holdings

Chagala also has minority interests in three properties, which are each owned by a subsidiary of Arrowhead BV, a joint venture with ADM Capital, of which Chagala controls a 30% stake. Chagala estimates the total fair market value of the properties to be US$18m, using discounted cash flows, of which Chagala's share is US$5.4m.

Minority holdings

Property	Type	Size m2	Owner	Chagala %
Chagala Centre Office	Class A Office	5,157	Crossbow LLP	30%
Saraishyk Residential	18 Apartments	2,477	Flecha LLP	30%
Laguna Complex	Ideal Supermarket	2,033	Flecha LLP	30%

Source: Company Data

Developments

Chagala owns 95 hectares of development land, which is located close the existing properties in Atyrau. There are also currently 21,000 m2 of property under development or in design including:

- The second, third and fourth blocks of the Saraishyk Residential complex, which are 21,000 m2 each. They are owned by the Arrowhead joint venture, of which Chagala owns 30%. These are not included in our forecasts.
- A 4,500 m2 office centre in Uralsk, which will become KPO's new headquarters, which is owned by Chagala's 70% controlled subsidiary Kurmangazy Development. The KPO lease is expected to start in May 2016. This is not included in our forecasts.

Strategy

Chagala's strategy is to anticipate investment in the Kazakh oil and gas sector and build good quality operations in advance, thereby maintaining its position as the best value provider of property to the oil and gas companies in West Kazakhstan. The development of serviced apartments, offices and hotel rooms has been supported by demand from the major oil groups and service companies that support them. Using a "build to suit" strategy to reduce risk exposure, Chagala intends to continue expanding its position in West Kazakhstan as investment picks up, focusing on good quality tenants with long-term agreements.

The key objectives are:

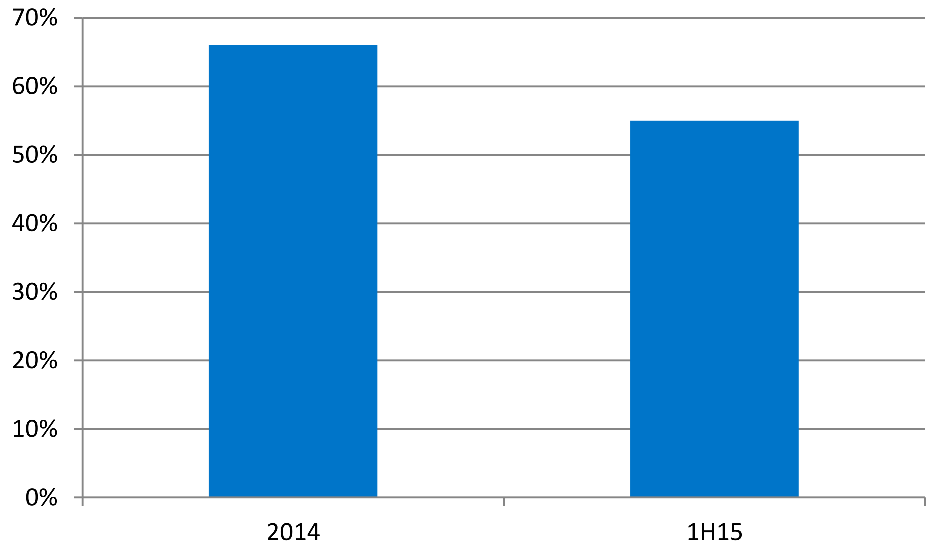
- To deliver properties and services in line with international standards and the expectations of its clients;
- To concentrate on high quality development projects for long-term customers;
- To train staff to deliver the service expected by clients;

- To leverage off its presence in the region to cross sell its services in other locations;
- To enable shareholders to profit from Caspian oil investment via an oil services company with a strong balance sheet and good management;
- To pursue geographical and client expansion, both within Kazakhstan and beyond, where the value rental market is not fully exploited and to expand the tenant base to other businesses, to reach 30% of group revenue by 2020;
- Maintain a low level of debt (below 50% debt to total capital) and distribute a significant proportion of earnings to shareholders.

Customers

Chagala's largest customer is the North Caspian Operating Company (NCOC), the consortium developing the Kashagan oilfield, which has leased a range of properties from the company. NCOC leases the the Chagala Office Centre in Atyrau, its staff rent a number of Chagala's apartments and the 33 townhouses built in Atyrau were were fully let to NCOC. The revenues received from NCOC fell to 55% of the total in 1H15 from 66% in 2014. Although all leases with NCOC are long-term, they can be ended with 1-6 months' written notice.

Proportion of revenues from NCOC



Source: Company Data

Partnerships

Chagala has three main partnerships:

- A 30% stake in Arrowhead, which is a joint venture with ADM Capital to finance projects in Almaty and Atyrau. It has two subsidiaries: Crossbow, which owns the Chagala Centre in Almaty and Flecha, which is developing the Laguna Complex and developing and selling the Saraishyk Residential apartments in Atyrau. Further projects with ADM are being considered.
- A 49% stake in Compass Chagala Holding, which is a JV with Compass Offices (Hong Kong) to provide serviced offices and meeting rooms in Almaty. Compass Atyrau also leases offices from Chagala and subleases to other tenants.
- Chagala signed a franchise contract with “La Tartine” a French pastry and bakery company in Atyrau, Uralsk and Aktobe. The first location in Atyrau started operations in summer 2014, with plans to expand to other locations by the end of 2016.

Competition

Unsurprisingly Chagala faces the most competition in Atyrau, its largest city of operation. Its main competitors are local companies Isker, Renco, COC Realty and the Marriott Group.

- There are ten other hotels in Atyrau offering rooms for the business market of a similar quality and size. The occupancy of these hotels averages between 50% and 75%, similar to the rates Chagala achieves, which it does not expect to increase in the short term.
- Chagala has just 6% of the 270,000 m2 of office space in Atyrau, 70% of which is Class A and B. The main competition is the Riverside Building, River Palace Hotel, Adal Building, Isker Building and Frontier Plaza.
- In Aktau there are four other hotels in competition with Chagala.
- In Bautino, there are just two other hotels, but they are not of the same quality or price range, so do not compete directly.
- There is just one competing hotel in Uralsk, the Pushkin Hotel.

1H15 results

Continued impact of devaluation and Kashagan delay in 1H15

- **Reported EPS up 247%**: Chagala reported a significant increase in 1H15 profits to US$1.2m. However, the bottom line was boosted by a one-off land revaluation of US$1.1m. We estimate that after adjusting for this and a one-off charge in 1H14, net earnings and EPS would have decreased 5% to 2.2 US cents.
- **Revenue fell 12%:** The fall in adjusted profit was a function of lower revenues, which fell 12% on the back of an 11% drop in room and rent revenue and a 20% slide in food and beverage sales. However, other revenues were flat.
- **Delays hit revenue:** The fall in room rent was due to a delay in the opening of the Chagala Annex 2 office by the Compass Atyrau joint venture, (which opened in May), as well as further negotiations with tenants for the Annex 1 office in Atyrau. Food and beverage revenue was down due to the closure of Hugo's restaurant in Atyrau in August 2014 and cuts in the allowances and food packages provided to some of Chagala's leading customers.

Interim results (US$m)

	1H14	1H15	Change
Room and rent	10.63	9.43	-11.3%
Food & Beverage	2.84	2.28	-19.8%
Other	1.12	1.12	-0.2%
Total Revenue	**14.60**	**12.83**	**-12.1%**
Utilities, cleaning & maintenance	(2.44)	(2.17)	-10.9%
F&B	(0.85)	(0.68)	-20.6%
Salaries & employee benefits	(4.33)	(4.21)	-2.8%
Gross profit	**6.98**	**5.77**	**-17.3%**
Administrative expenses	(1.81)	(1.60)	-11.7%
Other income and expenses	(0.41)	(0.03)	-91.9%
EBITDA	**4.76**	**4.14**	**-13.0%**
Depreciation	(2.69)	(2.41)	-10.4%
Operating profit	**2.062**	**1.722**	**-16.5%**
Impairments/Disposals/Recovery of PP&E	0.02	1.08	N/A
EBIT	**2.08**	**2.80**	**34.7%**
Net financial income and expenses	(1.35)	(1.14)	-15.7%
Profit before tax	**0.73**	**1.67**	**127.4%**
Tax charge	(0.43)	(0.57)	33.6%
Profit after tax	**0.31**	**1.10**	**257.7%**
Minority interest	(0.04)	(0.09)	151.4%
Attributable profit	**0.34**	**1.19**	**246.8%**
Average number of GDRs outstanding (millions)	21.16	21.16	0.0%
EPS (US$)	**0.016**	**0.056**	**246.8%**
Adjusted EPS (US$)	**0.024**	**0.022**	**-5.2%**
Gross margin	47.8%	45.0%	-6%
EBITDA margin	32.6%	32.2%	-1%
Operating margin	14.1%	13.4%	-5%

Source: Company Data, Sanlam Securities UK

- **Margins held up well:** Despite the fall in revenue, the resulting cost savings meant that the gross margin only fell to 45% from 48% last year and the EBITDA margin was only slightly lower at 32%, although 1H14 was hit by a £0.4m penalty for a delay in delivering the townhouse project in Atyrau.
- **EBIT was up 35%:** EBIT showed an increase of 35% to £2.8m, owing to the £1.1m land revaluation referred to above.
- **PBT boosted by land revaluation:** PBT more than doubled to US$1.7m, but this was largely due to the one-off land revaluation gain.

1Q trading implies a pick-up in 2Q

- Chagala released 1Q trading data in June, with revenues of £6.2m, compared with £12.8m in 1H15. This implies a 7% increase QoQ in 2Q15 to £6.6m.

1Q trading performance

Quarterly Performance on a Consolidated Basis (US$000)	
Room Revenue	1,445
Apartment Revenue	1,020
Food & Beverage	1,105
Office Rent	1,585
Other Revenue	1,035
Total	**6,190**

Source: Company Data

Assumptions

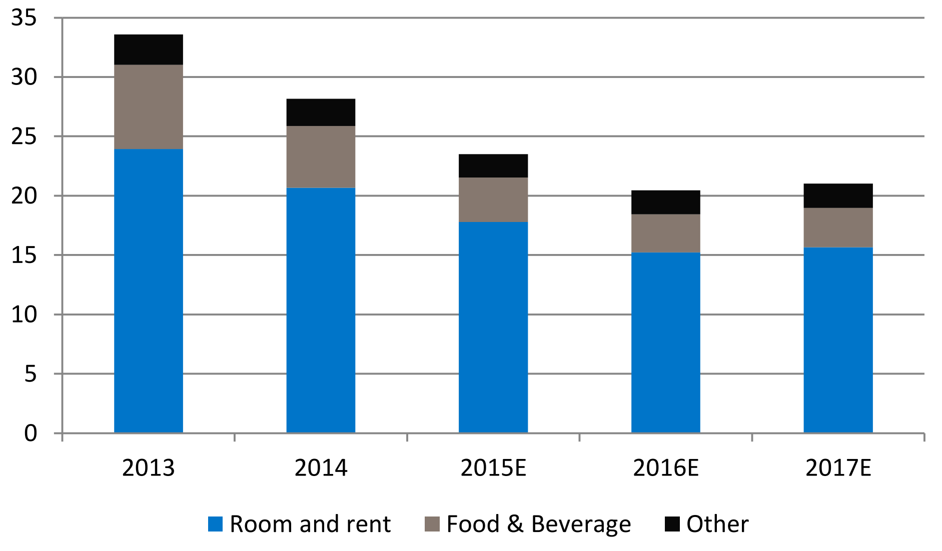
We are assuming a 14% fall in room and rent revenue in FY15, following the fall in 1H15, on lower occupancy and room rates following Tenge devaluation. Food and beverage is expected to be down 28%, and other revenue is forecast to fall in line with room and rent. As a result total revenues are anticipated to be 17% lower this year and fall another 14% in FY16, driven by the continuing effect of devaluation on rental rates, despite flat occupancy rates. As Chagala's cost base is largely in local currency its margins held up well in 1H15, despite the fall in revenue. Management estimate that for every 10% the currency devalues EBITDA would be see a 3% hit. We are thus forecasting lower costs to sustain a gross margin of 48% in FY15 and FY16. Lower admin costs, (down 12% YoY in 1H15) should then produce a rising EBITDA margin in each year. The KPO HQ in Uralsk should be completed in May 2016, but we have not included it in our forecasts.

Assumptions

(in US$m)	**2013**	**2014**	**2015E**	**2016E**
Room and rent	25.9	22.5	19.4	16.6
Food & Beverage	8.0	6.2	4.5	3.8
Other	2.6	2.7	2.4	2.4
Total Revenue	**33.6**	**28.2**	**23.5**	**20.4**
Utilities, cleaning & maintenance	(5.9)	(5.0)	(4.1)	(3.2)
F&B	(2.3)	(1.6)	(1.1)	(0.8)
Salaries & employee benefits	(9.6)	(8.3)	(7.0)	(5.4)
COGS	**(17.8)**	**(14.9)**	**(12.2)**	**(9.4)**
Gross profit	**15.7**	**13.2**	**11.3**	**11.1**
Gross margin	*46.9%*	*47.0%*	*48.2%*	*54.1%*
Administrative expenses	(4.1)	(3.7)	(3.1)	(2.5)
Other income and expenses	(0.5)	(0.4)	(0.1)	(0.1)
EBITDA	**11.1**	**9.2**	**8.1**	**8.5**
EBITDA margin	*33.1%*	*32.5%*	*34.6%*	*41.6%*

Source: Company Data, Sanlam Securities UK

Revenue Split (US$m)



Source: Company Data, Sanlam Securities UK

We are expecting no increase in reported profits this year, despite the fall in turnover and EBITDA. Earnings should see a boost from the 1H15 PP&E recovery of £1m. We expect any further improvements in asset operating performance to be reflected revaluations through the balance sheet. Even with lower admin costs, depreciation and interest charges, we are forecasting a 20% fall in adjusted earnings this year. This trend of falling costs should help drive a sharper improvement in adjusted profits in FY16. We are thus forecasting a more than doubling of adjusted EPS.

Chagala's dividend policy is to pay out 50% of earnings, so we are forecasting DPS of USc 1.5 this year, followed by USc 3.3 in FY16. Despite the valuation gains we are forecasting the effect of the devaluation is likely to erode NAV per share by 13% this year followed by 8% in FY16. We are also forecasting free cash flow generation of US$4.5m a year from 2016, comfortably covering dividends and debt repayments over the next few years.

Earnings & dividends

(in US$m)	**2013**	**2014**	**2015E**	**2016E**
Adjusted PBT	1.3	1.1	0.9	2.0
Adj Net Income	0.6	0.8	0.6	1.4
Adj EPS (USc)	3.02	3.77	3.02	6.65
Dividend payout	72%	86%	50%	50%
Dividends per share (USc)	1.88	5.73	1.51	3.32

Source: Company Data, Sanlam Securities UK

Chagala currently had total debt of US$20.5m and a gross LTV of 19% as of 30th June. We expect this to increase to US$25m year-end, following the US$8m investment in the Uralsk office centre and for the gross LTV to increase to 24%. In 2016 Chagala will repay US$11.9m of bonds, which will reduce gearing substantially to less than US$17m. We are forecasting a gross LTV of 18%, which will see interest cover increase to nearly 2x and thus improve earnings substantially.

Capital structure (US$m)

	2013	**2014**	**2015E**	**2016E**
Total debt	26.7	20.3	24.8	16.9
Cash and cash equivalents	1.9	2.5	5.3	1.3
Net debt	**24.8**	**17.7**	**19.5**	**15.6**
Interest expenses	(3.7)	(2.4)	(2.3)	(2.2)
Pre-revaluation interest cover (x)	1.3	1.6	1.4	1.9
Gross LTV	20%	18%	24%	18%
Net LTV	19%	15%	19%	16%

Source: Company Data, Sanlam Securities UK

Directors & shareholders

Michael Carter - Non-Executive Chairman

Michael Carter has worked for major advisory firms like Bain, UBS Warburg and ING in the USA, Italy, London and Kazakhstan, most recently being the chief executive officer of Visor Capital in Almaty, from May 2007 to October 2011. He established his own business advisory firm in 2012 specialising in financing, M&A, securities markets, private equity and business planning. He brings extensive international experience and financial transaction expertise in Kazakhstan to the group.

Francisco Parrilla - Chief Executive Officer

Francisco Parrilla started his professional career as Design Engineer for Arup in London in 1997, moving to Russia in 1998 to develop his experience of project and site management. He worked for three years in Arup's offices in Spain and South America. In 2002 he joined Turner & Townsend where he developed the company's international business around a selected number of clients. He joined European Future Group in 2007 as Real Estate Development Director for Romania where he structured and developed several residential, commercial, retail and industrial projects. He joined Chagala Group as Director of Capital Projects in 2009 and was appointed CEO in January 2011.

Javier del Ser - Non-Executive Director

Javier del Ser assists in the department responsible for the construction and operation of the hotels, offices, and apartments. Prior to joining the Group in 2000, he worked for four years for the Kazakhstan Asset Management Company managing the Kazakhstan Investment Fund, as Director responsible for launching the fund, and identifying investment opportunities. Prior to this, he was a Managing Director for Crescat Developments in Sri Lanka for 2.5 years responsible for construction, arranging finance and marketing the development of mixed use and hotel projects. He is also the CEO of Steppe Cement, an AIM listed company, and holds Directorships at a number of non-listed companies.

Margarita Kapustyanskaya - Chief Financial Officer

Margarita Kapustyanskaya was appointed as Chief Financial Officer of Chagala Group in 2013. Prior to joining Chagala she was CFO at Technodom Group from 2012 to 2013, one of the biggest electronics retailers in Kazakhstan. From 2011 to 2012 she was Finance Director of Linde Gas Kazakhstan. From 2004 to 2011 she served as the Head of Accounting and Internal Controls for KATCO, a uranium mining joint venture based in Kazakhstan.

Shareholders (effective stakes)

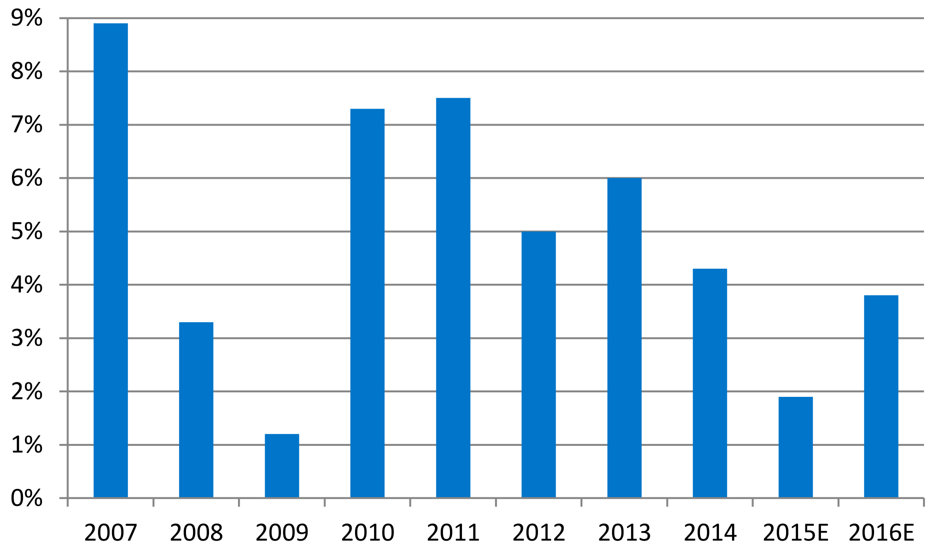
Javier del Ser	30.6%
Tim Abson & family (former Chairman & CEO)	15.0%
Sturgeon Capital, LLP	14.9%
Nautilus Fiduciary (Asia) Ltd	6.3%
David Crichton Watt & family	5.3%
Amzi Wan Hamzah	4.7%
Other shareholders	23.4%

Source: Company Data

Kazakh oil and macro overview

Kazakhstan and the other economies in the Commonwealth of Independent States (CIS) have seen an economic slowdown since the latter half of 2014. The slump in global oil prices and sanctions on their Russian neighbour caused growth to slow sharply. Kazakhstan's GDP growth slowed to 4.3% in 2014, down from 6.0% the year before.

GDP growth



Source: ADB

However, a managed 19% currency devaluation in February 2014 in an attempt to remain competitive, strengthened budget revenues, by boosting the Kazakh export market, although the government expressed a reluctance to devalue the currency any further at the time. Devaluation increased the current account balance, but also added to inflation initially, as in the chart below.

Kazakh inflation

Source: www.tradingeconomics.com/kazakhstan/inflation-cpi

According to the Asian Development Bank (ADB) the outlook for the region has deteriorated markedly. Growth is projected to slow further to 1.9% in 2015, before recovering to 3.8% in 2016. However, continued weakness in global oil prices is expected to turn the current account into a deficit in both 2015 and 2016. The global oil price has continued to fall in 2015, despite a brief rally earlier in the year. This has been exacerbated by the lifting of international sanctions on Iran, which is likely to lead to a further increase in global oil supply, further depressing prices.

Macro forecasts

Selected Economic Indicators (%) - Kazahkstan	2015	2016
GDP Growth	1.9	3.8
Inflation	6.0	6.2
Currency Account Balance (Shares in GDP)	-1.0	-1.3

Source: Asian Development Bank

Currency & exports

In July 2015 Kazakhstan decided to shift its currency, the Tenge, to a freely floating exchange rate. The governor of the National Bank of Kazakhstan said in a press conference that it “will widen the Tenge’s trading band, raising the upper limit to 198/US$ and maintaining the lower limit at 170”. The corridor allows the currency to fluctuate independently of any negative events occurring outside Kazakhstan.

US$/Tenge exchange rate

Source: xe.com

Kazakhstan has an export orientated economy, highly dependent on shipments of oil and related products (73% of total exports), which have been falling since 2014. Other exports include: ferrous metals, copper, aluminium, zinc and uranium. Its main export partners are: China (19% of total exports), Italy (17%), Russia (8.4%) and the Netherlands (8%).

The impact of Russia

The second major factor affecting Kazakhstan's economy is its relationship with Russia. The World Bank projects a negative growth outlook for Russia in 2015-2016, with the economy expected to contract by 3.8% in 2015 and decline by a modest 0.3% in 2016. Investment is projected to contract for a second year in a row as the Russian government is delaying some large infrastructure projects and private investors are cutting back on investment programmes.

International sanctions have compounded Russia's underlying structural weaknesses and have resulted in a significant depreciation of the Ruble against the dollar, which is nearly 50% weaker than a year ago. Although the Ruble showed signs of recovery earlier this year, it has since devalued further.

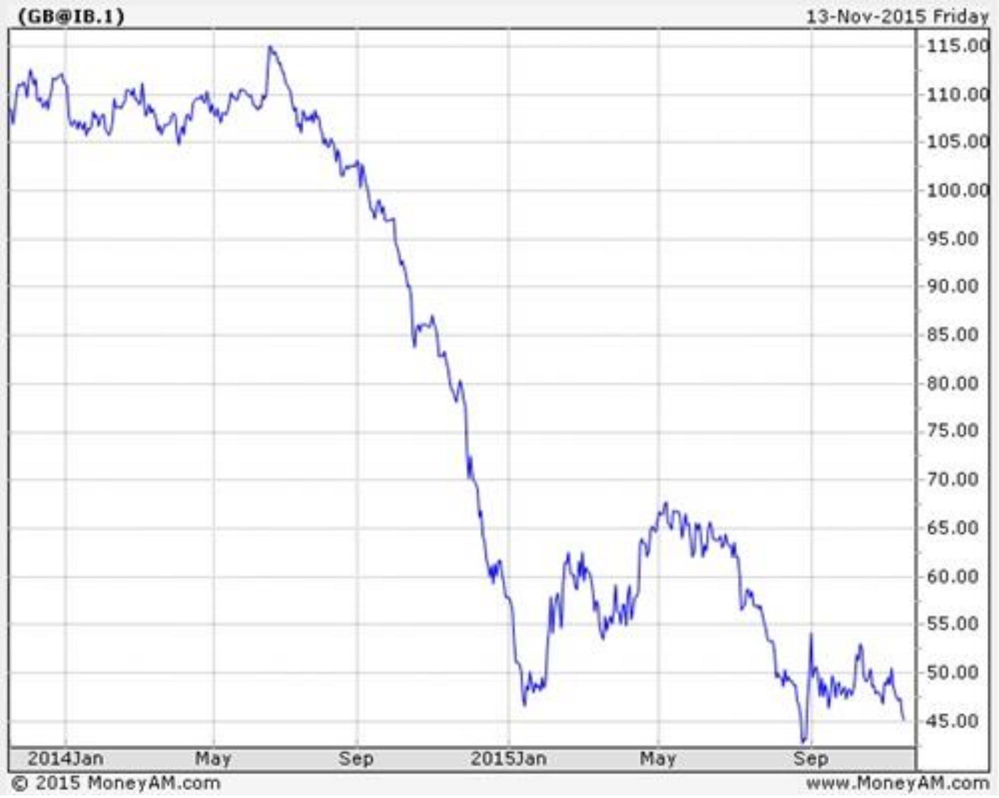
Therefore, knock-on effects from Russia (through trade, foreign direct investment, and especially remittances) are dampening the outlook throughout the CIS, particularly in the light of existing structural vulnerabilities. This has resulted in large downward revisions to 2015 growth projections for Kazakhstan and the rest of the CIS region.

The Kazakh oil sector

As discussed, Kazakhstan, like neighbouring CIS economies, relies heavily on the global price of oil. Kazakhstan has proven crude oil reserves of 30 billion barrels, Eurasia's second largest reserves after Russia, and the twelfth largest in the world, just below the United States. The sector is the main source of export earnings, reserves, fiscal revenues and FDI inflows for the country. The Caspian region in Western Kazakhstan, is one of the industry's top three global hydrocarbon extraction areas, rivalling West Africa and the Middle East. Kazakhstan has the Caspian region's largest recoverable crude oil reserves, plus on-shore and off-shore extraction sites currently under development, which will make it a major oil exporter. Over the past ten years, oil production in Kazakhstan has more than doubled to 1.71 million barrels per day.

In times of economic weakness, the Kazakhstan national oil reserve fund is used to support the economy. Due to the domestic production delays at Kashagan and the global oil price falling over 50% in the past 15 months (see chart below), the reliance on the national oil reserve fund has been called into question. However, in 2014 the oil fund's value totalled c.US$77 billion.

Oil price (WTI US$/bbl)



Source: oil-price.net

The North Caspian Sea Production Sharing Agreement

The Kashagan oil field in Kazakhstan's area of the Caspian, which is considered to be the world's largest discovery of oil in the last 30 years, has recoverable reserves of approximately 13 billion barrels of crude oil. However, as Kazakhstan lacked both the technical expertise and funding, it sought foreign partners. An agreement was signed in 1997 and the Offshore Kazakhstan International Operating Company (OKIOC) was formed to explore and produce hydrocarbons within the 5,600 square kilometres of the NCSPSA contract area.

The Kashagan oil fields were discovered in July 2000 and the North Caspian Sea Production Sharing Agreement was signed in 2001. The partners included; Shell, Exxon, Total, ANPC, Inpex, ENI and KazMunaiGas. The first oil production from Kashagan was planned for 2005. However, despite the foreign investment, operations at Kashagan have been repeatedly delayed, as a result of the field's unusually adverse operating environment and complexity. This has resulted in significant cost overruns. An example of this was in late 2014 when a further US$4bn had to be spent to replace 200km of leaking pipelines.

Kashagan oil field

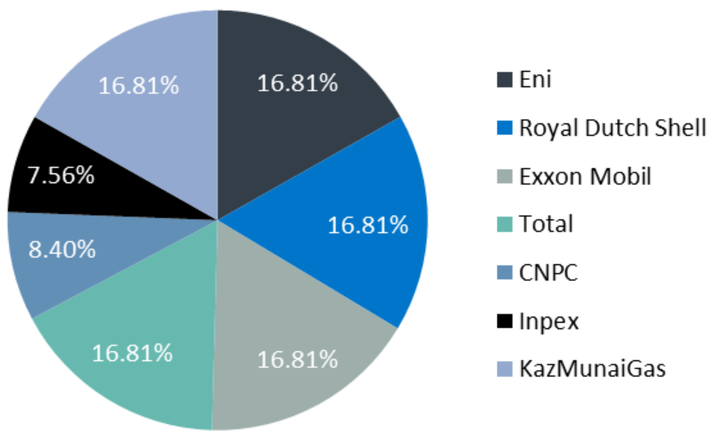
Source: www.wsj.com/articles/SB10001424052702303730804579437492040999738

Over the years there have been several consortiums operating in the fields, but in 2015 the new North Caspian Operating Company (NCOC) was formed. The new consolidated company will operate under a single corporate management system, but will bear the same name as the current operating company. The transition does not envisage any changes to the Production Sharing Agreement (PSA) or the NCSPSA ownership structure and the company will be headquartered in Atyrau in Western Kazakhstan, the main focal point of Chagala. Only those serving as liaisons with government officials will work in Astana.

OKIOC members

Source: www.ncoc.kz

Figure 8 – Revenue Split of the NCOC



Source: Sanlam Securities UK

The main oil fields and Chagala's area of operations

The main oil producing fields in Kazakhstan include Tengiz, Karachaganak, CNPC-Aktobemunaigas, Uzenmunaigas, Mangistaumunaigas, and Kumkol, which account for a total of 1m barrels per day. Output solely from the country's three major fields – the on-shore Karachaganak and Tengiz fields and the off-shore Kashagan field – is set to grow to 3-3.5m barrels per day by 2020. Kazakhstan has thus announced an ambitious plan to double annual oil production to more than 1.2 billion barrels, and join the top five global producers of oil.

Chagala has four main focus areas which coincide with the main key oil and gas fields. These are listed below, along with the major oil and gas companies operating in the regions:

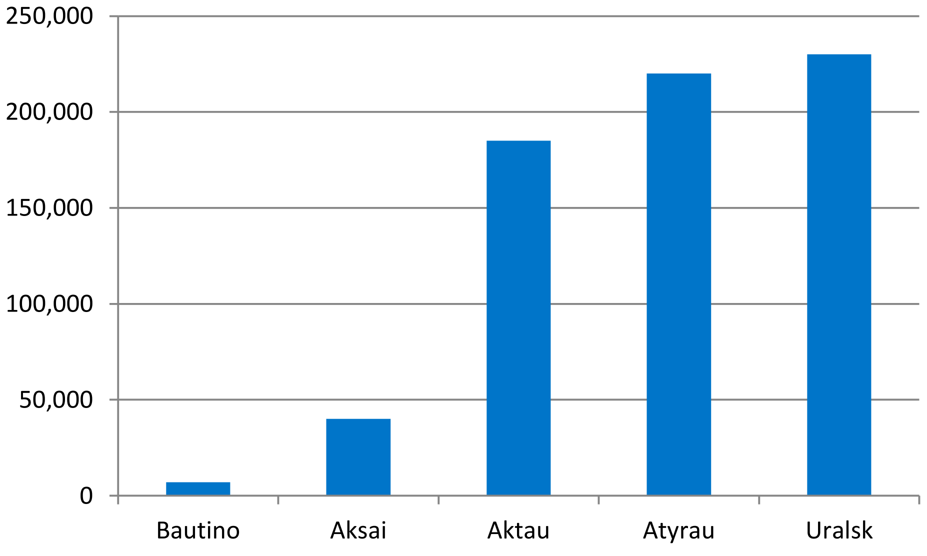
- **Kashagan:** in the northern part of the Caspian Sea close to Atyrau, has a development cost in excess of US$130bn. Phase one started at the end of 2012, with full field development (1.5m barrels of oil per day) due in 2017/2018.
  Partners include: Shell, Exxon, Total, Inpex, Eni, KazMunaiGas, Conoco Philips and Agip KCO.

- **Karachaganak field:** in the north west of Kazakhstan close to Uralsk, is estimated to contain 1.2 trillion cubic metres of gas and one billion tonnes of liquid condensate and crude oil. Production started in 1984 so the field is well developed, however abandonment is not expected for at least another 25 years. Over US$14 billion has been invested since 1997 and phase three development cost is approximately US$12bn (estimated 2012-2017).
  Partners include: BG Group, Eni, Chevron and Lukoil.

- **Tengiz field:** also in the northern part of the Caspian Sea near Atyrau, is estimated to have held as much as 25 billion barrels of oil originally. Production started at Tengiz, the sixth largest oil field in the world, in 1993. Current production is around 450,000 barrels of oil per day and the estimated remaining oil is around 6bn barrels. At this rate the oil field should last another 35+ years with an estimated development cost of US$23 billion.
  Partners include: Chevron, KazMunaiGas, Exxon, Lukoil.

- **CMOC (Caspi Meruerty Operating Company):** also operates in the northern part of the Caspian Sea. It is a joint operating company performing Petroleum Operations under the Production Sharing Agreement in the Pearls Contract Area. This agreement was signed on December 14, 2005 between the Kazakhstan Ministry of Oil and Gas and the following contracting companies: Shell EP Offshore Ventures Limited (55%), JSC Offshore Oil Company KazMunayTeniz (25%) and Oman Pearls Company Limited (20%). Oil production at the Pearls oil block is expected to start in 2016.
  Partners include: KazMunaiGas, Shell, Oman Oil Company.

Populations in Chagala locations



Source: Company Data

Financial summary

Dec Year End	FY12	FY13	FY14	FY15E	FY16E
P&L (US$m)					
Total revenues	32.0	33.6	28.2	23.5	20.4
Gross profit	14.6	15.7	13.2	11.3	11.1
EBITDA	**9.9**	**11.1**	**9.2**	**8.1**	**8.5**
Depreciation	(8.3)	(6.4)	(5.3)	(5.0)	(4.5)
Revaluations/Impairments	(23.6)	(0.1)	(0.9)	1.1	-
EBIT	**(22.0)**	**4.7**	**3.0**	**4.3**	**4.1**
Net financial expense	(4.9)	(3.4)	(2.5)	(2.3)	(2.1)
Associates	(1.3)	(0.1)	1.5	-	-
PBT	**(28.2)**	**1.1**	**2.0**	**2.0**	**2.0**
Adjusted PBT	**(3.3)**	**1.3**	**1.1**	**0.9**	**2.0**
Average shares outstanding (m)	21.3	21.3	21.2	21.3	21.3
Reported EPS (USc)	**(117.2)**	**2.6**	**6.7**	**6.7**	**6.6**
Adj EPS (USc)	**(13.6)**	**3.0**	**3.8**	**3.0**	**6.6**
Balance sheet (US$m)					
PP&E	138.6	128.8	100.0	89.9	80.0
Other LT assets	2.1	3.4	14.8	14.8	14.8
Receivables	5.2	6.3	2.7	1.8	1.3
Other current assets	9.1	8.2	8.1	10.3	5.8
Long term borrowings	27.0	22.1	16.1	23.5	16.9
Other long term liabilities	8.4	7.7	7.0	7.4	7.4
Short term borrowings	6.7	4.6	4.2	1.2	-
Other current liabilities	2.9	4.0	3.7	3.4	3.1
Net assets	**110.1**	**108.3**	**94.6**	**81.3**	**74.5**
Closing net debt	**32.9**	**24.8**	**17.7**	**19.5**	**15.6**
Cashflow (US$m)					
Operating cash flow	9.9	14.2	9.3	9.1	8.7
Interest & tax	(4.1)	(3.7)	(2.4)	(2.3)	(2.1)
Capex / Acquisitions	(3.4)	(1.9)	(3.6)	(8.2)	(2.0)
Dividends	(0.0)	-	(0.4)	(0.3)	(0.7)
Equity	-	(0.6)	-	-	-
Net proceeds from borrowings	(3.4)	(6.8)	(2.5)	4.5	(7.8)
Change in cash	**(1.1)**	**1.1**	**0.4**	**2.8**	**(4.0)**
Closing cash	**0.8**	**1.9**	**2.5**	**5.3**	**1.3**
Growth rates (%)					
Revenues	(11.7)	5.0	(16.1)	(16.5)	(13.0)
EBITDA	(6.1)	3.5	(13.2)	(16.1)	(23.0)
Adj EPS	N/A	N/A	24.6	(19.9)	120.3
NAVPS	(21.8)	(1.4)	(12.4)	(12.8)	(7.7)
Operating ratios					
Gross margin	45.8%	46.9%	47.0%	48.2%	54.1%
EBITDA margin	30.9%	33.1%	32.5%	34.6%	41.6%
OP margin	5.1%	14.1%	13.9%	13.6%	19.8%
Adj EPS/DPS		161%	66%	200%	200%
Leverage					
Net debt/equity	30%	23%	19%	24%	21%
Pre-revaluation interest cover (x)	0.3	1.3	1.6	1.4	1.9
Net LTV (%)	23%	19%	15%	19%	16%

Source: Company data, Sanlam Securities UK

Disclosures and disclaimers

This document, which for regulatory purposes, in the UK, is a marketing communication as contemplated in s.21 Financial Services and Markets Act (FSMA) 2000, is issued by Sanlam Securities UK Limited ('SSUK')

Disclosure Checklist

Company	Relevant disclosure
Chagala Group (CGLO.L)	5

1. SSUK acts as a broker to the company.
2. SSUK acts as a nominated or financial adviser to the company.
3. SSUK has in the last twelve months acted as adviser to the company or provided investment banking services for which it has received compensation.
4. SSUK has a shareholding (including any positions held as warrants or options (if exercised) of between 5-10% of the share capital of the company.
5. SSUK is party to an agreement whereby the production of research on the company is one of the services SSUK has agreed to provide to the company.
6. The author of this report owns shares in the company.

Recommendation definitions

BUY	Share price appreciation of 10% or more in absolute terms over 12-24 months
HOLD	Share price appreciation or depreciation of less than 10% in absolute terms over 12-24 months
SELL	Share price depreciation of 10% or more in absolute terms over 12-24 months
SPEC BUY	Share price appreciation of 10% or more in absolute terms over 12-24 months, but with an unusual level of risk relative to return

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