

AIM JOURNAL

THE ONLINE MONTHLY FOR THE ALTERNATIVE INVESTMENT MARKET

VCT investment limit abolished

Venture Capital Trust (VCT) changes should be good news for many AIM companies especially as Chancellor of the Exchequer George Osborne has revealed plans to remove the £1m limit on what an individual VCT can invest in one company in each tax year.

At the moment, if a VCT manager wants to invest more than £1m in a single company and it manages a number of different VCTs, it will invest through more than one of the VCTs it manages. This has encouraged a fragmentation of the VCT market. There have been a number of VCT mergers and there could be more if the new rule comes into force.

This latest change is on top of the VCT and Enterprise Investment Scheme (EIS) rule changes announced in the Budget. They included increasing the limit on the number of employees from 50 to 250, while companies with gross assets of up to £15m will be eligible for VCT investment, up from £7m gross assets previously.

There are also plans to tighten up on the investments eligible for VCT and EIS investment. The plan is to try to disqualify companies set up purely to benefit from the tax reliefs. There will also be a clampdown on investment in buy-outs.

These rule changes still require EU approval.

AIM companies express satisfaction

Thriving on AIM, the latest survey from accountants PwC, shows that many AIM companies have ambitious growth targets over the next 12 months.

The average growth target is 24% and one-fifth of the companies surveyed expect to grow by more than 50%. Two-thirds expect to grow organically by increasing the share of their existing market, while 53% expect to make acquisitions. New products and geographic markets are other ways companies expect to grow.

PwC surveyed 105 executives from 96 companies during August and September. The reactions were generally positive, with 90% believing their AIM flotation was the right choice at the time and 57% believing

that AIM is a good platform to enable entrepreneurial activity to flourish. Most are satisfied with the appropriateness of the market rules. Companies are less satisfied with the liquidity of their shares and the costs of maintaining the quotation. The majority of the respondents believed that the minimum free float share capital should be between 26% and 50%. Managing investor relations and news flow are the main challenges for the companies.

PwC argues that the companies that remain on AIM have demonstrated their strength and resilience but they need to sustain visibility and investor support in order to keep moving ahead.

In this issue

02 GENERAL NEWS
AIM REIT plans

03 ADVISERS
Altium closure

04 NEWS
Contract wins for Renew

06 NEWS
Hamworthy bid

07 DIVIDENDS
Sanderson rebuilds dividend

08 EXPERT VIEWS
Front line views on AIM

09 FEATURE
Critical metals

11 STATISTICS
Market indices and statistics

general news

Treasury confirms plans to allow AIM REITs

Real estate investment trusts (REITs) will be allowed to float on AIM when the new Finance Bill comes into effect next April. The changes could also lead to residential REITs being set up.

REITs could even trade on Plus-quoted or an overseas stock market, according to the new plans. Up until now REITs have had to be listed on the Main Market. There are currently 23 REITs on the Main Market.

It has been estimated that up to 40 new REITs could be launched when the proposals come into force. Some of these might be offshore funds that will find it more cost-effective to become UK REITs. Some existing property companies might even spin off parts of their businesses as REITs. Pension funds and insurance companies might set up REITs.

The entry charge of 2% of NAV will be abolished and British offshoots of foreign companies will qualify for

the tax exemptions. There is even talk that these changes to the REIT regulations could lead to overseas bidders.

The increased cost-effectiveness and ease of operation of REITs under the new proposals will make them more attractive as residential investment vehicles. So far none of the REITs has been focused on residential property.

One thing that does not appear to be changing is the requirement to distribute at least 90% of income to shareholders as dividends. Some property directors believe that this hampers their ability to reinvest and grow their property portfolios, which stops them changing their status.

There was an initial consultation period earlier in the year and the Treasury has asked market participants for further responses to the proposed changes by 12 February.

WANdisco chooses AIM

California-based WANdisco plans to join AIM next year rather than a rival US stock market. WANdisco has been attracted by the fact that regulations on AIM are not as onerous as for Nasdaq.

WANdisco chief executive David Richards was born in Sheffield and the company has operations in the city. The company was set up in 2005 and, so far, its growth has been self-funded. WANdisco's Subversion software enables people based at various locations to use a Wide Area Network to develop software and systems while maintaining high levels of security. Customers include Intel, Motorola and GE.

Management wants to use the quotation to help finance acquisitions that will accelerate the expansion of the business. WANdisco is currently growing at a rate of between 50% and 100% quarter to quarter.

Stelios to help AIM shell to build African airline

easyjet founder Sir Stelios Haji-loannou will help Rubicon Diversified Investments move into the airline industry and become a shareholder in the tiny AIM shell through his easyGroup holding company.

Sir Stelios and his management team will provide strategic, management and branding advice on the feasibility of a low-cost, no-frills, jet aircraft business model for Africa. Rubicon will pay an initial £25,000 and £80,000 a month for six months for this advice.

The plan is for easyGroup to

provide Rubicon with exclusive rights to use the fastjet.com brand for an initial period of 12 months.

The rights will continue on a perpetual basis if certain conditions are met. easyGroup will take an initial 5% stake in Rubicon and have the option to subscribe for a further 10%. It will also earn a royalty for 10 years.

Formerly known as Rubicon Software, Rubicon became a shell during the summer when it sold its software business to a company controlled by its chief executive, Alistair Hancock. iAccel Ltd

bought the customer relationship management software subsidiary for £140,000.

Lonrho bosses David Lenigas and Geoffrey White joined the board in November. They proposed a new investing policy for the company stating that Rubicon would seek "an acquisition or acquisitions in the global aviation and aviation services sector with a particular focus on Africa". At that time, Rubicon raised £400,000 at 1p a share, which more than doubled its share capital. Lonrho bought some of these shares.

advisers

Altium closes broking operation

Changes continue in the AIM broking community. Altium is closing its broking operation because it sees no signs of an upturn in the smaller company market.

Commissions are hard to come by and fundraisings remain at relatively low levels. Altium will concentrate on its corporate finance and advisory business. Altium is thought to have held talks about the broking operation with potential purchasers but it could not find a buyer.

One deal announced last month has fallen through but been replaced with a management buyout. AIM and Plus-Quoted adviser Rivington Street Corporate Finance was originally going to be sold to Plus-Quoted

Webb Capital, which is run by former Unicorn Asset Management boss Peter Webb. Peterhouse Capital, where Rivington Street CF boss Peter Greensmith is the majority shareholder, is paying a total of £3m for the adviser. Peterhouse has already paid £250,000 in cash, with a further £50,000 due to be paid by the end of January.

The other £2.7m is in the form of a five-year 8% secured loan secured on the business. If Peterhouse's cash level moves above £500,000 then it will have to make early repayments. Interest will be paid quarterly in arrears.

Rivington Street CF made a profit of £334,000 on revenues of £967,000 in

the year to February 2011. That might not be repeatable.

Panmure Gordon says that Tim Linacre will step down as chief executive before the end of 2012 and the broker is looking for a replacement. Linacre wants to stay on with Panmure and concentrate on client work. This comes at a time when Panmure has revealed that it will fall short of expectations for 2011.

Panmure believes that a number of deals have been deferred and they certainly will not happen during 2011. This means that there will be a loss in the second half even before writing down the value of its stake in AIM-quoted Loudwater Trust Ltd and other intangible assets.

ADVISER CHANGES - NOVEMBER 2011

COMPANY	NEW BROKER	OLD BROKER	NEW NOMAD	OLD NOMAD	DATE
Galileo Resources	Shore / Beaumont Cornish	Beaumont Cornish	Beaumont Cornish	Beaumont Cornish	01/11/2011
Summit Corporation	Hybridan / Singer	Singer	Singer	Singer	01/11/2011
Lok'n Store	Panmure Gordon	Matrix	Panmure Gordon	Matrix	04/11/2011
Highland Gold Mining	Numis	Matrix	Numis	Matrix	07/11/2011
Omega Diagnostics	Seymour Pierce	Matrix	Seymour Pierce	Matrix	07/11/2011
Kryso Resources	Evolution / XCAP	Evolution / Optiva	Evolution	Evolution	08/11/2011
Creat Resources	Evolution China / Westhouse	Westhouse	Evolution	Grant Thornton	09/11/2011
Angle	Cenkos	Collins Stewart	Cenkos	Collins Stewart	10/11/2011
Frontera Resources	finnCap / Old Park Lane / Cornhill	Arbutnot / Old Park Lane / Cornhill	Strand Hanson	Strand Hanson	10/11/2011
Petro Matad	Macquarie / Westhouse	Westhouse	Westhouse	Westhouse	10/11/2011
Ashcourt Rowan	Canaccord Genuity	Cenkos	Canaccord Genuity	Cenkos	14/11/2011
Mobile Doctors	Seymour Pierce	Daniel Stewart	Seymour Pierce	Daniel Stewart	14/11/2011
Maple Energy	Cenkos / Mirabaud	Mirabaud / Jefferies	Cenkos	Jefferies	15/11/2011
Playtech	Collins Stewart	Collins Stewart / Deutsche Bank	Collins Stewart	Collins Stewart	16/11/2011
Cambria Automobiles	Collins Stewart	Fairfax IS	Collins Stewart	Fairfax IS	17/11/2011
Northern Petroleum	Westhouse / Cenkos	Cenkos	Cenkos	Cenkos	17/11/2011
Triple Plate Junction	Ocean	Daniel Stewart	finnCap	Daniel Stewart	17/11/2011
Central Asia Metals	Canaccord Genuity / Mirabaud	Mirabaud	Canaccord Genuity	KPMG	18/11/2011
May Gurney Integrated	Peel Hunt	Altium	Peel Hunt	Altium	18/11/2011
Noricum Gold	Cornhill / Old Park Lane / Beaumont Cornish	Old Park Lane / Beaumont Cornish	Beaumont Cornish	Beaumont Cornish	18/11/2011
Polar Capital Holdings	Canaccord Genuity	Numis	Canaccord Genuity	Numis	18/11/2011
Quindell Portfolio	Cenkos / Daniel Stewart	Daniel Stewart	Daniel Stewart	Daniel Stewart	18/11/2011
Abbey Protection	Shore / Numis	Numis	Shore	PwC	21/11/2011
SeaEnergy	Investec	Ambrian	Investec	Ambrian	21/11/2011
TEG Group	Brewin Dolphin	Ambrian	Brewin Dolphin	Ambrian	22/11/2011
Charteris	Beaumont Cornish	Oriel	Beaumont Cornish	Oriel	23/11/2011
GMA Resources	Merchant Securities	Mirabaud	Merchant Securities	Merchant Securities	23/11/2011
Igas Energy	Canaccord Genuity / RBS Hoare Govett	RBS Hoare Govett	RBS Hoare Govett	RBS Hoare Govett	23/11/2011
Anglo Asian Mining	Fairfax IS	Numis	Fairfax IS	Numis	24/11/2011
Copper Development Corp	GMP Securities	GMP / Evolution	Beaumont Cornish	Beaumont Cornish	24/11/2011
Goldplat	Fairfax IS	WH Ireland	Fairfax IS	WH Ireland	28/11/2011
Baobab Resources	Fairfax IS	Fairfax IS	Grant Thornton	Fairfax IS	29/11/2011

company news

Renew continues transformation into engineering services business

Engineering and construction

www.renewholdings.com

The closure of its northern construction activities has put **Renew** into a strong position. It continues to be involved in construction in the south but the core business is now the engineering services activities. An initial contribution from Amco, which was bought in February 2011, helped Renew to increase its profit from £4.6m to £8.1m in the year to September 2011. Revenues grew 23% to £356.7m.

The profit improvement was achieved even though the construction activities fell into loss. There is one remaining project in the north that will be completed this year. The remaining business focuses on quality residential, social housing and retail. The order book has halved to £106m, which is three-quarters of

Renew is strong in the rail sector

expected revenues for this year.

The specialist engineering division covers three main areas: energy, infrastructure and environmental. Renew is strong in the rail sector and nuclear revenues are growing on the back of decommissioning work. The division has more than 50 framework agreements, which helps to make revenues more visible. The order book of £179m would have been flat if Amco were excluded. It represents two-thirds of the division's expected revenues.

Net debt was £6.8m at the end of September 2011. The reduction in

RENEW HOLDINGS (RNWH)	64.5p
12 MONTH CHANGE % +67.5	MARKET CAP £M 38.7

construction activity means that there are fewer advanced payments. There was a £22m cash outflow due to the Amco acquisition.

The dividend was maintained at 3p a share and it is likely to stay at that level over the next couple of years.

Renew is expected to increase its profit to £9.5m in 2011-12. That puts the shares on less than six times prospective earnings. That suggests that the market still sees Renew as a construction company rather than as an engineering services business. That provides an opportunity for a further re-rating for the shares.

Gooch & Housego cautious about future

Optical components

www.goochandhousego.com

Optical components supplier **Gooch & Housego** has reported another strong set of figures but it is cautious about the current financial year.

Revenues grew from £44.7m to £61m in the year to September 2011, thanks to a mixture of organic and acquisitive growth. Underlying profit improved from £6m to £10.8m. Net debt was £1.8m at the end of September 2011, down from £5.2m a year earlier.

The full-year dividend was increased from 2p a share to 5p a share. This is well covered and there is still scope to increase it this year

GOOCH & HOUSEGO (GHH)	377.5p
12 MONTH CHANGE % -17	MARKET CAP £M 82.5

even with lower earnings forecast.

The main growth came in the industrial division, which grew 55% thanks to new products.

The group revenues have a broader base than in the past. Aerospace and defence increased its revenues by 36%, helped by the acquisition of EM4. Life sciences revenues grew 16% as the company's technology reaches commercialisation. The one weak area was scientific research, where

one major scientific programme reached maturity.

The order book is worth £28.5m but there are signs that the company's markets are slowing down. Management says this started in Asia but trading in other parts of the world is also weakening.

Investec forecasts a small reduction in profit to £10.4m in the year to September 2012, rising to £11.2m the following year.

Investec expects Gooch & Housego to be more resilient than in the past but it will not be immune to global economic conditions.

company news

FFastFill acquisition will help US expansion

Electronic trading services

www.ffastfill.com

Software-as-a-Service (SaaS)-based derivatives technology supplier **FFastFill** is acquiring Chicago-based software and consulting firm WTD Consulting for up to \$12m (£7.6m). ION Trading, which is considering a bid for trading systems provider Patsystems, has increased its stake in FFastFill to 25.6%.

FFastFill is paying an initial \$7m (£4.5m) for WTD, which generated a pro forma operating profit of \$1m on revenues of \$8m in the year to June 2011. The consideration is partly financed by a £2.2m placing at 9.5p a share.

WTD has 30 banks as its customers and FFastFill has a relationship with around half of these. WTD's software will be integrated with the group's existing software and the deal should help FFastFill to increase its exposure in the US.

FFastFill's interim revenues were

ION Trading has increased its stake in FFastFill to 25.6%

flat at £7.3m but SaaS revenues are a greater proportion than previously, while underlying profit slumped from £747,000 to £110,000. The SaaS order book stands at £11.4m. Net cash was £1.1m at the end of September 2011.

House broker finnCap forecasts a dip in full-year profit from £2.1m to £1.9m. The following year finnCap believes the profit could double.

Patsystems says that it is considering a 14p a share bid from ION. This follows the collapse of major customer MF Global, which could knock £500,000 off revenues and profit in 2011. The share price

FFASTFILL (FFA)	10.25p
12 MONTH CHANGE % + 18.9	MARKET CAP £M 48

has halved in the past year, with much of that fall coming after the trading statement at the beginning of October. At that time Patsystems said that it would make a smaller than expected profit in 2011 and ION took the chance to increase its shareholding from 26.9% to 27.9%.

Patsystems is hopeful that some traders that went through MF will move to other platforms using its technology. Even so, the administrators have been slow to release client funds in some countries. MF owes Patsystems £900,000 and this will probably be written off. There could be a further £1.3m impairment charge for money owed by other clients that require refinancing.

Cloud propels iomart growth

Managed hosting services

www.iomart.com

Cloud computing and managed hosting services provider **iomart** reported another strong set of figures which sparked a forecast upgrade. Higher utilisation levels at its data centres are helping margins to improve. As this utilisation continues to improve on the back of companies increasingly using cloud computing services, profit and margins should rise significantly.

Revenues rose from £11.4m to £15.4m in the six months to September 2011, while gross margins improved from 59.8% to

IOMART (IOM)	120p
12 MONTH CHANGE % + 48.6	MARKET CAP £M 119.9

66.8%. Pre-tax profit more than doubled from £1.16m to £2.38m. Stripping out amortisation, share-based payments and acquisition costs, the profit rose from £1.62m to £3.16m. Much of this growth is organic but it has been supplemented by acquisitions.

A reduction in the tax rate from 10% to 7% means that earnings per share rose faster than profit to 2.23p a share.

Glasgow-based managed hosting services provider EQSN was acquired for up to £2.5m after the end of the period. It has an annual turnover of £1.7m.

Peel Hunt increased its 2011-12 profit forecast from £6m to £6.3m, while the 2012-13 forecast has been pushed up from £8.2m to £9.2m. These upgrades follow on from another recent upgrade. That positive trend is behind the strong share price performance. The shares are trading on just over 19 times 2011-12 prospective earnings, falling to 16 the following year.

December 2011 5

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www.cleantechinvestor.com

company news

Hamworthy agrees bid from larger marine engineering rival

Marine fluid handling technology

www.hamworthy.com

Finland-based marine and energy business Wartsila has launched a recommended 825p a share offer for marine fluids handling equipment supplier **Hamworthy**. This values the company at £383m. This bid represents a 657% premium to the 109p a share placing price in 2004.

Shareholders should receive their cash next February. The bid is nearly 30% higher than Poole-based Hamworthy's previous share price peak in 2007. Hamworthy is a cyclical business and the downturn in tanker and shipbuilding hit its revenues. Even so, it has remained profitable in the leaner years and profit is recovering strongly.

Watsila believes that Hamworthy is a good fit with its existing business, which has operations in 70 countries.

This bid represents a 657% premium to the 109p placing price in 2004

Hamworthy will be integrated with its ship power division.

In the six months to September 2011, there were strong recoveries in the oil and gas and inert gas divisions, while offshore demand remains high. Water systems and flow systems, which had held up better in the first half of the previous year experienced a fall in revenues and a large fall in operating profit.

Revenues rose 31% to £109.2m but the order intake in the period fell from £130.9m to £100.8m. The main

HAMWORTHY (HMY)	827p
12 MONTH CHANGE % +115.5	MARKET CAP £m 375.5

reason for this is that there were a number of large contracts won in the corresponding period. The total order book is still £241.5m, with £114.1m deliverable in the next 12 months.

Since the end of the half year Hamworthy has won £40m of oil and gas systems contracts.

Net cash was £79m at the end of September 2011.

The main growth continues to come from the offshore and LNG sectors. The tanker market appears to be weakening. There are also long-term opportunities in the environmental sector. This could start to show through in 2013.

Vitamin D growth slows at Immunodiagnostic Systems

Diagnostics

www.idsplc.com

Competition and pricing pressure for vitamin D products took the edge off another strong set of results from **Immunodiagnostic Systems Holdings** (ISH). The company has also increased its overheads in order to provide increased service levels to customers.

The share price has declined sharply since the interims were released. They showed revenues grew by one-fifth to £27.3m in the six months to September 2011. Profit improved from £6.6m to £7.7m. However, the tougher outlook overshadowed the positive news.

The vitamin D market is still

IMMUNODIAGNOSTIC SYSTEMS HOLDINGS (IDH)	500p
12 MONTH CHANGE % -46.2	MARKET CAP £m 141.7

growing but the rate slowed in the second quarter. There was a reduction in manual product sales but this was offset by greater sales for the IDS-iSYS automated system. The iSYS marketing is being more focused at potential high users of the system. That means the number of systems has not grown as fast as some had hoped. There were 81 systems sold or placed in the first half – more than the first half of last year but fewer than the second half. ISH continues

to expand the range of automated assays it supplies.

Third parties are interested in licensing the IDS-iSYS technology to use in their areas of expertise.

The shares are trading on little more than 10 times prospective earnings with growth, albeit slower than previously expected, to come in future years.

ISH remains highly cash generative and this is not likely to change. Net cash was £3.3m at the end of September 2011. That could rise to more than £8m by the end of March 2012. Net cash could be as high as £27m by March 2014.

dividends

Sanderson rebuilds its dividend as gearing pays off

Software

www.sanderson.com

Dividend

Sanderson's full-year dividend has recovered from 0.6p a share to 0.75p a share and the plan is to increase it to 1p a share this year. That is below the peak dividend level but it is a prospective yield of 3.4%.

When Sanderson joined AIM in 2005 it did so with an attractive dividend policy. The first year's total was 2.5p a share and it was edged up over the next couple of years, reaching a peak of 2.7p a share for the 2006-07 financial year. The following interim was edged up from 1.15p a share to 1.2p a share but debt went out of favour and the final for the year was only 0.2p a share.

Sanderson had taken on debt to make acquisitions, and the positive effect of this can be seen in the latest figures. However, when debt went out of favour the share prices of companies such as Sanderson fell sharply. This meant that debt reduction became a key part of group strategy.

Dividend levels can continue to be rebuilt but it will be a long time before they get back to the previous peak. Even so, a steady improvement will make Sanderson shares attractive to income seekers.

Business

Although enterprise software supplier Sanderson reported reduced revenues in the year to September 2011 it generated a higher profit. Sanderson has ditched £600,000 of revenues because it was not making money on the business.

Revenues fell from £27m to £26.4m, while underlying profit improved from £1.9m to £2.29m. Sanderson

SANDERSON (SND)	
Price	29p
Market cap £m	12.6
Historical yield	2.6%
Prospective yield	3.4%

is getting the benefit of reducing its borrowings through its strong cash flow. This has reduced interest charges and they will fall further this year, helped by renegotiated bank facilities.

The manufacturing software business is holding up well and core online software offerings are performing strongly.

Sanderson has already covered three-fifths of forecast 2011-12 revenues of £27m. A profit of £3m is forecast as interest charges are expected to be halved to £500,000. The shares are trading on less than six times underlying 2011-12 earnings.

Net debt fell from £7.84m to £6.72m by the end of September. It could fall by a further £1m this year. The debt is less than 1.5 times operating profit – management believes the optimum multiple is one times operating profit. Tax losses of £4.5m mean that tax payments will not be a drain on the cash generated.

Management is seeking small, bolt-on acquisitions. The software sector on AIM is getting smaller, with bids for WorkPlace Systems International, Clarity Commerce and Parseq, while Sanderson's rival K3 Business Technology has effectively been put in play by its chairman because of disappointing share price performance. Sanderson could be a target but it would prefer to be a consolidator.

Dividend news

Ship and tanker broker **ACM Shipping Group** increased its interim dividend by 5% to 3.15p a share even though its underlying profit slumped from £3.2m to £2.3m in the six months to September 2011. Revenues fell 9% to £13.2m due to weak freight rates and the loss of personnel in the sale and purchase division, where revenues halved and there was a related goodwill write-down of £6.85m. The newer dry cargo division continues to build its revenues. The 2011-12 dividend is forecast to rise from 10p a share to 10.5p a share and this reaffirms management confidence in the long-term prospects of the company. The forecast dividend cover is 1.6 times and the yield is greater than 8%.

Plastics Capital is paying a maiden interim dividend of 0.33p a share. The plastic bearings and components manufacturer can afford to do this because net debt continues to fall. It reached £11.3m by the end of September 2011 and is forecast to be £9.7m by next March. In the six months to September 2011, revenues were flat at £16.3m as the Japanese earthquake knocked plastic bearings sales to Japanese customers. Underlying profit improved from £1.79m to £1.97m. New offices in India and China are helping Plastics Capital win new business in those countries.

MDY Healthcare, which makes strategic investments in healthcare companies, has liquidated nearly all of its holdings. MDY will receive gross cash of \$21.8m (£14m) for the disposal of its stake in Medivance to CR Bard and it has already received \$20m (£12.8m) of this. The rest will be retained for 17 months to cover warranty claims. Debt of £1.65m will be repaid and most of the rest of the cash will be returned to shareholders. MDY's remaining investment is a 14.5% stake in orthopaedic business Stanmore.

December 2011 : 7

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 expert views

 **Expert view: The broker**

Interim profit increases by 400% at Chamberlin

By MARK PADDON

Chamberlin's interim results reflect strong year-on-year growth, further cash generation and a return to interim dividend payments. The stock sits at a discount of around 30% to its closest quoted peer, which in our view looks harsh.

Chamberlin is an engineering group comprising foundry and engineering divisions.

The foundry division specialises principally in the manufacture of complex iron castings for a broad range of sectors. The group has three foundries based in Walsall, Leicester and Scunthorpe.

The largest single market for the Walsall foundry's products is the automotive turbocharger market which comprises centre bearing housings for air and water cooled chargers for the diesel and petrol turbocharger market.

The Leicester foundry tends to specialise in the medium weight castings market, with weights ranging from 10kg to 120kg. The Scunthorpe site is typically involved in the manufacture of low volume, very heavy castings ranging in weight from 100kg up to 6 tonnes. The Scunthorpe site is one of only three foundries in the UK with the capability to cast to 6 tonnes in iron.

The engineering division currently comprises two businesses. Fred Duncombe produces emergency exit hardware under the EXIDOR brand, while Petrel produces lighting and control systems for hazardous environments.

Interims

Chamberlin reported interim results marginally ahead of expectations. Adjusted pre-tax profit after stripping out the share-based payments charge and net pension financing was £0.80m

compared with the finnCap forecast of £0.75m. This represented a 400% increase on the first half of the previous year and was equivalent to the last full-year profit. This was achieved on revenue of £23m, up 25% which comprised revenue growth in the foundries division of 25% and in the engineering division of 29%, although the latter was primarily due to the first-time full six-month consolidation of the Jebron acquisition, the integration of which onto the group's Cannock site is

All three foundries are trading at or above pre-recession levels

expected to complete on schedule by the end of the calendar year.

An improvement in net margin from 1.2% to 3.7% was driven by an improvement in the foundries margin from 3.4% to 6.1%.

The trading statement confirms that all three foundries are trading at or above pre-recession levels, driven by a mixture of improved demand from existing customers, new business wins and operational efficiencies. The statement highlights growth opportunities across all three of the group's foundries.

Critically, demand for turbocharger components under the Borg Warner contract remains strong and the initial components for IHI are now in production, with the remainder under development and on schedule.

Forecasts unchanged

Following the interim results, our adjusted pre-tax profit forecasts for both 2012 and 2013 remain unchanged, at £1.6m and £2.2m respectively, which implies similar profit levels in the second half to the first half.

However, the utilisation of tax losses at the Scunthorpe foundry will result in a lower effective tax rate of 20% for March 2012 than our original 30% expectation, and this results in an increase in forecast earnings per share for March 2012 of 14% from 13.1p to 14.9p. The company now expects an effective tax rate closer to 26% for the March 2013 financial year, which in turn results in a 6% increase in forecast earnings per share to 18.9p.


Net debt reduced in the period from

£2.9m to £2m which included £0.4m of net cash generation as well as the £0.5m proceeds from the July placing. Following the return to the dividend list in the second half of last year, the group has announced its intention to pay an interim dividend of 1p a share, the first since the March 2009 financial year.

This is consistent with our full-year forecast of 3p a share on the basis of the group's historical policy of a one-third, two-third payment split between halves.

In our view, the closest quoted peer to the group is Castings plc which trades on a PE and EV/EBITDA premium of between 26% and 36% across the two forecast years. Given the higher forecast growth profile of Chamberlin, we believe this looks harsh. We retain our target price of 140p, which would imply a 2011-12 PE of 9.4.

The underlying rating appears cheap for a company expected to achieve its first profitable year in 2012.

 Mark Paddon is head of research at finnCap.

feature

Critical metals attract attention

Concerns about the supply of rare earth metals from China have brought them to investor attention in the past year or so but it is not just rare earths that are in short supply.

Critical metals are beginning to come onto the radar of investors and AIM has a number of companies involved in the area. Many are produced in a limited number of locations or supply itself is limited.

These metals can be highly important in the production of one product or range of products. That means demand for those products

and there are few realistic alternatives. The British Geological Survey rates antimony at the top of its ranking of critical metals, above platinum, tungsten and rare earths.

The supply of some of the critical metals is directly related to larger base metals because they are produced as by-products. For example tellurium comes from

Don't get too excited, though. It could cost a lot to separate and refine the rare earths and there will still be wastage, thereby preventing all of the rare earths being removed.

These metals have limited markets even though they are key components of important products. This means that small changes in demand and supply can lead to price volatility. That means that, although their prices have soared in many cases, they could just as easily decline sharply if demand starts to outstrip supply or the balance changes significantly.

China accounts for 90% of world antimony output

will have a significant influence on the individual metal's price. Large jumps in prices can lead to attempts to replace them with a cheaper alternative.

There is no real definition of what exactly constitutes a critical metal. The definitions can vary depending on the market and it is not just dependent on whether the metal is in short supply. Other factors that have to be taken into account are political risk, whether the production of the metal is concentrated in one country or region and how important the metal is to any particular industry or sector.

According to research and consulting firm Oakdene Hollins, beryllium, gallium and indium are three of the metals, along with rare earths, that are thought to be in the highly critical group. This group of metals also includes platinum group metals and tin. Moderately critical metals include antimony, cobalt and manganese.

In the case of antimony, China accounts for 90% of world output. It is a key element in fire retardants

copper, indium from zinc and gallium from aluminium.

The Namib Lead-Zinc project in Namibia, which is being developed by North River Resources, has indium in the deposit.

Tailings can be a good source of the metals. AIM-quoted Sierra Rutile Ltd has a JORC compliant

Recycling

In its research paper 'Recycling Critical Metals' Oakdene Hollins (www.oakdenehollins.co.uk) points out that the worries about the supply

Critical metals have limited markets even though they are key components of important products

indicated resource of 33,000 tonnes of tailings with an average grade of 1.44% total rare earths. The tailings come from the separation process that produces zircon-rich concentrate and other metals from the company's mine. More tailings are produced as normal production continues. Sierra Rutile reckons that the rare earths in the tailings produced from production in 2010 could be worth nearly \$120m. Metals prices from 19 August 2011 have been used for most of the rare earths in this calculation.

of critical metals has led to interest in the opportunities to recycle the metals.

Tellurium and indium can be recycled from coated glass from solar panels and the same process could be used to reclaim the metals from flat-screen TVs. There is much less indium in a flat-screen TV than a solar panel but a higher indium price would increase the commerciality of the process.

Unicore and Rhodia have set up a joint venture to extract rare earths from hybrid car batteries and

feature

Hitachi is testing ways of recycling from rare earth magnets used in air conditioning and hard disc drives. There is a limited amount of rare earths in disk drives but an additional income stream could come from businesses wanting to be sure that their data cannot be obtained by rivals.

Oakdene Hollins does point out that the products being recycled are sometimes mixed with general rubbish, which can make it difficult to recycle. Many of the metals require enormous amounts of waste products in order for a relatively small amount to be recycled.

A large capital investment is required in recycling facilities so there has to be some certainty that a waste stream will be available to process.

Some metals, such as indium and gallium, are already widely recycled. According to Edison Investment Research, indium and gallium recycling as a new source of material, though expensive and highly specialised, has exceeded primary production in recent years. Oakdene Hollins believes that investing in recyclers is a better way of gaining exposure to the metals than through mining companies that produce them as a by-product.

AIM exposure

There are a number of small AIM companies that have exposure to critical metals, but they are mining related and there is no real exposure to recycling as yet. Many of the

AIM companies have been set up relatively recently by well-known faces in the AIM mining community while for others the critical metals are by-products of the process of mining other metals.

Colin Bird, the chairman of AIM-quoted Jubilee Platinum, is chairman and chief executive of Galileo Resources. Galileo was originally Plus-quoted General Industries. It acquired Skiptons Global Investments, which has interests in South Africa. They include a stake in the Glenover rare earth elements prospect. Skiptons was acquired

Critical metals have limited markets even though they are key components of important products

for £10.2m of shares. Galileo raised £3.3m at 23p each. Some of this will be used to develop Glenover, which previously produced phosphate.

The latest drilling results from Glenover show that recent boreholes have intersected significantly higher rare earth oxide mineralisation than previously. Galileo has the option to increase its stake in Glenover to 73.7%.

Unsurprisingly, David Lenigas of Lonrho and a number of AIM resources companies is not being left out. His vehicle in this area is Rare Earth Minerals (REM). REM has taken stakes in a number of projects around the world. They include a 30% stake in the Yangibana rare earth project in the Gascoyne region of Western Australia. This project

has nearly all of the rare earth elements. There are additional stakes in companies that are involved in projects in Canada and Greenland.

Red River Resources has applied for two licences in the Rift Valley in Kenya with prospectivity for rare earths. The potential for rare earths in this area was shown in a study carried out on behalf of Red River in 2010. The licence areas are within a reasonable distance of Red River's existing operations.

Tri-Star Resources is focused on antimony and wants to become an integrated producer of the metal. Tri-

Star has the Goynuk project in Turkey and the Stanley project in Canada.

In November, it gained preliminary environmental permission for its antimony roaster in the Emirate of Ras Al Khaimah (RAK) in the United Arab Emirates. Tri-Star Union FZ, a joint venture between Tri-Star and Union International Holdings, has a "No Objection Certificate" for the proposed 20,000 tonne a year antimony roaster and downstream facilities. Tri-Star also wants to develop an antimony metal and tri-oxide finished products facility. This will produce products for the flame retardant and global chemicals markets.

All of these opportunities are some way away from cash generation and they are all highly speculative.

SELECTED CRITICAL METALS

METAL	MAIN APPLICATIONS	SHARE OF DEMAND	GROWTH MARKETS
Dysprosium	magnets	>95%	electric vehicles/wind turbines
Neodymium	magnets	>90%	electric vehicles/wind turbines
Indium	flat-panel displays	>74%	cadmium
Gallium	integrated circuits	66%	copper
Tantalum	capacitors	60%	molybdenum
Graphite	foundries/steel	48%	selenium
Tellurium	metallurgy	42%	vanadium

statistics

Market Performance, Indices and Statistics

AIM SECTOR INFORMATION		
SECTOR NAME	% OF MARKET CAP	% OF COMPANIES
Oil & gas	21.8	11.1
Basic materials	20.8	15
Financials	17.7	22
Industrials	11.1	18.6
Consumer services	8.1	10.7
Technology	7.8	9.8
Health care	5.8	5.6
Consumer goods	4.2	5.1
Telecoms	1.6	1.1
Utilities	1	1

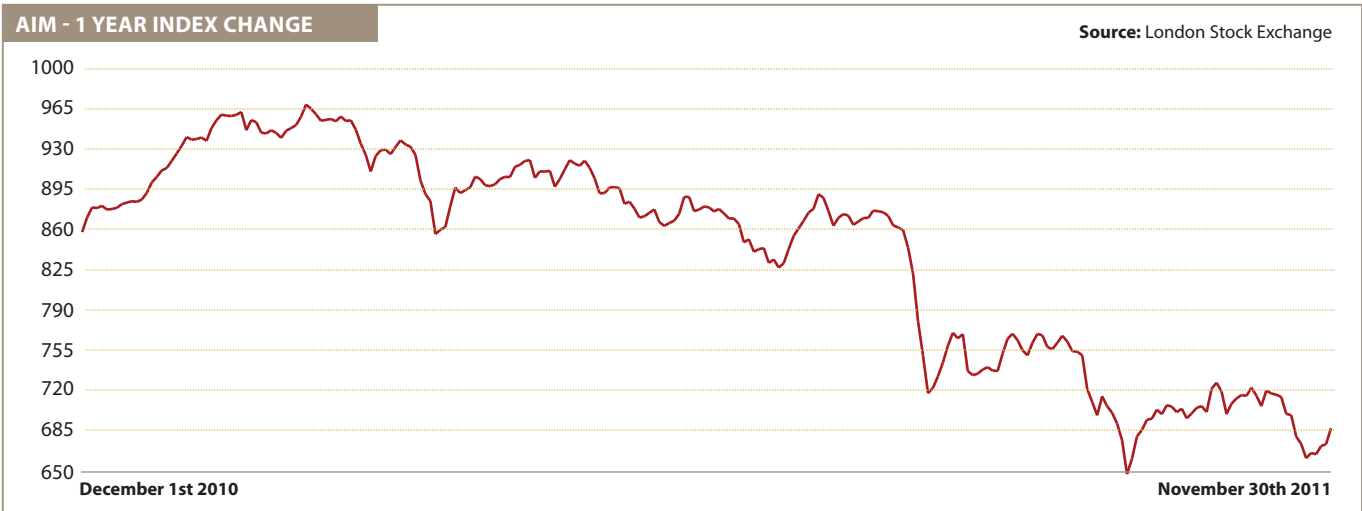
KEY AIM STATISTICS	
Total number of AIM	1152
Number of nominated advisers	61
Number of market makers	59
Total market cap for all AIM	£64.54bn
Total of new money raised	£76.39bn
Total raised by new issues	£34.83bn
Total raised by secondary issues	£41.56bn
Share turnover value (2011)	£33.68bn
Number of bargains (2011)	4.89m
Shares traded (2011)	151.24bn
Transfers to the official list	158

FTSE INDICES		
INDEX	PRICE	ONE-YEAR CHANGES % CHANGE
FTSE AIM All-Share	696.4	-21
FTSE AIM 50	2889.9	-17
FTSE AIM 100	3141.53	-23.2
FTSE Fledgling	4078.97	-8.5
FTSE Small Cap	2752.78	-10
FTSE All-Share	2835.84	-4.7
FTSE 100	5505.42	-4.2

COMPANIES BY MARKET CAP	
MARKET CAP	NO.
Under £5m	258
£5m-£10m	160
£10m-£25m	256
£25m-£50m	205
£50m-£100m	119
£100m-£250m	99
£250m+	55

TOP 5 RISERS OVER 30 DAYS			
COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
Rubicon Diversified Investments	Investment company	3.48	+334.4
West Pioneer Properties	Property	19.5	+77.3
Churchill Mining	Mining	19.12	+73.9
Synairgen	Healthcare	33	+73.7
Powerhouse Energy	Cleantech	13	+73.3

TOP 5 FALLERS OVER 30 DAYS			
COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
Global Brands	Food	0.17	-90.7
cScape Group	Technology	17.5	-70.8
Hotel Corporation	Leisure	7.5	-68.8
Dongfang Shipbuilding	Industrial	43.5	-66.2
3Legs Resources	Oil and gas	56.5	-58.8



Data: Hubinvest Please note - All share prices are the closing prices on the 2nd December 2011, and we cannot accept responsibility for their accuracy.

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Extel Top 10 rankings for two years running.

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