

## Markets (previous close)

		% change			% change
FTSE	5123.02	-2.62	Dow Jones	10380.43	-1.33
Hang Seng	19920.29	-1.06	Nikkei	10364.59	-3.10

## Currencies

£/\$	1.4804	-0.96	£/Euro	1.1611	-1.11
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## Commodities

Gold	\$1,211.25	1.46	Copper	\$6,911	-0.01
Platinum	\$1,663.75	-0.03	Oil (Brent)	\$77.99	-1.63

## Vectura - VEC.L - (33.25p) – Novartis starts QVA149 Phase III; company to beat forecasts

Novartis has started the two Phase III trials with QVA149, resulting in a \$7.5m milestone payment. We estimate regulatory filing in 2012, which will trigger a \$15m milestone payment, and approval in 2013 (a further \$20m milestone). Vectura has also released its pre-close trading update and will exceed our forecasts. Revenues are expected to be £38m-£42m (finnCap estimate £38.6m) with a loss after tax significantly reduced from last year (finnCap estimate similar to last year at £17.9m). Cash at year end was in-line with our forecast of £64m following the early repayment of an accrued liability. **Novartis' commitment to NVA237 and QVA149 is beyond doubt. Vectura stands to receive \$70m in milestones from these two products between now and regulatory approval, and an estimated 5% royalty on sales thereafter. Near term we expect to see milestones (€1.5m for each of the EU5) on approval of VR315, and subsequent royalties from EU sales (at an estimated 15% royalty rate). We reiterate our buy recommendation and 120p price target.**

(Analyst: Keith Redpath 0203 207 3250)

## Minera IRL – MIRL.L – (64.5p) – Escondido an extension of Mariana's Las Calandrias?

A positive update from Minera IRL's Don Nicolas project in Patagonia, this morning. The feasibility study is well under way with two rigs working on the in-fill and step-put drilling required to raise the resource categorisation to measured and indicated. Also mentioned was the early stage mapping and rock-chip sampling at Escondido which identified a significant breccia zone with a strike length of over 500m and up to 100m wide. 11 of 22 outcrop rock samples assayed above 0.1g/t gold with the highest assaying 2.4g/t gold and 84g/t silver. The Escondido property is contiguous to Las Calandrias, Mariana's gold discovery, with the closest intersection Mariana drilled at Calandria Sur collared 10m from the MIRL property boundary. From this it is clear to us that the Las Calandrias mineralisation is present on both properties. **Our analyst Joe Lunn is on site as I write and believes that Las Calandrias has significant potential to become a series of open pit mines extending over both properties. Minera IRL and Mariana**

**Resources\* know each other well and may co-operate in the future as the projects become more advanced. BUY**

#### Debenhams – DEB.L – (66p) – Visit to Magasin acquisition in Denmark

The key points to emerge from the trip to Magasin du Nord in Denmark on Thursday and Friday of last week were:- Management is very happy that Magasin will allow profit progress in FY11 even if the UK business goes backwards, which it does not expect. This is more bullish than our modelling assumption for FY11 which is that the UK does, indeed, suffer a small profits reverse. Management's confidence in achieving 500-600bp of gross margin improvement in the medium term is palpable. Eliminating unprofitable food concessions, reducing the duplication that results from consignment arrangements and increasing both own-bought and the penetration of own-label within own-bought are all measures that should see gross margin increase. The quick wins from harmonising third party terms across the group are already being delivered. Does anyone believe that this management team will take its time in securing the margin upside? This is not WH Smith. Magasin should also be able to increase sales. It has been under-capitalised and this might have restricted buying capacity. Management repeatedly emphasised the scope for improving 'linear conversion' a (sort of) proxy for stock density within stores. One should not assume a linear relationship between this measure and sales but any relationship is likely to be positive. The introduction of exclusive (Debenhams) ranges, at attractive price points, should encourage footfall. Evidence (admittedly on only a few weeks) from the Fields store (just outside Copenhagen), where Debenhams brands have been introduced, is that both footfall and conversion increase by sufficient that, even after a small reduction in ASP, sales have increased by c.20%. The purpose of the visit was not to re-calibrate expectations. Debenhams is sticking closely to the script it has followed since acquiring Magasin. Its confidence in that guidance has been bolstered by early results. We get the sense that progress in the core UK business has been slightly slower than expected on the sales line but compensated at gross margin level to leave forecasts broadly unchanged. **We thought Debenhams was an attractive stock at 76p when we initiated with a buy recommendation on 14 April. We saw nothing in Denmark to change that view. We are clearly even keener on the shares now that they are only 66p. One of the features that we like about Debenhams is that it should be able to drive earnings even if the UK consumer economy constrains progress in LFL sales, a realistic prospect once the government of the day (perhaps literally) starts down the path to deficit reduction. That defensiveness, coupled with the low rating, make the stock an excellent long-term bet in a retail sector context. Accepting that current political uncertainty is not good news for markets generally, we stick with our long-term buy recommendation.**

*(Analyst: David Stoddart 0203 207 3261)*

#### LiDCO\* - LID.L - (22p) – Clinical trial on combined BIS/LiDCOrapid use in surgery

A clinical trial that simultaneously monitored depth of anaesthesia and blood flow during surgery has been reported. The study found that depth of anaesthesia as measured by BIS (BiSpectral Index), correlated well with changes in blood flow and blood pressure. The results demonstrated that the coordinated monitoring of both depth of anaesthesia and the circulatory effects makes optimizing blood flow parameters to prevent oxygen debt during major surgery simpler. **BIS was the technology sold by Aspect Medical with whom LiDCO entered a distribution deal in 2009, prior to Aspect's acquisition by Covidien. LiDCO has embarked on a project to incorporate BIS into the LiDCOrapid platform which will result in a single monitor to measure both depth of anaesthesia and blood flow during surgery. We have a 30p price target for the shares.**

*(Analyst: Keith Redpath 0203 207 3250)*

### Armour Group\* - AMR.L – (14.25p) - Creditable performance, recovery coming through

Interim results to the end of February show a solid performance with both divisions profitable and seeing some growth. The statement points to conditions improving from September, albeit with some impact from bad winter weather. The second half should provide further recovery, with some benefit expected to come from the World Cup for the groups TV accessories. Turnover increased by 12% to £29.7m, with operating profit up 21% to £1.2m. Headline pre-tax profit at £1.13m increased 55%. EPS increased by 44% to 1.3p. Net debt at £6.3m increased by £1.4m since the August year end, due to an increase in working capital. The results are an encouraging sign that general economic conditions coupled with the internal efforts made over the last year, (ie cost cutting and the introduction of new products), are starting to pay off. Bad winter weather dampened demand in Home products, which impacted inventories at the end of February. This should be a temporary effect. While it is difficult to be enthusiastic about consumer expenditure per se, Armour should see some benefit from ongoing market share gains, boosted by new products. The Home division should therefore see a stronger second half. Automotive should improve but at a slower pace, with some new customer programmes taking longer term to bear fruit. In cash terms the second half should also see a reduction of the higher than anticipated levels of inventory. We have slightly reduced our EPS expectations this year by 3% to 2.0p and by 10% to 2.3p for 2011. With a number of possible contracts outstanding there may be some upside to these numbers. **The shares appear attractive and under rated trading on a p/e of 7.1x followed by 6.2x. The management have proved themselves very capable in difficult markets. They have continued to fund new product introductions that have placed the group in a strong position going into the upturn, with growth expected, even in the face of an uncertain outlook for consumer expenditure.**

*(Analyst: David Buxton 0203 207 3229)*

### Avesco\* H1 Trading in line with US conditions improving

The H1 update highlights subdued trading but at least in line with expectations and obviously much better than last year. Importantly the outlook in the US is improving and cash generation is strong. Whilst we are not moving current year estimates at this stage, if conditions continue to improve, it may well prompt revised estimates for 2011. Additionally a hearing has finally been set for May 26 under Judge Virginia A Phillips and is scheduled to last at least three weeks. The claim against Walt Disney Co, ABC, Buena Vista Television and Valleycrest was filed in 2004 by Celador who claims that ABC and BVT arranged sweetheart deals that undervalued the commercial worth of "Who wants to be a Millionaire" screenings between 1999-2002. **Avesco retains a pre-tax economic interest in the case of over 25% which could prove valuable if a favourable settlement is reached.**

*(Analyst: Duncan Hall 0203 207 3231)*

\*denotes a research client of FinnCap

## Tomorrow's World

Aviva Plc (AV.LN)	Q1 2010 IMS
Avon Rubber (AVON.LN)	Interim 2010 Results
Babcock International Group (BAB.LN)	Full Year 2009 Preliminary Results & IMS
BATM Advanced Communications (BVC.LN)	Full Year 2009 Preliminary Results
Braemar Shipping Services	Full Year 2009 AGM & Q1 2010 IMS
Capita Group (CPI.LN)	Full Year 2009 AGM
CLS Holdings (CLI.LN)	Interim 2010 Results
Easyjet (EZJ.LN)	IMS
Galliford Try (GFRD.LN)	Full Year 2009 AGM
Henderson High Income Trust (HHI.LN)	Full Year 2009 AGM
Impax Environmental Markets (IEM.LN)	Q1 2010 Results & IMS
Inmarsat Plc (ISAT.LN)	Q1 2010 Results
InterContinental Hotels	Full Year 2009 AGM & IMS
Macfarlane Group (MACF.LN)	IMS
Marshalls (MSLH.LN)	Full Year 2009 AGM
Merchants Trust (MRCH.LN)	Full Year 2009 Preliminary Results
Northern Investors Company (NRI.LN)	Full Year 2009 AGM
Salamander Energy (SMDR.LN)	Full Year 2009 AGM & IMS
Serco Group (SRP.LN)	Interim 2010 Results
Southern Cross Healthcare	Full Year 2009 AGM & IMS
Spirax-Sarco Engineering (SPX.LN)	Q4 2009 Trading Statement
TalkTalk Telecom Plc (TALK.LN)	IMS
Tarsus Group Plc (TRS.LN)	Interim 2010 Results
TUI Travel (TT.LN)	Full Year 2009 AGM
William Hill (WMH.LN)	Full Year 2009 AGM & Trading Statements
Zotefoams (ZTF.LN)	



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