

February 2021 Investor Forum

Join us for the February 2021 Investor Forum, hosted by Hardman & Co, on Wednesday 10th February, at 3:00pm.

Hardman has been holding investor forums for over six years, giving all types of serious investors the opportunity to meet company managements, hear their stories and pose questions.

2020 may have been a little different, but the success of our first virtual forum in July, and subsequent programme of digital events from webinars to interviews, shows that investor appetites remain undimmed and the screen experience is similarly engaging.

In this pack you will find profiles of the company speakers and brief notes on each of the companies presenting. I would encourage you to read these before the forum to get the most out of the event.

During the forum we will conduct a number of polls; we will also be collecting feedback in other ways. These are excellent ways to influence management. You are also invited to submit questions to management during presentations, using the Q&A function in the webinar.

For professional investors, the forum has been authorised to count towards your Continuing Professional Development time. [Click here to request certification after the event.](#)

I hope you enjoy the event.

Keith Hiscock
CEO, Hardman & Co

Chair of the Forum



Keith Hiscock
CEO, Hardman & Co

Keith is personally responsible for the firm's relationships with its corporate clients and also for corporate finance. In addition, he is the author of several articles tackling the issues facing companies in today's climate. Keith has more than 35 years' stockbroking experience and has developed long-standing relationships with many major institutional investors, including Private Client Brokers and Wealth Managers. He started his career at James Capel, at the time the top-ranked research house in London. He was a founding member of Schroder Securities and of Agency Partners, a leading research boutique house, and was a member of the five-man securities board at Evolution. Keith was part of the group of investors that acquired Hardman & Co in late 2012. He holds an MA in Philosophy, Politics & Economics from the University of Oxford.

Q&A Host



Richard Angus
*Head of Business Development,
Hardman & Co*

Richard has more than 30 years of City experience. His primary focus has been US equity capital markets, and he has been involved predominantly in the development of growth companies. He has experience on both the buy and sell sides. Having worked for M&G as a fund manager, Richard then worked for US investment banks Alex Brown & Sons and Furman Selz. Latterly, he was Managing Director and Head of Institutional Sales for Europe at FBR & Co. Besides being involved in many public flotations, Richard's experience includes pre-IPO capital raises. He joined Hardman & Co in September 2014. He holds a BA (Hons) in Economics from the University of Liverpool and is a Chartered Accountant.

Keynote Speaker



Savvas Savouri
*Chief Economist,
Toscafund Asset Management*

Sav has been involved in commercial finance since 1991, from 2008 as a partner and chief economist at Toscafund where he works with many colleagues from his days at Crédit Lyonnais Laing, ABN Amro, Commerzbank and Lazard. He holds Bachelor, Masters and doctoral degrees in econometrics from the LSE where, along with the University of Oxford, he taught and researched.

Company Speakers



Frank Schramm
Co-CEO, BBGI

Frank has been Co-CEO of BBGI from inception. He was active in the establishment and IPO listing of BBGI in 2011 and subsequent growth from 19 assets at IPO to 50 assets currently. Frank has worked in the infrastructure sector, investment banking and advisory business for over 21 years, and previously held senior roles at Bilfinger Project investment, Macquarie Bank, Deutsche Anlagen Leasing and Bilfinger Berger BOT GmbH.



Duncan Ball
Co-CEO, BBGI

Duncan has been Co-CEO of BBGI from inception. He has worked in the infrastructure sector, investment banking and advisory business for over 30 years. Before BBGI, he held senior roles at Bilfinger Project Investments, Babcock & Brown, ABN AMRO, Macquarie Bank, RBC Capital Markets and CIBC World Markets. He is an alumnus of Harvard Business School and obtained a Bachelor of Commerce Degree from Queen's University, Canada. He is a CFA charterholder and a graduate of the Rotman Business Directors Education Programme.



Nick Preston
CEO, Tritax EuroBox

Nick has close to 30 years' experience in the real estate investment management field. He has worked across all sectors of the market, throughout UK and Europe, on a variety of different fund structures and investment strategies. He joined Tritax in 2017, and was promoted to equity partner in 2020. Prior to joining Tritax he worked at Grosvenor Europe and CBRE Global Investors.



Bill Morgan
CFO, Anglo Asian Mining

Bill is a UK chartered accountant with over 30 years' accountancy and financial management experience. He has worked in the UK, the Far East, Kazakhstan and Russia. Previously, he was regional financial officer for the Kinross Russia region based in Magadan, Russia; and CFO of Hambleton Mining PLC, an AIM listed gold mining company. He has been instrumental in several successful start-ups and restructuring of companies in the telecoms and mining industries. Bill speaks Russian.



Stephen Westhead
*Director of Geology & Mining,
Anglo Asian Mining*

Steve is a geologist with over 28 years' experience. He has worked in India, CIS, Eastern Europe and Russia. Previously, he was Technical Advisor to the MD of Polyus Gold's main unit. He earned a PhD in structural controls on mineralisation, an MSc in Mineral Exploration and Mining Geology and a BSc in Applied Geology. He is a Chartered Geologist, Fellow of The Geological Society, and Member of the Institute of Materials, Minerals and Mining.

Company research from Hardman & Co analysts

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ANGLO ASIAN MINING

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Source: Refinitiv

Market data

EPIC/TKR	BBGI
Price (p)	173
12m High (p)	178
12m Low (p)	125
Shares (m)	665
Mkt Cap (£m)	1,151
EV (£m)	1,143
Market	FTSE-250 member of LSE

Description

BBGI Global Infrastructure (BBGI) has a 49-strong investment portfolio, mainly in the transport, health, justice and education sectors. The UK and Canada are its key markets.

Company information

Joint CEO	Duncan Ball
Joint CEO	Frank Schramm
Chairman	Sarah Whitney
CFO	Michael Denny
	+352 263479-1
	www.bb-gi.com

Key shareholders

M&G plc	9.42%
Schroders	8.96%
Newton Investment Management	8.46%
Investec Wealth & Investment	5.01%
Smith & Williamson	5.00%
Quilter PLC	5.00%

Diary

30 Apr	AGM
30 Jun	Half-year-end
31 Dec	Full-year-end

Analyst

Nigel Hawkins 020 3693 7075
nh@hardmanandco.com

BBGI GLOBAL INFRASTRUCTURE

Delivering NAV and dividend growth since 2011

BBGI is a diversified social infrastructure investment company, registered in Luxembourg, and a FTSE-250 constituent. Its portfolio consists of long-term and low-risk essential infrastructure investments, which deliver stable, predictable cashflows, with progressive dividend growth and attractive, sustainable returns. It focuses on enhancing the value of its investments, which are globally diversified within highly rated investment-grade countries. Most of its investments are via Public, Private Partnerships (PPPs) or derivatives thereof. All investments are availability-based, not demand-based, and supported by government-backed revenues. The cashflow line, thus, is very reliable.

- ▶ **Background:** Central to BBGI's business are its 49 essential, social infrastructure investments; they range from bridges in North America to a hospital facility in Australia. Crucially, BBGI's equity investment portfolio comprises low-risk and public sector-financed, availability-based infrastructure investments.
- ▶ **Operations:** BBGI's main operating jurisdictions are in North America, specifically Canada, and in the UK. Revenues from virtually all of BBGI's investments are based on their availability, and not on the level of demand for them; hence, there is a bond-like predictability about future revenues.
- ▶ **Valuation:** BBGI has built up a very successful track record since its IPO in 2011, with total shareholder returns averaging 10.6% p.a. It has consistently traded at a premium to NAV, and its shares are now trading at 26.8% above their NAV; the shares are yielding 4.2% on a prospective basis.
- ▶ **Risks:** All BBGI's cashflows are from government or government-backed bodies, thereby reducing the counterparty risk factor considerably. Owing to the absence of demand-based investments, the impact of COVID-19 on BBGI's finances and operations has been marginal.
- ▶ **Investment summary:** In the quest for reliable dividends, institutional and retail investors may well focus on UK infrastructure investment companies, with their secure dividend profiles. The prospective sector yield is now just below 5%. BBGI, which plans to pay a dividend of 7.18p for 2020, is currently yielding 4.2%.

Financial summary and valuation

Year-end Dec (£m)	2018	2019	2020E	2021E	2022E
Distributions from investments	55.1	64.0	81.9	87.7	93.8
Operating costs	-15.4	-11.0	-11.9	-12.6	-13.3
Net operating cashflows	39.7	53.0	70.0	75.1	80.4
Equity investments	-90.5	-62.9	-43.0	-110.0	-110.0
Drawdown proceeds	198.6	81.8	55.0	90.0	100.0
Net proceeds from fund raise	126.1	73.9	54.0	0	83.5
Dividends paid	-26.5	-40.8	-43.6	-48.2	-53.0
Dividend per share (p)	6.75	7.00	7.18	7.33	7.50
Dividend yield	3.9%	4.0%	4.2%	4.2%	4.3%
NAV per share (p)	133.5	136.2	138.9	143.0	146.5

Source: Hardman & Co Research



Executive summary

Paying secure and rising dividends remains a priority for BBGI – many other FTSE-250 stocks have recently cut their dividend payments. Since its IPO in December 2011, BBGI's dividend has risen by 3.3% p.a., on average. For 2020 and 2021, BBGI has dividend targets of 7.18p per share and 7.33p per share, respectively, increases of 2.6% and 2.1%. It reconfirmed these targets in August 2020.

Since its IPO, BBGI has delivered an annual NAV increase of 7.8% and an annual shareholder return of 10.6% – both are impressive figures in today's challenging financial environment. With a June 2020 NAV of 136.4p per share, BBGI is currently trading at 26.8% above its NAV.

Resilience has been the hallmark of BBGI's recent share price performance. Having plunged from 169.5p on 13 February to 128p by 19 March – a fall of almost 25% – when the COVID-19 investment panic caused heavy index-selling, BBGI's share price has rallied strongly. By 7 April, it had fully recovered to 170p, and it has recently reached a record level.

BBGI background

BBGI is listed on the premium segment of the Official List of the UK Financial Conduct Authority (FCA).

Outperformance since 2011 IPO

The IPO of BBGI took place in December 2011. Subsequently, BBGI has outperformed its financial targets, in terms of both raising its NAV, through accretive investment, and in delivering real dividend growth, in an era of challenging market conditions. Indeed, its share price performance has been broadly twice as good as that of the FTSE-250 over the nine-year period since its IPO.

Strategy: low-risk, globally diversified and internally managed

In terms of strategy, BBGI has set out its three strategy pillars: i) being low-risk; ii) being globally diversified; and iii) being internally managed. Its investment policy is built around these three pillars. As BBGI is internally managed, it offers three specific benefits:

- ▶ It consistently maintains the lowest comparative ongoing charges for its shareholders.
- ▶ Neither NAV-based management nor acquisition fees are charged.
- ▶ The internal management team's interests are fully aligned with those of shareholders.

Portfolio

49 investments

BBGI is quite specific in terms of its investments, of which there are currently 49 – all are required to meet the criteria that its strategy lays out.

50% to roads/bridges

Half of BBGI's investment portfolio has been allocated to the availability-based roads and bridges sector. The healthcare component amounts to 23%, while justice and education account for 14% and 11%, respectively.

Canada and UK preferred jurisdictions

Geographically, BBGI's portfolio straddles Canada and the UK. Both jurisdictions have established – and widely-respected – legal systems, with a history of dealing with the issues around infrastructure investments. The country exposures, on an investment basis, are 36% and 30%, respectively. BBGI's remaining investments are split almost equally among Australia, Continental Europe and the US.

Risks

Still some risks

Despite BBGI being a low-risk business – and certainly when considered alongside most of its comparators – it still faces various risks. The most pronounced are:

- ▶ **Discount rate movements:** The chosen discount rate has a major impact upon its NAV. Selecting the appropriate discount rate to value the cashflows is a rigorous process, based on market observations and recent transactions; it is undertaken by BBGI's Management Board. BBGI's Audit Committee approves the methodology and checks the assumptions and the outcome. The valuation is reviewed by an independent third-party valuation expert and by the auditor, KPMG. BBGI currently uses a weighted average discount rate of 7.03%, with its investments valued within a range of 6.25% to 9.00%.
- ▶ **Falling inflation:** BBGI is exposed to lower inflation, especially with respect to its NAV figure. In many, although not all, of its contracts, BBGI has built-in inflation linkage.
- ▶ **Poor investment decisions:** Any investment company is beholden to the quality of its investments and to the managers making investment decisions – as the long-running Woodford saga illustrates. Given the consistent rise in its NAV since its IPO in 2011, BBGI can argue – with conviction – that its overall decision-making has been very good.
- ▶ **Foreign exchange movements:** With just 30% of its investments being sterling-denominated, BBGI is exposed to currency movements, especially with respect to the Canadian dollar. It takes precautions to mitigate this particular risk through a bespoke currency hedging strategy, including the use of financial instruments.
- ▶ **Counterparties:** Given the many counterparties with whom it contracts, BBGI is at risk if one of its major counterparties faces serious financial or operational issues. BBGI is assiduous in seeking to reduce its counterparty risk, which is well-spread among high-quality companies.

Financial Matters

Impressive performance since 2011 IPO

Since its IPO in 2011, BBGI has increased its NAV from 97.9p per share to 136.4p per share. There have been two major drivers for this rise in NAV over the intervening period.

- ▶ First, asset value enhancement over the nine years has yielded a 20.2% increase in NAV, equivalent to 19.8p per share.
- ▶ Secondly, the market discount rate has fallen by ca.150bps (although by less than risk-free interest rates), which has given rise to a 12.5% uplift in the NAV.

We expect BBGI's consistent growth in NAV to continue as the Hardman & Co model below, up until December 2022, shows.

Hardman & Co financial projections for BBGI					
Year-end Dec (£m)	2018	2019	2020E	2021E	2022E
Cash and cash equivalent, 1 January	20.6	10.4	34.8	47.8	36.6
Distributions from investments	55.1	64.0	81.9	87.7	93.8
Operating costs	-15.4	-11.0	-11.9	-12.6	-13.3
Net operating cashflows	39.7	53.0	70.0	75.1	80.4
Equity investments	-90.5	-62.9	-43.0	-110.0	-110.0
Proceeds from drawdowns	198.6	81.8	55.0	90.0	100.0
Net proceeds of fund raise	126.1	73.9	54.0	0.0	83.5
Dividends paid	-26.5	-40.8	-43.6	-48.2	-53.0
Repayment of loans and borrowings	-258.4	-81.0	-80.0	-20.0	-90.0
Cash and cash equivalent, 31 December	10.4	34.8	47.2	34.1	45.0
Cash dividend cover (x)	1.50	1.30	1.61	1.56	1.52
Dividend per share (p)	6.75	7.00	7.18	7.33	7.50
NAV per share (p)	133.5	136.2	138.9	143.0	146.5
Number of shares (m)	556.0	605.1	665.0	665.0	714.9

Source: Hardman & Co Research

Dividends

BBGI's 3.3% annual dividend rise since 2011 hits the spot

BBGI's dividend payments have risen by an average of 3.3% p.a. since its IPO in 2011. Although the annual increase may not be spectacular – and may be lower in coming years – BBGI's dividend payment record has been impressive.

For 2020, BBGI has signalled to the market to expect a full-year dividend of 7.18p, an increase on the 2019 payment of 2.6%. We estimate that the cash dividend cover will be 1.61x. For 2021, BBGI has already published a target dividend figure of 7.33p, representing a 2.1% uplift on 2020 – and, therefore, an increase in real terms. These targets were reaffirmed by BBGI in August 2020. BBGI has also seen impressive total shareholder returns since 2011, as illustrated by the chart below.

7.33p dividend target for 2021



Source: BBGI

Real estate


Source: Refinitiv

Market data

EPIC/TKR	EBOX
Price (p)	107
12m High (p)	108
12m Low (p)	70
Shares (m)	422.7
Mkt Cap (£m)	453
EV (£m)	807
Free Float	99%
Market	Main market

Description

EBOX invests in large, modern logistics assets in several Continental European countries. It also undertakes new development. Continental European markets focus on larger assets (vs. the UK).

Company information

CEO (Manager)	Nick Preston
CFO (Manager)	Mehdi Bourassi
Chairman	Robert Orr
	44 20 8051 5070
	www.tritaxeurobox.co.uk

Key shareholders

Timbercreek	8.3%
Aviva	8.3%
CCLA	6.2%
East Riding Yorks	4.7%
Primonial	4.6%

Diary

9 Feb	AGM
May'21	Interim results
Dec'21	Full-year results

Analyst

Mike Foster	020 3693 7075
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TRITAX EUROBOX

Premium growth still offering premium yield

Growth in demand for large, modern logistics real estate is accelerating. 12% of Continental European retail was via internet shopping in 2020. Savills quotes data projecting 15.3% this year. Onshoring and lengthening of supply chains add to the trend. Tritax EuroBox (EBOX) invests entirely in this sector. It capitalises on Tritax Group's extensive expertise in the sector (£5bn assets, including the eight year-old Tritax Big Box in the UK). Its prospective dividend yield is 4.2%. We calculate the dividend yield on the largest UK real estate stocks to be 3.9%, while the largest logistics real estate REIT, Segro, offers a historical dividend yield of 1.9%.

- ▶ **Strategy:** EBOX is an investment trust, launched and floated in mid-2018, with a further €135m equity raised in May 2019. It is dedicated to investing in the structurally undersupplied Continental European logistics market. Rents grew 2.9% like-for-like last year, and there is every indication this should accelerate.
- ▶ **New development:** EBOX projects 7.0% rent returns on its three developments (one under way). There is thus a latent revaluation uplift of as much as €20m, or more, in total to be delivered over the next three years. Further developments are planned. Supply/demand is attractive, so modest, judicious new development is low-risk.
- ▶ **Valuation:** Tenant demand strength indicates a steady NAV rise as rents rise. Furthermore, value generated by new development is clear, and this may indicate a premium to NAV being warranted. It is worth noting this company has achieved critical mass, but a greater capital base may enhance the valuation.
- ▶ **Risks:** This asset class's valuation basis is almost exactly in line with the total market but, in the past, logistics assets have been valued at higher yields. Growth in logistics and internet fulfilment is a long-standing driver. New development is never without some risk. There are taxes payable, and the quantum may vary.
- ▶ **Investment summary:** Growth in demand has been accelerated by COVID-19, and this is set to continue. In many of EBOX's markets, this has taken market vacancies down to near zero. Value rises tend to lag such events, and this – added to the developments – gives high visibility to NAV growth. Income has now risen to the target indicated at IPO. There is a €2bn acquisition pipeline.

Financial summary and valuation (NB share price is in pence)

Year-end Sep (€m)	2019*	2020	2021E	2022E
Net rental income	24.5	35.5	41.7	43.5
Revaluation and disposal profit	17.8	39.4	30.0	40.0
Administrative costs	-8.5	-10.7	-11.4	-11.6
Finance (incl. fair value, translation)	-7.5	-10.6	-8.6	-8.6
Reported PBT	26.3	53.6	51.7	63.3
Profit EPRA basis	9.8	13.8	21.7	23.3
EPS EPRA basis (c)	3.0	3.3	5.1	5.5
EPS adjusted basis (cash-based, c)	3.3	4.2	5.1	5.5
DPS (c)	3.4	4.4	5.0	5.3
IFRS EPRA (c)	113.0	119.0	125.4	134.8
Dividend yield	2.8%	3.6%	4.2%	4.4%
Price/NAV (x)	1.07	1.01	0.97	0.90

* Period from 1 July 2018. Source: Hardman & Co Research

Executive summary

95% income has escalation clauses built in

EBOX's investment case is supply/demand imbalance, which results in decent yield returns...

...growth in demand...

...and ability to add value by modest-risk development

The company invests in four asset categories in the logistics sector. On a long-term, fully-invested basis, EBOX expects ca.50% of its gross assets to be invested in Foundation Assets, which have long, escalating leases. 20% of the assets are to be invested in Value-Add Assets, which have development options or shorter leases, and scope to add value. Another 20% are to be invested in Growth Covenant Assets, where tenant covenant quality is rising. The remaining 10% are to be invested in Strategic Land.

The sheer size of the sites, the need for proximity to transport nodes and the strong "green" anti-development movement in Europe make the securing of sites and planning difficult for developers. Existing modern assets therefore are valued relatively highly, and also attract good tenants. The typical lease is index-linked. It is important to highlight that, although yields for such assets have modestly come in (prices have risen), the average net initial yield of 4.6% still enables strong dividend payouts. Further market-related value rises are very likely.

We estimate a 5.0c dividend payout for FY'21, on an NAV that most recently stood at 119c per share – an attractive 4.2% dividend yield on asset value. This return is set to rise in FY'22, with rent from the low-risk developments we refer to below.

Internet retail is not the only driver to growth. Parcel delivery and logistics fulfilment businesses (B2B and B2C), as well as individual retailers, are all in long-term growth mode. Modern assets are increasingly sought, as they are good environments for the rising fitout requirements (increasing spend on fitout is well-established) and workplace attractiveness (for employee retention).

With this supply/demand balance and the difficulty in securing planning, EBOX's industry knowledge, developer connections and capital put the company in a strong position to add value. With certain sites meeting its exacting risk/reward requirements, the company has found it possible to confidently project rental yield returns of ca.7% on developments in mainstream markets, either pre-let or in micro locations of proven extremely tight supply/demand. Taking a modest risk on a minority of the portfolio is set to boost cash and investment valuation benchmarks, particularly in FY'22. Three such sites are currently on the books, the first completing this summer.



Source: Tritax EuroBox

The assets

EBOX owns large assets near population centres and transport hubs. At end-September 2020, 12 assets were owned: in prime locations, with a large average size of nearly 73,000 sq. m. Nivelles, with a size of 34,119 sq. m., represented the 13th asset. At fiscal year-end, there was a strong, well-diversified base of 21 tenant partners, 80% of which are multi-billion-Euro turnover businesses. 100% of assets are income-producing, and 95% of rental income is subject to an element of indexation each year. The weighted average unexpired lease term (WAULT) at the fiscal year-end was 9.1 years (30 September 2019: 11.0 years).

The group has a country spread. Total income (including service charges, etc.) stood at €42.88m in the year to September 2020. Note that Germany has a 10% minority held by the vendor. One effect of this is to minimise taxation.

Annual income (€m)						
Period-end September 2020	Belgium	Germany	Spain	Italy	Poland	Netherlands
Rent	6.07	13.84	8.14	7.07	6.72	1.04

Source: Tritax EuroBox

Strategic positioning

Expected to deliver 4.2% dividend yield in 2021

Slight change of emphasis due to greater size, resources and proven track record

Mango: 19% EBOX income; Amazon: 15%



Source: Tritax EuroBox

Average total returns of 10.4% in last two years

Efficiencies of scale achieved in 2020.
EPRA cost ratio stood at 31.3% for year to September 2020.

Some development but market intelligence extensive and positive

We have no concerns over a very strong tenant base, with 2020 rent paid 95% on time

EBOX is forecasting a further dividend progression, to 1.25c per share for 1Q'21, equivalent to 5.0c p.a., which equates to a 4.2% yield on the current share price.

As stated at the last results: "we have always looked favourably on assets with value creation potential and although we will continue to acquire fully let standing assets, we will increasingly tilt our activity towards value-add opportunities. Our overall investment policy and acquisition criteria will not change but we will aim to acquire assets at an earlier point in the development cycle to enable us to control more effectively the value-add opportunity. While the dividend will remain a substantial driver of our Total Return, this strategy will enable us to supplement that with increased capital growth." (EBOX Chairman December 2020)

Both logistics and retail company fulfilment

The largest tenant is Mango, a fashion retailer. Most tenants are logistics operators. Unlike in the UK, fewer Continental European markets focus on smaller "last-touch" depots.

Active asset management

Examples of active management last year included the agreement on an option to fund a ca.88,000 sq. m. extension to the Mango property in Barcelona and selling a 16,400 sq. m. plot of non-core development land at Bornem, Belgium, for €2.3m, 53% ahead of the latest valuation, and realising a profit of €0.8m. This profit is excluded from the EPRA and adjusted profits (being a capital event). We anticipate a string of such modest disposals or the development of parts of sites held.

Judicious value-adding new development

In addition, EBOX is delivering three new assets: in Belgium (a new building on an unused plot of land), Spain and Poland. The Belgian asset is under construction, with completion due this summer. EBOX undertook this as a speculative development (with a rent guarantee), as local vacancy rates are sub-1%. Others will look to pre-let. Respective costs are €7m, €31m and €15m, and our September 2021 year-end assumes €12m development spend in Belgium and Barcelona. With rent returns of 7.0% on these costs, there is a latent revaluation uplift of as much as €20m, or more, in these three assets – spread from this year to 2023.

Investment conclusion

Total returns of 9.5% and 11.3% in the years to September 2019 and 2020, respectively, may well rise further in the coming three years, as profits accrue from new asset development. Further equity was raised in 2019. The medium-term aim is to raise additional equity, we believe, as the equity is fully invested and now registers a 44% loan to value – LTV (assuming the development expenditure mentioned above), which equates to the target rate. We see significant scope for expansion, which would benefit returns, as part of this expansion could continue to be through development. With or without further equity, the strategy is to undertake active capital management – for example, utilising vacant land.

Risks

Development has some risks, and some is undertaken without being pre-let – in a market with under 1% market vacancy. Mango's credit risk is low, and the company performed well in 2020.

WAULT is 9.1 years (September 2020). Credit facilities had a weighted average maturity of 3.8 years at 30 September 2020, with no facilities maturing before 2023.

Drivers to investment returns

2.9% historical rental growth, but great interest in value from development

The prime driver is organic rental growth. In addition, EBOX is enhancing its assets and certain tenant covenants. It is also delivering three new assets. New developments yield ca.7.0%-plus. With valuation yields of ca.4.6%, there is a significant valuation uplift. A small amount of the September 2021 revaluation is from the Belgian extension. Much more development revaluation will come in September 2022 and the 2023 fiscal period.

Our assumptions of minimal reductions in capitalisation may well prove overly conservative

Our asset valuation progression makes no assumption on changes in capitalisation rates. It does assume values rise in line with rent rises, and we take account of the revaluation on newly developed assets.

LTV set to rise to 43% in FY'22 – medium-term target level

New acquisitions and development are paid for out of debt. LTV for September 2021 and 2022 stands at just under 42% and 43%, respectively, in our model (note, gross cash as a ratio of assets including cash), which is near the target.

Cash cost of debt is 2.3%; in addition, there have been arrangement and commitment fees. Were rates to rise, there would be derivatives capping the cost, and it is worth noting that lenders do not pass on the benefit of negative Euribor rates.

This company pays some overseas taxes

German assets are 90%-owned – the vendor retained 10%, and is a minority on the balance sheet. The accounting is through the medium of a Put that the original owner has for the retained 10%. Changes in value in the investment affect the Put value, and this is accounted in the Finance line. As we assume no changes in capitalisation rates, we make no change to the Put, but if valuations were to rise markedly, there would be an impact to the Finance line. It may be that strong markets would impact profits, but the Put value change (being non-cash) does not affect adjusted profits.

Local taxes are paid and not refundable. Long term, a ca.4%-5% tax rate is expected.

EBOX targets cash-backed “adjusted” profits

The analysis below shows reported, EPRA and adjusted profits. Adjusted is broadly cash-based reporting. Thus ca.€1.6m deferred 2020 rents payable over the first nine months of calendar 2021 are reflected in adjusted earnings.

Financial analysis (NB, for reference, share price quoted in pence)

Period-end (€m)	Sep'19*	Mar'20**	Sep'20	Mar'21**	Sep'21	Sep'22
Revenue account	15 months	Interim	Full-year	Interim	Full-year	Full-year
Total rental income net of direct costs	24.5	17.2	35.5	20.5	41.7	43.5
Administrative costs	-8.5	-5.0	-10.7	-5.7	-11.4	-11.6
Revaluation and disposal profit	17.8	20.1	39.4	20.0	30.0	40.0
Finance (incl. fair value, translation)	-7.5	-4.5	-10.6	-4.3	-8.6	-8.6
Profit EPRA basis	9.8	7.5	13.8	10.5	21.7	23.3
PBT reported	26.3	27.8	53.6	30.5	51.7	63.3
PAT reported	20.7	22.5	44.8	26.5	44.7	59.3
EPS EPRA basis (c)	3.0	1.8	3.3	2.5	5.1	5.5
EPS adjusted basis (cash-based, c)	3.3	2.2	4.2	2.5	5.1	5.5
EPS IFRS basis (includes revaluations, c)	6.3	5.3	10.6	6.3	10.6	14.0
DPS (c)	3.4	2.2	4.4	2.5	5.0	5.3
Balance sheet						
Investment properties	689.1	889.1	837.9	889.0	906.0	992.0
Other net assets, excl. net debt	2.3	-15.0	-17.8	-15.0	-15.0	-15.0
Net debt	-214.1	-354.1	-316.2	-354.0	-361.0	-407.0
Shareholders' funds	477.3	520.0	503.9	520.0	530.0	570.0
IFRS NAV (c)	113.0	123.0	119.0	123.0	125.4	134.8
Ratios						
LTV	33.3%	41.8%	39.9%	42.0%	41.8%	43.0%

*Period from July 2018, **six-month period. Source: Tritax EuroBox accounts, Hardman & Co Research estimates

Mining


Source: Refinitiv

Market data

EPIC/TKR	AAZ
Price (p)	156.4
12m High (p)	181.8
12m Low (p)	68.8
Shares (m)	114.4
Mkt Cap (£m)	178.9
EV (£m)	153.4
Free Float*	58.95%
Market	AIM

*As defined by AIM Rule 26

Description

Anglo Asian Mining (AAZ) operates three mines and downstream processing facilities at its main site at Gedabek in Azerbaijan. Besides further exploration potential at Gedabek, exploration work has begun at the 462 sq km prospect at Ordubad.

Company information

CEO	Reza Vaziri
CFO	Bill Morgan
COO	Khosrow Zamani

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Key shareholders

Directors & Management	41.05%
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Diary

Feb'21	4Q'20 exploration
Mar'21	Production guidance

Analyst

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ANGLO ASIAN MINING

Prodigious cash generation – REDUX

AAZ is a highly cash-generative miner of gold, silver and copper from three mines in Azerbaijan, where it has a track record of close cooperation with the government. The company listed on AIM in 2005, produced its first gold in 2009, paid a maiden dividend in 2018 and produced 69,091 Gold Equivalent Ounces (GEOs) in 2020 (at budgeted metal prices). AAZ is progressing multiple projects to expand production at its flagship Gedabek and others (see below) in Azerbaijan and (potentially) Ireland. We will review our DCF valuation of 181p per share following AAZ's production guidance update expected in March 2021.

- ▶ **2020 challenges negotiated:** Despite the combination of COVID-19, the July-November hostilities with Armenia and lower mining activity at the nearly exhausted Ugur deposit, AAZ achieved an 8% shortfall versus the lower end of its 75k-80k GEOs production guidance in 2020.
- ▶ **Production upside:** There are a potential underground mine and five exploration targets at Gedabek, the first of which could come onstream as early as 2022. Behind these are the Ordubad contract area, three licence areas in the restored territories after the conflict, and a potential joint venture in Ireland.
- ▶ **Potential for two major mineral “systems”:** We believe that AAZ's flagship Gedabek contract area could be part of a much bigger epithermal-porphyry system of gold-silver-copper mineralisation. Exploration work is accelerating at the untapped Ordubad project – potentially a significant copper-gold porphyry.
- ▶ **Risks:** AAZ faces the normal risks for a junior miner, albeit without the funding risk faced by explorers/developers. These include volatility in gold prices, political risks (albeit mitigated), environmental risks, and operational risks in successfully executing the mining plan and operating downstream processing facilities.
- ▶ **Investment summary:** Our current DCF-based valuation of 181p per share (8% discount rate) is under review, pending upcoming guidance on the production and operational outlook in the wake of last year's challenges. While the near-term production outlook may be slightly lower than our previous forecasts, our valuation is currently based on a conservative long-term gold price of \$1,600/oz.

Financial summary and valuation

Year-end Dec (\$m)	2017	2018	2019	2020E	2021E	2022E
Sales	71.81	90.35	92.05	103.20	111.42	112.81
Underlying EBIT	9.22	26.82	31.33	34.57	43.05	40.41
Reported EBIT	9.22	26.82	31.33	34.57	41.45	40.41
Underlying PTP	5.68	25.25	30.13	34.70	41.98	41.16
Statutory PTP	5.68	25.25	30.13	34.70	41.98	41.16
Underlying EPS (c)	2.22	14.32	16.91	19.71	23.85	23.38
Statutory EPS (c)	2.22	14.32	16.91	19.71	23.85	23.38
Net (debt)/cash	-18.12	6.10	16.11	35.0	n/a	n/a
Shares issued (m)	113.3	114.4	114.4	114.4	114.4	114.4
P/E (x)	96.0	14.9	12.6	10.8	8.9	9.1
Dividend yield	n/a	3.3%	3.8%	2.8%	3.8%	3.8%
FCF yield	6.1%	8.7%	12.0%	12.8%	13.0%	12.9%

Source: Hardman & Co Research

Investment case – in brief

AAZ's headquarters in Baku and mining operation in Western Azerbaijan

AAZ was listed on London's AIM market in 2005 to develop a gold and copper joint venture with the Government of Azerbaijan (GoA). AAZ is headquartered in the capital, Baku, and its mining operations are located in the Lesser Caucasus area in the west of the country. These include the Gedabek operation – which extends over 300 sq km - and the small (currently) Gosha operation 50km to the north west. The company also has the potentially significant Ordubad project, close to the town of Ordubad, the second-largest in the Nakchivan autonomous region of Azerbaijan. There are also three targets in the now restored (but formerly Armenian-occupied) territories.



Source: Anglo Asian Mining

Gedabek is AAZ's flagship site, with three operating mines

The three primary mines currently operating in the Gedabek contract area are:

- ▶ **Gedabek open pit**, which has been producing gold, silver and copper since 2009;
- ▶ **Ugur open pit**, which was fast-tracked (less than a year) into gold and silver production in September 2017, but is now nearly mined out; and
- ▶ **Gadir underground mine**, which has been producing gold since 2015.

In 2020, AAZ produced 69,091 GEOs at budgeted metal prices, which was below the guidance of 75,000-80,000 GEOs. Owing to the increase in gold relative to copper versus budgeted prices, production was 67,249 GEOs at actual prices.

AAZ is highly cash-generative and is in the first quartile of the industry

What sets AAZ apart from the vast majority of its peers is its prodigious cash generation, which is due primarily to its low cost of production. This, in turn, is due to the combination of a number of factors:

- ▶ its Azerbaijani jurisdiction;
- ▶ predominance of open pit mining;
- ▶ access to the national power grid;

- ▶ modest levels of reinvestment; and
- ▶ investment in efficient downstream processing facilities.

AAZ's full year (FY) 2019 figure for All-In Sustaining Costs (AISC) was \$591/oz, versus \$541/oz in FY'18, putting it comfortably in the industry's first quartile. The shortfall in 2020 production due to COVID-19 and the conflict with Armenia led to a spike in AISC to \$743/oz in 1H'20, although we expect a slightly lower figure in 2H'20 and a decline in FY'21 as production rebounds.

AAZ ended 2020 with ca.\$35m net cash

It has also enabled AAZ's balance sheet to move from a net debt position of \$52.4m at end-December 2014 to a net cash position (excluding leases) of ca.\$35.0m at end-December 2020, without any capital raisings. This was in spite of the company declaring dividends since its 2018 interims. Indeed, the company has committed to paying a dividend equivalent to 25% of its free cashflow (net cashflow from operations less capex) going forward.

2021 guidance next month

Guidance on the 2021 production outlook, likely with an update on operational issues, is due in early March. The company has noted that the impact of COVID-19 is now minimal, and peace between Azerbaijan and Armenia was negotiated in November 2020 and will be enforced by the Russian military. We are provisionally expecting production in terms of GEOs to rebound to 76,355 oz (67,249 oz). This includes an estimated 6,445 oz from the Ugur open pit as it is mined out.

Updated mineral resources and reserves statement for Gedabek open pit, Gadir and Ugur

In November 2020, AAZ announced an update for its resources and reserves for the Gedabek open pit (including stockpiled ore) and Gadir mines, and provided clarification of the residual gold and silver ounces from the Ugur open pit as it nears exhaustion (included in Measured resources and Proved reserves). Our long-term AAZ forecasts have assumed that 100% of the Measured & Indicated (M&I) resources are mined by 2030.

Total Anglo Asian Mining mineral resources & reserves				
	Gold oz	Silver oz	Copper kt	Zinc kt
Measured	504,940	1,658,700	20,831	50,307
Indicated	265,000	911,000	14,593	22,388
M&I	769,940	2,569,700	35,424	72,695
Inferred	240,000	257,000	7,959	21,095
Total resources	1,009,940	2,826,700	43,383	93,790
Proved	229,940	993,000	15,473	
Probable	89,000	577,000	8,518	
Stockpile	21,000	279,000	2,200	
Total reserves	340,940	1,849,700	26,191	

Source: Anglo Asian Mining

Ramping up exploration work

In recent years, AAZ has adopted a more aggressive approach to exploration. Expenditure on exploration rose from ca.\$1.0m in 2017 to \$4.5m in 2019. The strategic aims of this programme are to replace mined production, develop new mineral deposits (where possible that can be rapidly developed into operating mines like Ugur) and to extend mine life to a minimum of 10 years.

AAZ is progressing multiple projects to expand production

In 2021, the company's resources are likely to be increased by the publication of a maiden resource estimate for a potential underground mine beneath the Gedabek open pit. There are also multiple other potential projects that should boost AAZ's production in the coming years, including:

- ▶ five targets identified in the Gedabek Contract Area (see below);

- ▶ the Gosha mine produced only a few hundred ounces of gold in 2020, but new mineralisation – including a high-grade gold vein system – has been identified;
- ▶ exploration activities are ramping up at the 462 sq km Ordubad Contract Area (which was originally going to be the site of AAZ’s first mine following IPO);
- ▶ following the end of hostilities with Armenia, AAZ will begin evaluating its three licence areas – Vejnaly, Soutely and Gyzilbulakh – in partnership with the GoA in the restored territories; and
- ▶ a potential joint venture with Conroy Gold to develop the 800 sq km Longford Down Massif gold project. This includes the Clontibret deposit, which has a 500,000 oz JORC resource.

Five targets being explored at Gedabek

In May 2020, AAZ published a “Strategic Update”, a key part of which was the identification of five exploration targets in the Gedabek Contract Area, which the company plans to fast-track into production within three years.

- ▶ **Avshancli 1 and Avshancli 3** – in the north east of the Gedabek Contract Area;
- ▶ **Gilar** – also in the north east of the Gedabek Contract Area;
- ▶ **Zefer** – near the leach pad processing area at Gedabek; and
- ▶ **Ugur Deepes** – several hundred metres from the south east flanks of the Ugur open pit mine.

Both Gedabek and Ordubad could be major mineralised “systems”

The most advanced of these – the Avshancli 1 gold-copper deposit - could be onstream in 2022. We have stated before that the Gedabek Contract Area, incorporating Gedabek, Gadir, Ugur and the targets above, has bigger “system” potential. We are referring to the likelihood that Gedabek-Gadir is part of a much bigger porphyry-epithermal system of gold-copper-silver mineralisation, which goes well beyond the existing resources/reserves and the next upgrade noted above. We want to emphasise that, although it is early days, the Ordubad Contact Area has similar potential, as we outline below.

Effective royalty of 12.5% based on production-sharing agreement

Under the production-sharing agreement, GoA is entitled to 51% of “profit production”, i.e. the value of production less cash operating and capital costs. The agreement is subject to a minimum of 25% of the 51%, i.e. 12.75%, until all costs are recovered. This has been the royalty rate every year; with \$94.6m of unrecovered costs outstanding at end-2017, it is likely to remain so until at least 2023, according to the company. The production-sharing agreement is based on similar contracts to those that have been successfully used in the development of Azerbaijan’s oil sector in cooperation with oil majors, such as BP.

Our assumption is that the royalty rate remains at 12.75% until the end of 2025, after which it moves up to 51% for the remainder of our forecasting period until 2030. In practice, this is likely to be conservative because the capital costs of constructing an underground mine at Gedabek (not currently in our model) will delay the onset of higher royalty rates. The total unrecovered costs for the Gedabek and Gosha contract areas at 30 June 2020 were \$52.7m and \$26.4m, respectively (31 December 2019: \$59.0m and \$25.5m, respectively).

Our DCF valuation of 181p per share is under review

Our current DCF-based valuation, using a discount rate of 8%, of 181p per share is under review, as we await next month’s update to the company’s guidance. While the near-term production outlook may be slightly lower than our previous forecasts, our valuation is currently based on conservative long-term gold, silver and copper prices of \$1,600/oz, \$20.00/oz and \$6,000/tonne, respectively.

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