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THE ONLINE MONTHLY FOR THE ALTERNATIVE INVESTMENT MARKET

AIM JOURNAL

Nomad list reduces to 40

Merrill Lynch International is the latest broker to give up its status as a nominated adviser on AIM. This follows the removal of Fox-Davies and Daniel Stewart Securities from the nominated adviser list in recent weeks. There are still other nominated advisers with few or no clients.

According to the London Stock Exchange website, there are 40 nominated advisers left. Goldman Sachs, HSBC and Deloitte do not currently have any clients. Deloitte's last client was St Peter Port Capital, which switched to a rival in April 2013. Citigroup is nominated adviser to Blinkx. PwC and Execution Noble each have two clients. Execution Noble floated claims marketing company NAHL last May, thereby doubling its client list.

Although AIM-quoted Daniel Stewart has given up its nominated adviser status, it still needs to raise additional cash. It has been waiting for FCA clearance for a new investor. Trading in Daniel Stewart shares remains suspended because the 2013-14 accounts have not been published even though the full-year figures were issued before Christmas. The broker has been trading at around breakeven in recent months.

Oil companies' fragile finances

Company Watch has assessed 126 oil and gas companies on the Main Market and AIM, with 99 on the junior market, and it will not surprise anyone that one-third of these companies do not generate any revenues and a significant proportion of them are not in a strong financial position following the decline in the oil price. "Our fear is sustained low oil and gas prices will put an intolerable financial burden on the weaker companies," says Ewan Mitchell, head of analytics at Company Watch.

One-third of the quoted companies are likely to use up their cash within 12 months. Of the AIM companies, 38 are already in the Company Watch warning area because they have an H-Score, which is based on an assessment of the latest accounts, of less than 25, which means they are 50 times more likely to get into financial difficulties and require a refinancing or go bust. There are five AIM companies with zero H-Scores.

In the past year, the oil and gas sector has fallen from nearly 20% to just over 10% of the market value of AIM. Savannah Petroleum was the only oil and gas company to join AIM in the second half of 2014 and that was back in August. Hurricane Energy and Mosman Oil & Gas floated in the first half, while Leyshon Energy was demerged from Leyshon Resources.

In this issue

HubInvest publishes AIM Journal

www.hubinvest.com

general news

Songbird rejects joint bid

The offer document for Canary Wharf owner Songbird Estates, the largest company on AIM, has been sent to shareholders. The bid of 350p a share is being made jointly by the Qatar Investment Authority and New York Stock Exchange-listed Brookfield Property Partners via Bermuda-based Stork Holdco. Songbird does not believe that the £2.6bn bid reflects the true value of its business.

Songbird had a published NAV of 319p a share at the end of June 2014. This was following the sale of 10 Upper Bank Street for £795m, compared with a valuation of £780m at the end of 2013, which left Songbird with 17 properties of 6.4 million square feet in total, while the company also manages other properties including 10 Upper Bank Street. The investment property portfolio was 97.2% let at the end of June 2014. A pro forma adjusted NAV of 381p a share was published in November. This reflects an improving London market and additional lettings.

Songbird has four development projects that should be completed and contribute to NAV improvement over the next five years. The development pipeline, including joint venture developments of the Shell Centre and 20 Fenchurch Street, covers 11 million square feet.

QIA and Brookfield together own 28.6% of Songbird but they will not transfer these holdings to Stork unless the remaining shares in Songbird can be compulsorily acquired. Third Avenue Management, Madison International Realty and EMS Capital have given an irrevocable undertaking or letters of intent to accept the bid and their holdings total 6.5% of Songbird. That still leaves a long way to go before acceptances are high enough to compulsorily acquire the rest of the shares. The first closing date for the offer is 29 January.

boohoo warning

Shares in online fashion retailer boohoo.com slumped on the back of a profit warning and Old Mutual, Odey Asset Management and BlackRock have all cut their holdings. Demand in the UK suffered from a weak clothing market and price discounting on the high street, while international sales are likely to be slightly lower than expected. The online fashion retailer warned that sales would be around 10% lower than expected and Peel Hunt cut its profit forecast for the year to February 2015 by a quarter to £12.4m and slashed the 2015-16 figure by nearly one-third to £15.7m. The shares are trading at less than half of the 50p a share placing price when the company joined AIM in March 2014. Despite this fall the shares still trade on more than 20 times 2015-16 forecast earnings.

Market-Tech sets out its stall in Camden

Camden market properties owner Market-Tech Holdings raised £100m at 200p a share when it joined AIM before Christmas. That valued the company at £750m. Market-Tech has been marketed as a combination of a property and online business. The company has been put together by Teddy Sagi, who owns 86.4% of Market-Tech and has previously brought media and online gaming businesses to AIM.

At the end of March 2014, the core subsidiary had a net asset value of £207.7m and net debt of £221.7m. Since then further properties have been added to complete the company's control over the Camden market sites and the market.com web address has also been acquired. These deals will have increased borrowings. In November, the market properties were valued at £574.4m by Jones Lang LaSalle.

Pro forma results for the year to March 2014 show a profit of £17.9m on revenues of £41.8m. That profit includes a property valuation gain of £22.8m so it indicates that there was not enough profit generated to cover interest costs. There is no pro forma balance sheet in the prospectus. The expenses of the flotation were £6.4m, which leaves proceeds of £93.6m to reduce the current debt levels and invest in the business.

Market-Tech's attempt to be a hybrid of a property investment company and e-commerce business makes it difficult to value, particularly as the online offerings are not fully up and running although the company does have an online customer base through the acquisition of Fiver (everything5pounds.com). Management has identified potential investment that could significantly increase rental revenues and the gross value of the properties – management believes that the gross value could increase to £1.47bn, including significant residential development. Market-Tech already has approved planning permission for some developments.

advisers

Daniel Stewart clients find new advisers

ADVISER CHANGES - DECEMBER 2014

COMPANY	NEW BROKER	OLD BROKER	NEW NOMAD	OLD NOMAD	DATE
Beacon Hill Resources	Strand Hanson	Canaccord Genuity	Strand Hanson	Canaccord Genuity	01/12/2014
BowLeven	Macquarie/Bank of America Merrill Lynch/Barclays	Bank of America Merrill Lynch/Barclays	Macquarie	Bank of America Merrill Lynch	01/12/2014
European Wealth Group	Panmure Gordon	Daniel Stewart	Panmure Gordon	Daniel Stewart	01/12/2014
InfraStrata	VSA/Arden	Arden	Arden	Arden	01/12/2014
Jiasen International Holdings Ltd	Beaufort/Hume	Hume	Cairn	Cairn	01/12/2014
Victoria Oil & Gas	Numis	Numis/Fox-Davies	Strand Hanson	Strand Hanson	01/12/2014
African Consolidated Resources	Daniel Stewart	Panmure Gordon	Strand Hanson	Panmure Gordon	04/12/2014
CloudTag Inc	Keith Bayley Rogers	Keith Bayley Rogers	Cairn	Strand Hanson	04/12/2014
Caledonian Trust	Allenby	Numis	Allenby	Execution Noble	08/12/2014
Amedeo Resources	WH Ireland	Beaufort/ Daniel Stewart	WH Ireland	Daniel Stewart	10/12/2014
Blue Star Capital	Cairn	Daniel Stewart	Cairn	Daniel Stewart	10/12/2014
Nyota Minerals Ltd	Beaumont Cornish/ Daniel Stewart	Daniel Stewart/ Pareto	Beaumont Cornish	Daniel Stewart	10/12/2014
OptiBiotix Health	Hybridan/Peterhouse	Peterhouse	Cairn	Cairn	10/12/2014
Pathfinder Minerals	WH Ireland	Daniel Stewart	WH Ireland	Daniel Stewart	10/12/2014
Redcentric	finnCap	finnCap/N+1 Singer	finnCap	N+1 Singer	10/12/2014
Stellar Diamonds	Daniel Stewart	Daniel Stewart	Cairn	Daniel Stewart	10/12/2014
Biome Technologies	Allenby	Allenby/Daniel Stewart	Allenby	Daniel Stewart	11/12/2014
China Chaintek United	Daniel Stewart	Daniel Stewart	ZAI	Daniel Stewart	11/12/2014
ECR Minerals	Daniel Stewart	Daniel Stewart	Cairn	Daniel Stewart	11/12/2014
Plethora Solutions	finnCap	Daniel Stewart	finnCap	Daniel Stewart	11/12/2014
Beximco Pharmaceuticals	Daniel Stewart	Daniel Stewart	SPARK	Daniel Stewart	12/12/2014
Black Sea Property Fund Ltd	Peterhouse	N+1 Singer	Cairn	N+1 Singer	12/12/2014
Craven House Capital	Daniel Stewart	Daniel Stewart	SPARK	Daniel Stewart	12/12/2014
Immedia Group	Daniel Stewart	Daniel Stewart	SPARK	Daniel Stewart	12/12/2014
Jubilee Platinum	Daniel Stewart	Daniel Stewart	SPARK	Daniel Stewart	12/12/2014
Naibu Global International	Daniel Stewart	Daniel Stewart	ZAI	Daniel Stewart	12/12/2014
Nova Resources	Daniel Stewart	Daniel Stewart	SPARK	Daniel Stewart	12/12/2014
PeerTV	Daniel Stewart	Daniel Stewart	ZAI	Daniel Stewart	12/12/2014
Rangers International FC	WH Ireland	Daniel Stewart	WH Ireland	Daniel Stewart	12/12/2014
Rurelec	WH Ireland/ Daniel Stewart	WH Ireland/ Daniel Stewart	WH Ireland	Daniel Stewart	12/12/2014
Ubisense Group	Numis	Canaccord Genuity	Numis	Canaccord Genuity	12/12/2014
SeaEnergy	Oriel	Investec	Oriel	Investec	15/12/2014
Allergy Therapeutics	Panmure Gordon	Peel Hunt	Panmure Gordon	Peel Hunt	16/12/2014
3Legs Resources	Northland	Northland/ Jefferies Hoare Govett	Northland	Jefferies Hoare Govett	17/12/2014
Altona Energy	Northland	Old Park Lane	Northland	WH Ireland	19/12/2014
Galasys	WH Ireland	Optiva/Arden	WH Ireland	Arden	22/12/2014
Metal Tiger	SI Capital	SI Capital	SPARK	Allenby	22/12/2014
Oracle Coalfields	Fox-Davies/Peterhouse	Peterhouse	Grant Thornton	Grant Thornton	22/12/2014

company news

Begbies Traynor diversifies service offering while insolvency market remains flat

Insolvency practitioner *www.begbies-traynor.com*

Corporate insolvency adviser **Begbies Traynor** has bought chartered surveyor Eddisons Commercial. This will enable Begbies to offer additional services to its clients, but the core insolvency business is still being hampered by flat market conditions.

Begbies has paid an initial £5m for Eddisons, which is a national chain of chartered surveyors that already provides services to insolvency practitioners, as well as banks and property owners. Eddisons has been receiver to more than 200 property insolvencies a year. This acquisition and related costs have been financed by a £5.3m placing at 40.5p. Up to £3.5m more could become payable depending on performance over the next four years. In the year to March 2014, revenues and EBITDA were flat at £13.4m and £1.3m respectively. A flat profit over the next four years would mean a total purchase cost of £6.5m.

> There should also be annualised cost savings of £500,000

Many of the insolvencies on which Begbies acts have property assets and Eddisons can provide valuations and help with the sale of property and machinery assets. There should also be annualised cost savings of £500,000 achievable by Eddisons.

In the six months to October 2014, Begbies reported a decline in underlying profit from £2.3m to £1.9m. There will be an initial four-month contribution from Eddisons in the second half. Begbies is expected to report a flat profit of around £5.4m in the year to April 2015. The forecast increase in profit to £6.6m in 2015-16 is likely to be purely down to a full contribution from Eddisons and the core business is expected to be flat at best. The dividend is expected to be maintained at 2.2p a share.

BEGBIES TRAYNOR (BEG)	43.25p		
12 MONTH CHANGE %	+ 4.8	MARKET CAP £M	45.2

In the longer term, a recovery in Begbies' core market is required for the overall business to grow. The insolvency market tends to expand as the economy recovers because banks and other lenders believe they can get their money back from businesses as they recover. As yet, there is no sign of a recovery in the corporate insolvency market but it will undoubtedly happen.

Credit provider MCB Finance agrees IPF takeover

Consumer finance *www.mcbfinance.com*

Online consumer finance provider **MCB Finance Group** is recommending a 125p a share bid by fully listed International Personal Finance (IPF), which is more than double the share price before a bid was mooted. IPF will be able to give MCB the financial backing it requires to grow.

MCB, which is focused on the Baltic states and Finland, is valued at £23.8m at the bid price. It has also expanded into Australia. IPF operates a home credit business in eight European countries, including Lithuania, and it wants to expand its online offering. The deal will enable IPF to expand into four additional countries. MCB is profitable and at the end of September 2014 there were net customer loan receivables of £48.9m.

MCB FINANCE GROUP (MCRB)	119.5p		
12 MONTH CHANGE %	+ 138.1	MARKET CAP £M	21.1

In September 2011, MCB decided it wanted to cancel its AIM quotation. The board believed poor liquidity meant that the share price did not reflect the value of the business. On the day of the announcement of the proposed AIM cancellation the share price slumped 22p to 30p. However, the proposal was withdrawn because MCB found that it would not have the backing of three-quarters of the shares voted. The share price did not recover immediately so anyone who was brave enough to buy then will have made a significant gain.

company news

New digital marketing software moves First Derivatives into new market

Financial software *www.firstderivatives.com*

Software and consultancy provider **First Derivatives** has widened the scope of its activities outside of the financial sector through the launch of Delta Marketing Cloud, which takes the group into the marketing software market. This has come about because of the purchase of a controlling interest in software company Kx in 2014.

Last year, First Derivatives paid £23.9m in cash plus 1.25 million shares to increase its stake in Kx to 65.2%. First Derivatives uses Kx software in its own products and the deal was immediately earnings enhancing. Kx threw open a number of potential new markets for First Derivatives.

Delta Marketing Cloud makes use of First Derivatives' own big-data expertise as well as the experience

First Derivatives moves into marketing software

of reseller Market Resource Partners. Digital and mobile marketing is growing rapidly as is the data being collected from it. Pilot customers have been signed up. The marketing software sector is worth billions of pounds and although it is more difficult to assess the addressable market it will be significant.

First Derivatives reported an improvement in full-year profit even though the acquisition of a majority stake in Kx did not happen until after the end of the financial year. In the year to August 2014, revenues increased 9% to £37.5m, while pre-tax profit was a quarter higher

FIRST DERIVATIVES (FDP)	1267p		
12 MONTH CHANGE %	+ 12.8	MARKET CAP £M	273.3

at £3.66m. Software revenues fell because there was a significant one-off contract in the corresponding period and all of the improvement came from the consultancy division. Net debt was £9.06m at the end of August 2014.

Panmure Gordon forecasts a 2014-15 profit of £11.4m, rising to £15.2m the following year. These estimates do not include any contribution from the new marketing software. The shares are trading on 31 times prospective 2014-15 earnings. The shares are highly rated but earnings growth should continue to be strong even before any contribution from the new product.

Ideagen snaps up Scottish rival Gael

Software *www.ideagenplc.com*

Information management and compliance software supplier **Ideagen** has acquired one of its major competitors. Ideagen is paying £18m for Scotland-based governance risk and compliance software provider Gael, with £3.2m of that purchase price deferred. The deal will increase the customer base and add technology to the group, as well as being earnings enhancing.

Gael has been trading for more than two decades and all of its growth has been organic. One of the attractions of Gael is that its software can be delivered via the cloud or on the premises of the customer.

IDEAGEN (IDEA)	38.5p		
12 MONTH CHANGE %	+ 36.9	MARKET CAP £M	47.3

It also provides Ideagen with risk software which completes the group offering in the governance risk and compliance software sector. In the most recent 12-month period, Gael made a profit of £1.6m on revenues of £8.7m.

Both companies hold strong positions in the healthcare and manufacturing sectors. Gael also adds expertise in aviation and rail. There should be savings from consolidating the software products, taking some marketing activity in-house and removing duplicated costs.

Ideagen raised £17.5m at 34p a share in an oversubscribed share placing in order to finance the deal. Ideagen is expected to have net cash of £5.6m by the end of April 2015.

House broker finnCap forecasts an underlying profit of £3.6m, including a £500,000 contribution from Gael, in the year to April 2015, rising to £5.6m in 2015-16 when there is a full contribution from Gael. The shares are trading on 18 times prospective 2014-15 earnings, falling to less than 15 in 2015-16.

company news

Ireland-based Dalata expects to enhance returns from Moran Bewley's hotels

Hotels *www.dalatahotelgroup.com*

Ireland-based **Dalata Hotel Group** has completed the acquisition of most of the Moran Bewley's Hotel Group for €455m. The acquisition includes five hotels in Ireland and four in the UK but does not include two others that were part of the group. A Manchester hotel is operated under a long-term lease and the rest are company-owned. There are opportunities for cost savings and revenue enhancement.

The consideration included 12.2 million Dalata shares, which were placed on behalf of vendor Borua Holdings. Dalata raised €16.8m at €2.75 a share to help finance the cash cost of the deal. Dalata had already raised €265m at €2.50 a share when it joined AIM last April.

The enlarged group will operate 44 hotels with 7,284 rooms. Most are managed but some are owned by the group. Dublin hotels account for 46% of the rooms. Dalata is also in talks to acquire another Dublin hotel, while three of the managed hotels are in the process of being acquired by Dalata. In the eleven months to December 2013, the acquired Moran Bewley's hotels made an operating profit of €19.1m on revenues of €77.8m.

> There are opportunities for cost savings and revenue enhancement

There should be overhead cost savings from combining head offices as well as economies of scale. This could save up to €3m in the second full year. There are also plans to increase the revenues of the acquired hotels with some being upgraded from three star to four star. It will take six weeks to assess the hotels acquired and six months to fully integrate the hotels in the group and to rebrand them. There will be opportunities for capital investment that will improve returns.

Dalata says that the original hotels owned at the time of admission to AIM to should generate EBITDA of between €8.1m and €8.3m for 2014.

DALATA HOTEL (DAL)			225.5p
12 MONTH CHANGE %	N/A	MARKET CAP £M	275.7

Cupid chucks dating business to become shell

Shell *www.cupidplc.com*

Cupid has sold its remaining online dating operations for £3m and it will become a shell with potentially £18m in cash if the deferred consideration from previous disposals is settled. A failure to invest in mobile dating products until recently meant that Cupid could not compete with the likes of Tinder.

The loss-making businesses would have been wound down if they had not been sold and the assets were previously valued at £4.3m. There should be £12m in the bank following the receipt of £2.25m of the disposal proceeds just before Christmas. The other £750,000 will be received when the sale of the French business is completed. Deferred consideration for a previous disposal will be reduced from £20m to £12.5m but it should all be paid by 15 December 2015 – eleven months earlier than originally planned.

CUPID (CUP)			18.5p
12 MONTH CHANGE %	-70	MARKET CAP £M	13.2

Cupid will change its name to Castle Street Investments and it will be left with data adtech business Mimir Data, which requires investment of £250,000 in the first half of 2015 but won't generate revenues until 2016. The shell is seeking to buy a profitable business with strong management.

Some of the spare cash will be distributed to shareholders after allowing for costs and retaining £2m for potential liabilities and £900,000 for working capital. A tender offer is planned in the middle of 2015. Cupid may also buy back up to 15% of its shares. Kestrel Partners has built up a 19.5% stake.

dividends

Avesco produces better than expected performance

Broadcast and presentation services *www.avesco.com*

Dividend

Avesco's trading can be lumpy because of the boost the broadcast hire operations receive from large events, such as the Olympics and World Cup. This means that the dividend has not always made smooth progress. There has been growth in recent years, with 4p a share paid for 2011-12 and 5p a share paid for 2012-13. An interim of 1.5p a share has already been paid for this year and the forecast total is 6p a share.

This excludes the 110p a share special dividend that was paid in January 2014. This was part of the return of cash to shareholders following the £44.5m net litigation win against Disney relating to the US TV version of quiz Who Wants to be a Millionaire?

A further increase in dividend to 7p a share is expected in 2014-15 even though that would not be covered by forecast earnings in a weaker trading period. The two dividends added together (13p a share) would be covered more than 1.7 times by forecast earnings for the two years.

Business

Avesco has been quoted for 30 years and two decades ago it demerged Imagination Technologies. Avesco provides equipment and services to the broadcast, corporate presentation and entertainment markets and performed strongly last year, helped by the World Cup in Brazil, Commonwealth Games and Ryder Cup. A recent trading statement announced that underlying profit would be better than expected, with fourth-quarter trading in the US particularly strong.

AVESCO (AVS)	
Price (p)	116
Market cap £m	21.9
Historical yield	4.3%
Prospective yield	5.2%

The European broadcast hire business has been restructured and the cost saving benefit is already showing through. Restructuring costs were £5.4m – predominantly a provision for a lease. This should complete the European restructuring.

Avesco spent £21.9m on share buy-backs and £16.5m on the special dividend last year. Net debt was £21.7m at the end of March 2014 and it will be a similar level at the end of the year. Cash generated from operations is expected to rise from £17.8m to £21.6m in 2014-15 when capital investment levels will be reduced, so debt should be lower. Bank facilities of £32m have been renewed until June 2018.

Interim revenues were flat at £65.4m but underlying profit doubled to £4.08m, with the broadcast division moving back into profit. In the year to September 2014, the underlying profit is estimated to be £4.9m, falling back to £3m in 2014-15. That is less of a decline than would have been expected in the past. One negative is a high tax charge because much of the profit is made in the US and this means tax losses cannot be used to offset it. The shares are trading on around eleven times average earnings for the two years to September 2015. If Avesco can make more use of the equipment it has invested in then it will make more money. The 2015-16 figures will benefit from the Rio Olympics.

Dividend news

Property services provider **Fletcher King** doubled its latest interim dividend to 1.5p a share. Last year's total dividend was 3.75p a share.The interim profit improved from £147,000 to £293,000 without any disposal gains, which had boosted the previous year's pre-tax profit to £711,000. That figure included a £174,000 gain on the sale of investments in two syndicated property investments. Management admits that it will be difficult to achieve the same level of profit this year but the investment market in London and the South East is still strong and more offices have been added to the management portfolio.

Caledonia Mining Corporation has announced an unchanged C$0.015 a share quarterly dividend. This indicates that Caledonia will be paying an unchanged total dividend of C$0.06 a share in 2015. Management believes that it can pay these dividends and still finance investment in its mining interests. Caledonia owns 49% of the Blanket gold mine in Zimbabwe, where $50m of investment is planned between 2015 and 2017. Blanket produced 41,836 ounces of gold in 2014, 8% less than in 2013, and similar production levels are expected for 2015. Production of 70,000-75,000 ounces of gold a year is targeted by 2021. The latest ex-dividend date is 15 January.

India-focused property investment company **Unitech Corporate Parks** is returning 49.25p a share to shareholders via a B share issue. Unitech has received £188.9m from the sale of the subsidiary that owned its property assets. There is also the potential to recover an additional £15.7m of funds. The cash distribution amounts to £177.3m. There is a £4m provision for Indian tax and £4m retained for potential costs. The strategy is to wind up Unitech before the end of the year and return any remaining cash to shareholders. Alternatively, Unitech could be used as a shell.

expert views

Expert view: The broker

Aureus on course for gold production in April

By MARTIN POTTS

Aureus Mining is close to completing construction of its New Liberty gold mine in Liberia, West Africa. The market does not appear to recognise that first cash flow is only four months away and will run at cUS$10m per month. At the recommendation price of 18.4p, we see some 145% of upside.

Aureus is a gold mining and exploration company operating principally in Liberia though it also has assets in Cameroon. The company's first gold mine, New Liberty, is under construction, with first gold due in April 2015. The gold resource has an unusually high grade (around twice that of most other open pit gold mines) and so the mine will be highly profitable even at current depressed gold prices.

Our valuation of New Liberty suggests that this mine alone more than supports Aureus's current market capitalisation, leaving the exploration upside in for free.

In reality, the exploration upside is substantial. The company has already identified a resource of more than 900,000 ounces at the Ndablama project, some 40km from New Liberty. The Ndablama project has a strike length of 1.2km; this lies within a known 13km of gold mineralisation. We reiterate our opinion that Aureus has control of a major goldfield in western Liberia.

Liberia is still considered by many to be a high-risk country in which to invest, but we beg to differ. Most recently, Liberia has effectively managed the current Ebola crisis – infection rates are now falling. Its president, Ellen Sirleaf, is one of Africa's more successful leaders. She was re-elected to a second term in 2011 and in that year was awarded the Nobel Peace Prize. She is Africa's first female president. Under her leadership, Liberia has been transformed from an essentially bankrupt state that had been destroyed by civil war into one of West Africa's more successful states. She has been instrumental in attracting foreign investment, principally focused on mining and agriculture.

Aureus Mining is one of finnCap's ten picks for 2015

Industry dynamics

The mining industry is currently close to the bottom of the cycle, with many companies struggling to survive. Only companies with the very best of the various proposed mines have been able to raise the capital to fund construction. Aureus is the only company operating in West Africa that is currently constructing a gold mine.

We reiterate our opinion that Aureus has control of a major goldfield in Liberia

Why is Aureus going to perform well in 2015? Our forecasts are based on a gold price of US$1,200 per ounce (currently US$1,194/oz) and show that the company is going to move from revenue of zero in 2014 to US$92.9m in 2015 and US$138.1m in 2016. Recognition of this revenue should lead to a re-rating of the stock.

Why the shares are cheap? The stock is currently trading on a multiple of only 2.2x 2016 earnings – that being the first full year of production. The mine has a planned life of eight years though it will probably be in production for considerably longer.

Where could we be wrong? Technically, this is a low-risk project using industry standard technology. Liberia is currently experiencing a severe outbreak of Ebola, but this is now being managed and the rate of infection is declining. There have been no cases at or near the mine. The country is now politically stable under the protection of the UN with strong backing from the US. The gold price is the major variable, but with expected cash margins of c45% it would have to fall substantially to have any significant impact on the project.

Valuation

We have used a DCF analysis to estimate a value for New Liberty. We have added a nominal 50% of the New Liberty valuation to cover the exploration upside, including Ndablama. We have also assumed that the project financing is fully drawn down. These three components produce a valuation of £141m and a target price of 45p a share.

In particular, we note that the unusually high grade of the open pit reserve should generate substantial operating margins and a rapid investment payback.

MARTIN POTTS is a finnCap research director specialising in mining

feature

Disappointing 2014 performance masks volume improvements

Larger company underperformance has exacerbated the poor performance of AIM in 2014 but there were still positives in terms of individual company performance and trading volumes.

There was a big difference in the performance of AIM in 2014 in comparison to 2013, which was boosted by the decision to allow AIM shares into Individual Savings Accounts (ISAs). An increase in the number of new entrants augured well in the early part of last year but this did not continue and the overall performance of AIM was poor.

There was a small fall in the Main Market of around 2% depending on the index, although the FTSE Fledgling index stood out with a 6% gain. AIM declined by 17.5% in 2014, which is an enormous underperformance. The FTSE AIM 50 index of larger UK-based companies slumped by almost a quarter (see www.hubinvest.com/AIMPDFDecember2014_63.pdf).

Resources companies dominated the underperformers. There are no longer any resources companies in the top 20 companies on AIM. The largest is Latin America focused oil and gas explorer and producer Amerisur Resources, which at a market capitalisation of £451.4m, is the 23rd largest company.

The mining sector has been falling in importance for a few years and it is the eighth-largest sector out of ten, having been the largest five years earlier. The slump in the oil price has accelerated a decline in the importance of the oil and gas sector which was around one-fifth of AIM at the end of 2013 and is now below 10%.

PwC has said that it expects acquisition activity in the oil and gas sector this year and this could help its performance on AIM but the continued weak oil price is likely to make it harder for the sector, particularly those companies that require money for investment or just to keep going.

> The oil and gas sector has fallen from one-fifth of AIM to less than 10%

Technology was another weak sector, although this can be partly put down to the overenthusiastic ratings that some of the technology shares involved in big data and other fashionable areas had reached by the end of 2013.

There were three sectors that rose in 2014. They are electrical, consumer goods, helped by the jump in the Fitbug share price on the back of its fitness products being sold by large supermarkets, and support services. In electricals, mCHP boiler designer Flowgroup benefited from the imminent commercial launch of its new boiler, while Solid State and Sprue Aegis are sound businesses that have won additional contracts. In the case of Solid State it is the contract to supply electronic tagging equipment for offenders.

Two halves

An indication of what kind of year it has been is that the levels of money raised by both new admissions and existing AIM companies tailed off later in the year. In fact, a lot more cash was raised in the first half of the year than the second half. That was despite the fact that December was the third-best month for fundraisings by new companies and when cash raised by existing companies is taken into account it was the second-best month for total cash raised. Only March, when just over £1bn was raised beat the December figure of £768.2m.

For the first time since 2008, new admissions raised more money in the first half of the year than they did in the second half.

Trading volumes

There has been less volatility in trading volumes throughout the year than there has been in cash raisings, although the value of second-half trading was nearly one-third lower than the first-half figure. In contrast the number of bargains in the second half was around 8% lower than in the first half.

The average daily number of bargains in 2014 of 26,585 was the highest ever. That average is lower than the 28,271 reported for the first

feature

AIM PERFORMANCE - FIRST V SECOND HALF 2014

	MONEY RAISED NEW ADMISSIONS (£M)	MONEY RAISED FURTHER ISSUES (£M)	TRADING VOLUMES SHARE TURNOVER (£M)	TRADING VOLUMES BARGAINS
First half	1735.5	1971	25639.2	3505637
Second half	863.7	1298.2	17222.1	3220488

half of 2014 but it still shows that trading levels in AIM shares remain relatively buoyant. The average daily number of bargains of 31,891 in April is the record and it is the only time the average has been greater than 30,000.

The previous highest annual average was 22,811 in 2011 and the 2014 figure is much higher than the 2013 average of 18,841 even though it benefited from the inclusion of AIM shares in ISAs for nearly five months of the year. The average number of daily bargains was higher in each month since August than in the corresponding month last year.

gas companies that are no longer on AIM. They are Thailand-focused oil and gas explorer and producer Coastal Energy (£1.2bn), which was already in the process of being taken over; Energy XXI (Bermuda) (£1.2bn) which chose to concentrate on its Nasdaq listing; and Iraq oil and gas producer Gulf Keystone Petroleum (£1.5bn) and China-focused mine gas producer and supplier Green Dragon Gas (£375.5m), both of which moved to the Main Market.

There are already three of the current top 50 AIM companies that are in the process of being taken over and will leave the junior market

MONTHLY AIM TRADING LEVELS

MONTH	SHARE TURNOVER (£M)	BARGAINS
January	4,629.4	583725
February	4,259.5	521925
March	4,628.9	614147
April	4,768.9	637812
May	3,333.2	525667
June	4,019.3	622359
July	3,115.8	562820
August	2,297.7	429402
September	3,103.2	556216
October	3,167.6	618200
November	3,017.8	562389
December	2,519.9	491459

The average daily number of bargains in 2014 of 26,585 was the highest ever

The average value of daily AIM trading was the highest level it has been since 2010 but, at £169.4m, was much lower than the £296.6m in 2007. As a result of the larger number of trades each day the average value of trades has declined from £18,019 in 2007 to £6,372 last year.

Companies

The number of companies on AIM has held steady at around 1,100 for more than two years, That is as much down to a fall in the number of companies leaving AIM as it is to any rise in new companies, although that did increase from 99 in 2013 to 118 in 2014.

Over the past year, the value of AIM has fallen from £75.9bn to £71.4bn at the end of 2014. The 2013 figure included four large oil and

in the coming weeks. They are IT software and services provider Advanced Computer Software (£600.4m), telecoms and hosting services provider Daisy Group (£488.9m) and restaurants operator Prezzo (£299.5m).

This does not include the potential takeover of London property investor and developer Songbird Estates, which is the subject of a contested bid worth £2.6bn. Management has stated that it does not believe the bid is high enough.

These departures will reduce the market value of AIM and one way this shortfall will be made up is via new entrants.

This is difficult to predict because some potential new entrants are pulling their flotations. For example, Ireland-based domain name registry Afilias announced in October that it was planning to join AIM and was

expected to raise around £60m but no longer intends to.

It is a quiet time of the year and there will be a better understanding of prospects in February and March.

"The good news as far as investors in AIM are concerned is that the market is bursting with ambitious companies with good ideas, innovative technology and/or clever business models", says finnCap head of research Raymond Greaves.

Robin Boyle of smaller companies-focused investment trust Athelney Trust agrees that there are still opportunities to invest in attractive companies. As with any market it is about picking the most attractive investments. Now that AIM is no longer dominated by resources companies it has a base from which to recover this year and even if it does not perform strongly there will be individual companies that do.

statistics

Market Performance, Indices and Statistics

AIM SECTOR INFORMATION

SECTOR NAME	% OF MARKET CAP	% OF COMPANIES
Financials	24.3	18.7
Consumer services	13.3	10.9
Industrials	13.8	16.8
Oil & gas	10.2	11.9
Technology	10.9	10.9
Health care	9.4	6.7
Consumer goods	7.3	5.6
Basic materials	6	15.6
Telecoms	3.2	1.4
Utilities	1.5	1.4

FTSE INDICES

ONE-YEAR CHANGES

INDEX	PRICE	% CHANGE
FTSE AIM All-Share	702.19	-17.5
FTSE AIM 50	3450.08	-24.7
FTSE AIM 100	3079.56	-20.7
FTSE Fledgling	6839.55	+6.1
FTSE Small Cap	4367.02	-1.5
FTSE All-Share	3535.82	-2.1
FTSE 100	6566.09	-2.7

COMPANIES BY MARKET CAP

MARKET CAP	NO.
Under £5m	256
£5m-£10m	139
£10m-£25m	208
£25m-£50m	179
£50m-£100m	127
£100m-£250m	136
£250m+	54

KEY AIM STATISTICS

Total number of AIM	1099
Number of nominated advisers	40
Number of market makers	52
Total market cap for all AIM	£71.7bn
Total of new money raised	£89.2bn
Total raised by new issues	£39bn
Total raised by secondary issues	£50.1bn
Share turnover value (2014)	£40.3bn
Number of bargains (2014)	6.23m
Shares traded (2014)	321.5bn
Transfers to the official list	171

TOP 5 RISERS OVER 30 DAYS

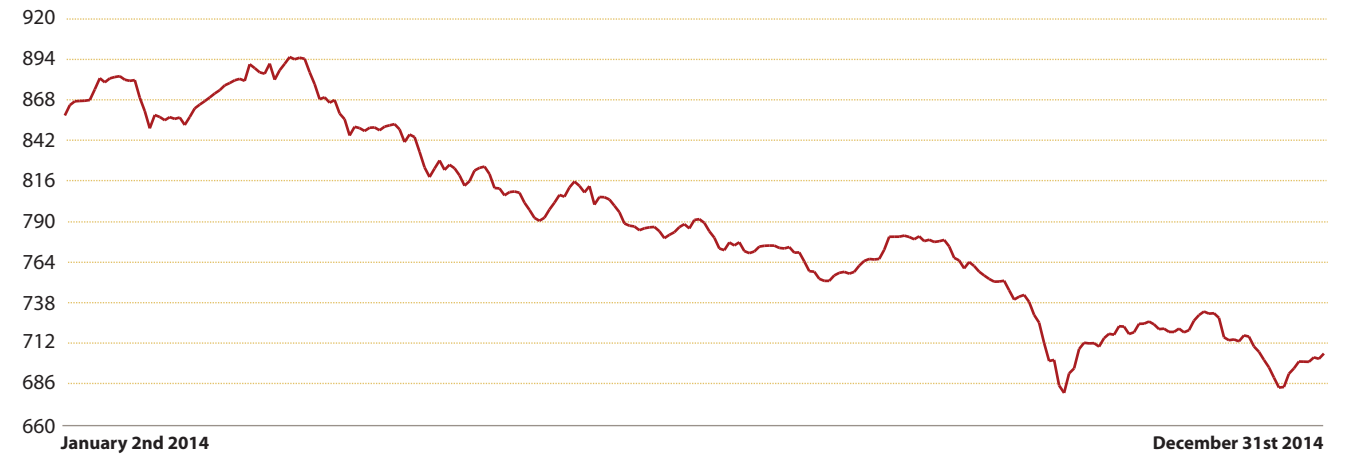
COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
Kibo Mining	Mining	8.25	+211.3
Tinci Holdings Ltd	Cleantech	17.5	+191.7
Tern	Technology	10.12	+189.3
Ultrasis	Health	0.27	+116
Ten Alps	Media	0.53	+101.9

TOP 5 FALLERS OVER 30 DAYS

COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
GPeer TV	Technology	2.5	-64.3
Oracle Coalfields	Mining	0.45	-62.5
Alexander Mining	Mining	0.82	-58.8
Mosman Oil & Gas Ltd	Oil and gas	8.12	-57.5
African Potash Ltd	Mining	1	-50

AIM - 1 YEAR INDEX CHANGE

Source: London Stock Exchange



Data: Hubinvest Please note - All share prices are the closing prices on the 31st December 2014, and we cannot accept responsibility for their accuracy.

sponsors

finnCap's mission is to help ambitious companies grow and to be the leading independent broker to ambitious companies, focused on fuelling growth through long term partnerships. We will exceed client expectations through faultless execution, joined-up service and proactive thinking, all tailored to the needs of each individual client.

finnCap, whose chairman is Jon Moulton, is 95% employee-owned and is 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 broker in the oil and gas sector and in the top five in the basic materials sector.

In 2013, finnCap commenced market making and launched fAN Club, a new offering aimed at providing specialist support to ambitious small private businesses seeking pre-IPO funding.

finnCap was presented with the Best Research award at the 2012 AIM Awards, while finnCap's corporate broking and sales trading teams have achieved Extel Top 10 rankings for three years running. finnCap is a sponsor of the AIM Awards, the plc Awards and the UK tech Awards.

In the year to April 2014, finnCap reported a 36% jump in revenues to £15.5m and operating profit was 92% higher at £5m. The finnCap 40 Mining index, finnCap 40 E&P index and finnCap 40 Tech index were launched in 2014.

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