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AIM JOURNAL

## In this issue



# Former AIM companies join FTSE 250

Two former AIM companies have made it into the FTSE 250 index in the most recent quarterly changes. Property investor Hansteen Holdings and oil and gas explorer Afren both joined the FTSE 250.

Neither has been on the Main Market for long. Afren transferred on 3 December 2009, while Hansteen has been on the Main Market since 6 October 2009.

Although they are in different sectors the connection between these two companies is that they were both start-ups when they floated on AIM. They could not have joined the Main Market at that stage. Raising money on AIM has enabled them to get their businesses going and to expand them. Both companies raised significant funds while they were on AIM.

Afren joined AIM on 14 March 2005 so it has reached the FTSE 250 in almost exactly five years. Hansteen took less time because it joined AIM on 29 November 2005.

This shows that AIM can be used as a springboard for companies that become significant players on the London market. There has been a focus on the number of companies leaving AIM but not the positive reasons some of them leave. A number of recent AIM companies are already ensconced in the FTSE All Share index.

# Hargreave Hale sets £10m VCT target

The amount of money raised by specialist AIM VCTs this year looks set to get a big boost from Hargreave Hale's late decision to raise £10m for its two trusts.

Hargreave Hale AIM VCT will take £7m of the new cash, with a further £3m targeted for AIM VCT 2. Fund manager Giles Hargreave says the way the two funds are structured makes now an ideal time to raise new money. The mature portfolios of both trusts means that only a small proportion of the new money - £1m for the original AIM VCT and £600,000 for VCT 2 - has to be invested in qualifying companies, he said.

Including the upfront tax break, both VCTs have comfortably outstripped AIM since their launch, while AIM VCT 2 has made a net gain overall since 2006 even before the tax benefit. Hargreave adds he sees plenty of opportunities both on AIM and elsewhere.

Overall, this year's VCT season looks set to be very strong. Baronsmead, for instance, has already closed the £16m cash call for its VCT 3 and VCT 4 trusts. Noble AIM VCT, the other major AIM specialist raising significant cash this year, has received £1.6m out of a targeted £14m. Estimates suggest that more than £300m could be raised by VCTs in total by the end of this tax year.

HubInvest publishes AIM Journal

www.hubinvest.com

general news

# Brainspark hatches plans for AIM Italia involvement

Investment company Brainspark is paying up to £2m for a stake in AIM adviser Daniel Stewart Securities. AIM-quoted Brainspark is considering using this investment as a starting point to becoming involved with AIM Italia.

This is part of Brainspark's plan to expand in the financial services sector. Brainspark believes that Daniel Stewart will provide expertise to help it to finance its investments as well as provide a way for the company to become involved in AIM Italia. The Italian junior market is still in its early stages with only a handful of companies quoted.

Brainspark's investment follows the proposed appointment of former Hichens Harrison boss Adam Wilson as chief executive of Daniel Stewart. Wilson is reversing his Middle East financial consultancy MENA-RL into Daniel Stewart in return for 50m shares.

Brainspark is acquiring 25m shares at 2p each and has an option, which cost £1, to acquire a further 75m shares at the same price. The option lasts until 29 June. Brainspark is looking to raise cash in order to finance this and other investments.

If Brainspark takes up the option - and the 50m shares are issued for the purchase of Wilson's business - the full stake will be around 19%.

Brainspark chief executive Alfredo Villa will become a non-executive director of Daniel Stewart. The FSA has to agree to the exercise of the option and the appointment of Villa.

Employees of Daniel Stewart have subscribed for £604,000 worth of shares at 2p each. The additional cash will be useful for Daniel Stewart which has been suffering from significant cash outflows.

## Energy XXI to stay on AIM

Oil and gas producer and explorer Energy XXI (Bermuda) Ltd has decided not to cancel its AIM quotation.

Management obtained shareholder approval for the cancelation at the oil and gas company's AGM on 11 December. There was a deadline of 11 March 2010 at which the approval expired.

Energy XXI says that its prospects have improved and that "it should remain admitted to trading on AIM for the foreseeable future".

Energy XXI put the original motion to shareholders because it believed that maintaining the US listing on Nasdaq made more sense because its operations are in the US.

The share price has recovered since the AGM. Energy XXI has reduced the level of its debts and increased production by more than 40% through an acquisition. A further boost came from a discovery at the Davy Jones prospect in the Gulf of Mexico, where the company has a 12.6% net revenue interest.

# Trust plans to distribute SpaceandPeople shares

The proposed winding-up of Welsh Industrial Investment Trust could have an effect on experiential marketing company SpaceandPeople. If shareholders vote for the fully listed-trust to be wound-up then it intends to distribute its 1.35m shares in SpaceandPeople to its shareholders on a the basis of one share for each share owned in the trust.

Trading in SpaceandPeople shares can be thin so any selling by Welsh Industrial IT shareholders could have a negative effect on the share price. There is no indication of the timing of the share distribution.

Gresham House, which owns 13.62% of SpaceandPeople, is one of the shareholders pushing for the winding-up of Welsh Industrial IT. The Gresham House No 1 Pension Scheme owns a further 9.78% of SpaceandPeople. Gresham House and the pension scheme own a combined stake in Welsh Industrial IT of 29.3%. The share distribution would give them an extra 400,000 plus shares or an additional 3.5% of SpaceandPeople.

Shareholders owning 62.1% of the Welsh Industrial IT ordinary shares are keen for the company to be liquidated and the cash returned to shareholders.

The general meeting will be held on 1 April. There is no guarantee that the required 75% of the votes will be in favour of the winding-up but it has a good chance of success.

Other Aim companies where Welsh Industrial IT has held shareholdings in the recent past include Avesco Group, Image Scan and OMG. These companies are mentioned on the trust's website but it is unclear if it still owns shares in them – it didn't appear to in the most recent annual report.

advisers

# Shore demerges European property business

Shore Capital Group is splitting in two and the registered offices of both companies are moving to Guernsey. The shares in the financial services business will be readmitted to AIM on 29 March.

The proposal involves shareholders in Shore Capital Group plc receiving one share in Shore Capital Group Ltd and an income and a capital share in German property investment company Puma Brandenburg Holdings Ltd. These income and capital shares in Puma will be listed on the Euro MTF in Luxembourg.

This move comes after Shore returned from the Main Market to AIM on 24 September 2009 as part of a process that included acquiring AIM-quoted Puma. Shore was dropped from the FTSE All Share index at the end of 2008 because of a lack of trading in the shares and this made the Main Market listing less attractive. Moving to AIM makes it easier to make acquisitions without having to gain shareholder approval.

Howard Shore said that Shore and Puma were "a complementary fit" at the time of the takeover but the deal makes more sense as way of restructuring the group. Shore now believes that having a highly geared property business as part of the group could hamper its ability to expand because of the need to meet more stringent regulatory capital requirements.

The change in domicile to Guernsey is a sign that Shore is keen to expand outside of the UK. Shore already operates a number of investment management businesses in Guernsey and it believes that it is a better regulatory environment for an international business.

Shore turned the 2008 loss of £1.27m to a profit of £10.5m in 2009. That does not include the £63.1m book gain on the demerger of Puma. The improvement reflects a return to profit in the asset management operations and a much better profit in the equity capital operations, helped by a recovery in the market making operations.

There is £60m of cash in the balance sheet. This is offset by borrowings of £25.8m.

So far this year, Shore has floated Equatorial Palm Oil, helped Telford Homes to raise money and been involved in the deals to acquire coffeeheaven international and West Ham FC.

## ADVISER CHANGES - FEBRUARY 2010

| COMPANY | NEW BROKER | OLD BROKER | NEW NOMAD | OLD NOMAD | DATE |
|---|---|---|---|---|---|
| **Bidtimes** | Merchant John East | WH Ireland | Merchant John East | WH Ireland | 01/02/2010 |
| **PureCircle Ltd** | Liberum/Mirabaud/Westhouse | Mirabaud/Westhouse | RFC Corporate Finance | RFC Corporate Finance | 01/02/2010 |
| **Viridas** | Arbuthnot | FinnCap | Arbuthnot | FinnCap | 01/02/2010 |
| **Petra Diamonds** | RBC/Canaccord | Canaccord | Canaccord | Canaccord | 01/02/2010 |
| **ServicePower Technologies** | FinnCap | KBC Peel Hunt | FinnCap | KBC Peel Hunt | 02/02/2010 |
| **Medusa Mining Ltd** | Fairfax IS | Fairfax IS/Mirabaud | Fairfax IS | Fairfax IS | 02/02/2010 |
| **Monitise** | Evolution/Piper Jaffray | Investec | Evolution | Investec | 05/02/2010 |
| **Asia Digital Holdings** | Astaire | Daniel Stewart | Astaire | Daniel Stewart | 08/02/2010 |
| **Sirius Exploration** | Daniel Stewart | SP Angel/ Rivington Street | Beaumont Cornish | Beaumont Cornish | 08/02/2010 |
| **Altona Energy** | Evolution | Ambrian | Evolution | Ambrian | 09/02/2010 |
| **Motive Television** | Hybridan | Dowgate | Merchant John East | Dowgate | 09/02/2010 |
| **Proteome Sciences** | Singer | Noble | Singer | Noble | 09/02/2010 |
| **CBG Group** | Daniel Stewart/Zeus | Zeus | Zeus | Zeus | 10/02/2010 |
| **Unitech Corporate Parks** | Arbuthnot | Numis | Arbuthnot | Arbuthnot | 10/02/2010 |
| **Capcon Holdings** | Allenby | Snore Capital | Allenby | Shore Capital | 11/02/2010 |
| **Green Dragon Gas Ltd** | GMP/Evolution | Evolution | Smith & Williamson | Smith & Williamson | 11/02/2010 |
| **DiamondCorp** | Fairfax IS/ Cenkos | Cenkos | Cenkos | Cenkos | 12/02/2010 |
| **Landore Resources Ltd** | Fairfax IS/Strand Hanson | Strand Hanson | Strand Hanson | Strand Hanson | 12/02/2010 |
| **Clyde Process Solutions** | Arden | Arden | Cairn | Astaire | 15/02/2010 |
| **First Artist Corporation** | Seymour Pierce | Daniel Stewart | Seymour Pierce | Daniel Stewart | 15/02/2010 |
| **Renewable Energy Generation Ltd** | Numis | Numis | Smith & Williamson | Numis | 15/02/2010 |
| **Hargreaves Services** | RBS Hoare Govett/Brewin Dolphin | Brewin Dolphin | Brewin Dolphin | Brewin Dolphin | 16/02/2010 |
| **Mavinwood** | Cenkos | Collins Stewart | Cenkos | Collins Stewart | 17/02/2010 |
| **Turbo Power Systems Inc** | FinnCap | KBC Peel Hunt | FinnCap | KBC Peel Hunt | 17/02/2010 |
| **Ceres Power** | Jeffries/Morgan Stanley | Morgan Stanley | Morgan Stanley | Morgan Stanley | 18/02/2010 |
| **Fletcher King** | Cairn | Astaire | Cairn | Astaire | 18/02/2010 |
| **Modern Water** | Nomura Code | KBC Peel Hunt | Nomura Code | KBC Peel Hunt | 22/02/2010 |
| **Transense Technologies** | Hybridan | Brewin Dolphin | Brewin Dolphin | Brewin Dolphin | 22/02/2010 |
| **Plexus Holdings** | Cenkos | Brewin Dolphin | Cenkos | Brewin Dolphin | 23/02/2010 |
| **Chariot Oil & Gas Ltd** | Ambrian/BMO | Ambrian/BMO | Ambrian | KPMG | 25/02/2010 |
| **Tristel** | FinnCap | Daniel Stewart | FinnCap | Daniel Stewart | 25/02/2010 |

company news

# Monitise set to reap benefits of Visa and Carphone Warehouse deals

*Mobile banking technology* *www.monitisegroup.com*

Buying the other 50% of Monilink meant that mobile banking technology services provider **Monitise** had to consolidate the figures and report an increased loss at the interim stage. Deals with the likes of Visa and Carphone Warehouse have yet to bear fruit but they should start to contribute in the next financial year.

Revenues grew from £1.1m to £1.73m in the six months to December 2009 but Monitise is growing so fast that annualised revenues are running at £5m. The reported loss rose from £6.39m to £6.67m but that includes a notional gain of £956,000 on the acquisition of the rest of Monilink.

Monilink has annualised fixed costs of around £4.5m and Monitise chief executive Alastair Lukies (pictured) says that Monilink should breakeven later this year.

Monitise has started to generate revenues from Visa but the service is not up and running yet and

significant additional transactional revenues won't come through until next year. A deal with Carphone Warehouse to launch the 'Mobile Money Network' will help to expand the product range. There will be a range of financial services and discounts on offer.

Monitise has raised cash at a premium to its market price three times in a row. The most recent

| MONITISE (MONI) | | | 16.5p |
|---|---|---|---|
| 12 MONTH CHANGE % | +175 | MARKET CAP £M | 77.8 |

placing raised up to £15.8m, although some of that is conditional on deals being signed. Monitise has received £7.4m at 13p a share. Another £2.8m (at 13p a share) is dependent on a deal being signed with Hong Kong investment firm First Eastern for the Asia Pacific market. First Eastern will subscribe for these shares and will also have a warrant to subscribe for a further £2.8m worth of shares at 15p a share. First Eastern already owns just over 8% of Monitise. The completion of a joint venture with Carphone Warehouse will spark a subscription of £2.8m at 15p a share by the telecoms retailer.

There was net cash of £9.5m at the end of 2009 with an operating cash outflow in the first half. There should be £13.6m in the bank at the end of June 2010 but much of that will be used up in 2010-11.

# Gold buying propels Albemarle & Bond

*Pawnbroker* *www.albemarlebond.com*

Just like its peer H&T, **Albemarle & Bond** is getting a short-term boost from gold buying. This contributed gross profit of £5.2m in the six months to December 2009 but it would be foolish to expect it to continue to generate that level of profit.

This should not be allowed to mask the fact that the pawn loan book grew by 7% to £27.5m. Overall

| ALBEMARLE & BOND (ABM) | | | 267.5p |
|---|---|---|---|
| 12 MONTH CHANGE % | +33.4 | MARKET CAP £M | 148.3 |

revenues grew from £26.5m to £39.4m and gross profit was higher even if gold buying is excluded. Interim pre-tax profit jumped from £6.17m to £10.8m.

A&B opened seven stores in the first half taking the total to 123. A further eight are planned by June. Management intends to invest the short-term gains it is making into the core business to make it stronger. The second half started positively. FinnCap forecasts an improvement in full year profits from £14.6m to £20m, but a decline to £19m in the year to June 2011. That still represents good underlying profit growth from the core business.

company news

# Dominion Petroleum ready to drill Ugandan oil wells in second quarter

*Oil and gas explorer* *www.dominionpetroleum.com*

Oil and gas explorer **Dominion Petroleum** has raised cash to finance its exploration in east Africa. The placing at 5p a share raised £32.7m which will be spent on projects in Uganda and offshore of Tanzania.

The new shares are equivalent to around two-fifths of the company's enlarged share capital. Last August, Dominion raised $10m from BlueGold Capital at 5.6p a share. BlueGold also received warrants to guard against dilution of its 20% stake.

Dominion has six production sharing agreements in Uganda, Tanzania and the Democratic Republic of Congo. Tullow Oil is currently developing a massive oil field in Uganda and Dominion is focusing its drilling in the same region. The first 2,000 metre well on the exploration area 4B should be drilled in the first half of this year and will cost around $10m. A second well will cost $5m. The cash will enable Dominion to finance the drilling and keep its stake in the prospects at a high level. It currently owns 95% of EA4B. Unrisked recoverable resources are estimated at 359m barrels of oil.

## Dominion has six production sharing agreements in Uganda

| DOMINION PETROLEUM (DPL) | 5.5p | | |
|---|---|---|---|
| 12 MONTH CHANGE % | - 52 | MARKET CAP £M | 34.2 |

The drilling will be in the Lake Edward area, which is on the Ugandan border with the DRC. Geochemical data indicates mature oil in the area and there are oil stains in outcrop.

Dominion will also spend some of the cash to buy seismic for block 7, which is offshore of Tanzania.

Even though Tullow has soared on the back of its Ugandan interests shares in Dominion have benefited as much from the enthusiasm. That means there is upside from any significant discovery.

# Archipelago secures funds for gold project

*Gold miner* *www.archipelagoresources.co.uk*

**Archipelago Resources** has raised £30.6m to help complete the construction of the Toka Tindung gold project in the northern tip of Sulawesi, Indonesia. Archipelago owns 85% of the project and it reckons the cash will provide 80% of the cash required to get the mine up and running in the fourth quarter of 2010.

The share placing was at 30p a share. Archipelago plans another placing to coincide with its proposed listing on ASX in the first half of this year. This will raise a further £7m. Archipelago is debt free and plans to use some of the cash to finance exploration at Toka Tindung.

| ARCHIPELAGO RESOURCES (AR.) | 31.25p | | |
|---|---|---|---|
| 12 MONTH CHANGE % | +303.2 | MARKET CAP £M | 154.2 |

Financing the project with debt was deemed to be too dear. A mandate entered into with a group of potential loan providers ran out at the end of February so the company does not have to go ahead with this funding. That means that it will not have to undertake any hedging via expensive put options.

Archipelago acquired its 85% stake in Toka Tindung in 2002. The project has a resource of 1.75m ounces of gold and 1.1m of that can be mined via open pit. Average annualised production should be 160,000 ounces of gold. This should last for six years plus a further two years at lower grades. Additional resources would extend the life of the mine, which is set up to be profitable at a gold price of $600/ounce.

Archipelago, which also has projects in Vietnam and the Philippines, joined the FTSE AIM 50 index in the next quarterly changes on 22 March.

company news

# Goals continues to prosper in recession

*Five-a-side football centres* *www.goalsfootball.co.uk*

Five-a-side football centres operator **Goals Soccer Centres** has shown that its model can hold up well during a recession. The only real weak part of the business is corporate events and management is hopeful that the World Cup will give a boost to this part of the group.

Football revenues account for three-quarters of revenues and they edged up 1% during the year. This has proved management correct in its assertion that people would still play even during a recession.

## Goals generated £11.4m from operations in 2009

Corporate events revenues fell 17% but they are only 4% of total revenues. Revenues from birthday parties also fell but bar income held up well. Total revenues rose from £24m to £26.2m in 2009. Pre-tax profit improved from £8.23m to £8.76m.

Even more impressive was the cash generation. Goals generated £11.4m from operations which covered the majority of the £15.6m spent on adding centres. That figure may be slightly lower this year but debt is expected to rise slightly in 2010. Net debt was £37.7m at the end of 2009.

A £10.6m placing at 165p a share has helped Goals to set a target of opening six new centres each year. There is still £9m of headroom on the borrowing facility which lasts until February 2013.

| GOALS SOCCER CENTRES (GOAL) | | | 146p |
|---|---|---|---|
| 12 MONTH CHANGE % | +33.3 | MARKET CAP £M | 70.9 |

The opening of the Liverpool centre was delayed until January and Goals is on course to open six more this year. A standard 10 court facility costs £2.3m. The company's 60%-owned Los Angeles joint venture will also open its first centre during the summer.

General investor aversion to high borrowings has meant that Goals has lost its premium rating. Profits are forecast to improve to £9.5m in 2010 but earnings per share are likely to be flat this year because of the extra shares in issue. That puts the shares on a prospective 2010 multiple of just less than 12. That is not excessive for a business with the cash generative abilities of Goals.

# CVS acquires West Sussex-based rival Pet Doctors

*Veterinary practices operator* *www.cvsgroupplc.com*

Veterinary practices operator **CVS Group** has paid £12.2m for a West Sussex rival trading under the Pet Doctors brand.

Pet Doctors should be a good geographical fit with Harbour Veterinary Group, which was bought at the end of 2008 and operates over the border in Hampshire. Pet Doctors also provides laboratory services and a referral centre for second opinions. Revenues were £12.8m in the year to March 2009, while EBITDA was £809,000.

| CVS GROUP (CVSG) | | | 203.5p |
|---|---|---|---|
| 12 MONTH CHANGE % | +41.5 | MARKET CAP £M | 114.6 |

The enlarged business has 197 vet surgeries and will have nearly 500 vets on its staff – that is equivalent to 4% of the vets in the UK. The acquisition was partly financed by a share placing raising £19m gross at 190p a share. CVS paid £9m in cash and took on debt of £2.26m. Broker KBC Peel Hunt forecasts net debt of £38.6m at the end of June 2009.

CVS reported 11% growth in revenues to £41.5m in the six months to December 2009. Pre-tax profit improved 50% to £2.81m, while underlying earnings per share were 39% higher at 7.2p.

The Pet Doctors deal should not have a significant effect on earnings per share this year but should enhance growth in 2010-11. KBC Peel Hunt forecasts earnings per share of 20p for 2010-11.

dividends

# InterQuest rebases 2009 dividend payment

*IT recruitment* *www.interquestgroup.com*

## Dividend

IT recruiter InterQuest reported lower revenues and profits in 2009 but cash generation remains strong and this has encouraged the board to double the dividend to 2p a share.

This dividend, which has already been paid, is covered 3.3 times by underlying earnings per share in 2009. Management says that it wants to get on investors' radars as a stable company and a 4% yield will help with this.

This rate of growth is unlikely to be repeated but there is scope for steady growth from now on. House broker Cenkos forecasts a rise in dividend to 2.2p a share for 2010.

Net debt fell from £5.5m to £3m in 2009 and it is expected to fall further to £1.3m by the end of 2010.

There is no more deferred consideration due on past acquisitions but management is keen to find more businesses to buy. If acquisitions are not made then InterQuest could be cash positive by the end of 2011.

## Business

InterQuest was co-founded by Gary Ashworth and Channel 4 TV chairman Luke Johnson in October 2001. They had previously been involved in Abacus Recruitment, which was taken over prior to the foundation of InterQuest. Ashworth owns 41.7% of InterQest and Johnson owns a further 12.6%. The board owns around three-fifths of the shares.

InterQuest raised £3m gross (£2.4m net) at 55p a share when it joined AIM in May 2005. The company has a number of trading names which focus on specific sectors. Last year. InterQuest added payroll services to its portfolio of activities.

| INTERQUEST GROUP | (ITQ) |
|---|---|
| Price | 49.5p |
| Market Cap £m | 15 |
| Historic Yield | 4% |
| Prospective Yield | 4.4% |

Revenues fell 8% to £97.4m in 2009, while underlying profits declined from £4.8m to £2.9m. This decline is not surprising for such a cyclical business at this point in the economic cycle.

There was a particularly sharp fall in permanent recruitment revenues, although there were signs of improvement later in the year. Four-fifths of net fee income comes from contract staffing services. There are some indications that the market will improve this year with contractor numbers working up 6% over the past couple of months.

The recent focus has been on starting up new businesses via IQ Equity. Each of these businesses is started by an experienced management team with the backing of IQ, which provides finance, training and infrastructure services. The five businesses that have been started up made initial losses of around £400,000 in 2009. InterQuest says that it will concentrate on building up these businesses and not add new IQ Equity-backed businesses.

The focus will switch to acquiring existing businesses that will broaden InterQuest's activities. Management says that it is looking at two possible acquisitions.

# Dividend news

Wealth management services provider **Brooks Macdonald** is paying its first ever interim dividend. The 3p a share interim was announced along with nearly doubled profits of £2.47m in the six months to December 2009. Over the same period funds under management grew by one-third to £1.85bn. Brooks Macdonald has paid a final dividend every year since it joined AIM in 2005. Last year's final was 5.5p a share. There is £12.5m in the bank - excluding regulatory requirements available cash is around £10m. A total dividend of more than 8p a share is possible this year. Every 1p of dividend costs just over £100,000.

Wound care and wound closure products developer **Advanced Medical Solutions** reorganised its capital structure in 2007 so that it could pay a dividend when it felt that it was appropriate. AMS has decided to pay its maiden dividend for the 2010 financial year. This will be announced with the 2010 figures in March 2011. Stripping out £1.7m of abortive acquisition and factory moving costs, AMS increased its profit from £2.7m to £4.1m in 2009. Even after the significant investment of moving to new premises, AMS still has net cash of £1.7m. This should start to rise again because capital spending will drop back from last year's unusually high level of £6.7m. There are still £24m of tax losses to be used up.

Health and employee benefits provider **Personal Group Holdings** is paying 8.5p a share as its first dividend for 2010. The dividend is being paid before the end of the tax year. Personal has been paying four dividends each year but this latest dividend is effectively the first two dividends for 2010 combined. The June dividend will be skipped and the next payment of 4.25p a share will be in September.

expert views

## Expert view: The broker

# Pump it up

By DAVID BUXTON, head of research

Sentiment in the oil services sector has remained focused on the price of oil. Historically there has been close correlation between oil services sector share prices and the oil price. The oil price has had a seasonal increase buoyed by the winter bad weather. Year end trading statements have focused on prudently reining in prospects for 2010, given the uncertain timing of any increase in order intake.

With the price of oil now fairly stable at levels which make most projects profitable and oil companies' cash flows improving, we expect an increase in order placement over the coming months. The timing of the upturn is not clear cut, but we believe order placement activity will start to improve from the second quarter of 2010. This translates to revenues starting to improve for many by the fourth quarter.

### Recovery prospects

We look for a recovery in oil sector fundamentals driving a return of service sector activity.

The current over supply will turn once more into capacity constraint as the demand for oil and gas recovers, driven by developing countries' demand, with some anaemic recovery in Western consumption. We are not projecting an excessively bullish oil price scenario, but a gently improving trend. Higher oil prices also mean that most projects will now achieve IRR benchmarks. We look for a recovery in exploration and production (E&P) project activity over the next three years. Industry sources are projecting an 11% increase in E&P activity in 2010.

Higher oil prices give integrated oil companies (IOCs) greatly improved cashflow, allowing greater balance sheet flexibility to fund capex. A number of investment projects were "put on hold" during 2009, which are close to Final Investment Decision. This increases the chances of order backlogs building up quickly once investment activity starts up.

> There has been close correlation between oil services sector share prices and the oil price

Input costs, have seen a considerable reduction since peak 2008 levels, lower steel prices are part of the story. IOCs will wish to capitalise on relatively low input costs before inflation takes hold. Equipment availability will be important to secure in certain areas, where bottlenecks previously occurred.

As the hiatus in orders has resulted in many companies progressively depleting their order book, 2009 trading has been characterised by relatively strong profits in the first half followed by a weaker second half. We see the reverse happening in 2010 as order placement starts to recover in the first half, giving a stronger level of profits in the second half.

The timing of order placement is uncertain and thus there remains some risk to 2010 forecasts, which given the current low expectations may provide some upside!

> Current low expectations may provide some upside

To a certain extent the oil price remains the key to investor sentiment. We believe that the gradual improvement seen will continue. A stable oil price provides a more solid platform for both customer and investor confidence to increase. A rising oil price could provide the impetus needed for customers to place deferred orders.

Some contracts have not been placed due to difficulties in securing adequate capital funding. This remains an issue, but a gradual easing and return to some level of normality in credit markets should occur over the next year.

### AIM companies

Among the AIM companies in the sector, oil wellheads and connectors developer Plexus and downhole gas compressor developer Corac (a FinnCap client) are both new technology plays, where investment requires belief in the technology as well as their ability to overcome inertia in a conservative industry.

Outsourcing clearly represents an opportunity to reduce costs. Increased project management by specialist providers and the ongoing need to maintain inspection and maintenance of a high standard will assist growth at refinery engineering consultancy KBC Advanced Technologies and project manager Velosi, where growth in services offered and geographies served has helped it remain resilient during the past year. KBC's 2009 profits of £5.7m were better than our forecast. We rate both KBC and Velosi as buys.

DAVID BUXTON has around 20 years experience in analysis, having covered a variety of sectors including industrials, electronic equipment, engineering, defence, automotive components and alternative/green engineering sectors.

feature

# City of London makes recommendations for AIM

The City of London Corporation has issued a research publication on UK small and medium sized companies which also touches on the role of AIM in financing small businesses.

A large chunk of the City of London Corporation's publication **'The City's Role in Providing for the Public Equity Financing Needs of UK SMEs'** covers AIM and its ability to provide a way for small companies to raise money as well as provide a liquid market for the shares after they are issued.

The paper picks up on a number of major issues surrounding AIM, such as liquidity and the role of Nomads.

One issue brought up by the research is the low level of companies based in Scotland, Wales and Northern Ireland quoted on AIM. According to the report, there is anecdotal evidence that advisers outside of London don't like their clients to join AIM because they are frightened they will be poached by a London-based adviser.

There are four main issues relating to public markets, and principally AIM, identified by the research paper.

## Responsibilities of a quoted company

The level of understanding of the company and its directors of the responsibilities of being quoted are crucial. The paper recommends more training and direction on what is 'good practice'. Sometimes directors find it difficult to change their mindset from a private company one to the quoted arena.

Maintaining a steady flow of information and making sure that it is understood by the market is the key to being a quoted company. Managing expectations is part of this as is keeping in contact with the investor community.

One of the biggest problems with companies is their failure to understand the important difference between what the rules allow them to do and what is in their interests. For example, the fact that a company can effectively join AIM without having any free float in terms of its share capital means that many companies float with just a few percent of their shares available for trading. They then complain that there is no liquidity in their shares and no one is interested in buying them.

> Limited liquidity is not something that purely affects AIM

If a company is not going to have a significant free float then it should consider whether or not it really is a good idea to be quoted. Many companies seem to think that getting their initial quotation will help them to raise money in the future and the free float problem will ease. However, if markets are weak this strategy is more difficult to achieve.

## Improving daily liquidity

The paper recognises that poor liquidity results in unrealistic share prices but concentrates on those share prices that are apparently undervalued compared to NAV rather than unrealistically high prices which are the flipside of poor liquidity in stronger markets. That is understandable in current markets, though.

This lack of liquidity can dissuade investment if investors feel that it will be difficult to trade in the shares and fundraisings can be more dilutive or even hard to secure.

The problem with the main suggestions that the writers of the research come up with is that they rely on the government changing legislation.

The first suggestion involves enhancing the tax breaks and benefits of investing in Venture Capital Trusts in order to attract more private investors.

This is something argued for by the majority of people involved in the markets. The problem is that the government has reduced the attractiveness of both VCTs and the Enterprise Investment Scheme and, more importantly, the size of company eligible for investment. This is mainly due to the need to be seen to come into line with EU legislation in terms of size of investee companies, etc.

The government could increase the rate of tax relief but that is likely to require further lobbying by the London Stock Exchange, the Quoted Companies Alliance and other interested parties. Lobbying has been going on for some time and there has been some positive progress.

There are strong arguments for the benefits of VCTs and EIS. Figures from the Association of Investment Companies show that companies in receipt of Venture Capital Trust investment have grown employment by 47%. This covers a range of companies that VCTs have invested in and they are not necessarily quoted on AIM but the principle is the same.

The survey was based on the responses of 303 companies that had received VCT investment. These

feature

companies employed a total of 17,219 people before any investment was made and this has risen to 25,402 people. Less than 15% of the companies employed fewer people. The AIC points out that the companies are also likely to create jobs at their suppliers.

The same survey also shows that the tax payments from these companies can make up for the costs of the tax incentive. Companies in the survey that received £696.1m in VCT investment have paid £248.1m in taxes over the past year. The tax cost of the investment in these companies is estimated at £371.3m. It is unclear how much of the tax payments are additional to what might have been paid prior to the investment, but even so it appears that tax revenues are at least safeguarded. There should be sufficient extra tax payments in the total to pay back the cost of the incentive over a few years.

The other main suggestion in the report is that AIM companies should be eligible for inclusion in ISAs. This is another thing that has been argued for quite some time by people involved in AIM. It sounds deceptively simple but whether a government would really want to provide the additional tax incentives for shares quoted on AIM and allow them the main tax incentive for shares listed on the Main Market as well is questionable.

Limited liquidity is not something that purely affects AIM. A good number of share prices in FTSE Fledgling companies can be significantly changed by small trades.

The paper recommends further research is carried that considers how poor liquidity can be tackled. The research should cover all market participants "to establish the reasons for low daily liquidity and potential ways in which these problems could be mitigated".

## Improving the quality of Nomads

The research recognises Nomads as the pillar of AIM and its regulation. The monitoring and supervision of Nomads is clearer and been stepped up since the publishing of updated rules and requirements for Nomads in 2007.

The research does say that some Nomads are of "mixed quality" and that "some small Nomads are perceived to be weak and provide little effective support or advice to their clients". It wants the London Stock Exchange to carry out an annual survey of AIM companies that will assess the performance of the Nomads.

The suggestion is that the survey is undertaken by a research company or a major financial newspaper or journal. The areas to be covered would include "satisfaction levels of working with Nomads, strengths, gaps in provision and areas for improvement".

The number of Nomads has fallen in recent years and some of the weaker ones have already been absorbed into other firms or closed. There have been a handful of additional Nomads in the past few years. Cairn was the most recent entrant to the Nomad list.

A former Plus-quoted company, which joined AIM in 2004 and is used as a case study in the research, says that its advisers are becoming more reluctant to offer advice before it is requested.

That is interesting because one of the things said by a number of companies that have moved from the Main Market to AIM is that they rarely used to hear from their adviser but after the move their Nomad was in regular contact.

## Potential impact of legislation

There are currently discussions about the Prospectus Directive, Market Abuse andTransparency Directive reviews. The QCA has always been in the forefront of lobbying the EU in this area.

A good point is made about the new Standard listing, which could create confusion among investors and companies. The danger of the erosion of differentials between the Main Market and the junior market can be seen by the demise of the Unlisted Securities Market in the 1990s.

The USM was the forerunner of AIM and when it started out its requirement for a three year track record made it stand out from the five year track record required for the Main Market. When the track record requirement for a listing was standardised at three years by the EU the USM changed its requirement to two years. That was not sufficiently different and the USM lost its attraction.

AIM broker Seymour Pierce predicts that at least 15% of the companies on AIM may take advantage of the new Standard Listing regime to transfer to the Main Market.

Seymour Pierce believes that the majority of the biggest 300 plus companies on AIM will take advantage of the easier route to the Main Market. The broker reckons that AIM will be dominated by small companies or those that have limited liquidity.

The research paper also recommends that large foreign companies should be encouraged to switch to the Main Market.

**The City's Role in Providing for the Public Equity Financing Needs of UK SMEs** is published by the City of London. The authors of this report are Greg Openshaw and Dave Widger of URS Corporation Ltd with Professor Colin Mason of the University of Strathclyde, Lynton Jones and Stephen Wells.

www.cityoflondon.gov.uk/economicresearch

There are strong arguments for the benefits of VCTs

statistics

# Market Performance, Indices and Statistics

## AIM SECTOR INFORMATION

| SECTOR NAME | % OF MARKET CAP | % OF COMPANIES |
|---|---|---|
| Financials | 25.9 | 23.8 |
| Oil & gas | 18.6 | 9.2 |
| Basic materials | 16.3 | 12.6 |
| Industrials | 11.7 | 18.6 |
| Consumer services | 7.4 | 12.3 |
| Technology | 7.3 | 9.9 |
| Consumer goods | 4.3 | 5.2 |
| Health Care | 4.2 | 5.7 |
| Utilities | 2.7 | 1.1 |
| Telecoms | 1.7 | 1.6 |

## FTSE INDICES

ONE-YEAR CHANGES

| INDEX | PRICE | % CHANGE |
|---|---|---|
| FTSE AIM All-Share | 667.64 | +71.9 |
| FTSE AIM 50 | 2656.73 | +50.7 |
| FTSE AIM 100 | 3030.82 | +67.7 |
| FTSE Fledgling | 4051.34 | +69.7 |
| FTSE Small Cap | 2790.73 | +62.3 |
| FTSE All-Share | 2736.8 | +38.9 |
| FTSE 100 | 5354.52 | +36.8 |

## COMPANIES BY MARKET CAP

| MARKET CAP | NO. |
|---|---|
| Under £5m | 326 |
| £5m-£10m | 200 |
| £10m-£25m | 283 |
| £25m-£50m | 198 |
| £50m-£100m | 124 |
| £100m-£250m | 95 |
| £250m+ | 51 |

## KEY AIM STATISTICS

| | |
|---|---|
| Total number of AIM companies | 1,277 |
| Number of nominated advisers | 62 |
| Number of market makers | 47 |
| Total market cap for all AIM | £58.11bn |
| Total of new money raised | £65.86bn |
| Total raised by new issues | £33.09bn |
| Total raised by secondary issues | £32.77bn |
| Share turnover value (2010) | £3.06bn |
| Number of bargains (2010) | 334,009 |
| Shares traded (2010) | 20.11bn |
| Transfers to the official list | 136 |

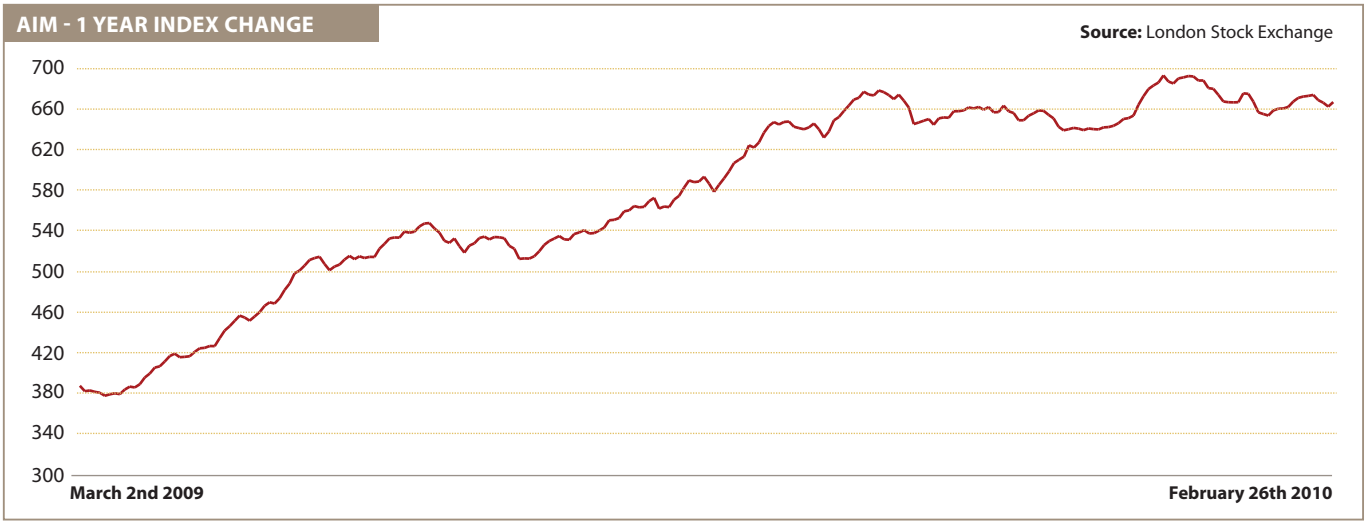
## TOP 5 RISERS OVER 30 DAYS

| COMPANY NAME | SECTOR | PRICE (p) | CHANGE (%) |
|---|---|---|---|
| Intandem Films | Media | 2.875 | +109.1 |
| Red Leopard Holdings | Financials | 0.32 | +96.9 |
| Avesco Group | Media | 42 | +86.7 |
| Angle | Technology | 36.75 | +86.1 |
| Northacre | Property | 40 | +81.8 |

## TOP 5 FALLERS OVER 30 DAYS

| COMPANY NAME | SECTOR | PRICE (p) | CHANGE (%) |
|---|---|---|---|
| Eatonfield Group | Property | 1.1 | -81.7 |
| Tower Resources | Mining | 1.375 | -68.8 |
| Apace Media | Media | 0.75 | -68.4 |
| GoIndustry-Dovebid | Support services | 0.82 | -41.1 |
| Southern Bear | Support services | 1.125 | -40 |

## AIM - 1 YEAR INDEX CHANGE




**Data: Hubinvest** Please note - All share prices are the closing prices on the 26th February 2010, and we cannot accept responsibility for their accuracy.

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FinnCap is a client focused institutional broker and corporate advisor, with a strong track record in advising and raising capital, providing research and after-market care for both growing and established smaller companies. The institutional broking team provides a dedicated, bespoke agency broking service to fund managers and private client brokers.

FinnCap is a top ten AIM adviser and broker. It works with over 65 corporate clients and raised just over £90m for clients in 2009.The finnCap research team was shortlisted at the 2009 AIM awards. FinnCap is a Nominated Adviser (NOMAD) for AIM companies and a Corporate Adviser for Plus Markets.

In August 2007, JM Finn transferred its corporate finance, research and institutional broking business into a new subsidiary, JMFinn Capital Markets (FinnCap). The management team and employees of FinnCap have taken a significant equity stake in the business, meaning they have made a substantial financial commitment.

## About J M Finn & Co

JM Finn is an independent private client stockbroker with approximately £4bn under management as at July 2007. Its 260 staff are based in London, Bristol, Leeds and Suffolk.

JM Finn was founded as a partnership in 1945, incorporated as a private limited company in 2006 and has been a member of the London Stock Exchange for over 60 years.



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