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AIM JOURNAL

Budget changes provide boost for AIM

Chancellor of the Exchequer George Osborne's decision in the Budget to increase the scope of the Enterprise Investment Scheme (EIS) and Venture Capital Trusts (VCTs) will mean that more AIM companies will be eligible as investments under the tax-efficient schemes. However, the changes still require EU approval and will not come into force until April 2012.

The limit on the number of employees will be increased from 50 to 250, while companies with gross assets of up to £15m will be eligible. The big change is that the amount that can be invested in a single company will go up from £2m to £10m, which is much higher than it has been before.

The Association of Investment Companies and the Quoted Companies Alliance have both argued that the previous narrowing of the range of companies that were eligible investments for the schemes has hampered their efficiency.

There could be more changes to come. The government is keen that EIS and VCTs are focused on risk capital investments. That could mean the end of planned-exit VCTs. There could be other tinkering with the schemes. "We also hope to see a reform that simplifies the approval process for the relief which has long been administratively burdensome and opaque to many investors," says Francesca Lagerberg, head of tax at Grant Thornton.

Continental Coal plans AIM admission

ASX-listed Continental Coal is planning to join AIM by the middle of this year in order to attract more investors in the UK and continental Europe. The South Africa-focused coal producer believes that AIM will also help it to obtain more research coverage.

RFC Corporate Finance has been appointed as nominated adviser and Continental Coal (www.conticoal.com) will use the AIM fast track procedure because the ASX is a designated market. JSE-listed SacOil Holdings used the same procedure to join AIM at the beginning of April.

Continental Coal has used its ASX listing to finance the acquisition and development of is coal mining assets in South Africa and Botswana. Management believes that moving to AIM will help to accelerate the development of the group. The company's Vlakvarkfontein coal mine commenced production in May 2010 and it acquired Mashala Resources in October 2010. Continental Coal is targeting annual coal production of 10m tonnes by 2015.

Continental Coal will generate its first revenues in the year to June 2011. Edison Investment Research forecasts a pre-tax profit of A$9.2m on revenues of A$68.3m. In 2011-12, revenues are forecast to more than treble and profit should jump to A$83.3m. Continental Coal is capitalised at more than A$200m.

In this issue

HubInvest publishes AIM Journal

www.hubinvest.com

general news

Unappreciated threat of search engine penalties

News navigation and aggregation service provider One News Page says that six out of ten analysts that it polled were not aware that search engines, such as Google, can impose penalties without having to inform the affected sites. These penalties have the potential to cripple a business by denying it the ability to access new customers and generate revenues. Only one-fifth of the analysts took this risk into account when analysing quoted companies.

The idea behind search engine penalties is good. They are designed to restrict the visibility of 'illegitimate' websites, such as those involved in spamming, by removing them from the top of searches. However, websites are not told why they have been given a penalty or how they can put things right.

Nine out of ten analysts polled by One News Page want search engines to be more transparent when they impose penalties. The others were concerned that if the rules were better known it would be easier for unscrupulous sites to find ways to get around them. A quarter of analysts did not know that the penalties can remain in place for up to three years.

AIM-quoted online gaming portal owner Media Corporation reckons that when it was hit by a penalty for two of its sites it cost the company £1m in lost revenues and a significant shortfall in profit.

One News Page is organising an evening seminar on search engine penalties in London on 14 April (www.haveibeenpenalized.com). The event will be hosted by media journalist Ray Snoddy and experts from the UK and US will present.

New rival for AIM

Another rival to AIM is about to set up in London in order to attract small UK companies.

GXG Markets, the Denmark-based market for small and medium-sized companies, is teaming up with AIM-quoted corporate finance firm Merchant House to launch the market. The market will be UK-facing but be based and managed in Scandinavia. It is being marketed as a way for British companies to attract cash from Continental European investors. GXG also hopes to attract UK investors to its non-UK companies.

GXG wants to become a pan-European exchange by expanding into other countries. Because GXG is regulated in Denmark it can use MiFID regulations to start up in other EU countries. The typical company joining GXG would be capitalised at between £4m and £42m.

Australian Securities Exchange seeks to attract more small companies

The Australian Securities Exchange has started a review of the smaller end of its market and how to attract more small companies. ASX is keen to make sure that it is attractive to resources companies based in Western Australia. This review was announced before the Australian government blocked the proposed combination between ASX and the Singapore Stock Exchange.

There is one market in Australia with one set of listing rules. ASX is considering the Deutsche Börse segmented market model. It argues that the market for the top 200 companies on the exchange is "working very well". There are 870 resources companies outside of the top 200 companies – that is three-quarters of the total number of companies on AIM and treble the number of AIM resources companies.

The idea of the review is to ascertain whether any sectors would benefit from a segmentation of the market and whether the market can do better in trying to meet the needs of start-up and exploration companies, particularly those based in Western Australia.

ASX is considering setting up a new market but it argues that there appears to be little demand for a second board in Australia. The junior market in Australia was closed in 1992.

Australia's Federal Treasurer has rejected the merger of ASX and the Singapore Stock Exchange. The two exchanges will talk about other ways of working together. ASX is still keen to partake in the consolidation of global stock markets. However, the Australian government decision will make this difficult. The Australian decision highlights the fact that there is no guarantee that the merger between the London Stock Exchange and the Toronto Stock Exchange will be allowed to go through.

advisers

Brokers cautiously optimistic about prospects

A number of AIM brokers and advisers have reported stronger trading in the second half of 2010 and they are generally positive, but cautious, about the outlook for 2011.

The turmoil in the Middle East and Japan is forcing the brokers to be cautious about the short-term outlook and although there are pipelines of potential flotations and deals there is no guarantee that they will take place.

Panmure Gordon reported much stronger trading in the second half of 2010, thanks to an improvement in the US, but still reported an overall loss for the year. Edison Investment Research forecasts a 2011 profit of £5.57m. Panmure Gordon has made a number of new appointments, including the recruitment of financials analyst Chris Smith from Merchant Securities.

Fully listed broker and wealth manager Evolution reckons that it will return to profit this year as well, with its stockbroking side at least breaking even.

Shore Capital says that its equities business managed to broadly maintain its performance in 2010 even though trading was tough. A strong performance from market making helped the division.

Arbuthnot Banking Group's subsidiary Arbuthnot Securities returned to profitability in 2010. The average size of its AIM clients increased from £17m to £32m.

Daniel Stewart says that it more than doubled its revenues to at least £8m in the year to March 2011. It has also returned to profitability and chief executive Peter Shea believes the firm will be able to sustain this profitability.

WH Ireland cut its loss last year and it has strengthened its management team in recent months. WH Ireland has poached Simon Doyle and Gary Woolmer from Westhouse in order to start a market making operation for its own clients. Doyle started Westhouse's own market making arm in April last year. These are two of a number of new appointments in recent months since Paul Compton was appointed chief executive.

Arden Partners says that trading in the first five months of its financial year to October 2011 is in line with expectations. The corporate finance pipeline is good but the completion of deals is dependent on market conditions. Arden's management is also talking about pursuing potential deals for the business.

ADVISER CHANGES - MARCH 2011

COMPANY	NEW BROKER	OLD BROKER	NEW NOMAD	OLD NOMAD	DATE
African Eagle Resources	Canaccord Genuity	Seymour Pierce	Canaccord Genuity	Seymour Pierce	01/03/2011
Niger Uranium Ltd	Daniel Stewart	Beaumont Cornish	Beaumont Cornish	Beaumont Cornish	01/03/2011
Green Dragon Gas Ltd	Macquarie/Evolution/CLSA/ Smith & Williamson	Evolution/CLSA/ Smith & Williamson	Smith & Williamson	Smith & Williamson	02/03/2011
Jetion Solar Holdings Ltd	Northland	Evolution	Northland	Evolution	02/03/2011
VietNam Holding Ltd	Oriel	JP Morgan	Oriel	Grant Thornton	02/03/2011
Hambledon Mining	Ambrian / Fairfax IS	Fairfax IS	Fairfax IS	Fairfax IS	03/03/2011
Diamondcorp	Fairfax IS / Ocean Equities	Fairfax IS / Ocean Equities/Cenkos	Fairfax IS	Cenkos	04/03/2011
Tricor	Allenby	ZAI	Allenby	ZAI	04/03/2011
Sunkar Resources	Ambrian	Canaccord Genuity/GMP	Ambrian	Canaccord Genuity	09/03/2011
Alexander Mining	XCAP/Ambrian	Ambrian	Ambrian	Ambrian	15/03/2011
CEPS	Cairn	Northland	Cairn	Northland	16/03/2011
Mentum Inc	Strand Hanson	Liberum	Strand Hanson	Strand Hanson	18/03/2011
Paragon Diamonds Ltd	Fox-Davies/ZAI	ZAI	ZAI	ZAI	18/03/2011
@UK	Arbuthnot	Beaumont Cornish	Arbuthnot	Beaumont Cornish	21/03/2011
Baobab Resources	Fairfax IS / Northland	Northland	Strand Hanson	Strand Hanson	21/03/2011
Otium Ventures	Allenby	Arbuthnot	Allenby	Arbuthnot	23/03/2011
Palace Capital	Fairfax IS	Arbuthnot	Fairfax IS	Arbuthnot	24/03/2011
Aurum Mining	Fairfax IS	Arbuthnot	Fairfax IS	Arbuthnot	25/03/2011
Copper Development Corp	Evolution / Fox-Davies	Fox-Davies	Beaumont Cornish	Beaumont Cornish	25/03/2011
eServGlobal Ltd	Cenkos	Altium	Cenkos	Altium	25/03/2011
Niche Group	Canaccord Genuity /Daniel Stewart	Daniel Stewart	Daniel Stewart	Daniel Stewart	29/03/2011
Crystal Amber Fund Ltd	Numis / Merchant Securities	Merchant Securities	Merchant Securities	Merchant Securities	31/03/2011
MDY Healthcare	Zeus	Brewin Dolphin	Zeus	Brewin Dolphin	31/03/2011
Symphony Environmental	Seymour Pierce	Allenby	Seymour Pierce	Allenby	31/03/2011

company news

GGG Resources launches all-share bid for its Bullabulling partner

Gold explorer *www.gggresources.com*

GGG Resources has launched a bid for ASX-listed Auzex Resources, its 50/50 joint venture partner in its Bullabulling gold project in Western Australia. This should simplify the ownership of the gold project and make it easier for GGG to join the Australian stock market. Auzex's unwillingness to sign off on a proposed two-year exploration budget for the project has delayed the introduction of GGG to the ASX.

GGG is offering seven of its shares for every five Auzex shares. The bid was worth A$94.9m (87 cents a share) when it was announced. The Auzex shareholders will own around 49% of the enlarged company. Both companies' main interest is Bullabulling. The cost of developing the mine will be around A$100m. GGG has raised cash ahead of its ASX listing and has around A$23m in the bank and Auzex has around A$7m.

GGG has raised cash ahead of its ASX listing

This is not an agreed bid, although the two sides do agree on the logic of the merger because it will be difficult to finance the project with the current ownership structure. The only real difference of opinion relates to timing. Auzex's board want to wait until more drilling has been done and a higher resource estimate has been calculated.

GGG has already done work on its ASX listing prospectus so a lot of the requirements for the bid document are already covered. There are several common shareholders in Auzex and GGG, which itself owns a 8.5% stake in Auzex.

GGG RESOURCES (GGG)			35.25p
12 MONTH CHANGE %	+ 575.3	MARKET CAP £M	51.3

There has been more news about the drilling going on at Bullabulling. Around two-thirds of the mineralised intersections have similar or better grades than the resource model and there have been additional discoveries outside of the present resource. A resource update is expected in the second quarter. An expanded drilling programme has been agreed with Auzex.

House broker Collins Stewart forecasts gold production of 33,000 ounces in 2013, rising to 65,000 ounces the following year. Collins Stewart says that GGG, which has an enterprise value of $65/ounce, is trading at a discount to most of its peers.

Liqhobong is the key to Firestone's future

Diamonds producer *www.firestonediamonds.com*

Diamonds miner **Firestone Diamonds** has come of age in the past year and this has coincided with a recovery in the diamond price. It has started to sell diamonds from its BK11 mine and it is on course to be a significant producer from its Liqhobong mine in Lesotho.

Firestone gained control of the Liqhobong mine when it acquired AIM-quoted Kopane Diamonds last autumn. BK11 is going to be a good cash generator for the company but it is not a large resource. Liqhobong will be the mine that truly transforms the business.

Liqhobong is 75%-owned by Firestone and 25%-owned by the Lesotho government. There are estimated to be 31m carats at Liqhobong and it should have a mine life of more than 20 years. Annual revenues of $140m are estimated when full production is reached. It will take time to build up the rate of production.

FIRESTONE DIAMONDS (FDI)			29.12p
12 MONTH CHANGE %	- 2.5	MARKET CAP £M	94.1

Having raised £13m before the end of 2010, Firestone had the cash to get Liqhobong into production in February. Firestone has a target production of 1m carats a year by 2014.

Revenues were £1.05m in the six months to December 2010. The loss increased from £1.02m to £1.64m, mainly due to foreign exchange movements. Firestone generated £744,000 in cash from operating activities in the six-month period.

Philip Kenny has moved to the position of executive chairman. Chief operating officer Tim Wilkes, who joined Firestone from De Beers in 2005, replaces him as chief executive. A new finance director will be appointed.

company news

MBE continues to build its stake in Specialist Energy

Pumps and motors for energy and oil sectors *www.segroupplc.com*

MBE Mineral Technologies Pte, a subsidiary of Indian engineering company McNally Bharat Engineering, has increased its stake in pumps and motors manufacturer **Specialist Energy** to 22.74%. MBE did not have any shares in Specialist Energy before September 2010 and its share buying is helping to underpin the Specialist Energy share price.

McNally Bharat Engineering (www.mcnallybharat.com) supplies coal and minerals processing equipment and Specialist Energy is a supplier to the power station and the oil and gas sectors. The main operating subsidiary of Specialist Energy is Hayward Tyler. Luton-based Hayward Tyler was established in 1815 and supplies fluid-filled electric motors and pumps for the power generation and oil and gas markets. It has installed equipment in more than half of the nuclear power stations in North America. It also has a strong market position in growing markets, such as India and China.

> Specialist Energy has a strong market position in growing markets such as India and China

Specialist Energy, which reversed into Nviro Cleantech at the beginning of last year, grew its 2010 revenues by 5% to £38.5m. Underlying pre-tax profit was slightly better than expected at £2.9m, up from £1.4m in 2009. Net debt was £6.7m at the end of 2010. The business is cash generative but the growth in orders has required additional working capital to be raised from investors.

SPECIALIST ENERGY GROUP (SEGR)			75p
12 MONTH CHANGE %	+ 73.5	MARKET CAP £M	26.6

The Japanese earthquake and subsequent meltdown at the Fukushima nuclear plant are likely to curtail new build orders from the nuclear sector, although this should not hamper the company too much because it also supplies the non-nuclear power sector. Tighter nuclear safety standards could lead to more spending on the maintenance of nuclear plants.

The order book increased by 3% to £30.1m. House broker FinnCap forecasts a 2011 profit of £3.1m but last December's £5m share issue will dilute earnings per share. The shares are trading at 13 times prospective 2011 earnings. The share price has recovered strongly in recent months.

Autologic on road to recovery

Vehicle transport services *www.autologic.co.uk*

Vehicle transportation and port services provider **Autologic** is continuing its recovery and has been sorting out its past issues. Problems with a contract with Ford have been resolved and the property liabilities relating to the French business, which was sold before the current management was in place, are no longer a worry following an early earn-out settlement.

Revenues from continuing operations rose 3% to £138.3m in 2010. There was a small contribution from MCD which was acquired a few weeks before the end of the year. Underlying profit edged up 5% to £2.2m. Passing on fuel cost rises remains a major challenge. The contribution from the mainland European operations improved. Net debt is £1.9m.

AUTOLOGIC (ALG)			21p
12 MONTH CHANGE %	- 12.5	MARKET CAP £M	13.1

Autologic is buying up transporters when they reach the end of their leases. This will reduce cost of sales and increase the interest charge but it should benefit the overall profit.

The company has been successful in renewing contracts, while winning new business with Aston Martin and Chrysler. Costs have been reduced through consolidation and streamlining of activities plus the rationalisation of suppliers. Investment in IT is also helping to improve efficiency.

Autologic has a strong position in its core market. The plan is to add more vehicle-related services. This would provide cross-selling opportunities as well as utilising the management team's industry experience. The strategy would be to buy a business with a strong market position in a chosen sector and then build on that position.

The shares are trading on around 11 times prospective 2011 earnings and earnings-enhancing acquisitions would reduce that figure.

company news

Proximagen conserves its cash pile as it seeks out more deals

Developer of drugs for the central nervous system *www.proximagen.com*

PROXIMAGEN (PRX)			143.5p
12 MONTH CHANGE %	+ 33.5	MARKET CAP £M	82.3

Drug developer **Proximagen** has managed to make good progress with its plans to be a consolidator in its sector but it has also retained most of the £50m it raised two years ago. The company still has £48.2m in cash as it has found partners to help finance its main treatments.

Proximagen would like to do more deals but it is difficult to find suitable purchases. It says that it has already looked at more than 160 opportunities in the past two years. The quality has varied, with some of the drugs having little chance of becoming commercial treatments.

> Proximagen would like to do more deals but it is difficult to find suitable purchases

The US rights to Tonabersat, a potential treatment for epilepsy that was acquired with Minster Pharma in February 2010, have been out-licensed to Upsher-Smith, with Proximagen retaining EU rights and a share of the Rest of the World rights. Another epilepsy treatment, Naluzotan, will have its phase II study financed by the US government-funded National Institute of Health but Proximagen retains worldwide rights.

Sabcomeline, a non-core treatment for cognitive decline in schizophrenia that also came with Minster, is being sold to BrainCells Inc. Upfront and milestone payments could eventually total up to $51m, if it becomes a successful treatment, and there will also be royalties on any sales.

GlaxoSmithKline is pulling out of CNS treatment development and Proximagen has picked up two of these programmes which it believes to be the most interesting.

Revenues from out-licensing agreements edged up from £945,000 to £1.03m in the year to November 2010. The loss increased from £3.28m to £7.41m but that was mainly attributable to a rise in research and development spending from £2.82m to £6.14m. R&D spending should be at least as much this year but it will be on different projects.

There is no guarantee that any of Proximagen's projects will prove commercial but it has been able to cherry pick the best projects which will reduce the risk.

MCB Finance turns its attention to new markets

Short-term loans provider *www.mcbfinance.com*

MCB FINANCE GROUP (MCRB)			30.5p
12 MONTH CHANGE %	- 40.8	MARKET CAP £M	5.31

Personal credit provider **MCB Finance** experienced a recovery in trading in the second half of 2010. All of its four main markets (Finland, Lithuania, Estonia and Latvia) improved last year and MCB restarted lending in Latvia near the end of the period.

MCB swung from a loss of €619,000 to a profit of €534,000 even though revenues fell from $15.7m to $11.8m. There was a sharp fall in the impairment charge as the management has been careful to increase credit quality. There have also been write-backs of previously written-down loans.

MCB has extended its credit facility to March 2012 and increased it to €12m. MCB is using less than 50% of the facility so there is plenty of scope to expand.

MCB plans to move into a new market this year. There has been no announcement about which country it will be but it is likely to be in eastern Europe.

Edison Investment Research forecasts a profit of £1.6m in 2011.

That puts the shares on a prospective multiple of less than five for 2011, suggesting that the market would like to see evidence that this figure can be achieved. There is plenty of scope to grow the business because of the opportunities in new and existing countries and the spare credit facilities mean that there is no problem financing the growth. MCB has undoubtedly learned from the problems incurred in the past few years and , as long as MCB continues to be careful with its lending, the growth should continue to be profitable.

Hospitality remains important at Churchill China

Retail and catering tableware *www.churchillchina.com*

CHURCHILL CHINA (CHH)	
Price	307.5p
Market cap £m	33.6
Historical yield	4.6%
Prospective yield	4.6%

Dividend

Churchill China maintained its total dividend at 14p a share for the third year running and there is no reason why this dividend can't continue to be maintained. The total cost of the dividend is £1.53m. The dividend cover has edged up to just over 1.1 times earnings per share and it should rise again this year. That cover may look thin but the balance sheet is strong and the business is highly cash generative.

Net cash has fallen from £6.88m to £4.44m as stocks of tableware have been rebuilt. A good return on assets and the change from RPI to CPI in calculating index-linked payment increases has helped to reduce the pension deficit from £7.7m to £4.7m.

Business

Revenues grew from £41.7m to £43.7m in 2010, with all the growth coming from the hospitality side of the business. Export sales are growing and the improvement came after an estimated £500,000 hit in the UK hospitality business from the snow at the end of 2010.

The rise in pre-tax profit from £2.07m to £2.31m was due to a profit contribution from Churchill's 34.4%-owned associate Furlong Mills, a supplier of raw materials such as clay and feldspar to the ceramics sector, and a lower interest charge.

The hospitality division has proved resilient, with revenues growing by 11% to £27.4m with a profit contribution rising from £3.3m to £4.1m. Churchill did not expect the positive sales trend to continue so it was slow in increasing capacity. The UK is likely to be tough this year but increased sales and marketing investment should increase exports. The product range is being expanded into glassware.

Retail sales fell from £17.1m to £16.3m and its profit contribution more than halved to £700,000. Costs are being cut by around £800,000 so that they are in line with a reducing level of business. A further decline of £4m is expected in 2011.

Supplying supermarkets is low margin and Churchill is phasing out its business with Asda. Churchill is trying to move into the middle market on the retail side in order to improve margins. It is also looking at alternative sources of imported products as costs increase in the Far East. More of the retail products are likely to be sourced from eastern Europe.

For 2011, house broker Brewin Dolphin forecasts another small rise in profit to £2.5m. The shares are trading on 18 times prospective 2011 earnings. April is an important month for the business and chief executive Andrew Roper says that he will be able to give a better indication of how trading will go this year at the AGM on 17 May.

Dividend news

Online gaming firm **GVC** reported a decline in underlying profit from €15.6m to €8.5m mainly due to €4.8m of additional marketing costs in Germany and start-up costs in new territories. Earlier in the year GVC paid a €0.50 a share special dividend and a €0.10 a share interim. The final dividend is €0.10 a share. Excluding the special dividend, the total dividend has halved to €0.20 (16.76p) a share but this should be a repeatable dividend level. The yield is 12.4%. GVC's policy is to pay out at least 75% of net cash generated. A renegotiation of the deferred consideration for South America-focused Betboo, which could be €6.17m, means there is no longer a worry about the dividend having to be cut.

Insurance broker **CBG Group** published 2010 figures in line with the profit warning issued at the start of 2011 but a rise in the dividend shows that management is confident about the future. The final dividend was increased from 0.7p a share to 0.75p a share. Net debt is £1.12m and the borrowing facility should be renewed by the summer. The interest charge is likely to increase. There is only £35,000 of deferred consideration still payable.

Ultimate Finance is reaping the benefits of its acquisition of Ashley Commercial Finance last October which has already helped to boost the trade finance provider's underlying profit by 163% to £502,000 in the six months to December 2010. Ashley's two-month profit contribution was £228,000. Ultimate still hopes to make annualised cost savings of more than £400,000 from integrating the businesses – they already share offices in Manchester. Around £100,000 should show through in this financial year. The interim dividend was raised from 0.3p a share to 0.35p a share. This year's total dividend is likely to be around 40% of earnings.

expert views

Expert view: The broker

Using Chili to add spice

By DUNCAN HALL

Security products and services supplier Quadnetics is discovering some promising prospects for its portable, ruggedised RF sensor (Chili), currently being developed through the group's ruggedised surveillance systems division.

Longer-term outperformance has to come from new product initiatives

Savings made over the past two years across the operating cost base go a long way to delivering short-term profit growth, but longer-term outperformance has to come from new product initiatives.

New products

Chili is perhaps the first example of a new product where the group's commercial and financial skills have been brought together to fast track new product development.

Chili has become an interesting proposition as Quadnetics now controls the underlying IP following its acquisition of Persides. Chili represents a successor product to existing group RF equipment sold to the MoD (£2m), but its attractiveness lies with its improved portability, flexibility and efficient battery usage. Usable by troops in battlefield situations yet having wider commercial applications, Chili is already attracting interest from overseas buyers.

Looking ahead, a target of 500 units sold at £20,000 each equates to a £10m revenue line and would endorse chief executive John Shepherd's experience in the defence sector.

IMS

The Integration and Managed Services (IMS) division accounts for 50% of group revenue and represents a composite of earnings streams. IMS revenue has declined by £6m as pass-through client cap-ex work is minimised, but margins should now improve following cost cutting and growth in retained service contract revenues. There are still structural issues to address following the government's spending review as we estimate that local authority CCTV work accounts for 20% of divisional income, and IMS's results for 2011 are expected to be flat. However, the supplier of security systems for hazardous environments Synectics Industrial Systems (SIS), ruggedised surveillance products developer Synectics Mobile Systems (SMS) and surveillance technology developer Synectics Network Systems (SNS), have

Chili is already attracting interest from overseas buyers

less complex operating structures and they enjoy clear commercial focus, good market positions and the opportunity to create value for shareholders. This is where we expect management attention to remain focused.

Design hub

At their present level, individual operations are not large enough to become stand-alone entities. Therefore the new group structure is designed to harness operations around the Synectics design hub, thus capturing IP within the group and creating industrial brand value through this route. Introduced by John Shepherd, the structure is still in its relative infancy but to work successfully, we believe product origination and international marketing will be key.

IMS is beginning to make headway after cost cutting and reconfiguring supply arrangements for its public sector CCTV customers (£0.3m), SNS is continuing to land high-margin US orders (£0.4m) and SMS is gaining traction with overseas orders and Chili (£0.4m).

Longer-term, recovery at IMS remains the difficult one to call as the business is a combination of lumpy order flow (which affects most areas of Quadnetic's work) and potentially reconfigured public spending. While its profit contribution has diminished, recovery plays an important role in group profit growth. Therefore investors will require some comfort in this area. Short term, however, the bulk of cost-cutting initiatives have been directed to IMS, therefore expectation of some pay-back is natural and reflected in our estimates.

Working capital has absorbed cash and therefore net cash has fallen to £3.3m. We do not expect a significant change in the short term, although cash balances should improve as profit grows.

Following the final results to November 2010, we introduced a pre-tax profit estimate for 2012 of £4.4m. The profit estimate for 2011 of £3.5m remains unchanged, relying on continued progress from SIS and SNS, but with IMS treading water as the consequences of the government's spending review work through. Naturally there is hope value implicit in these assumptions given the broader issues confronting the UK economy.

The shares are trading on 10 times 2010-11 prospective earnings, falling to eight for 2011-12. Those estimates exclude any real potential from Chili at this stage.

DUNCAN HALL is a research director at FinnCap feature

AIM trading levels improve

AIM has a reputation as an illiquid market but there are plenty of examples of companies that are regularly traded and there is no reason why a business with a good story and a reasonable free float of shares cannot be regularly traded in decent volumes.

Liquidity has always been a major topic for AIM. The focus has tended to be on those companies where there is little or no trading in the shares. While this part of the market attracts attention the companies that do trade more regularly and in greater volumes can get overlooked. Most months there is one company where more than 100% of its market value is traded during the month.

All markets have companies that attract little investor interest and there is hardly any trading in the shares. The Main Market in London has its share. For example, there have been 22 trades in the shares of fully listed Stavert Zigomala in the past five years with one of those trades worth £165. Because there are billions of pounds-worth of shares traded in the largest companies on the Main Market the illiquid end of the market is ignored by commentators but it definitely exists.

There are certainly still hundreds of companies on AIM where there are 10 or fewer trades in a single month. Even so, there are plenty of companies where at least 5% of their market value changes hands in a single month.

In the first two months of 2011, the average daily volume on AIM was £209m, which is the highest level since 2007. This is just two months' trading but it provides a positive start to the year.

In February 2011, nearly 20% of AIM companies had shares equivalent to more than 5% of their market value traded on the market

Active interest

Some of the largest AIM companies have extremely active markets in their shares. Falkland Islands oil and gas explorer Rockhopper Exploration and Iraq-focused explorer Gulf Keystone Petroleum have regularly been at the top of the monthly lists of trading volumes. However, now that Gulf Keystone is valued at more than £1bn the percentage of its market capital traded is not as high as it used to be at the peak.

Gulf Keystone provides a good example of how a company can be relatively illiquid but when that company sparks investor interest trading volumes can soar. In February 2009, £376,000-worth of shares were traded, which was the equivalent of just over 1% of its market value. There were 272 trades in that month. Later in the year, Gulf Keystone made significant oil discoveries in the Kurdistan region of Iraq.

By August 2009, Gulf Keystone was a market favourite and £215m-worth of shares were traded in that month. In February 2011, there were 24,312 trades in Gulf Keystone worth £202.21m. Following the rise in the company's value the percentage of its market cap traded has declined in the past 18 months and it was 18.58% in February 2011.

In terms of number of trades it is the oil and gas sector that dominates. In 2010, 45% of the trades on AIM were of companies in the oil and gas sector even though it accounted for less than 10% of the companies on the junior market. In the first two months of 2011, the percentage of AIM trades in oil and gas companies has slipped to 42.2% but they are still growing in numbers. Those trades account for 37.8% of the monetary value of AIM trading in the first two months of 2011.

Trading improvements

There are signs that a greater proportion of AIM companies are trading more often than in the recent past. Taking the figures for the past three Februarys, there is certainly an increase in the percentage of companies where there is a reasonable level of trading.

In February 2009, 9.3% of AIM companies had more than 10% of their market value traded during the month. One year later the figure was 6.2% but it had recovered to 9.2% by February 2011. This shows that even though AIM was performing strongly in share price terms in 2010 liquidity levels were not as good.

However, the percentages for the number of AIM companies that had more than 5% of their market value traded during each month have risen over the past couple of years. In February 2009, the figure was around

feature

18%, whereas in February 2011 it was nearly 20%.

Only one of the 20 most traded companies in February 2009 was valued at more than £100m. That was Peter Hambro Mining, which has switched to the Main Market and changed its name to Petropavlovsk. The list was dominated by small AIM companies. In February 2011, six out of the 20 most traded companies were valued at more than £100m.

The fact that Valirx and Physiomics are the most traded shares on AIM during February 2011 indicates how a piece of positive news can spark trading in small AIM companies. Their penny-share status will have attracted a certain type of private investor.

Rockhopper, is yet again one of the most traded AIM companies with around 40% of its market value traded in February 2011. Again, this is the type of company that has captured the attention of small investors.

The only company that is in the lists in February 2009 and February 2011 is Max Petroleum. The percentage of market value traded has risen from 51.64% to 60.09% over the period.

Many of the companies that have left AIM in the past two years have been the ones that are traded less often. However, some of the better-traded companies have also left AIM. Five out of the ten largest companies on AIM in February 2009 have moved to the Main Market, including Petropavlovsk and gold miner Centamin Egypt, which were two of the most frequently traded AIM companies at the time.

There are fewer trading days in February so the figures may slightly underestimate the monthly trading volumes but the February 2011 figures are the latest available and it makes sense to compare them with the same month in previous years.

The market values used are for the end of each month. For many of these companies, their market value will have changed significantly from the start of the month. The figures are designed to give an indication and averaging out the daily market values throughout the month may provide slightly different answers. Even so, the figures still provide an indication of how liquidity appears to be improving.

One of the things that AIM companies, and prospective AIM companies, need to understand is that there is nothing inherent in AIM that will make their shares illiquid.

There have always been some AIM companies that have attracted significant levels of trading. If investors feel that a company is an attractive investment they will want to deal. The ability to deal can depend on whether there is much of a free float of shares in which to trade. Even some tightly held shares are still relatively liquid if there are willing buyers and the share price is high enough to attract selling.

However, investors can be put off investing in a company if it appears that it is difficult to find shares to buy. This is true of both small investors and institutions. Even so, this can be overcome if there is strong buying interest.

The important thing is that a company needs to attract investors by getting its business and prospects known and understood by investors. That will not guarantee liquidity but it will help to create the conditions so that it can exist.

Rockhopper Exploration is regularly one of the most traded AIM companies

AIM COMPANY LIQUIDITY

	2011	2010	2009
More than 10% of market value traded	108	79	141
More than 5% of market value traded	232	208	272
Number of companies	1178	1268	1514

MOST TRADED AIM COMPANIES IN FEBRUARY 2011

COMPANY	SECTOR	NUMBER OF TRADES	VOLUME TRADED (£M)	MARKET VALUE (£M)	VOLUME AS % OF MARKET VALUE
Valirx	Health care	3,025	7.79	2.97	262.36
Physiomics	Health care	2,160	3.21	3.95	81.24
Atlantic Coal	Mining	3,598	10.20	16.90	60.54
Max Petroleum	Oil and gas	5,754	51.99	86.53	60.09
Range Resources	Oil and gas	18,347	97.01	165.93	58.47
Sound Oil	Oil and gas	4,998	20.00	38.64	51.77
Watermark Global	Cleantech	1,446	2.96	7.11	41.67
Rockhopper Exploration	Oil and gas	36,222	243.35	601.80	40.44
Daniel Stewart Securities	Financials	115	4.41	11.20	39.33
Angel Biotechnology	Health care	2,449	4.91	14.33	34.27

statistics

Market Performance, Indices and Statistics

AIM SECTOR INFORMATION

SECTOR NAME	% OF MARKET CAP	% OF COMPANIES
Basic materials	24.4	13.6
Oil & gas	23.3	9.5
Financials	18.7	23.6
Industrials	8.5	18.6
Technology	7.3	10.1
Consumer services	7.2	11.9
Health care	4.6	5.4
Consumer goods	3.8	5.1
Telecoms	1.3	1.1
Utilities	0.9	1

KEY AIM STATISTICS

Total number of AIM	1,178
Number of nominated advisers	62
Number of market makers	50
Total market cap for all AIM	£82.86bn
Total of new money raised	£73.6bn
Total raised by new issues	£34.3bn
Total raised by secondary issues	£39.3bn
Share turnover value (2011)	£8.36bn
Number of bargains (2011)	1.06m
Shares traded (2011)	41.22bn
Transfers to the official list	151

FTSE INDICES

ONE-YEAR CHANGES

INDEX	PRICE	% CHANGE
FTSE AIM All-Share	905.73	+28.5
FTSE AIM 50	3488.52	+29.1
FTSE AIM 100	4128.16	+26.9
FTSE Fledgling	4955.59	+19.3
FTSE Small Cap	3249.88	+12.5
FTSE All-Share	3116.83	+5.9
FTSE 100	6009.92	+4.6

COMPANIES BY MARKET CAP

MARKET CAP	NO.
Under £5m	245
£5m-£10m	145
£10m-£25m	253
£25m-£50m	208
£50m-£100m	135
£100m-£250m	107
£250m+	84

TOP 5 RISERS OVER 30 DAYS

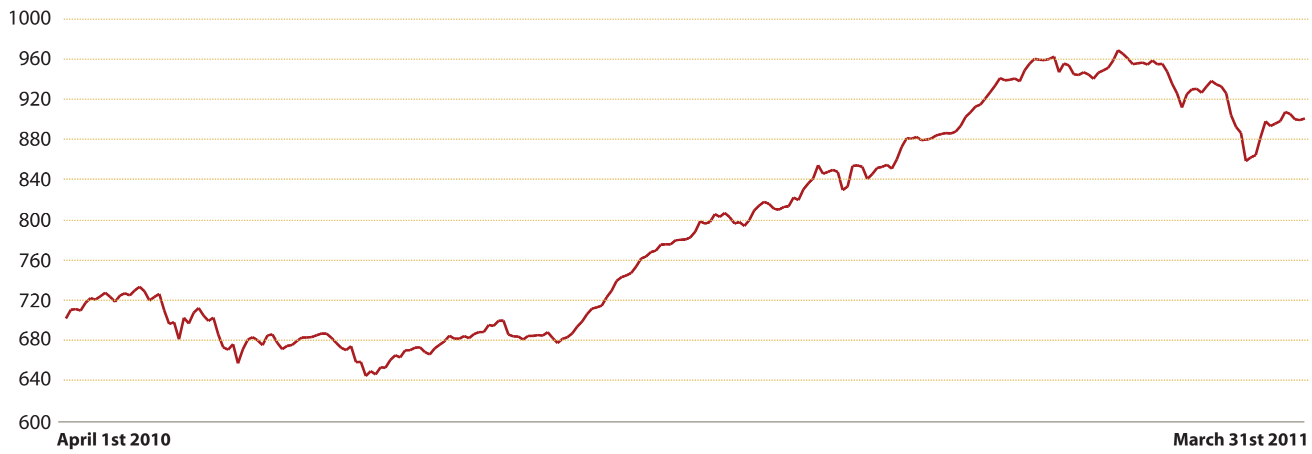
COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
Bidtimes	Cleantech	2.5	+400
Physiomics	Health care	0.83	+125.7
Frenkel Topping	Financials	14.5	+123.1
Allergy Therapeutics	Health care	15.12	+108.6
Legendary Investments	Financials	0.26	+104

TOP 5 FALLERS OVER 30 DAYS

COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
Western & Oriental	Leisure	0.12	-82.8
Churchill Mining	Mining	22	-75.6
Oxus Gold	Mining	0.82	-74.8
Islamic Bank of Britain	Banks	1.07	-69.3
MBL Group	Media	14	-61.1

AIM - 1 YEAR INDEX CHANGE

Source: London Stock Exchange



Data: Hubinvest Please note - All share prices are the closing prices on the 1st April 2011, and we cannot accept responsibility for their accuracy.

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finnCap

finnCap is a client focused institutional broker and corporate advisor, with astrong 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 already ranked as a top-ten AIM adviser and broker and occupies leading positions in several sectors. In technology it is No. 1 ranked by number of AIM clients, and no 2 in life sciences. finnCap's 45-strong team has established leading positions in the small cap consumer, industrials, insurance, support services, financials and mining sectors. The finnCap research team was shortlisted at the 2009 AIM awards.

finnCap works with over 65 corporate clients and raised just over £90m for clients in 2009. It is a Nominated Adviser (NOMAD) for AIM companies and a Corporate Adviser for Plus Markets. In 2007, private client stockbroker 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 took a significant equity stake in the business.

In 2010, finnCap employees and non-executive chairman Jon Moulton acquired the outstanding 50% of the company that was previously owned by JM Finn. The company name has changed to finnCap Ltd, in line with the trading name.

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