Growth Equities & Company Research

The December Monthly View

December is an odd month for investors. Volumes are light and share price movements can be volatile. As such it is perhaps unwise to read too much into what happened during the month.

As it happened the FTSE 100 rose by 2.84% over the month to close the year at 6,220.8 but – in contrast to most of the past 18 months – it underperformed other indices. That was largely down to the heavily weighted oil and mining stocks which fell sharply towards the end of the month as crude and metals prices tumbled. The broader FTSE 250 Index rose by 4.72% to 11,177.8 while the Small Cap Index jumped 6.97% to 3,905.6. The FTSE AIM Index rose by only 3.5% to 1,054.6.

So what can be read into this? The underperformance of AIM reflects the torpor affecting mining juniors which are heavily weighted in the AIM Index. We believe that this torpor will continue as some of the many low grade floats of the past two years start to fail. AIM has boasted of the large growth in its numbers but when companies find their shares suspended less than 7 months after listing after failing to produce accounts one has to have concerns about the quality of some issues. We expect more scandals to hit AIM over the coming months and this will make fund raising very hard. As such, investing in companies which do not have either cash or cashflow is a very high risk activity.

There is value on AIM but one must be selective. The stronger performance of the Small Cap and FTSE 250 Index reflects the fact that earnings momentum is generally positive and that corporate activity continues apace. While we do not expect Private Equity bids to be so prominent in 2007 as they were in 2007 they acted as a prop largely for blue chips rather than small and mid caps. We do not believe that UK base rates will rise significantly after January's increase and thus we retain a cautiously optimistic view of the markets

EMED Mining

EMED has enjoyed a positive month of real progress but its shares have not moved from 11p. Its own operational progress appears to have been counterbalanced by the general torpor affecting all of the junior miners. Following on from the successful pre Christmas flotation of Kefi on AIM – leaving EMED with a 39% stake in the 2.66 million pounds valued Turkish explorer, EMED itself posted yet another a positive update on its Slovakian exploration activities has provided a lift for the shares over the past weeks, climbing around 20% on the month.

It was just a month ago that EMED announced that hole DVE1 at the Biely Vrch prospect in the Detva license yielded 1.3g/t over 108m. Follow up holes have yielded 0.5g/t over 220m and 1.2g/t over 252m including 97m at 1.8g/t. The company is now certain that it has an open pit prospect measuring 250m by 125m to a depth of 200m which would almost certainly be a commercial 1m ounce deposit mineable via an open pit.

As per our recent research piece, we have valued EMED on a sum-of-the-parts basis. We are seeking a meeting with management to establish a new valuation for the Biely Vrch prospect. However, it is the largest single contributor to our estimate of a group net present value of 24.9 million pounds which would equate to around 22.6p per share. We maintain that there is significant exploration upside elsewhere in Slovakia, Georgia and Cyprus which could cause us to increase our valuation significantly over the coming months. But already the upside potential is clear.

***Kefi is a corporate client of Bishopsgate Communications, which is owned by RSH, the ultimate owner of GE&CR.**