



Morning Notes

29 October 2009

Axis-Shield ASD (FTSE Full List)

Interim management statement

- Axis-Shield issued an Interim Management Statement for the 17 week period ending October 29 2009.
- Revenues for 2009 so far are in line with the company's expectations and there have been no significant changes in the group's financial position
- In the Point-of-Care Division, sales of Afinion and NycoCard continue to progress well. The installed base of Afinion instruments is growing in line with the group's target of 2,500 new placements in 2009, making 6,500 in total by year end.
- Higher sales of Afinion cartridges are leading to increased production efficiency and improved margins, though these may be offset by the continuing strength of the Norwegian currency.
- In the Laboratory Division, homocysteine and anti-CCP ELISA revenues have been particularly strong and sales of the latter marker should be boosted further by the imminent launch of anti-CCP on the Abbott Architect system.
- The Distribution Division also continues to perform well.
- Given that Axis-Shield continues to experience good uptake of Afinion—which we expect will generate supernormal sales growth for years to come—we are maintaining our forecasts and target price. Axis-Shield currently trades on a forward year PEG of just 0.39. A PEG of 0.5 indicates a 551p valuation.

Buy

Price **429p**
Target Price **551p**

Market Cap £212.0m
Next Event Final Results - March 2010

Forecasts (£m) 12/07A 12/08A 12/09E 12/10E

Turnover	66.7	85.3	99.3	113.7
EBITDA	7.1	10.9	14.1	18.8
PBT	3.0	5.1	8.5	13.9
Tax (%)	1	n/a	27	28
EPS (p)	6.1	10.2	17.0	27.4
DPS (p)	0.0	0.0	0.0	0.0

Ratios (x) 12/07A 12/08A 12/09E 12/10E

P/E	70.1	41.8	25.2	15.7
EV/EBITDA	30.4	19.7	15.3	11.5
Yield (%)	n/a	n/a	n/a	n/a
Price/NAV	3.9	3.5	3.1	2.7

Metals and Mining

Kazakhmys– upbeat 3Q production report - Cu on track for +300kt; Au YTD +13% to 104koz

- Copper output in 3Q at 83.1kt (82kt from mines) puts the group on track to produce 315kt for the full year to Dec 09 – slightly above the 300,000t guidance given by the company back in Feb 2009.
- The company has seen by-product gold and silver output rise during the year – gold up 13% YoY to 104,000oz and silver +9% to 13,196oz. This is also due we believe to a stronger performance within its gold division, where mines such as Misek that were acquired as part of the Eurasia Gold acquisition 2 years ago, should be beginning to benefit from higher gold grades, supplemented by a copper and silver credit.
- The group's power division also saw a strong recover in power output and demand, from the 2Q to 3Q09 – rising 22%. With the strength in copper prices, and curtailed higher cost operations for the time being, this will have resulted in operating margins rising strongly, which has also enabled the group to reduce debt to some US\$1.398bn. With some 90% of revenue coming from copper and copper products, the company is well positioned to continue to benefit from the relative strength in copper prices (compared to other base metals). However, given the strong recovery in the share price (from a low of ca£2.3/sh in Jan to over £11 now, further uplift in the shares will more likely be driven by the copper price trend.

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Metals Exploration MTL (AIM)

FTAA Approvals secures 25 year licence and tax holiday

- Metals Exploration have now received the FTAA approval from the Philippines Government which secures tenure to the Runruno gold/moly advanced project on Luzon Is for 25 years with allowance to renew for a further 25 years. It also provides for a 5 year tax holiday on development.
- We had expected this announcement to come through around now given the positive sentiment from the company on developments during the year. The FTAA requires MTL to spend US\$50m on infrastructure and project development, and also secures a legal means for any arbitration in a Singapore court.
- We view this news very positively and now await further news on drilling progress results and in due course on the testing of the deeper ore body potential below the main outlined open-pit table gold zone

Price	22.25p
Market Cap	£56.64m
Next Event	Drilling results – Nov?

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Prodesse* PRD (FTSE Fledgling)

Positive read across from Annaly Q3'09 results

- A very strong set of results out from Annaly overnight. The Company reported Core EPS of \$0.75, +14% Q-on-Q and +23% Y-on-Y. The DPS of \$0.69 was +15% Q-on-Q and +25% Y-on-Y.
- The strength of the result was driven by a further widening in the interest rate spread. This increased to 2.65% from 2.08% in Q3'08. This was derived from an annualised yield on assets of 4.89% and a further fall in the cost of funds to 2.24%.
- Annaly is now delivering an annualised yield of 15.2%, on the back of an annualised ROE of 18.3%. The stock is currently trading at 1.0x NAV.
- With leverage having reduced to 6.0x (Q3'08: 7.2x), the summary for Annaly is the same as it has been for sometime, i.e. increased returns but at reduced risk.
- We expect to see a strong result from Prodesse next Tuesday when Q3'09 results are announced. Trading at 0.97x and yielding 13.2%, we re-iterate the BUY case.

*Daniel Stewart acts as Joint Broker to Prodesse

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Buy

Price 485p
Target Price 540p

Market Cap \$213.5m
Next Event Q3 results - Nov '09

Forecasts (\$m) 12/07A 12/08A 12/09E 12/10E

Turnover	26.8	34.5	39.3	40.2
EBITDA	0.0	0.0	0.0	0.0
PBT	19.8	28.8	33.1	33.6
Tax (%)	n/a	n/a	n/a	n/a
EPS (p)	44.0	58.8	65.8	66.7
DPS (p)	41.2	53.5	63.9	63.4

Ratios (x) 12/07A 12/08A 12/09E 12/10E

P/E	11.0	8.3	7.4	7.3
EV/EBITDA	n/a	n/a	n/a	n/a
Yield (%)	8.5	11.0	13.2	13.1
Price/NAV	0.9	1.1	0.9	n/a

Telecommunications Services

Gathering Cloud in LA ... positive read-across to Iomart [IOM]

- LA City Council has voted (12-0) to take Google's email service for its 30,000 employees (a \$7.25m contract) rather than choosing Microsoft's (Office) offering. This is seen as something of a landmark as it validates Google's hosted online service, which is subscription-based, and therefore shows the growing popularity of Cloud-based (remote, scalable, net-based) services. Microsoft noted that Google's solution in fact replaced one from Novell and that it has Cloud-based versions of some of its services (e.g. Word and PowerPoint) available online.
- As "Information Age" notes in its October lead article "Clouds on the Horizon", this shift has a potentially profound impact on hosted services providers to the extent that "by removing the need to own the infrastructure ... software-as-a-service ... also precludes any future requirement to outsource that infrastructure".
- In our view this has implications for the datacentre model and highlights Iomart's strategy [IOM "Buy" tp 59p]. Iomart recently (Oct.5th) launched two Cloud hosting platforms, Cloud Xtra and CloudSure. Iomart trades on a Mar'11(E) EV/EBITDA of 10.6x. Its hosted services approach has, from the outset, differentiated it from co-location based models that emphasise "space rental" and security rather than a full hosted service.

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The Daniel Stewart recommendation structure is based on relative upside/downside to target price. The target price is set on a rolling 12 month view. Upside or downside of 10% or more is categorised as Buy or Sell respectively, and less than 10% a Hold.

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Distribution of Ratings

	All Companies	Of which are Investment Banking Clients in the last 12 months
Buy	63%	30%
Hold	29%	15%
Sell	8%	0%

data as of Q2'09 30 September 2009

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