RNS Number : 6268H
Crystal Amber Fund Limited
05 August 2021

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CRYSTAL AMBER FUND LIMITED
("Crystal Amber Fund" or the "Fund")

Monthly Net Asset Value

Crystal Amber Fund announces that its unaudited net asset value ("NAV") per share at 30 June 2021 was 146.81 pence (31 May 2021: 129.02 pence per share).

The proportion of the Fund's NAV at 30 June 2021 represented by the five largest shareholdings, other investments and cash (including accruals), was as follows:

Five largest shareholdings	Pence per share	Percentage of investee equity held
De La Rue plc	53.2	12.3%
*GI Dynamics Inc.	23.9	*
Equals Group plc	22.4	22.4%
Hurricane Energy plc	19.3	22.6%
Allied Minds plc	11.4	19.0%
Total of five largest shareholdings	130.2	
Other investments	15.1	
Cash and accruals	1.5	
Total NAV	146.8	

* GI Dynamics Inc. is a private company and their shares are not listed on a stock exchange. Therefore, the percentage held is not disclosed. Its carrying value has been determined using DCF valuation, applying a liquidity discount and on the assumption that Crystal Amber continues to support future fundraises. The valuation as at 30 June 2021 is unaudited and will be subject to auditor review in the normal course as part of the completion of the annual accounts for the year ended 30 June 2021.

Investment adviser's commentary on the portfolio

Over the quarter to 30 June 2021, NAV per share grew by 5.5%. Over the year to 30 June 2021, adjusting for the dividends paid in the period, NAV per share grew by 40.8%.

The top three positive contributors to the quarterly NAV movement were GI Dynamics (3.1%), Equals Group (4.0%) and Hurricane Energy (2.6%). The top two detractors were De La Rue (-4.8%) and Allied Minds (-0.5%).

De La Rue PLC ("De La Rue")

During the quarter, De La Rue published full year results to 31 March 2021 and reported adjusted operating profits of £38.1 million. This compares with upgraded guidance of £36.5 million and was after returning furlough payments. The Currency Division achieved 100% banknote capacity utilisation and strong margin progression. Its polymer growth plans also saw encouraging progress. The Authentication Division secured £195 million of expected multi-year contract value.

The essential management changes instigated by the Fund, continue to bear fruit. Nevertheless, De La Rue's share price trades on a multiple of just 0.83 of current year revenues and on a PE multiple of 11.4 times earnings. On consensus estimates for the following year, the revenue multiple is forecast at 0.76 and the PE multiple at 8.4. De La Rue enjoys a market share of 30% of global commercial banknote printing, whilst its Authentication Division is expected to achieve current year revenues of £100 million, delivering EBITDA margins of 22%. The Fund strongly believes that De La Rue's equity valuation is significantly mispriced. Unless the stock market is prepared to value De La Rue appropriately, Crystal Amber anticipates that it is likely that a trade buyer or buyers will intervene in order to acquire the business.

Over the period, shares in De La Rue were down by 9.6%.

Equals Group PLC ("Equals")

Equals is an e-banking and international payment services provider serving both retail and business customers mainly in the United Kingdom. After the period under review, Equals issued a positive trading update. Revenues for the six months to 30 June 2021 increased by 21% to £16.7 million. This was despite the continued absence of meaningful travel-related activity. Importantly, travel-related activity represented less than 5% of revenue in Q2 2021 compared to 31% in Q3 2019, demonstrating the differential between pre-Covid levels and therefore the potential for increased travel money revenues as Covid restrictions are relaxed.

The Equals Money product suite for corporate customers achieved good growth. International Payments experienced strong demand for its 'own-name multi-currency IBAN' offering and white-label platform. The Corporate Expenses platform also achieved record results. Cost control saw headcount remain at around 250 but with a significantly lower cost footprint, with this now being around £0.9 million of base pay per month compared £1.2 million in January 2020. Net cash at 30 June 2021 was £9.2 million.

The Fund notes both the consolidation and the extraordinary valuations currently being achieved in the Fintech sector. With a market capitalisation of £95 million, shares in Equals trade on an enterprise value of just 2.25 sales. As the largest shareholder in Equals with a 22.3% shareholding, Crystal Amber is well placed to benefit from both improving financial performance and potential consolidation.

Over the period, shares in Equals were up by 30.1%.

GI Dynamics Inc. ("GI Dynamics")

After delays due to the COVID 19 surge throughout India, the I-STEP application for the Randomized Clinical Trial in that country (to be conducted exclusively in conjunction with Apollo Sugar Clinics) was reviewed by regulators in June 2021. As a result, the study is expected to commence this quarter. During the quarter, enrolment for the STEP-1 FDA trial continued, following the re-opening in the previous quarter as a result of the lifting of COVID19 restrictions and widespread vaccine access in the US.

GI Dynamics is in the process of filing its application to commercialize EndoBarrier under the new Medical Device Regulation (MDR) which will allow access throughout the EU. The first milestone toward achieving CE Mark for European regulatory approval was achieved in November 2020 as GI Dynamics successfully completed the required ISO Certification audit.

The global pandemic has reaffirmed the importance of gaining control of the significant risk factors associated with Type II diabetes and obesity. More than ever, medical professionals and patients alike are seeking minimally invasive, effective therapies so help control and resolve both of these chronic conditions. GI Dynamics is preparing to meet this large unmet clinical need.

Hurricane Energy PLC ("Hurricane")

On 30 April 2021, Hurricane released details of a proposed financial restructuring under which it was proposed to put the company's operations into an extended wind down with shareholders' interests being wiped out almost completely in favour of the bondholders. On 19 May 2021, Crystal Amber announced that it had sent a requisition notice to Hurricane requiring it to convene a general meeting to remove the five non-executive directors and appoint John Wright and David Craik as directors. On 24 May 2021, the High Court of Justice ordered that the board of Hurricane hold a meeting of shareholders in order to vote on the Restructure Plan. At that shareholder meeting on 11 June 2021, shareholders rejected the plan by 92.3% to 7.7%.

Between 21 and 23 June 2021, at the sanction hearing, Crystal Amber argued that the proposed restructuring plan should be rejected, that the board had been both evasive and obstructive and that the plan was not in the interests of all stakeholders. The Fund also gave evidence that Bluewater Energy Services B.V. (from whom Hurricane leases the FPSO - Floating Production Storage and Offloading - vessel) made contact directly with Crystal Amber in which it stated that it remained very keen to progress discussions and investigate solutions and proposals to extend the charter beyond June 2022.

On 28 June 2021, in his judgment, Mr Justice Zacaroli stated that Hurricane is profitable and anticipated to remain so for at least the next year, that Hurricane's evidence was that the P6 well is likely to remain economically viable until early 2024 and that there are reasonable grounds to believe that Hurricane will be able to negotiate an extension of the Charter on terms which enable it to continue extracting oil from the P6 well beyond July 2022. Crucially, the Court found that there is a realistic prospect that Hurricane will be able to discharge its obligations to the bondholders. The High Court of Justice therefore rejected the highly dilutive and costly restructuring plan.

On 30 June 2021, Hurricane's five non-executive directors resigned with immediate effect and in their stead, directors nominated by Crystal Amber, Alan John Wright and David Craik were appointed to its board, with Mr Wright installed as Interim Chairman. As a result, the general meeting scheduled for 5 July 2021 was no longer necessary and Crystal Amber therefore withdrew its requisition.

Crystal Amber regards Lancaster as one of the most prolific production wells in the North Sea. Crystal Amber would refer market participants to Hurricane's Restructuring Business Plan Presentation dated 24 May 2021, which is available on the company's website. The presentation sets out Hurricane's long-range forecast of production from its existing P6 Well. By February 2024, this is estimated to deliver 8.4 million barrels of oil. Based on the forward curve for oil prices, this would generate approximately $600 million of revenue. Based on historic margins, this would deliver operating cash flows of in excess of $250 million. Crystal Amber further notes that actual production for June 2021 exceeded Hurricane's forecast with 10,640 barrels per day being produced as against a budget of 9,700 barrels a day. Were this trend to continue, a further $28 million of revenue would be achieved, in addition to the $285 million expected over the next 12 months.

During July 2021, Crystal Amber has been in regular dialogue with the newly constituted board of Hurricane. Since September 2020 (when the convertible bond was trading at a 70 per cent. discount), Crystal Amber has urged Hurricane to use a significant proportion of its cash to buy in bonds. The High Court of Justice stated that "the possibility of buying back bonds in the market is, on the face of it, an attractive one, given that the Bonds have been trading at a substantial discount to face value." On 5 July 2021, the bonds were trading at a 50 per cent. discount but the discount has recently narrowed to 37 per cent. Crystal Amber has requested to the board of Hurricane that it immediately embarks on a substantial purchase of these bonds. As well as saving the payment of the annual interest rate of 7.5 per cent., buying back bonds at a discount, will significantly reduce Hurricane's net indebtedness.

Over the period, shares in Hurricane were up by 16.1%.

Transactions in Own Shares

During the quarter, the Fund bought back a total of 150,000 of its own ordinary shares at an average price of 107.1 p per share as part of its buyback programme.

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