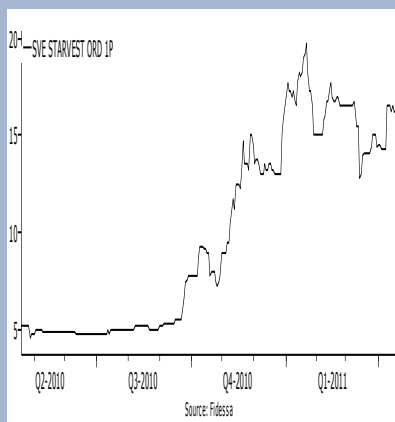


STARVEST PLC

www.starvest.co.uk



Price (bid-offer):	15.50p-17.50p	Listing:	AIM
Ticker:	SVE	Sector:	Financial Services
12-month trading range:	4.625p-19.75p		
Shares in issue:	36.717 million, Ordinary 1p		
Market capitalisation:	£6.06m		
Net Assets (at 31 March 2011):	£3.77m – see main text below		
Gearing (at 31 March 2011):	Net cash £407,539		
Financial calendar:	Year End – 30 September; Last Interims – April; Last Finals – October; AGM – December.		
Major Shareholders:	Bruce Rowan (27.7%), Barclayshare Noms (14.9%), The Neubauer Family (7%), LR Noms (4.2%).		
Principal Business	A predominately natural resources-focused investment holding company.		

Date: 3 May 2011

Author: Andrew Thacker
Simple Investments
01483 413 500
andy@simple-investments.co.uk

Update to Note dated 16/02/2011

Interim Results and Oracle Coalfields Update

On 11 April 2011, Starvest released its report for the half-year to 31 March 2011 and it once more highlighted the disparity between net portfolio valuation and the Company's own market cap. Interestingly, the Directors provided several calculations varying from the conservative to 'full-fat' in order to show how one might consider the proposition.

The picture may change again when Starvest next reports its NAV, as the Group's largest investment by worth, Oracle Coalfields, recently moved its quote from Plus Markets to AIM. Depending on initial liquidity, one might have to rethink how best to value Starvest's 21 million share stake. For more on Oracle, see below.

The potential uplift is well worth considering, as the low end calculation in the Interims had the trading NAV at 26.16p per share, with the sum being trimmed 2.66p to factor-in valuation at the closing bid price (or lower) of the respective investees. Additionally, a further 10% discount is made where the Company owns a significant percentage of an investee and/or where it makes up 7% or more of the portfolio's value. At the 'full-fat' end, the Board has looked at the current liquidity in some of its investees and, for illustration, valued all stakes – with options/warrants exercised – at market mid-prices, to arrive at a healthy 32.43p per share. At this level, the shares were trading at less than half NAV at the account date and at the conservative end the discount was still substantial. Of course, we have to deal with the time-lag between account date (31 March) and today, making assumptions as to any trading the Directors may have done within the portfolio, as well as crunching the numbers once more to try and arrive at an up-to-the-minute read-across from the investees. However, the net result might be a swing of a couple of pence per share at best on the true worth of the business, so for argument's sake let's knock another 2p off the lowest NAV and say it's 24.16p. Whichever is used, what leaps out from the results is the demonstration of unrealised gains by subtracting the book value of investments from their trading value at the account date. Post the Interims being announced, the shares have risen to 16.5p-mid from 14.25p, which softens the discount for prospective purchasers, but even if someone paid full offer they would be getting in well under the most discounted valuation.

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Furthermore, The Board has thrown an Interim Dividend into the mix, with 0.25p per share due mid-June (record date 27 May 2011) and a similar payout envisaged to accompany the full-year statement. Our take is that it's a good sign cash is now being returned, and 0.5p for the full year would, ultimately, represent a reasonable yield.

PRINCIPAL INVESTMENT PORTFOLIO (85% of value) NEWS SINCE FEBRUARY 2011

Ariana Resources plc (AIM code: AAU).

The Company has been busy since our note of 16 February 2011, including the proposed acquisition of four properties from fellow AIM-listed KEFI Minerals and an updated resource/scoping study for Kiziltepe.

Beowulf Mining plc (AIM code: BEM).

Beowulf announced initial drilling results from its Kallak South deposit, which included some encouraging iron ore grades and reinforced a belief that the system could contain 400m tonnes of ore as part of an overall 600m tonnes including Kallak North. Further news flow is likely as the drilling campaign is in its early days.

Greatland Gold plc (AIM code: GGP).

The late-March Interim Results alluded to talks regarding potential joint ventures and it will be interesting to see what, if anything, comes of this. Meanwhile, the Group has reiterated prospects at its Derby North property and found gold in soil at the newly-acquired Bromus licence.

KEFI Minerals plc (AIM code: KEFI).

Other than the deal with Ariana, KEFI has not put out any operational news, but was prompted to announce no known reason for a surge in the share price late March.

Oracle Coalfields plc (Plus Markets code: ORCP).

Oracle made its move from Plus to AIM on 20 April 2011, after raising £3m in an oversubscribed placing. We believe that improved liquidity that AIM brings in comparison, will attract more investors to participate in an 80% interest in a 1.4bn tonne Pakistani lignite coal play.

Red Rock Resources plc (AIM code: RRR).

This company remains vociferous, with its collection of 'irons in the fire', and has provided a number of market updates, the latest and most comprehensive on 15 April, both operational (progress with gold exploration and production activities in Kenya and Colombia) and financial (debt facilities and the partial sale of shares in Jupiter Mines).

Regency Mines plc (AIM code: RGM).

Starvest gains further leverage to Oracle, with Regency owning over 20m shares and options to take an overall 20% stake now it is on AIM. Elsewhere, preparatory work is underway, to be followed in May by drilling at the Mambare laterite nickel project, alongside partner Direct Nickel.

Sheba Exploration (Plus Markets code SHE).

No update of real note from Sheba in the last couple of months, but the shares have stayed above the 3p level, we imagine on longer-term hopes for its Ethiopian ventures, both proprietary and in JV with Stratex International.

Sunrise Resources (AIM code: SRES).

From the update provided on 21 March, we can anticipate drilling activity at the Ontario gold project as well as news to emanate from Ireland and Australia in relation to activities there.

INTERIM RESULTS (11 April 2011) and FUTURE UPDATE

The Company generated a gross profit of £1.09m on sales totalling £1.324m, cashing-in on the takeover of Franconia Minerals and the tremendous performance of Beowulf Mining shares. Meanwhile, previous valuation impairments of almost £850,000 were reversed due to a turnaround in the performance of certain stocks held and this time around, new impairments only came to just over £35,000. All-in-all, an operating profit of £1.9m was recorded, profit after tax came to £1.32m (2010: loss £100,000) and fully-diluted earnings per share came to 3.3p (2010: loss 0.25p). Accordingly, the Board has decided to return a bit of cash to shareholders by way of a 0.25p dividend (record date 27 May 2011, payment 15 June 2011), with a further 0.25p or thereabouts likely to be paid during January 2012. Cash at the period end was just over £400,000, overturning a net debt situation, following further investment into Ariana Resources.

Although we are happy to see dividend payments resume and the Board hopes to pay more in the future, we would like to believe investors see such payments as bonuses. Reliance on an income stream from an investment company of Starvest's profile is something we would not recommend.

The Directors anticipate next updating the market with regard to NAV as at 30 June 2011, we presume an announcement as near to that date as possible.

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SUMMARY

In early April, Goldman Sachs advised clients to sell out of crude oil, copper and platinum, but even the message from them is 'for the time being'. Much oil and natural resources/soft commodities price increases have been down to pure speculation as opposed to commercial demand and we have to expect periods when time is called on such activity. Goldman's thoughts were echoed by the International Energy Agency, which cautioned higher oil prices ultimately hurt economies and will therefore reduce demand for oil and the commodities its energy is used to produce. However, such caution is to be wary of froth coming off the market, whereas Starvest's message – and where its greatest profits have come from – is to consider the long-term.

We noted the benefit to Starvest's 'buy and commit' approach to investment in our February note and it was interesting to see Bruce Rowan's statement make reference to comments about being patient, which he made a year ago. What is strange to us is how little recognition the market gives to this track record and the discount to value seems to get bigger, the greater investment success is enjoyed by the Group. This is out of sync and – we firmly believe – something to take advantage of, notwithstanding market makers widening the spread while calling the stock higher after the results.

Add to the equation the arrival of Oracle Coalfields on AIM and we believe the market should afford some leverage Starvest's way. Oracle's AIM fundraising was "significantly oversubscribed" and with another investee, Regency Mines, declaring an intent to take its own stake in Oracle to over 20%, the Company should enjoy some indirect gearing through there, assuming – of course – Oracle's story gains traction. Both firms have significant 'paper' profits on their holdings in Oracle and Starvest's own valuation model means the stake is likely to be revalued. At the time of writing, Oracle's market bid was 11.75p, meaning Starvest's shares are notionally worth around £2.5m, which is likely far in excess of that previously attributed by the Board in any calculations and 40% of the Group's current market cap.

A valuation anomaly? We think that understates the situation.