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AIM JOURNAL

Social Stock Exchange launch

Seven of the 11 founder members of the Social Stock Exchange (SSE) are AIM companies. In order to qualify for the SSE a company must "have social or environmental impact as a core aim" and be publicly quoted. The SSE is not a trading exchange but it enables companies to gain additional profile in a crowded quoted arena as well as attracting investors that focus on the social and environmental impact of businesses.

The seven AIM companies are sustainable wood products technology licensing business Accsys Technologies, health centre developer Ashley House, renewable energy supplier Good Energy, water purification and disinfection products supplier HaloSource, fuel cells and energy storage developer ITM Power, recycling containers supplier Straight and cancer drugs developer Valirx.

All of the organisations admitted to the SSE need to have an impact report written on their activities. This measures the social impact of their products and operations and how the company consults with all of its stakeholders. When the impact report is completed the application will be assessed by an independent admissions panel. The impact report has to be updated annually. The SSE is backed by the London Stock Exchange and the City of London Corporation.

AIM shell treasure trove

The latest Cash Shells Directory published by Vitesse Media in association with Growth Company Investor shows that there are 53 shells on AIM, with total cash of £559.6m. However, even in the few weeks since this report was compiled more AIM companies have turned themselves into shells.

The figure in the annual publication is more than double the total reported for 2012. The cash shells include companies that have a stock market quotation but no significant trading operations plus investment companies that have more cash than investments. Some of the companies were included in the previous year but many were not.

The AIM figure is boosted by the £207m on the balance sheet of Sherborne Investors B, which has been investing in 3i shares and moved to the Specialist Fund Market, which is focused on investment companies, after the report was finalised.

In the past few weeks, Feedback has sold its remaining business, Feedback Data, which provides access control and machine-to-machine device management, to Belgravium and In-Deed Online is selling its conveyancing services business, leaving the shell with net cash of £900,000 and tax losses of £2.77m. Alexander David Securities is selling its broking business to management and turning itself into a shell (see page 3).

In this issue

general news

Sprue sets its sights on switch from ISDX to AIM

Smoke and carbon monoxide alarms supplier Sprue Aegis is set to move from ISDX to AIM following the lapse of the bid from Jarden Corporation. The independent directors have committed the company to moving to AIM by next May.

NYSE-listed Jarden bid 90p a share for Sprue Aegis but shareholders owning 52% of the shares of the target said that they would not accept the bid, which valued Sprue Aegis at £34.8m. The investors included Maven Capital Partners and Amati Global Investors. Jarden had agreed not to increase its stake above 29.9% before April 2013 and it took the first chance it had to bid for the rest of the shares. The share price was 103.5p at the end of May.

House broker Westhouse forecasts a rise in revenues from £37.2m to £45.9m and a jump in underlying pre-tax profit from £3.18m to £5.3m. Westhouse believes that Sprue Aegis could be making a profit of more than £10m in 2015. The shares are trading on 10 times 2013 prospective earnings.

Sprue Aegis doubled its dividend to 4p a share in 2012 and it is expected to pay 6p a share this year – a prospective yield of 5.8%. Even so, net cash of £7.56m is forecast for the end of 2013.

In the announcement of the lapse of the bid Jarden noted the forecasts and stated: "We look forward to Sprue Aegis achieving these results". Jarden retains a 27.7% stake in Sprue Aegis and Jarden's European distribution agreement with Sprue Aegis covering trade-focused fire and safety products lasts until 2015.

Trafalgar move

Housebuilder Trafalgar New Homes is on course to move to AIM and raise up to £1m. Christopher Johnson reversed his business into the ISDX shell in November 2011. The business is focused on small sites in southeast England where activity is starting to increase in the residential market. Trafalgar estimates that it made a profit of at least £575,000 in the year to March 2013 and it expects to pay a dividend for 2013-14. Johnson previously floated housebuilder Propan Homes on AIM in 2001 and sold the business, then known as Honeygrove, in 2004 to fellow AIM-quoted Oakdene Homes, which was run by his former partner, Carl Turpin. The two men had run two quoted housebuilders, Reliant Group and Regent, which went into receivership and administration respectively.

IGas Energy reports sharply higher gas estimates at Bowland Shale

Onshore gas producer IGas Energy has upgraded its estimates for the potential shale gas resource in the Bowland Shale area in northwest England. A drilling programme will commence in the fourth quarter of 2013, which will help to refine the existing resource and provide more information about the geology of the shale basin. However, the existing resource is an early estimate and there is no guarantee that this gas can be extracted.

IGas says that the geological model constructed from existing data suggests that its licence area of 300 square miles has Gas Initially In Place (GIIP) ranging from 15.1 trillion cubic feet (Tcf) to 172.3Tcf. A figure of 102Tcf is described as most likely. To put the estimates into context the UK's annual gas consumption is 3Tcf.

These are estimates and they could go up or down with further exploration and drilling. Recoverable resources in this type of prospect could be as low as 10% and the fraccing technology is unproven in the UK. The fraccing ban in the region was lifted last December so the regulatory environment is more positive although there is still likely to be opposition. IGas also has prospective shale gas acreage in the East Midlands and the Weald and plans to assess data for these areas.

IGas already generates cash from conventional gas assets and this will help to finance the exploration and development of the shale gas assets. These other assets also provide a base for the share price so that it is not purely dependent on speculative shale gas prospects. Goldman Sachs increased its target price from 146p a share to 202p a share on the back of the latest news.

advisers

finnCap starts market-making roll-out

AIM adviser finnCap is launching its market-making operation this month and it has published impressive figures for the year to April 2013.

Market making will be overseen by Mick McNamara, the director of trading. Former Fox Davies market makers Russell Jackson and Steve Asfour have recently joined the team. A managed roll-out is planned over a 12-month period.

Last year, revenues increased from £9.1m to £11.4m and operating profit was £2.6m. A strong first-half performance was followed by an even stronger second half. Corporate clients increased from 95 to 110 last year and the corporate retainer income is 25% higher. Corporate fees and secondary commissions also grew. Adviser rankings show finnCap as the number-one broker and adviser on AIM and the number-eight broker for all London Stock Exchange companies.

Fellow broker XCAP Securities is not doing as well. In the six months to February 2013, it lost £1.92m on revenues of £2.89m. There was an initial contribution from the two wealth management businesses acquired at the end of 2012 and costs are down by 22% on the previous six-month period. There was £560,000 in the bank at the end of February 2013 following a cash outflow of £1.78m in six months.

Alexander David Securities is selling the eponymous broking operations to its management and turning itself into a shell. This follows the cancellation of the AIM quotations of Westhouse and VSA Capital.

The company reported a loss of £650,000 in 2012 but it has been close to reaching breakeven in the first three months of this year. However, the company's board does not believe that the quoted market is a good place for a broker to be in.

The corporate finance and institutional broking business is being sold to two Alexander David Securities directors, David Scott and Angus Rose. They will pay £1 and up to £300,000 in earn-outs over three years. There was an approach by a third party for this business and the disposal is on similar terms.

The private client business has been sold to Highstone Investment Management, which is owned by holding company director Trevor Coote.

ADVISER CHANGES - MAY 2013

COMPANY	NEW BROKER	OLD BROKER	NEW NOMAD	OLD NOMAD	DATE
Alkane Energy	Liberum/VSA	VSA	Altium	Altium	01/05/2013
Sports Stars Media	Sanlam	Dowgate	Sanlam	Cairn	01/05/2013
Ceramic Fuel Cells Ltd	Arden	Nomura Code	Arden	Nomura Code	03/05/2013
Active Risk Group	finnCap	finnCap	Altium	finnCap	07/05/2013
Enegi Oil	Shore/Cenkos	Cenkos	Cenkos	Cenkos	07/05/2013
Landore Resources Ltd	Strand Hanson	Panmure Gordon	Strand Hanson	Strand Hanson	08/05/2013
H&T Group	Numis	Numis	Numis	Canaccord Genuity	09/05/2013
Clean Air Power Ltd	Peat/Cantor Fitzgerald	Cantor Fitzgerald	Cantor Fitzgerald	Cantor Fitzgerald	13/05/2013
DQ Entertainment	Allenby	Cantor Fitzgerald	Allenby	Cantor Fitzgerald	13/05/2013
Breedon Aggregates	Peel Hunt/Cenkos	Cenkos	Cenkos	Cenkos	14/05/2013
Mirland Development Corporation	Investec	Credit Suisse	Investec	Credit Suisse	17/05/2013
Ormonde Mining	SP Angel/Davy	Davy	Davy	Davy	21/05/2013
Tangiers Petroleum	Peel Hunt/Shore	Shore	RFC Ambrian	RFC Ambrian	21/05/2013
Auhua Clean Energy	Beaufort/Northland	Northland	Northland	Northland	22/05/2013
SocialGO	Peterhouse/Northland	Northland	Northland	Northland	24/05/2013
Origo Partners	Investec/Liberum	Liberum	Liberum	Liberum	28/05/2013
Paragon Diamonds Ltd	Sanlam	Sanlam/Fox Davies	Sanlam	Fox Davies	29/05/2013
Kemin Resources	Strand Hanson	Sanlam	Strand Hanson	Sanlam	31/05/2013
Totally	Optiva/Allenby	Allenby	Allenby	Allenby	31/05/2013

company news

Quixant flotation proves a profitable bet for investors

Gaming machines technology *www.quixant.com*

Shares in gaming machines technology developer **Quixant** moved to a significant premium following their flotation on 21 May. The placing was at 46p a share and by the end of the month the price was two-thirds higher. Quixant has a small market share in the gaming machines sector and scope for significant growth over the coming years. A dividend is also promised this year.

Cambridge-based Quixant supplies gaming platforms that are designed-in to gaming machines by manufacturers. Ainsworth Game Technology accounts for more than half of revenues but this reliance will reduce as new contracts are won with other manufacturers. It takes time for new machines to be launched and they have a sales life of several years. When a manufacturer starts to use the Quixant platform it will eventually use it in all of its machines.

> Edison is forecasting revenue growth of 20% a year

The embedded computing products produced by Quixant need to have low power consumption, high reliability, high performance graphics and good security. Strict regulatory requirements make it more difficult for new competitors to enter the market. The products cost between $300 and $1,200 and go into machines that could be sold for more than $20,000. There are 7.9m gaming machines installed around the world.

QUIXANT (QXT)			76.5p
12 MONTH CHANGE %	N/A	MARKET CAP £M	49.4

Management previously worked at AIM-quoted Densitron when it had a business in the gaming machines sector and they have expertise in manufacturing in Taiwan. The directors still own 60% of Quixant.

Quixant raised £3.1m net of expenses. The cash will provide working capital that will be required when new clients are gained. The flotation will raise the company's profile and that could help it to gain further contracts with gaming machine manufacturers. Edison is forecasting revenue growth of 20% a year.

BP Marsh waits for Hyperion cash

Financial services investments *www.bpmarsh.co.uk*

Financial services businesses investor **BP Marsh** is awaiting a cash inflow from its investment in insurance broker Hyperion but the deal still has to negotiate regulatory hurdles in Texas and Singapore. The latter is likely to take longest but, assuming that everything goes ahead, BP Marsh will have a strong balance sheet from which to fund new investments and even a dividend.

Last year, a stake in Hyperion was sold for £4.5m and after the year-end BP Marsh agreed to sell 80% of the rest of its shareholding to General Atlantic for £29.2m - with potential for more if Hyperion floats within 12 months at a significantly higher share price. General Atlantic has an option over BP Marsh's remaining 2.76% stake on the same terms.

BP MARSH (BPM)			128p
12 MONTH CHANGE %	+ 40.7	MARKET CAP £M	37.4

BP Marsh is lending Hyperion £6.1m at a minimum interest rate of 7.5% so, excluding that loan and tax, it will receive around £20m on completion. This will pay off director loans, which have been built up through investments in recent months. The most recent is a joint venture with investee company Besso Insurance, which is acquiring an Australian insurance underwriter. BP Marsh paid a dividend of 1p a share last year but it did not declare a dividend this year because it is waiting for the Hyperion cash. There should be scope for a dividend in the next year.

The company's net asset value increased from 171p a share to 190p a share in the 12 months to January 2013. The shares trade at a discount to NAV of nearly one-third.

company news

Pre-sales provide strong longer-term outlook for Telford Homes

Residential property developer *www.telfordhomes.plc.uk*

Strong demand for new homes in Inner London provides a strong outlook for **Telford Homes** and enables it to plan for additional expansion. Telford has already sold broadly all of the homes it expects to finish in the current financial year and prices and rents are rising.

The figures were in line with recently upgraded expectations. In the year to March 2013, revenues improved from £124.4m to £142.4m, while pre-tax profit trebled to £9m thanks to much better margins. That profit was achieved even though all of the costs of sales of homes that have yet to complete are included even though they did not contribute to revenues. The number of completions increased from 314 to 374 and price inflation is estimated at 5% last year. The full-year dividend was 60% higher at 4.8p a share.

Around two-fifths of purchasers are overseas investors and one-third owner-occupiers. Contracts were exchanged for the sale of 803 properties last year and that was without the use of government incentives. Those sales include just over 50% of the homes to be built in 2014-15 and 2015-16. Since March, more than 180 additional sales have been made. These sales will be taken to revenues once they are completed. The completions this year will be much lower than the number of sales because many of these have not been built. Telford does receive deposits for these sales which helps its cash flow.

Contracts were exchanged for the sale of 803 properties last year

TELFORD HOMES (TEF)			259.5p
12 MONTH CHANGE %	+ 138.1	MARKET CAP £M	130.7

Nearly £22m was generated from operations last year.

Net debt was £34.4m at the end of March 2013. There are bank facilities of £120m lasting until September 2016 so there is scope to increase the land bank and therefore future output. Land is being acquired in areas where demand should remain strong. Telford has been appointed to the London Development Panel, which has £5bn of potential developments, although only a fraction of that is residential and there are competitors on the panel.

House broker Shore has upgraded its 2013-14 profit forecast from £12m to £15m and the dividend forecast from 6p a share to 7p a share.

Lombard Medical on course for US launch of Aorfix

Medical devices *www.lombardmedical.com*

Medical devices developer **Lombard Medical Technologies** is raising up to £23.5m in order to finance the US launch of its Aorfix endovascular stent graft for treating abdominal aortic aneurysms and develop new products. The US accounts for 50% of the potential market for Aorfix and there are plans to launch in Japan, the second-largest market, in 2014.

Lombard has raised £21m from a placing at 175p a share.

LOMBARD MEDICAL TECHNOLOGIES (LMT)			182.5p
12 MONTH CHANGE %	+ 42.9	MARKET CAP £M	55.1

Up to £2m could be raised in an offer for subscription at the same share price. Earlier this year, the Aorfix stent gained FDA approval and this triggered the second tranche of a fundraising in May 2011, raising £14.1m at the equivalent of 140p a share. A £3m convertible loan is being converted into shares at 140p each. Around 45% of the latest fundraising will go on building up the sales infrastructure in the US ahead of the Aorfix launch in the second half of 2013 and funding growth in sales after the launch. Nearly one-fifth will be spent on expanding production capacity in order to satisfy the expected increase in sales.

Lombard should have £35m in cash after the fundraising. Edison believes that Lombard could break even in 2016.

company news

Serviced Office focuses on central London offices

Serviced offices provider *www.servicedofficegroup.com*

SERVICED OFFICE GROUP (SVO)			3.38p
12 MONTH CHANGE %	+ 22.9	MARKET CAP £M	20.3

Serviced Office Group is in a much stronger financial position following last year's debt restructuring and it is building up a portfolio of strongly cash generating sites in central London. The benefits will take time to show through in the profit figure but the cash flow will improve more quickly. Demand remains strong and Serviced Office has the cash to invest in further facilities.

Last year, the company repaid a £12.5m loan from RBS, having raised £8m net from a share issue and agreed a new bank facility from HSBC. The main focus is leasehold properties in central London, with management contracts taken on for serviced offices outside of the capital. Serviced Office had originally expanded through acquiring freeholds in outer London but trading has been tougher in these areas.

> The focus is leasehold properties in central London

It takes two to four years to cover the initial investment in converting a building. For example, there was £854,000 invested in the Covent Garden site, which lost £1m in 2011, made a profit of £695,000 in 2012 and is forecast to make a profit of £1m this year. The Covent Garden site is fully let on short-term leases. Phoenix House in the City, which has just opened, should have a similar revenue profile.

Revenues are generated from supplying the serviced offices and additional services, such as IT. A contract has been signed with Costain which purely provides cloud computing services to the contractor at its London Bridge site.

A small loss is expected this year because of the accounting treatment of rent-free periods, which spreads the benefit over the life of the lease. Cash generated from operations should be around £3.7m in 2013 despite the expected loss.

Serviced Office is reducing its debt further by selling freeholds. The latest two disposals are in Kingston and Chiswick. These should wipe out the remaining net debt. There could be a dividend in 2014.

Wasabi secures investor for Asian spin-off

Renewable energy *www.wasabienergy.com*

WASABI ENERGY (WAS)			0.53p
12 MONTH CHANGE %	- 56.6	MARKET CAP £M	16.2

Renewable energy generation technology developer **Wasabi Energy** has found a cornerstone investor for its pre-IPO funding round for Wasabi New Energy Asia (WNEA). Clean energy investor Augut Clean Energy is investing $3.59m in convertible bonds in WNEA, which will automatically convert into ordinary shares at the time of the IPO at a 20% discount to the flotation price. The flotation is most likely to be in Singapore.

WNEA has been set up to hold the rights to the Kalina Cycle technology in Asia. The Kalina Cycle is a technology which generates power from waste heat and geothermal sources. WNEA will pay Wasabi Energy, which plans to retain a controlling stake, a royalty payment for capacity that is installed.

Wasabi Energy and August are also setting up a joint venture to design and develop Kalina Cycle plants for the coal sector. August will finance the joint venture for the first 18 months. Augut is also investing directly into Wasabi Energy itself. It will invest A$1.5m at 1 cent a share. This is a higher price than the rights issue price.

A non-renounceable one-for-eight rights issue at 0.8 cents (0.52p) a share should raise A$3m and each share has an option attached which could raise up to A$3m at the same share price. Non-core disposals should generate additional cash. This cash will help to roll out the Kalina Cycle technology in other parts of the world.

Acquisitions generate cash for Judges dividend

Scientific instruments *www.judges.uk.com*

Dividend

Acquisitive scientific instruments supplier Judges Scientific reported a near-50% increase in its 2012 final dividend to 10p a share. The total dividend for the year increased from 10p a share to 15p a share. The dividend is covered more than five times by underlying earnings.

Judges paid a total dividend of 3p a share for 2006 and the dividend grew steadily in the subsequent couple of years but the pace of dividend growth has picked up since then. In total, 46.4p a share of dividends have been paid.

The forecast 2013 dividend of 16.5p a share looks easily achievable. Strong cash flow means that there are no worries about Judges' ability to afford its dividend even if it seeks larger acquisition targets.

Business

Judges has reported seven consecutive years of record results. This is not just a question of increasing revenues through acquisitions. The 2012 revenues of £28m represent like-for-like growth of 7.5%. There have been some blips in earnings per share growth but the general growth trend has been strong. This shows that when Judges has issued shares to finance its growth it has managed to continue to grow its longer-term earnings per share. This may seem an obvious requirement for a management but it is surprising how often a quoted company's management uses the fact that they have decided to issue more shares as an excuse for poor earnings per share performance.

Judges has certainly been acquisitive but its careful choice of target and realistic payments have enabled the company to become successful without the significant problems that many acquisitive companies run into. The first acquisition was Fire Testing Technology more than eight years ago and seven more acquisitions have been made since then. The criteria for acquisitions are that they should be a profitable, niche business in the scientific instruments sector.

JUDGES SCIENTIFIC (JDG)	
Price	1325p
Market cap £m	70.5
Historical yield	1.1%
Prospective yield	1.2%

On top of this, Judges has been able to grow its businesses after it has acquired them. Cash flow per share has consistently increased and it is greater than earnings per share. The only reason there was net debt of £2m at the end of 2012 was because of the borrowings taken on for acquisitions.

The business is split into two divisions: materials sciences and vacuum. Judges has an international spread of revenues, with 13% of the 2012 revenues coming from the UK. The other revenues come from all around the world.

Analysts forecast a 2013 profit of around £6m, up from £5.6m last year. The shares are trading on 17 times prospective 2013 earnings. This follows a sharp improvement in the share price. In May 2012, £3m was raised in a placing at 600p a share. There is a tendency for upward revisions in forecasts. In fact, the 2012 figures were higher than house broker Shore's forecast.

Dividend news

Packaging foils and laminates supplier **API** says that it will pay an interim dividend in the current financial year. Strong cash flow has reduced the company's borrowings, with net debt falling from £3.6m to £2.6m in the 12 months to March 2013 despite capital investment exceeding depreciation. Underlying pre-tax profit improved from £5.1m to £6.8m even though revenues dipped from £113.9m to £112.4m. There were exceptional costs of £1m which were split between the costs of the formal sales process that ended in February and restructuring charges. The holographics business slipped into loss but the other divisions improved their contributions.

Legal and professional fees insurance products provider **Abbey Protection** is paying a 5p a share special dividend. A strong balance sheet means that Abbey can afford to distribute £5m to shareholders. There was £21.8m in cash in the bank at the end of 2012 and nearly as much in certificates of deposit. This special dividend follows the second interim of 2.8p a share paid in April, which brought the total dividend for 2012 to 4.9p a share. Abbey has moved into the legal market through the acquisition of Lewis Hymanson Small.

Naibu Global is the number-10 Chinese domestic sportswear brand. Maiden full-year figures show revenues 12% higher at RMB1,677m (£177m), while pre-tax profit improved 4% to RMB368m. A final dividend of 4p a share is higher than forecast and it is expected to increase to 6p a share in 2013. There was net cash of £48m at the end of 2012. Some of this cash will be spent on a new production facility and new production lines. Another factory will be built in Sichuan in 2014. At the moment Naibu manufactures footwear and it plans to start manufacturing some of the clothing it sells.

expert views

Expert view: The broker

Winkworth ready for housing upturn

By DUNCAN HALL

Winkworth* is a franchisor of a residential estate agency and lettings brand. As such the group derives a royalty stream from franchisee activity and will benefit directly from a rise in the number of housing transactions from the sector's current low point.

During the recession in housing transactions, Winkworth has sought to reshape its portfolio to position the network for a recovery in transaction volumes. The business is weighted towards Central London as its historical core but in expanding to 95 branches has reached out beyond the M25.

As a franchisor, with low central overheads, we estimate a 20% increase in transaction volumes across the network would yield almost £1m to operating profit. Our forecast assumes far more modest progress – April's Bank of England data on mortgage approvals was uninspiring – but longer term, the opportunity remains. The group holds net cash, with the only outgoings beyond pure administration costs likely to relate to securing new franchisees or making selective investment in established franchisees. This leaves scope for a rising dividend flow from the shares, currently offering a yield just under 5%.

Housing market

While house builder share prices respond to the shortage of new-build properties in the UK and an improving climate for purchasers, performance across the far larger segment of the housing market remains restricted. Nonetheless, agency ratings have improved, evidenced by the 40% rise in the Countrywide share price since float.

Although the housing market appears set for a gradual recovery, Bank of England data is uninspiring, helping to explain the scale of government's Help to Buy scheme. April's mortgage approvals were essentially unchanged year on year, even allowing for weakness in the market last year following the removal of stamp duty concessions.

At the outset of 2013, RICS forecast a 3% increase in transaction volumes and a 2% rise in house prices with repossessions expected to drop below 35,000. RICS anticipated a 10% increase in housing starts to 115,000, mindful that 2012 had been a weak year. Positive newsflow from quoted house builders highlighting mid single-digit increases in unit sales and improved visitor levels, reservations and cancellation rates all provide comfort for the second half.

Winkworth may appear to have a sub 2% market share, but this increases within the £0.75-2m property price range.

Results

Finals emerged in line, with revenue up 7.9% at £4.3m and operating profit of £1.3m before exceptionals of £0.3m. Lettings (38%) at £1.6m were up 10% while Transactions (62%) at £2.7m, were up 7.1%. Gross profit margins were 76.7% at £3.3m (2011: 78.8% at £3.1m). Admin expenses were held at £1.9m. Group cash was £1.6m by the year end after investing £0.3m in franchisee branches and 8 new openings resulted in 95 outlets overall.

> We estimate a 20% increase in transaction volumes across the network would yield almost £1m profit

Hopes that the Help to Buy scheme, applicable from 2014, could drive volume growth has improved investor perception of the prospects for operationally geared property agencies. Statistically low transaction levels also encourage investor interest, but restricted mortgage availability remains a restraint on growth, as does a reduced desire among consumers to take on debt.

The housing market outside central London remains subdued, restrained by limited mortgage availability. Winkworth has focused recent openings outside London, anticipating an upturn in transaction volumes. Meanwhile 2012 saw group volumes up 6.4% – up 12% in the country (reflecting new branches and a low starting base) and 4.4% in London.

However, group profit remains weighted towards the established Central London branches. Strategically, assuming 30% of the 0.8m UK transactions relate to London,

Overseas, Winkworth has signed a Master Franchise for India, which offers long-term potential, and remains committed to developing a greater presence in China; realistically, however, transaction volume growth in the UK will determine profit growth over the next three years.

Given only gradual volume growth, 5% per annum network expansion and only modest house price inflation, we use 7% revenue growth as a central case. A 2013-14 pre-tax profit of £1.4m puts the shares on a prospective multiple of 12. Anticipating transaction volume growth, sector P/E ratings have improved sharply to the mid teens, and we lift our target price to 130p.

**Winkworth is a corporate client of finnCap*

DUNCAN HALL is a research director at finnCap.

feature

Equity swaps attract attention

Equity swaps are not generally understood by investors but they are relatively straightforward. However, the amount of cash they will raise is difficult to predict.

Equity swaps have come to the attention of investors because of the investor relations problems of Quindell Portfolio. There is confusion about what they are and how they differ from other forms of alternative finance that have been lumped in with them.

There could be differences in individual equity swaps but effectively each month over the set period of the equity swap a company will receive cash for a set amount of shares. The number of shares is unchanged but the share price paid for them is different each month. A notional placing price is used for the shares as well as a benchmark price, which is higher than the placing price. The company pays a fee in cash or shares to the provider of the finance.

Each month, a price is calculated, probably based on an average of the previous five days' share prices. This is then compared with the benchmark price. The price paid for the shares is the placing price adjusted pro rata for the difference between the current calculated price and the benchmark price.

If the share price calculated is higher than the benchmark price then the price paid for the shares is higher than the placing price but if the calculated share price is lower than the benchmark price the price paid is less than the placing price originally stated.

This is the big risk for the company, which might end up receiving less cash over the period of the equity swap than it expected at the outset. Having said that, a company is unlikely to receive the original estimated amount – it will be either more or less. However, the magnitude of the difference can change significantly over a few months.

The argument for equity swaps is that they help to prevent excessive dilution but this is based on the view that the share price will rise over time.

> For an equity swap to have a chance of working for a company there needs to be a flow of positive announcements

The chief executives of quoted companies can tend to be optimistic about their companies' share prices because they feel that the business will make progress and this should then be reflected in the share price. They tend to believe that their share price should rise. The trouble is it is not as straightforward as that because the share price might lag behind events or the market as a whole might be weak and the share price might move with the market rather than completely reflecting what has been achieved by the company.

In reality, for an equity swap to have a chance of working for a company there needs to be a flow of positive announcements in the pipeline to provide potential momentum for a share price.

Equity swaps are not the same as stand-by equity agreements (SEDAs). The structure of a SEDA, also sometimes called an equity line of credit, involves an agreement between the company and a capital provider for a fixed length of time – usually three years – and for a set amount of money. However, there is no obligation for the firm to use the facility, but the provider has to buy the shares sold under the agreement whatever the economic situation, although this can depend on the overall liquidity of the shares. The company can choose when to draw down funds and avoid issuing shares if the share price has fallen back.

Quindell

There is plenty of ill-informed comment around and it is a company's duty to do what it can to make sure this does not proliferate by providing clear information. Quindell did not do that. When Quindell announced its plans to acquire Accident Advice Helpline at the end of 2012 it said that it had raised £17m through the placing of shares at 17.5p each. No mention was made that this was an equity swap.

The "placing" was not an issue until the 2012 results were published. There was a £2.53m non-cash item which was described as "cost of raising finance" in the feature

exceptional costs and "derivative financial instruments" of £13.3m included in trade and other receivables. Yet again, there was no explanation of these figures.

An equity swap was mentioned in commentaries about the figures but anyone relying on RNS to get information about the company was short changed. Quindell had to make a subsequent announcement about "the equity swap asset", declaring that the management did not think it was "a material contract" due to Quindell's size. Quindell added that: "It is not currently being exercised, and the company believes that the counterparty will continue to not make any material transactions in respect of the company's ordinary shares unless the share price is at substantially higher levels". This means that the £13.3m asset in the balance sheet might need to be written down further. No real details of the equity swap have been released so it is difficult to be certain about anything.

The worst thing about what Quindell has done – or not done – is that when another company raises cash through a placing, investors might question whether it has really placed the shares or if it has failed to mention that it is an equity swap. There is nothing wrong with using an equity swap if it is judged that it is a good way of raising money for a company but it has to be made clear exactly what is happening rather than keeping investors in the dark.

Paragon

At least Paragon Diamonds set out the main facets of its equity swap. Paragon is raising £1.55m at 5p a share in order to finance the Lemphane kimberlite project in Lesotho but £1.25m of these shares are the subject of an equity swap. Lanstead Capital and Paragon have entered into the equity swap agreement, which according to Paragon means that it will be able to benefit from "much of the potential upside" from upcoming news flow.

The swap agreement lasts for 24 months until May 2015 and uses a benchmark share price of 6.67p. Each month, if the measured share price is greater than 6.67p, Paragon will receive pro rata more than 100% of the cash it is due; however, if the share price is lower than 6.67p, Paragon will receive less than the amount due on a pro rata basis.

In return for this deal, Paragon is paying Lanstead £200,000 in cash or 2.5m shares if Lanstead prefers. This shows that equity swap deals are not cheap.

Paragon needs positive news to push up the share price but that is unlikely to happen for at least a few months. Paragon's strategy is to undertake bulk sampling at Lemphane and establish an inferred resource by the second quarter of 2014. Trial mining could start before the end of this year and could raise \$2m-\$5m from diamond sales.

A company can assess what is most suitable for its needs

Amur

Amur Minerals, which is developing a nickel-copper prospect in Russia, is a company that has been using equity swaps for years. The results of these deals have been mixed.

The first equity swap worked for Amur, which back in May 2011 secured an average price per share from Lanstead of 7.67p, compared with the original placing price of 3.3p less than one year earlier. When fees are taken into account the amount raised was £2.07m, instead of the original £890,000 expected. This money was paid more than one year early.

A second equity swap was agreed in March 2011 following a £2.5m placing at 10p a share. That was less successful because the share price fell over the subsequent 24 months. The benchmark price was 13.33p a share and the share price was nowhere near that level for most of the period.

A third equity swap deal, worth £4.86m at 8p a share, was entered into in February 2012. The benchmark price was 10.67p a share. In the 2012 interims Amur admitted that the value of this had more than halved.

There was a gain on the swaps of £2.6m in 2010 and a loss of £1.51m in 2011. In the first half of 2012, the loss was £4.52m. There is no cash outflow, it just means that less cash is received than originally expected. However, that still has relevance to expected cash flow.

Equity swaps are designed to reduce dilution of share capital by enabling shares to be issued over a period of time rather than in one slug. If the share price rises then more cash is raised from the same number of shares. If it falls, then less will be generated, thereby leaving a potential hole in cash-flow projections.

A company has a number of ways of raising cash and equity swaps are one. They are not a cheap way of gaining additional finance but it should be remembered that the companies that use this source of finance will find it difficult to raise cash from other sources and if they can find an alternative it will still be expensive, whether in terms of interest charges or dilution.

There is nothing inherently wrong with equity swaps and a company can assess what is most suitable for its needs. The most important thing is that investors know what is being done and they are kept fully informed.

statistics

Market Performance, Indices and Statistics

AIM SECTOR INFORMATION

SECTOR NAME	% OF MARKET CAP	% OF COMPANIES
Oil & gas	21.7	11.9
Financials	19.6	20.5
Industrials	12.8	18.2
Basic materials	10.5	16.5
Consumer services	10.7	9.6
Technology	9	9.5
Consumer goods	6.5	5.5
Health care	5.6	6
Telecoms	2.3	1.2
Utilities	1.1	1.2

FTSE INDICES

ONE-YEAR CHANGES

INDEX	PRICE	% CHANGE
FTSE AIM All-Share	729.91	+5.6
FTSE AIM 50	3677.15	+25.1
FTSE AIM 100	3349.46	+7.2
FTSE Fledgling	5441.42	+27.5
FTSE Small Cap	3956.34	+36.1
FTSE All-Share	3473.82	+25.5
FTSE 100	6583.09	+23.7

COMPANIES BY MARKET CAP

MARKET CAP	NO.
Under £5m	286
£5m-£10m	131
£10m-£25m	233
£25m-£50m	157
£50m-£100m	135
£100m-£250m	97
£250m+	49

KEY AIM STATISTICS

Total number of AIM	1088
Number of nominated advisers	51
Number of market makers	54
Total market cap for all AIM	£62.1bn
Total of new money raised	£81bn
Total raised by new issues	£35.8bn
Total raised by secondary issues	£45.3bn
Share turnover value (2013)	£11.5bn
Number of bargains (2013)	1.6m
Shares traded (2013)	88.2bn
Transfers to the official list	163

TOP 5 RISERS OVER 30 DAYS

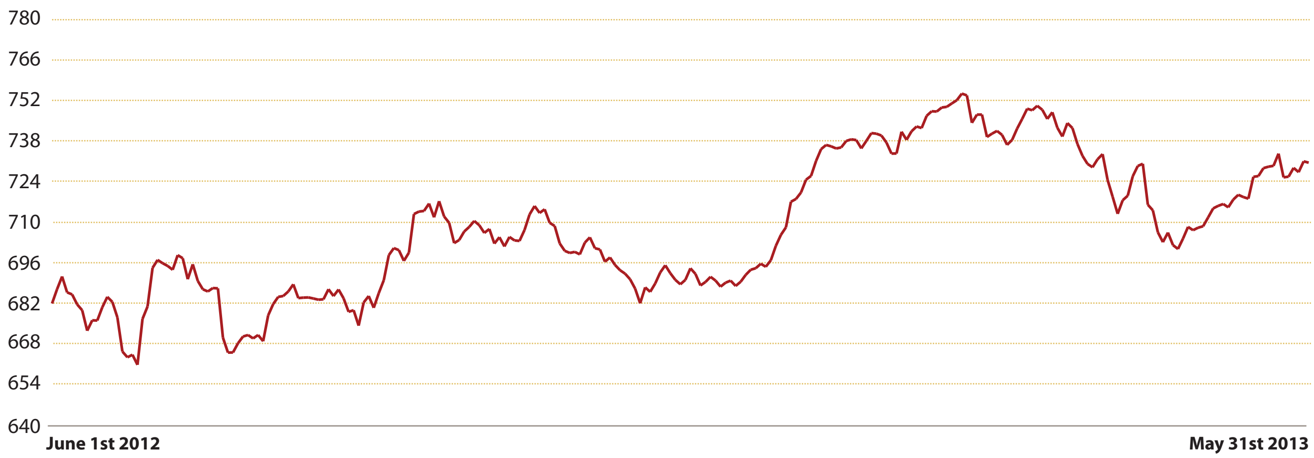
COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
AfriAg	Agriculture	0.88	+218.2
SolGold	Mining	4.47	+204.4
Invu	Software	0.47	+151.4
Straight	Industrial	35.75	+70.2
Low Carbon Accelerator Ltd	Cleantech	3.7	+68.2

TOP 5 FALLERS OVER 30 DAYS

COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
2 ergo Group	Telecoms	3.38	-60.3
Metrodome Group	Media	0.15	-60
Astar Minerals	Mining	0.16	-50.8
Orosur Mining	Mining	9.25	-48.6
Chaarat Gold Holdings Ltd	Mining	10.5	-46.5

AIM - 1 YEAR INDEX CHANGE

Source: London Stock Exchange



Data: Hubinvest Please note - All share prices are the closing prices on the 31st May 2013, and we cannot accept responsibility for their accuracy.

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finnCap

finnCap is an independent, client-focused institutional broker and corporate adviser, whose chairman is Jon Moulton. The firm is 95% employee owned and it has a dedicated small cap focus.

finnCap's goal is to be the leading adviser and broker in the small cap space. The broker has a full service offering, plus strong aftermarket care and client service. A proactive team approach means that there is support from all departments for all of the firm's corporate clients. This has helped finnCap to grow rapidly in recent years.

At the end of 2012, finnCap became the top AIM broker by overall client numbers, according to research compiled by financial website Morningstar. The broker is also the number one adviser in the technology, industrials and healthcare sectors, number three adviser in the oil and gas sector and number five in the basic materials sector.

finnCap won the Best Research award at the 2012 AIM Awards. finnCap was shortlisted for AIM Broker of the year, AIM Adviser of the year and Analyst of the year at the 2011 Growth Company Awards. finnCap's corporate broking and sales trading teams have achieved Extel Top 10 rankings for three years running.

In the six months to October 2012, finnCap reported a 14% increase in revenues to £5.7m and operating profit quadrupled to £1.1m. finnCap has a strong track record of raising money for clients and it raised £80m during the period.

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