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THE ONLINE MONTHLY FOR THE ALTERNATIVE INVESTMENT MARKET

AIM JOURNAL

Melrose set to join FTSE 100

Two former AIM companies could be in the FTSE 100 index in the near future following the successful bids by Melrose Industries for GKN and GVC for Ladbrokes Coral. Melrose has been on the brink of the FTSE 100 for a while and if a constituent company of the FTSE 100 is acquired than it can be replaced by the acquirer when it is eligible. Melrose is already on the reserve list for inclusion in the FTSE 100, following the March 2018 quarterly review.

Melrose's contested £8bn cash and shares bid for engineer GKN was declared unconditional at the end of March when acceptances reached 52.4%. GKN is coming up to its 72nd anniversary as a quoted company. The GKN board has subsequently recommended acceptance of the bid. FTSE Russell will issue a notice concerning the FTSE 100 constituent change when the bid is declared wholly unconditional, which is expected by 19 April. This would make Melrose the second former AIM company to join the FTSE 100, following Baltimore Technologies' short tenure in the index early in the century.

Online gaming business GVC has completed the takeover of rival betting firm Ladbrokes Coral and it is currently capitalised at around £5.3bn, which is similar to the market capitalisation of Royal Mail when it joined the FTSE 100 at the end of March. GVC, then known as Gaming VC, was valued at £131m when it joined AIM in December 2004.

Serinus Canada switch

Shareholders in TSX-listed Serinus Energy Inc have approved resolutions that will enable the company to join AIM. Serinus has oil and gas interests in Romania and Tunisia.

Gas production has been delayed at the Moftinu (100%-owned working interest) development in Romania because of an accident but it should commence in the second quarter. Serinus also has other exploration assets in Romania. There are five, operated blocks in Tunisia, all but one of which is 100%-owned. Production has been declining due to lack of investment but the new management team intends to invest in a work programme. Serinus has a 45% working interest in the Sabria field and this could provide significant upside in the medium-term.

Serinus is moving its domicile from Canada to Jersey and changing its name to Serinus Energy Plc. The company plans to drop its TSX listing after it moves to AIM but it will retain its Warsaw Stock Exchange listing. News concerning the progress with the move to AIM should be published in the next few weeks.

In this issue

general news

Zutec chooses First North

Irish software company Zutec Holdings has chosen to float on the Nasdaq First North market in Stockholm rather than AIM or the Enterprise Securities Market in Dublin. Nasdaq First North was granted UK growth market status last year, but it Is not classed as an EU-regulated market.

Cloud-based software provider Zutec, which has been trading for nearly two decades, is a relatively small company, having raised €5m, which valued the company at €17m. The subscription price was SEK24 a share and the price has subsequently fallen to around SEK21.

Zutec provides software for the building and construction sector that helps to improve cost efficiency and productivity from initiation of the project to the handover of the project. There are operations in Ireland, London, Hong Kong, Doha, Abu Dhabi and Melbourne. Zutec made a pro forma profit in 2017.

Nasdaq First North was formed from a combination of four Nordic markets in Stockholm, Helsinki, Copenhagen and Iceland. There have been eleven new entrants in 2018. That includes HRC World, which is the franchise rights holder to the Hard Rock Café brand in China, and Leading Edge Materials, a Canada-based mining company that has interests in Sweden and other parts of northern Europe.

Zutec was the first Irish company to join the market and Remium Nordic is its certified adviser. Remium is also a liquidity provider, which means that it provides purchase and sales volumes of SEK 15,000 each in the order book with a maximum spread of 4%.

Polarean flotation

Polarean Imaging joined AIM on 29 March and raised £3m at 15p a share. Polarean has developed technology that uses hyperpolarised Xenon gas to enable MRI scans to produce better images. The technology can be added-on to existing MRI systems. The cash will be used to help finance the phase III clinical trial of Polarean's drug-device combination. This trial is expected to start in the second quarter of 2018 and should last 18 months before the new drug application is submitted to the FDA in the US. The focus is pulmonary disease, which costs the US $150bn a year and is estimated to cost a similar amount in Europe. AIM-quoted technology investment company Amphion Innovations retains a 23.2% stake.

Conviviality slumps into administration

Convenience store retailer and drinks distributor Conviviality has slumped into administration following a series of commercial and accounting mishaps. Buyers have been found for the main businesses and there is unlikely to be anything left for shareholders.

Conviviality recently paid £25m for 127 convenience stores from grocery and tobacco distributor Palmer & Harvey, which itself was in administration. That was funded by a £30m placing at 375p a share and was the most recent of a series of acquisitions. The subsequent interims at the end of January did not reveal the significant problems with Conviviality but they were followed by a profit warning in March.

A £30m tax payment to HMRC was due at the end of March but it had not been budgeted for in short-term cash flow. There was also an arithmetical error in the forecasts for the Conviviality Direct business. Trading in the shares was suspended on this news. The share price had already lost three-quarters of its value this year.

These problems led to the scrapping of the 4.5p a share interim dividend, two days before it was due to be paid. This saved £8.2m but it was not enough to cover the cash outflows. An attempt to raise cash to keep Conviviality going was unsuccessful because of the company's lack of credibility.

Ireland-based drinks distributor C&C had competed with Conviviality for the acquisition of rival drinks distributor Matthew Clark, which became part of Conviviality Direct. C&C has acquired Conviviality Direct for much less than it was willing to pay for Matthew Clark. The Bargain Booze and Wine Rack convenience store operations have been sold to wholesaler Bestway for £7m.

advisers

New homes for Beaufort clients

ADVISER CHANGES - MARCH 2018

COMPANY	NEW BROKER	OLD BROKER	NEW NOMAD	OLD NOMAD	DATE
Asiamet Resources	Liberum/Optiva	Optiva/VSA	RFC Ambrian	RFC Ambrian	01/03/18
Bushveld Minerals	Alternative Resource Capital/SP Angel	SP Angel	SP Angel	SP Angel	01/03/18
Produce Investments	Shore	Numis	Shore	Numis	01/03/18
Nu-Oil and Gas	Strand Hanson	Beaufort	Strand Hanson	Strand Hanson	02/03/18
Draganfly Investments	Cornhill	Beaufort	Northland	Northland	05/03/18
Katoro Gold	SVS	Beaufort	Strand Hanson	Strand Hanson	06/03/18
LoopUp Group	Numis/Panmure Gordon	Panmure Gordon	Panmure Gordon	Panmure Gordon	06/03/18
MySQUAR Ltd	SP Angel	Beaufort	SP Angel	SP Angel	06/03/18
Tiger Resource Finance	First Equity	Beaufort	Beaumont Cornish	Beaumont Cornish	06/03/18
WANdisco	WH Ireland/Peel Hunt/ Stifel Nicolaus	Peel Hunt/ Stifel Nicolaus	Stifel Nicolaus	Stifel Nicolaus	07/03/18
Weatherly Int	Strand Hanson	RFC Ambrian	Strand Hanson	RFC Ambrian	07/03/18
Polemos	Novum/Peterhouse	Peterhouse	Beaumont Cornish	Beaumont Cornish	08/03/18
Scotgold Resources	SP Angel/Smaller Company Capital	Stockdale/Smaller Company Capital	SP Angel	Stockdale	08/03/18
Arian Silver	Northland	Beaufort	Northland	Northland	12/03/18
EVR Holdings	Investec	Zeus	Investec	Zeus	12/03/18
Avesoro Resources	finnCap/Hannam/ Berenberg	Numis/Hannam/ Berenberg	finnCap	Numis	14/03/18
Brave Bison	Allenby	Stockdale	Allenby	Stockdale	14/03/18
PCI-PAL	finnCap	N+1 Singer	finnCap	N+1 Singer	15/03/18
Xtract Resources	Novum/Beaumont Cornish	Beaumont Cornish	Beaumont Cornish	Beaumont Cornish	15/03/18
Galileo Resources	Novum/Beaumont Cornish	Beaufort/Beaumont Cornish	Beaumont Cornish	Beaumont Cornish	16/03/18
Landore Resources	Cenkos	Strand Hanson	Strand Hanson	Strand Hanson	16/03/18
PHSC	Novum	Beaufort	Strand Hanson	Strand Hanson	16/03/18
ValiRx	Novum	Beaufort	Cairn	Cairn	16/03/18
Cenkos Securities	Whitman Howard/ Smith & Williamson	Smith & Williamson	Smith & Williamson	Smith & Williamson	20/03/18
Ferrum Crescent	Turner Pope/Peterhouse	Peterhouse/Beaufort	Strand Hanson	Strand Hanson	20/03/18
URU Metals	SP Angel/SVS	Beaufort/Northland/SVS	SP Angel	Northland	20/03/18
Jubilee Metals	Shard	Beaufort	Spark	Spark	21/03/18
Destiny Pharma	finnCap/Cantor Fitzgerald	Cantor Fitzgerald	Cantor Fitzgerald	Cantor Fitzgerald	22/03/18
Nakama	Allenby	WH Ireland	Allenby	WH Ireland	22/03/18
Berkeley Energia	Berenberg/Tamesis/ WH Ireland	WH Ireland/Peel Hunt	WH Ireland	WH Ireland	26/03/18
Sabien Technology	Peterhouse	Beaumont Cornish	Beaumont Cornish	Beaumont Cornish	26/03/18

company news

Premier Technical Services fired by combination of organic growth and acquisitions

Building maintenance services *www.ptsg.co.uk*

PREMIER TECHNICAL SERVICES (PTSG)			166.5p
12 MONTH CHANGE %	+41.1	MARKET CAP £M	174

Premier Technical Services demonstrated good underlying growth on top of the additional contributions from acquisitions last year. This has been achieved while maintaining the operating margin at 20%. Admittedly, the fire protection division, which has a slightly higher margin, grew organically by 30% and that helped to maintain the overall group margin.

In 2017, group revenues were 35% ahead at £52.9m and there was organic growth of 11%. Underlying pre-tax profit improved from £7.45m to £10.2m. Net debt was £18.3m at the end of 2017. Working capital increases have held back the level of cash conversion of profit. The dividend was raised from 1.4p a share to 1.6p a share. That is covered six times by underlying earnings.

> There was organic growth of 11%

Premier has changed its divisional structure. There are four divisions: access and safety, electrical services, building access and fire. The first two are the biggest in terms of revenues, generating £20m each, and the other two are much smaller. Building access was the only division that reported a dip in revenues. The business is being refocused on steeplejack and rope access services and there is strong demand for abseil services for checking and replacing building cladding.

Contracts tend to be for between three and five years and renewal rates are running at 88%. The electrical services division has the highest market share at 9%, so all divisions have room to grow.

House broker Numis forecasts a 2018 pre-tax profit of £14m. That puts the shares on 15 times prospective earnings, which does not seem dear for the growth being achieved. There is also an increased awareness of the need for building compliance services. Premier has shown that it can identify earnings-enhancing acquisitions and grow them further by cross-selling with existing services, so there is potential for upgrades later in the year.

Judges Scientific bounces back

Scientific instruments *www.judges.uk.com*

JUDGES SCIENTIFIC (JDG)			2370p
12 MONTH CHANGE %	+54.1	MARKET CAP £M	145.5

Judges Scientific bounced back in 2017 after a tough period of trading in the previous year. The scientific instruments manufacturer beat expectations and made an underlying pre-tax profit of £10.4m, up from £6.6m in 2016, as revenues improved from £57.3m to £71.4m. Net debt was £7.6m at the year-end and the total dividend was raised from 27.5p a share to 32p a share.

Acquisitions helped the improved performance but there was organic growth as well. Demand had been volatile in some markets in 2016 but it was good last year. Exports remain strong following the dip in the exchange rate after the EU referendum. EU sales were one-fifth higher and China revenues were 36% ahead. The focus on niche scientific instruments businesses helps the business to grow and maintain good margins. For example, last July's acquisition, Oxford Cryosystems, makes cooling systems for X-ray crystallography and it has a pre-tax profit margin in excess of 20%. The deal was immediately earnings enhancing.

The opening order book covers nearly 17 weeks of forecast sales for 2018. There is some caution about the negative effect of any strengthening of the sterling exchange rate. WH Ireland forecasts a small improvement in 2018 pre-tax profit to £10.8m. That puts the shares on 18 times prospective earnings. The dividend is expected to rise to 33.6p a share but still be covered four times by earnings. Net debt should be wiped out. This will provide scope to finance more bolt-on acquisitions.

company news

Tracsis remains on right track and has the cash for more acquisitions

Transport software and data *www.tracsis.com*

TRACSIS (TRCS)			517p
12 MONTH CHANGE %	+20.9	MARKET CAP £M	148.5

Rail optimisation software and traffic and data services provider **Tracsis** increased its interim profit by one-third to £2.4m as revenues grew by 18% to £18.1m. The software division grew its profit and there was a recovery in the traffic and data services division. There is more improvement to come from the latter division.

Rail technology and services continues to make most of the group profit but the traffic and data division increased its contribution from £60,000 to £448,000. There is more benefit to come from efficiency improvements. The division continues to be heavily second-half weighted and last year made a full-year contribution of £1.37m. A move to machine learning technology for processing video will further reduce costs in the future.

There is £18.5m in the bank

The interim dividend is 17% higher at 0.7p a share. There is £18.5m in the bank and cash continues to be generated. After the balance sheet date, Tracsis acquired Travel Compensation Services, which provides software for rail delay repay solutions, and Delay Repay Sniper, which runs a web portal for rail delay compensation. The combined businesses are profitable.

That deal will not have made much of a dent on the cash pile so further acquisitions and investments in earlier stage businesses, such as Vivacity Labs, can be financed from existing resources.

There will be a second-half contribution from the acquisitions. Progress is also being made in selling remote condition monitoring technology in North America but it will take more time for this to make a significant contribution.

Serabi secures cornerstone investor to finance Coringa

Gold miner *www.serabigold.com*

SERABI GOLD (SRB)			3.75p
12 MONTH CHANGE %	-26.9	MARKET CAP £M	44.1

Brazil-focused gold explorer and producer **Serabi Gold** has secured the finance it requires to push ahead with the development of the recently acquired Coringa deposit. This is a major move towards the target of producing at the rate of 100,000 ounces of gold a year within a two-year period. Serabi, which is also TSX-listed, produced 37,004 ounces of gold last year.

London-based Greenstone Resources is coming in as a cornerstone investor and subscribing $15m at 3.6p a share. Other investors are investing $8m at the same share price. Greenstone will hold 25.2% of Serabi, while the former majority shareholder Fratelli will be diluted to just over 32%. Serabi will use $5m to pay the second instalment for Coringa and $3m to repay a loan from Sprott. The rest will go on exploration and development of Coringa and Serabi's other deposits.

Coringa is near to the Palito and Sao Chico projects in the Tapajos district of Brazil so it makes sense for them to be developed and mined by the same company. Palito is already producing gold. Serabi has earmarked $6m for further exploration drilling at Palito and the nearby Sao Chico plus $2m for drilling at Coringa. Coringa could contribute around 30,000 ounces of gold a year in a couple of years, with the rest of the targeted increase coming from Palito and Sao Chico.

Serabi is already a cash-generative company, having generated $8.24m from operations in 2017. Coringa could require capital expenditure of $20m-$25m and there are further acquisition payments of $12m that will become due, so more cash, on top of that generated from existing operations, will be required. There is also potential for Serabi to be a consolidator in the region.

Growth prospects at Taptica are not recognised in the current valuation

Mobile advertising technology *www.taptica.com*

TAPTICA (TAP)			312p
12 MONTH CHANGE %	+8.7	MARKET CAP £M	210.9

Sentiment towards **Taptica** has been hit by scandals concerning data privacy on Facebook. Taptica does not believe that these privacy issues have any direct relevance to its business, which involves analysing data in order to optimise the success of mobile advertising campaigns. The main concern is that regulations could be changed and hamper the potential of the company. The mobile advertising market is growing rapidly and performance-based charges will be attractive to advertisers.

Revenues grew by 68% to $210.9m via a combination of organic growth and second-half acquisitions. Underlying pre-tax profit rose by nearly one-third to $31.2m. The dividend was increased from 4.3 cents a share to 5.4 cents a share.

Cash was raised to make acquisitions

Gross margin held up but higher overheads meant that operating margin fell from 18.9% to 14.9%. Margin is expected to continue to decline so growth will come from increasing revenues. The Tremor video business performed better than expected following its acquisition, helped by Taptica's contacts and database, and cost-cutting has gone well. This is a lower-margin business but there is scope for improvement.

Taptica is a highly cash generative business and a further $30m was raised at 450p a share at the beginning of 2018 – the chief executive sold shares at the same time, although he has subsequently bought more at a lower price. That means that Taptica could end this year with net cash of $56.5m. However, the cash was raised to make acquisitions. These acquisitions will be focused on expanding the operations in Asia Pacific and Europe.

Taptica should be able to achieve a 2018 pre-tax profit of $35m but growth in earnings per share will be modest because of the extra shares in issue following the fundraising at the beginning of the year. The share price decline means that the shares are trading on ten times prospective 2018 earnings, but earnings-enhancing acquisitions could spark a forecast upgrade.

Strix offers attractive dividend

Kettle controls manufacturer *www.strix.com*

STRIX (KETL)			130p
12 MONTH CHANGE %	N/A	MARKET CAP £M	247

Kettle controls manufacturer **Strix** reported maiden full-year figures in line with expectations. The previous owners cut their ties with the business at the time of the flotation, at 100p a share back in August, and that can be a concern, but current trading appears to be solid. The £190m raised was predominantly used for repaying debt to the previous owners.

In 2017, revenues rose 3% to £91.3m, while underlying pre-tax profit was 6% higher at £28.3m. Net debt has been reduced to £45.9m and it could fall to £30m by the end of 2018. The final dividend is 1.9p a share.

Strix has more than 61% of the regulated kettle controls market but a more modest 19% of the less regulated market, although South American sales grew strongly last year and the share here is more than 30%. Market share in China dipped below 50% and the market fell due to a health scare relating to stainless steel kettles. Growth could come from widening the company's product range.

The Chinese market appears to be improving and trading remains strong. Zeus forecasts 2018 pre-tax profit of £29.1m. A full-year dividend of 7p a share is expected, providing a yield of 5.4%. The prospective 2018 multiple is less than 12, but the dividend is the main attraction.

Michelmersh Brick builds dividend income

Bricks manufacturer *www.mbhplc.co.uk*

Dividend

Bricks manufacturer Michelmersh Brick paid a maiden dividend of 1.1p a share in 2005, having floated in May 2004, and this was maintained in the subsequent 13-month period to December 2005. Management kept it at that level for a further two years before passing the dividend for 2008 when the business fell into loss. The dividend was reinstated for the 2014 financial year when a 0.5p a share payment was declared. The dividend was doubled for each of the next two years. In 2017, Michelmersh paid its first ever interim dividend and the total dividend was raised by 7.5% to 2.15p a share. That was nearly three times covered by earnings. The ex-dividend date for the 1.45p a share final dividend is 31 May.

Strong forecast earnings growth should enable Michelmersh to increase its dividend to 3.1p a share this year. That would be covered 2.6 times by 2018 forecast earnings. Michelmersh has net debt of £17.5m but this should fall to £13.2m by the end of 2018, even though £1.9m will be paid in dividends.

MICHELMERSH BRICK (MBH)	
Price (p)	91.5
Market cap £m	78.9
Historical yield	2.3%
Prospective yield	3.4%

Business

Michelmersh specialises in niche brick products with better margins than standard bricks. Michelmersh gained a contract to supply 440,000 wire-cut bricks for the redevelopment of Battersea Power Station. This business was won because the company can make bricks that fit with the original façade of the building.

Michelmersh has grown via acquisition over two decades, although the underlying businesses have been trading for much longer. The company produces more than 100 million clay bricks, tiles and paving each year. There are six brands: Michelmersh, Blockleys, Carlton, Charnwood, Freshfield Lane and Hathern Terra Cotta. The most recent acquisition is Barnsley-based Carlton, which was bought for £31.2m in cash and shares. This broadened the geographic reach of the group.

In 2017, revenues grew 26% to £37.9m, helped by a contribution of just over six months from Carlton. Underlying pre-tax profit improved from £4.6m to £6.5m. Handmade brick making has ceased at the loss-making Romsey site and production concentrated at Charnwood. This should make Romsey profitable.

Michelmersh sold the Dunton brickworks for £2.68m last year and there is other surplus land that could generate further cash for the business.

Demand for bricks is strong, with deliveries 11% higher in 2017, but production was 4% higher so industry stocks have fallen. Prices have been flat. Further improvement in margins is required to spark investment in capacity. Michelmersh's plants are operating at near-capacity but efficiency is being improved.

The order book covers 60 million units. Cenkos forecasts an underlying 2018 pre-tax profit of £8.8m, with a 12-month contribution from Carlton, which puts the shares on eleven times prospective earnings. The forecast yield is 3.4%.

Dividend news

Concrete screening equipment supplier **Somero Enterprises** is on course to achieve its target of achieving revenues of $90m in 2018, which is double the 2013 level. Europe was the main driver behind the rise in revenues from $79.4m to $85.6m in 2017 while pre-tax profit was one-fifth higher at $25.7m. Excluding the 3.6 cents a share additional dividend, the underlying dividend was two-fifths higher at 15.5 cents a share. There was net cash of $19m at the end of 2017 and cash generation is strong so a further supplementary dividend could be on the cards in the next couple of years.

Construction software provider **Elecosoft** is reaping the benefits of cross-selling, which has been helped by bringing all the software under the Elecosoft brand. Revenues did not grow as fast as expected but margins and profit were better. Pre-tax profit rose from £2.1m to £2.7m. Net cash was £1.3m at the end of 2017 and this could double by the end of this year. The dividend was raised by 50% to 0.6p a share and could increase to 0.7p a share this year. Elecosoft wants to widen its coverage of the construction and property management market so acquisitions are likely.

Manx Telecom raised its dividend by 5% to 11.4p a share, even though underlying pre-tax profit dipped from £16.3m to £15.1m. There was a solid performance from the core fixed line/broadband business, while mobile revenues were hit by changes to roaming charges. Data centre revenues are beginning to recover. M2M and other specialist international revenues are growing. There was an increase in net debt from £52.4m to £56.9m due to investment and one-off charges. The transformation programme is ongoing and there will be further one-off charges in 2018. The 2018 dividend is forecast to increase to 11.9p a share.

expert views

Expert view: The broker

Venture Life recognises opportunity of ageing population

By Barry Gibb

Life expectancy across the globe is increasing. The pace of population ageing is accelerating. The World Health Organisation tells us that, for the first time in history, most people can expect to live into their sixties and beyond.

In fact, it predicts that by 2050 the world's population aged 60 years and older is expected to total 2 billion, up from 900 million in 2015. Today, 125 million people are aged 80 years or older; by 2050, there will be almost this many (120 million) living in China alone, and 434 million people in this age group worldwide.

This ageing demographic, compounded by national healthcare budgetary constraints and socioeconomic/lifestyle factors, is driving demand growth and long-term visibility for non-prescriptive self-care products – the target market for Venture Life*.

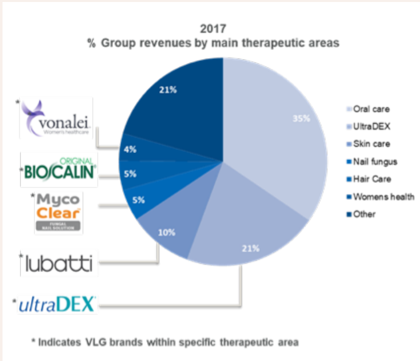
Industry analysis from research group Technavio, for example, forecasts the global over-the-counter (OTC) drug market will sustain unabated growth going forward, posting revenue of c.US$162bn by 2020 from US$80.2bn reportedly achieved in 2017. It points to a lenient regulatory framework and multiple distribution channels as supporting this expansion, while increasing healthcare costs also encourage patients to opt for such products rather than consulting physicians. The report suggests c.81% of the population chose OTC medications as the first response to health issues.

Brand portfolio

Recognising the scale of this opportunity, Venture Life has built a robust and diversified portfolio of high-margin brands, both through in-house product development and by acquisition. Its core strategy is to develop or acquire products that fit key criteria, including those which focus on the ageing population, or satisfy significant unmet market needs, are consumer-facing and can be sold over-the-counter, preferably supported by clinical evidence.

The Group's product portfolio has wide therapeutic coverage, roughly half of which presently addresses oral care, while it also provides development and manufacturing services to companies with their own customer brands through 100%-owned Italian-based subsidiary, Biokosmes. Venture Life's brands are now sold or partnered in over 40 countries worldwide, commercialised through a global network of over 90 marketing distributors, accessing retailers, pharmacies, convenience stores and healthcare companies.

Recent 2017 preliminary financials from Venture Life highlighted successful strategic investment in its Brands portfolio. Delivering a first pre-tax profit while also generating positive cash in the second half, a 2% boost in its blended gross margins along with double-digit revenue growth underlined the success of recent product introductions and the reach of its platform.



Source: Venture Life Group

> Venture Life has built a robust and diversified portfolio of high-margin brands

The Brands segment, which includes the key UltraDEX product offering (a product for elimination of bad breath), increased revenues by 20% to £4.5 million (2016: £3.8 million), while the development and manufacturing business, where Venture Life sells under customer-owned brands, reported revenues (including intercompany sales) of £13.8 million, an increase of 22%. Following last year's reorganisation, capacity utilisation is now only around 50%; with high strong operational gearing, incremental revenues can be expected to drop significantly to the bottom line as operational activity continues to expand in the coming period.

Despite evident progress in the past year, Venture Life's share price has almost halved from the 85p level reached last summer.

Yet applying the 2.4x EV/2018E Sales multiple currently being achieved by a broad international peer group, a fair value of around 100p is implied.

Given market expectation that the Group will deliver its first modest net profit this financial year, prospective upside in excess of 100% suggests recent share price weakness presents an important buying opportunity.

**Northland Capital Partners acts as broker to Venture Life*

BARRY GIBB is a director of research at Northland Capital Partners.

feature

Trinidad's oil and gas opportunities

AIM offers investors several ways to gain exposure to the oil and gas sector in Trinidad and the companies are increasing their investment.

Oil and gas production has been going on in Trinidad for more than a century and it is currently the sixth largest exporter of LNG. This has helped Trinidad to become the wealthiest Caribbean country on the basis of GDP per capita. Two-fifths of GDP is accounted for by the oil and gas industry.

A well-developed oil sector infrastructure has been built up. Majors, such as BP and Shell, dominate offshore gas production while AIM companies focus on onshore opportunities in the south of the island. They have the funding to expand their drilling activities.

Onshore development is lower risk. Companies are using enhanced methods of recovery, including water, steam and CO2 injection.

Touchstone Exploration

Touchstone, which is also TSX-listed, has been involved in Trinidad since 2010 and it is the largest independent onshore land owner, with eleven producing blocks and 208 drilling locations. Last year's drilling more than replaced declining production from existing wells.

Average oil production was 1,375 barrels a day in 2017 and it is currently running at 1,654 barrels a day. In 2017, the operating netback per barrel produced was C$22.56. The NPV, discounted at 10%, of the 10.7 million barrels of proved reserves was C$83.5m and for proved and probable it was C$156.7m.

A ten-well drilling programme has started this year with the first well spudded at the beginning of February. Drilling costs are being reduced and management believes further efficiencies can be achieved. There are also 24 recompletions planned. There is exploration upside from the Ortoire block.

At the end of 2017, Touchstone raised £2.7m, after expenses, at a placing price of 11.5p a share to finance the drilling.

Trinity Exploration

Trinity Exploration & Production operates nine onshore and offshore licences and it is targeting production of between 2,800 and 3,000 barrels a day for this year. Production averaged 2,811 barrels a day during January.

In 2017, operating profit increased by three-quarters to $11m. The operating breakeven level was $30.90/barrel, while average realised oil price was $48.60/barrel.

Trinidad is the wealthiest Caribbean country due to its oil and gas resources

Net debt was nearly wiped out by the end of the period. Trinity still owes $5.9m to the Trinidad authorities but this should be paid by the end of 2018. Trinity has been cash generative, after interest costs, since 2016.

There are plans for 14 recompletions and 93 workovers/reactivations this year. Two new infill wells are planned for the first half of this year. Management believes that the cash generated from operations plus hedging arrangements mean that the investment can be financed even if there is a fall in the oil price. There are also non-core assets that could be sold following the termination of the previous agreement to sell them to Range Resources.

Range Resources

Range Resources has a chequered past and the latest incarnation is focused on Trinidad and Indonesia. Range completed the reverse takeover of a Trinidad-based oilfield services provider last year and it recently won a contract with Shell. This deal should significantly reduce the operating and drilling costs of the group.

Range is operator and majority shareholder in five onshore and offshore blocks. There are proved and probable reserves of 16 million barrels of oil. Average production in the six months to December 2017 was 605 barrels of oil a day. That was 111,388 barrels for the six months, which was 22% higher than the corresponding period.

Production growth is coming from waterflood projects. Range says that waterflooding could increase recoverability by more than 30% over the next eight years.

Columbus Energy Resources

LGO Energy became Columbus last June when new management took charge. Last autumn, Columbus raised £4.1m from a placing and open offer at 5p a share. The open-offer element was more than three times subscribed.

Columbus has four main assets in Trinidad. These became cash flow positive by the end of 2017 and they have been producing between 520 and 561 barrels a day. The strategy is to use the Trinidad production to generate cash for the group to invest in exploration and acquire other assets in Trinidad. The terms of the acquisition of Beach Oilfield Ltd, which has prospects in the southwest peninsula of Trinidad, have been improved.

feature

AIM investors should be wary of cyber hype

The performance of cyber security companies since last May shows the downside of investors getting involved with stockmarket fashions.

It is nearly a year since the ransomware attack on the NHS and other organisations, which led to further interest in quoted cyber security businesses. There had already been a lot of hype about cyber security even before then but many share prices were pushed to unsustainable heights at that time. Since then, most have dropped back.

The most obvious example is cyber security consultancy ECSC, where the share price has fallen by more than four-fifths because even though the business is growing it is not growing as rapidly as had been hoped.

One year ago, ECSC was expected to move into profit in 2018 and make a pre-tax profit of £900,000 in 2019. At the share-price peak, ECSC was trading on around 70 times prospective 2019 earnings. By March 2018, after a number of downgrades, ECSC was not expected to make a profit until 2020. Further disappointment means that the chairman and chief executive are leaving the ECSC board and Stockdale has withdrawn forecasts.

The companies' that already have a solid revenue base have tended to perform better. Kape Technologies, formerly Crossrider, has been the most noticeable success in share-price terms. Kape is focused on SaaS-based cyber security for the consumer market and has a 69% renewal rate. It has a strong recurring revenues base. Underlying pre-tax profit is forecast to improve from $6.7m to $8.3m in 2018.

Kape is cash generative and has a strong balance sheet which it can use to make earnings-enhancing acquisitions. Last year, SaaS-based cyber security provider CyberGhost was acquired and this has been added to the company's distribution platform. There was $69.5m in the bank at the end of 2017 with $7m due to be paid in a dividend, which is the equivalent of 3.55p a share.

The less-well-established businesses are cash hungry. Corero Network Services and Defenx are the latest to ask for more money. Corero is still heavily loss-making and is raising £4m at 5.75p a share, as well as trying to secure a £3m debt facility. A year ago it raised £5.6m at 5p a share, so at least the placing price is higher this time. Defenx is raising £1.2m at 8p a share and it is seeking to focus on cloud-based back-up services.

Blancco Technology was one of the few companies not to enjoy an uplift last May because it is involved in data erasure rather than directly preventing cyber attacks. It has had its own problems.

Former AIM company NCC had high hopes of the cyber security sector when it acquired AIM-quoted Accumuli in 2015 but this business has been one of the reasons for the poor performance of the company. However, NCC still believes that cyber security is still a key part of the group.

AIM'S CYBER SECURITIES COMPANIES

COMPANY			SHARE PRICES (P) 12/05/17	HIGH	LATEST
Blancco Technology	BLTG	Data erasure	189	189	68.5
Corero Network Security	CNS	Cyber security	7.75	12.88	5.88
Defenx	DFX	Mobile security software	144.5	214	11
Eckoh	ECK	Secure payments	45	54.75	41
ECSC	ECSC	Cyber security consultancy	396	595	85
Falanx	FLX	Cyber security monitoring	8.13	10	4.47
Kape Technologies	KAPE	Cyber security software	58.5	89	88
Osirium Technologies	OSI	Cyber security software	102.5	169.5	137
PCI-PAL	PCIP	Secure payments	47.5	78.25	35
Shearwater	SWG	Cyber security	4.75	4.75	3
Tern	TERN	Encryption	8.25	9.5	6.9

Latest share prices at 6 April.

Market Performance, Indices and Statistics

AIM SECTOR INFORMATION

SECTOR NAME	% OF MARKET CAP	% OF COMPANIES
Consumer services	19	10.6
Financials	16.2	15.9
Industrials	15.9	17.1
Healthcare	13.2	9.2
Technology	10.9	12.5
Consumer goods	10.1	6
Oil & gas	7.1	10.6
Basic materials	5.7	14.1
Telecoms	1.3	1.1
Utilities	0.5	1.1

FTSE INDICES

ONE-YEAR CHANGES

INDEX	PRICE	% CHANGE
FTSE AIM All-Share	1014.35	+9.1
FTSE AIM 50	5921.28	+14.7
FTSE AIM 100	5248.16	+15.2
FTSE Fledgling	10589.27	+9.8
FTSE Small Cap	5593.09	+3
FTSE All-Share	3894.17	-2.4
FTSE 100	7056.61	-3.6

COMPANIES BY MARKET CAP

MARKET CAP	NO.
Under £5m	140
£5m-£10m	109
£10m-£25m	188
£25m-£50m	156
£50m-£100m	130
£100m-£250m	131
£250m+	96

KEY AIM STATISTICS

Total number of AIM	950
Number of nominated advisers	32
Number of market makers	48
Total market cap for all AIM	£105.8bn
Total of new money raised	£107.3bn
Total raised by new issues	£43.5bn
Total raised by secondary issues	£63.8bn
Share turnover value (2018)	£11.4bn
Number of bargains (2018)	2m
Shares traded (2018)	88bn
Transfers to the official list	185

TOP 5 RISERS OVER 30 DAYS

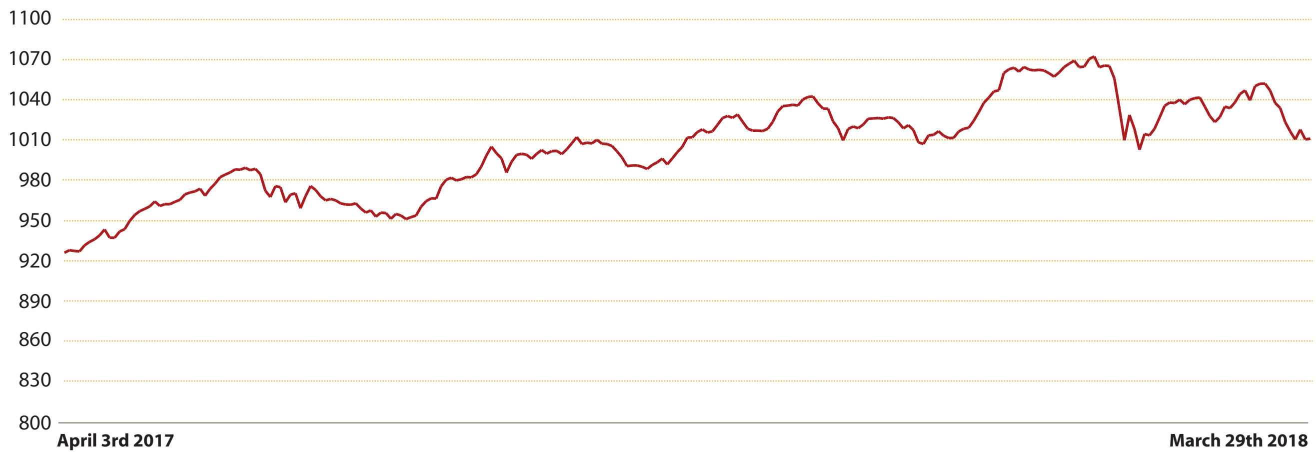
COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
Freeagent	Software	118	+68.6
Bushveld Minerals Ltd	Mining	14.2	+68.5
Symphony Environmental	Cleantech	23.5	+59.3
RM2 International	Transport	1.75	+59.1
Anglo African Oil & Gas	Oil and gas	15	+53.9

TOP 5 FALLERS OVER 30 DAYS

COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
Metminco	Mining	0.6	-74.1
Eqtec	Cleantech	0.47	-72.4
Conviviality	Retail	101.2	-66.3
Mercantile Ports & Logistics	Transport	2.5	-57.5
Gulfsands Petroleum	Oil and gas	2.25	-53.1

AIM - 1 YEAR INDEX CHANGE

Source: London Stock Exchange



Data: Hubinvest Please note - All share prices are the closing prices on the 31st March 2018, and we cannot accept responsibility for their accuracy.

sponsors

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We host a regular Nomad Forum which has been established to provide nomads with the opportunity to discuss AIM regulatory issues on a Chatham House basis, and to provide briefings on key legal developments. Submissions are often subsequently made to AIM Regulation as a result of discussions held.

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