

MORNING COMMENTS

Monday, 18 February 2013

Company	Reason
Nature Group*# (BUY)	Significant CTU contract win with IKM
Verona Pharma*# (BUY)	Financial Estimates

Forthcoming meetings

Company	Event	Date	Location
Jarvis Securities*#	Full year results	Thur, 21 Feb	London
RM Group	Full year results	Thur, 21 Feb	London
Lavendon	Full year results	Thur, 28 Feb	London

* WH Ireland act as NOMAD and/or Broker
WH Ireland makes a market in this company

Marketing Communication

This document has not been prepared in accordance with legal requirements designed to promote the independence of investment research. Please refer to important disclosures towards the end of this document.

MORNING COMMENT

BUY

From Market Perform

Price 25p
Price Target 34p

Reuters/BBG Index Sector Market Cap
NGR.L / NGR LN FTSE AIM Support Services £20.0m

Nature Group*#

Significant CTU contract win with IKM

Nature Group has this morning released details of a significant CTU contract win. Under the agreement, two CTUs will be sold to IKM Gruppen, Norway's largest equipment rental provider in the offshore market, with additional revenue being derived from training of operators, as well as receiving a fee per cubic metre of waste water processed. This latest contract win follows on from the announcement of a rental agreement with Statoil in Tanzania, which was worth a minimum of \$1m over the next 12 months. The last couple of years have clearly been extremely disappointing for Nature but the business appears to now be gaining traction and the outlook is becoming more encouraging. We cautiously leave our full year earnings expectations unchanged for the time being but see scope for these to be raised as the year progresses, should the current positive momentum continue. We move our recommendation to Buy from Market Perform and set a revised share price target of 34p.

- Under the terms of the contract, IKM Gruppen have acquired two CTUs for a specific sum, which has not been disclosed for commercial reasons. In addition to the sales value, training will also be provided to IKM Gruppen staff to operate the CTUs and Nature will receive further revenue dependent upon the volume of waste treated. This contract only entitles IKM to sell in Norway, so there remains the potential for further similar agreements to be put in place. Under the terms of the contract, IKM is only allowed to use Nature's CTUs for the treatment of drilling slops, helping to protect the IP within the CTUs.
- Whilst this agreement is clearly not as clean as Nature selling its own services directly into the customer, it has proven to be extremely difficult for the Group to break into the offshore supply chain to a meaningful extent with what is breakthrough technology. IKM has framework agreements with most of the oil majors and this type of contract will get Nature's technology out into the market. Furthermore, the proceeds of the sales will also improve the Group's cash position (FY 2013E net cash estimate £0.6m).
- For the time being, we have cautiously left our forecasts unchanged but see scope for these to be raised at the prelims in May, should the current positive momentum continue and further contract wins come through. We set a revised price target of 34p, based on 12x FY 2014E earnings and move our recommendation to Buy.

*WH Ireland acts as Broker and Nomad. This document has not been prepared in accordance with legal requirements designed to promote the independence of investment research. # WH Ireland makes markets in Nature Group

Y/E Dec	2011A	2012E	2013E	2014E
Revenue (£m)	15.1	15.8	18.2	19.6
PBT (£m)	2.2	0.7	1.8	2.8
EPS (p)	2.3	0.7	1.9	2.8
PER (x)	10.9	35.0	13.5	9.1
DPS (p)	0.5	0.2	0.5	0.7
Dividend Yield (%)	2.0	0.7	1.9	2.8

Source: WH Ireland estimates

WH Ireland is a member of the London Stock Exchange and is authorised and regulated by the Financial Services Authority.

Analyst John Cummins
+44 (0) 207 220 1755
john.cummins@wh-ireland.co.uk

MORNING COMMENT

BUY

Unchanged

Price 3.18p
Target price 11p

Reuters/BBG VRP.L / VRP LN
Index FTSE AIM
Sector Pharmaceuticals & Biotech
Market Cap £11.06m

Verona Pharma^{*#}

Financial Estimates

On 31 January 2013 we reported that as a result of fine-tuning its strategic approach towards commercialising its drug candidates, Verona Pharma secured a £1.16m gross placing at 4 pence per share and a £5m equity finance facility with Darwin Strategic Limited (Darwin), a company majority owned by a subsidiary of Henderson Global Investors. The subscription price for any Ordinary Shares to be subscribed by Darwin under a subscription notice will be the average of the three lowest closing bid prices of the Ordinary Shares over the 15 trading days following the subscription notice.

This finance will fund further clinical trials of RPL554 in the treatment of severe chronic obstructive pulmonary disease, which would underpin RPL554's safety and efficacy and demonstrate superiority over existing bronchodilators used to treat the condition. It would also fund clinical studies to confirm VRP700's activity in chronic and severe cough.

We suspended our projections to consider the impact of the new strategy on the Company's financials, taking into account *inter alia*, the cost and duration of the additional clinical trials and time lines to revenue and profit generation. Previous estimates assumed that a licensing deal for the lead drug RPL554 would be concluded in 2013 following successful conclusion of the anti-inflammatory clinical study, which was anticipated in Q4 2012. Given the new clinical trial programmes planned for RPL554 and VRP700 over the next two years, we have assumed that licensing negotiations for these compounds will commence after these trials have completed.

We have prudently reduced our 12-month target price of 17p to a risk-adjusted 11p as a consequence of the delay in out-licensing RPL554. We have factored in our revised calculations of potential revenue from upfront and milestone payments for RPL554 and VRP700 commencing 2015 and royalty payments on sales of RPL554 in COPD and VRP700 in cough following regulatory marketing authorisation. The potential for expanding the indications for RPL554 to treat even more prevalent respiratory disorders such as asthma and allergic rhinitis, remains a significant valuation upside.

We continue to support Verona Pharma's strategy to generate shareholder value in the near term by focusing on lower-hanging opportunities, i.e. demonstrating through clinical evidence that its drug candidates have potential for resolving high unmet clinical needs in the COPD and chronic, severe cough markets.

We retain the view that at 3.4p VRP shares remain substantially undervalued and reiterate our BUY recommendation

* WH Ireland acts as broker and Nomad

Marketing Communication

This document has not been prepared in accordance with legal requirements designed to promote the independence of investment research. Please refer to important disclosures towards the end of this document.

Analyst

Oliver Degiorgio-Miller
+44 (0)113 394 6600
oliver.degiorgio-miller@wh-ireland.co.uk

Y/E June	H1 2012A	Prev FY2012E	Rev FY2012E	Prev FY2013E	Rev FY2013E	FY2014E
Sales (£000)	-	-	-	20,000	-	-
PBT (£000)	(1,063)	(2,000)	(2,500)	10,000	(2,500)	(4,000)
EPS (p)	(0.35)	(0.65)	(0.82)	3.3	(0.74)	(1.19)
P/E (x)	N/A	N/A	N/A	N/A	N/A	N/A
DPS (p)	-	-	-	-	-	-
Net cash (£000)	2,356	700	1,000	10,200	500	500

Source: WH Ireland estimates

WH Ireland is a member of the London Stock Exchange and is authorised and regulated by the Financial Services Authority.

Disclosures

WH Ireland Recommendation Definitions

Buy

Expected to outperform the FTSE All Share by 15% or more over the next 12 months.

Outperform

Expected to outperform the FTSE All Share by 5/15% over the next 12 months.

Market Perform

Expected to perform in line with the FTSE All Share over the next 12 months.

Underperform

Expected to underperform the FTSE All Share by 5/15% or more over the next 12 months.

Sell

Expected to underperform the FTSE All Share by 15% or more over the next 12 months.

Speculative Buy

The stock has considerable level of upside but there is a higher than average degree of risk.

Disclaimer

This research recommendation is intended only for distribution to Professional Clients and Eligible Counterparties as defined under the rules of the Financial Services Authority and is not directed at Retail Clients. This note contains investment advice of both a general and specific nature. It has been prepared with all reasonable care and is not knowingly misleading in whole or in part. The information herein is obtained from sources which we consider to be reliable but its accuracy and completeness cannot be guaranteed. The opinions and conclusions given herein are those of WH Ireland Ltd. and are subject to change without notice. Clients are advised that WH Ireland Ltd. and/or its directors and employees may have already acted upon the recommendations contained herein or made use of all information on which they are based. WH Ireland is or may be providing, or has or may have provided within the previous 12 months, significant advice or investment services in relation to some of the investments concerned or related investments. Recommendations may or may not be suitable for individual clients and some securities carry a greater risk than others. Clients are advised to contact their investment advisor as to the suitability of each recommendation for their own circumstances before taking any action. No responsibility is taken for any losses, including, without limitation, any consequential loss, which may be incurred by clients acting upon such recommendations. The value of securities and the income from them may fluctuate. It should be remembered that past performance is not necessarily a guide to future performance. For our mutual protection, telephone calls may be recorded and such recordings may be used in the event of a dispute. Please refer to www.wh-ireland.co.uk for a summary of our conflicts of interest policy and procedures.

Share Price Target

The share price target is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon.

Stock Rating Distribution

As at the quarter ending 31 Dec 2012 the distribution of all our published recommendations is as follows:

Recommendation	Total Stocks	Percentage %	Corporate
Buy	57	76	42
Speculative Buy	11	15	8
Outperform	2	3	2
Market Perform	5	6	4
Underperform	0	0	0
Sell	0	0	0
Total	75	100	56

This table demonstrates the distribution of WH Ireland recommendations. The first column illustrates the distribution in absolute terms with the second showing the percentages.

Conflicts of Interest Policy

This research is classified as being "non-independent" as defined by the FSA's Conduct of Business Rule 12.3. Please refer to www.wh-ireland.co.uk for a summary of our conflict of interest policy.

Where WH Ireland acts in a professional or retained capacity for a company, the following symbols, as indicated on the front page next to the company name, apply:

*WH Ireland acts as NOMAD and/or Broker
#WH Ireland makes markets in this stock

Marketing Communication

This document has not been prepared in accordance with legal requirements designed to promote the independence of investment research. Please refer to important disclosures towards the end of this document.

Analyst Certification

The research analyst or analysts attest that the views expressed in this research report accurately reflect his or her personal views about the subject security and issuer.

WH Ireland is a member of The London Stock Exchange and is authorised and regulated by The Financial Services Authority

WH Ireland Limited
11 St James's Square
Manchester M2 6WH
T: 0161 832 2174
F: 0161 839 5706

www.wh-ireland.co.uk