finnCap finnCap www.finnCap.com

DECEMBER 2012

THE ONLINE MONTHLY FOR THE ALTERNATIVE INVESTMENT MARKET

AIM JOURNAL

ISA progress for AIM

Chancellor of the Exchequer George Osborne has opened the door to the potential inclusion of AIM shares in Individual Savings Accounts (ISAs) but he has not made a firm decision as yet.

According to the Chancellor's Autumn Statement: "The Government will consult on expanding the list of Qualifying Investments for stocks and shares ISAs to include shares traded on small and medium enterprises (SMEs) equity markets such as the Alternative Investment Market and comparable markets".

The move could help to attract private investor interest in AIM. "This measure could have a significant positive impact on liquidity and the ability of small and mid-size quoted companies to raise funds – ultimately helping these companies to grow and create jobs", according to Tim Ward, chief executive of the Quoted Companies Alliance.

Government ministers have been against the idea of including AIM shares in ISAs up until now. It is unclear whether the change would have any effect on the status for inheritance tax purposes, or any other existing tax benefits, of the AIM shares included in an ISA.

The Chancellor announced that he was raising the ISA investment limit from £10,680 to £11,250 next April.

AIM companies will also benefit from an additional one percentage point cut in corporation tax to 21% from April 2014.

New activist investor vehicle

Activist investor Sherborne Investors (Guernsey) B (Sherborne B) has raised £207m at 100p a share in order to build up a stake in an underperforming quoted company. Investors include Aviva, Fidelity, Invesco and Ruffer.

Sherborne B has the same strategy as Sherborne Investors (Guernsey) A (Sherborne A), which raised £105m at 100p a share in March 2010 and went on to take control at F&C Asset Management. The initial stake in F&C was acquired for just under 59p a share in August 2010 and Edward Bramson and his colleagues joined the board in February 2011. Ian Brindle is chairman of Sherborne B and he is also a director of Sherborne A and F&C.

Bramson, one of the main people behind Sherborne A, is not directly involved in Sherborne B. He is stepping down from his executive responsibilities at F&C Asset Management next March and becoming non-executive chairman. Sherborne A has already paid 14p a share in dividends, while the share price is 108p.

Sherborne B has to pay £20,000 a year to Sherborne Investors GP LLC, the managing partner of the SIGB investment partnership through which the investment will be made, for the use of the Sherborne Investors name.

In this issue

HubInvest publishes AIM Journal

www.hubinvest.com

general news

Tikit and Endace snapped up by bidders

Two more AIM technology companies, Tikit and Endace, are being snapped up by bidders. Both bids are recommended and these are just the latest of a number of bids which are reducing the size of the technology sector on AIM. Parseq, Prologic, Maxima, Atlantic Global, Synchronica are just some of the technology companies that have left AIM this year. Legal sector software supplier Tikit is being acquired by BT in a bid worth £64.2m and New Zealand-based IT security technology developer Endace is the subject of a proposed £80.7m bid from US rival Emulex Corporation. Investors at the time of the flotations of each of the companies have made a significant gain on their investments.

Tikit was valued at £13m when it joined AIM at 115p a share in June 2001. On top of the 262% gain based on the offer price, Tikit has been a consistent dividend payer. BT believes that it will benefit from combining its telecoms expertise with Tikit's software and legal sector customer base.

NYSE-listed Emulex is offering 500p a share for Endace, which is a 65% premium to the share price on the day before the bid. The share price has been above 600p in the past year.

Endace joined AIM in June 2005 when it raised £8m at 162p a share, so initial investors have trebled their money. Like most young technology firms Endace has not had a smooth ride since joining AIM and management has been unhappy about liquidity and the share price. Even so, Endace has made significant progress as an AIM-quoted company.

Nomad changes

ING Bank NV, Morgan Stanley and Matrix Corporate Capital have all left the nominated adviser register in recent weeks. Canaccord Genuity Securities has also dropped its nominated adviser status following its merger with Collins Stewart. However, the group still has two nominated advisers under its wing because Canaccord Genuity Hawkpoint and Canaccord Genuity Ltd, which was formerly Collins Stewart, remain on the register.

SP Angel replaced Fairfax IS as a nominated adviser when the corporate finance team switched firms. VSA Capital is still trying to become a nominated adviser but it says that it is taking longer than expected because of a lack of transactions in the market. VSA needs to undertake a specific number of qualifying transactions to be eligible to be a nominated adviser.

Lo-Q builds its North American presence with earnings-enhancing purchase

Virtual queuing technology developer Lo-Q is making its first significant acquisition. Lo-Q is paying $22.7m (£13.7m) in cash, loan notes and shares for accesso, which is a US-based ticketing and e-commerce company, and the deal will be earnings enhancing as well as deepening Lo-Q's relationship with major theme park operators.

Steve Brown, who runs accesso, will become boss of Lo-Q's North American operations and other key management will be retained. Florida-based accesso also has expertise in cloud-based services, which puts the group in a strong position in terms of the increasing use of mobile-based ticketing, and revenues are based on volumes. A self-developed PCI Level 1 payment gateway is another attraction of the business. The enlarged group will be able to offer a range of services to its theme park customers around the world.

The purchase is expected to contribute revenues of £5.4m in the remaining 11 months of this financial year and £6m in the following year –like Lo-Q, accesso's business is second-half weighted. Although this year's operating profit forecast has been upgraded from £3.6m to £4.6m, some of this improvement will be offset by additional interest and a higher US tax charge. This year's earnings forecast has been upgraded by 7.5% to 16.3p a share.

The initial cash outflow from the deal is $6.3m and there is a $6.3m loan note. The rest of the purchase price is in the form of 1.8m shares which will vest over three years. Cash generation will continue to be strong. Edison Investment Research forecasts an acquisition-related decline in net cash to £2.46m at the end of October 2013 but this should improve to £5.9m a year later.

advisers

Smaller companies want more access to private investors

Research conducted by broker Numis and the London Stock Exchange shows that more than four-fifths of small quoted companies believe that the government should encourage retail investors in small companies.

More than 200 chief executives and finance directors of constituents of the Numis Smaller Companies Index (NSCI) responded to questions about smaller-company financing and the economic outlook. There are 1,932 constituents of the NSCI, including AIM companies, and they have a market value of £240bn. The majority of the companies in this version of the index are AIM-quoted and the rest fully listed, with the latter making up the majority of the market value.

More than half of the respondents said that the current economic situation is affecting their ability to raise cash to grow. Even so, 46% say that they have invested more over the past 12 months and 42% expect to invest more in the coming 12 months.

The majority of companies do not expect it to get easier to raise cash. Companies with a market value of less than £50m are finding it toughest, with 11% saying they were unable to raise the finance that they wanted. Not being able to raise cash will adversely affect job creation according to these smaller firms.

The companies that felt that they were not investing as much as they believed that they should were asked to list the three main reasons why. More than half said the desire to conserve cash was one of the main reasons and a similar number said it was because of constraints on financing. Only 13% said that the underinvestment was because of a lack of opportunities.

Views on the outlook for the UK economy are mixed, with the majority being negative, while nearly two-thirds believe that the economy is treading water. Only 11% believe that the economic situation has improved over the past 12 months.

ADVISER CHANGES - NOVEMBER 2012

COMPANY	NEW BROKER	OLD BROKER	NEW NOMAD	OLD NOMAD	DATE
Triple Plate Junction	finnCap	Ocean Equities	finnCap	finnCap	01/11/2012
East West Resources	Cenkos	Macquarie	Cenkos	Macquarie	02/11/2012
Jelf Group	finnCap	Cenkos	finnCap	Cenkos	02/11/2012
Thalassa Holdings	WH Ireland	Daniel Stewart	WH Ireland	Daniel Stewart	02/11/2012
Wynnstay Group	Shore	Shore/WH Ireland	Shore	WH Ireland	02/11/2012
Alexander Mining	Northland	RFC Ambrian	Northland	RFC Ambrian	05/11/2012
SolGold	SP Angel	Fairfax IS	RFC Ambrian	RFC Ambrian	05/11/2012
Frontier IP	Peterhouse/ Seymour Pierce	Seymour Pierce	Seymour Pierce	Seymour Pierce	06/11/2012
Metals Exploration	SP Angel	Fairfax IS	Westhouse	Westhouse	06/11/2012
Oxford Pharmascience	N+1 Singer	Hybridan	N+1 Singer	ZAI	06/11/2012
Livermore Investments Group Ltd	Arden	Matrix	Arden	Matrix	08/11/2012
Manroy	Allenby	Canaccord Genuity	Allenby	Canaccord Genuity	08/11/2012
Transense Technologies	N+1 Singer	N+1 Singer/Hybridan	N+1 Singer	N+1 Singer	08/11/2012
South African Property Opportunities	Panmure Gordon	Matrix	Panmure Gordon	Matrix	12/11/2012
Terra Capital	Panmure Gordon	Matrix	Panmure Gordon	Matrix	12/11/2012
Cambium Global Timberland	Panmure Gordon	Matrix	Panmure Gordon	Matrix	13/11/2012
Ludgate Environmental Fund	Panmure Gordon	Matrix	PriceWaterhouse-Coopers	PriceWaterhouse-Coopers	13/11/2012
Neos Resources	finnCap	WH Ireland	finnCap	WH Ireland	14/11/2012
Antisoma	WH Ireland	WH Ireland	WH Ireland	Altium	15/11/2012
China New Energy	SVS	SVS/VSA	Cairn	Cairn	20/11/2012
Copper Development Corp	Beaumont Cornish	GMP Securities	Beaumont Cornish	Beaumont Cornish	20/11/2012
Mytrah Energy	Investec/Mirabaud	Mirabaud	Strand Hanson	Strand Hanson	20/11/2012
Cupid	Numis/Peel Hunt	Peel Hunt	Peel Hunt	Peel Hunt	22/11/2012
Highland Gold Mining	Peat/Numis	Numis	Numis	Numis	22/11/2012
Chariot Oil & Gas	Jeffries Hoare Govett/RBC	RBC	RBC	RBC	27/11/2012
Seeing Machines	finnCap	Daniel Stewart	finnCap	Daniel Stewart	27/11/2012
Petroceltic International	HSBC/Bank of America Merrill Lynch/Davy	Bank of America Merrill Lynch/Davy	Davy	Davy	28/11/2012
Eden Research	WH Ireland	Zeus	WH Ireland	Zeus	29/11/2012

company news

Indicative offers received for API as its performance continues to improve

Foils and packaging *www.apigroup.com*

API Group chief executive Andrew Turner

Foils and packaging materials supplier **API** continues its recovery as the sales process for the business, which commenced in September, moves to the due diligence stage.

In the six months to September 2012, revenues edged up to £58.8m but operating profit was one-third higher at £5m because margins improved. Pre-tax profit was 29% higher at £3.7m. Net debt nearly halved to £5.2m in the 12 months to September 2012. The net pension deficit is currently £7.2m.

> A number of indicative offers have been received

Holographics was the only division not to make an improved profit contribution. This was partly due to lower sales to other parts of the group. There was also lower demand for security and authentication products from outside customers. Even so, API believes this is an important growth area and it is investing £3m in capital equipment and a security upgrade.

Health and beauty demand fuelled growth in the laminates division. Delays to a major contract mean that second-half trading will be weaker than hoped for in this division. Improved margins helped the foils businesses to increase profit. Overall, second-half trading will be slightly weaker but the full-year outcome should still be better than for the year to March 2012.

API (API)			69p
12 MONTH CHANGE %	+ 79.2	MARKET CAP £M	53

A number of indicative offers have been received and discussions are continuing. It is possible that none of these offers will be deemed suitable by the major shareholders – Steel Partners owns 32.4% and Wynnefield 29.7%. The shares are currently modestly rated at around seven times prospective 2012-13 earnings. The impressive cash generation means that the balance sheet is strong although the pension deficit has to be taken into account.

GW Pharma rolling out Sativex to more European markets

Cannabinoid-based drugs developer *www.gwpharm.com*

Cannabinoid-based drugs developer **GW Pharmaceuticals** generated nearly doubled revenues from sales of its Sativex product for MS Spasticity in the year to September 2012 and more territories will come on stream this year. Trials are progressing for the use of Sativex in cancer pain and neuropathic pain.

Sativex revenues increased from £5.3m to £10m in the year to September 2012. So far, the drug has been launched in seven markets, including key markets such as Germany and the UK, and a further 12 markets will be added this year. Versions of Sativex for cancer pain and neuropathic pain are still being developed, with the former starting phase III trials in Europe and the US.

GW PHARMACEUTICALS (GWP)			62.5p
12 MONTH CHANGE %	- 33	MARKET CAP £M	83.4

Overall revenues increased from £29.6m to £33.1m, including partner funded research of £19.5m (£16m). There was a cash inflow of £1m during the year and £29.3m in the bank at the end of September 2012. This is plenty of cash for GW's existing needs because partners fund many of its trials. Phase III cancer pain trials for Sativex are being financed by Otsuka. This provides leeway for GW so that it can delay taking on a partner for newer treatments until they have progressed through initial trials. Product sales should be cash generative within a couple of years. GW will benefit from the Patent Box legislation, which will eventually mean a 10% tax charge on product revenues.

company news

Brady moves into metals recycling sector with US acquisition

Risk management software *www.bradyplc.com*

Brady, which provides risk management software for the commodity trading sector, has moved into the metals recycling sector through the acquisition of US-based Systems Alternative International (SAI) and the deal will enhance earnings immediately.

Brady will pay up to $9.95m (£6.22m) for SAI, with an initial $6.25m (£3.91m) payable in cash and the rest depending on whether financial targets are met over the next three years. In 2011, revenues were $8.1m (£5.1m) and pre-tax profit $2m (£1.3m). SAI supplies software which manages the scrap-metal process from receiving the material to be recycled through to its transformation into a saleable metal. Nearly all of the sales are in North America but there are some revenues from Australia. Brady intends to sell the software through its own distribution channels. The founders will stay with the company.

The acquisition also gives Brady a presence in the US

The enlarged group will enhance its position in the steel market and SAI will bring new customers to the group. The acquisition also gives Brady a presence in the US.

There should still be £7.2m in the bank at the end of 2012, following the payment of the initial SAI consideration.

BRADY (BRY)			101.5p
12 MONTH CHANGE %	+ 30	MARKET CAP £M	81.8

This is the busiest part of the year for Brady and additional licences are being negotiated. Brady has announced four new contracts in recent weeks, including two with an existing client and another with Hong Kong-based Onesteel Recycling.

Following the acquisition, Edison increased its 2012 earnings per share forecast from 5.9p to 6p, including a few weeks' contribution from the acquisition. There is a bigger jump from 6.2p to 6.5p for the 2013 earnings forecast where SAI will make a 12-month contribution. That values the shares at less than 16 times 2013 prospective earnings.

Gooch & Housego moves up the value chain

Photonics and optical systems *www.goochandhousego.com*

Photonics and optical systems supplier **Gooch & Housego** performed more strongly in the second half but profit was still lower in the year to September 2012.

Reliance on the Q-switch product continues to decline thanks to the diversification strategy of the company. Gooch & Housego is also providing more sub-assemblies and assemblies, which is further up the value chain than the supply of components. Revenues were flat at £60.9m, while underlying profit fell by one-quarter to £8.2m. Life Sciences and scientific research revenues increased last year but they are the smallest parts of the group. Life Sciences' operating profit improved from £879,000 to £1.22m. The main improvement came from optical coherence tomography sub-assemblies and better production efficiencies. Net debt was almost wiped out. with £300,000 left at the end of September 2012. The full-year dividend was increased by 4% to 5.2p a share.

GOOCH & HOUSEGO (GHH)			454p
12 MONTH CHANGE %	+ 13.5	MARKET CAP €M	99.5

The order book was valued at £24.9m at the end of September 2012, although this is lower than the year before.

The new financial year has started well and first-quarter revenues should be 15% higher than last year, although that was a weak period for the business. The aerospace and defence activities will be helped by the US government sorting out its budget.

Analysts forecast a profit of £9.1m for 2012-13. The shares are trading on around 15 times prospective earnings. There is potential for further recovery in profit as well as underlying growth. Gooch & Housego has a strong position in its main markets and it is in a good position to take advantage of this.

company news

Mining process engineer MDM Engineering secures merger with larger Australian rival

Mineral process engineer *www.mdm-engineering.com*

Mineral process engineer and project manager **MDM Engineering** is merging with ASX-listed Sedgman Ltd in a deal that values MDM at £67.9m ($109m). The bid price of 181p a share is higher than the 145p a share flotation price back in May 2008.

Non-key shareholders are being offered 181p a share in cash while key shareholders are being offered 70% of their consideration (127p a share) in cash and 30% in Sedgman shares – 0.9475 of a Sedgman share for each MDM share. The cash and shares bid is equivalent to 181p a share. The key shareholders, which include certain MDM employees, represent one-quarter of MDM's share capital and they have agreed to vote in favour of the bid.

All of the shareholders will receive a gross interim dividend of 8 cents a share and the shares went ex-dividend on 5 December.

MDM will have the backing of a stronger balance sheet

South Africa-based MDM joined AIM just before the global financial crisis took hold. Capital spending by mining companies is key to the prosperity of the business and this has recovered since 2008. MDM's focus is Africa and it has $600m of confirmed construction contracts and a potential pipeline worth up to $2bn.

The merger will provide MDM with the backing of a stronger balance sheet. This will enable it to take on larger projects. Brisbane-based Sedgman provides mineral processing and infrastructure services and it is a larger and more profitable business than MDM.

MDM ENGINEERING (MDM)			178.5p
12 MONTH CHANGE %	+ 90.9	MARKET CAP £M	66.3

MDM almost quadrupled its revenues to $78.9m in the six months to September 2012, while pre-tax profit was 145% higher at $8.1m. More contracts have been undertaken in the period, including the Tharisa chrome and platinum project. The second half should continue to be profitable and the order book will provide a strong start to the next financial year.

Bullabulling project looks increasingly feasible

Gold project developer *www.bullabullinggold.com*

Australian gold miner **Bullabulling Gold** says that its pre-feasibility study for the Bullabulling gold project in Western Australia indicates that it could be a substantial gold mine. The company has also acquired an important mining licence that means that it has the rights to the whole area and enables further infill drilling of the southern extension of the Bullabulling trend.

The base case is production of 1.95m ounces of gold over 10 years, with 650,000 ounces produced in the first three years at a cash cost of $884/ounce. The capital payback could be achieved in just over two years if the gold price stays around current levels.

BULLABULLING GOLD (BGL)			5.88p
12 MONTH CHANGE %	N/A	MARKET CAP £M	17

Over the first five years the cash cost increases to $971/ounce. The life of mine cost is $1,104/ounce. The 117,500 ounces Gibraltar deposit is not included in the figures and there is scope for extending the project.

The full pre-feasibility study will be published in the first quarter of 2013. Bullabulling will then progress to a full feasibility study. Production could commence in 2015.

The acquisition of the infill licence area from Resolute Mining will provide additional flexibility in optimising the project and making production more efficient. The mineralisation crosses into this licence area and Bullabulling has not been able to assess how far it goes.

Bullabulling, which is also ASX-listed, was formed earlier this year from the merger of GGG Resources and Auzex Resources, which each owned half of the Bullabulling gold project. The company has a completely new management team.

Animalcare reaps benefits of new drug launches

Veterinary products *www.animalcare.co.uk*

Dividend

Although the final dividend was unchanged at 3p a share, an increased interim meant that the total dividend for the year to June 2012 rose from 4p a share to 4.5p a share. That figure was covered more than two times by earnings. The dividend should at least be maintained and there is scope for growth to continue.

Animalcare, which was formerly known as Ritchey, joined AIM in January 2008 when the Animalcare business was reversed into the company. The flotation price was 55p a share. Prior to that the shares were traded on Plus-quoted and the company was already a dividend payer. A dividend of 2.25p a share was paid in the year to June 2008.

Cash in the bank improved from £1.18m to £2.31m in the year to June 2012 thanks to strong operating cash flow. That is after paying £926,000 in dividends. There will be investment in an office move this year and more will be spent on product development so the cash figure is likely to fall slightly. The cash pile should then start to increase again.

Business

Additional revenues from newer animal drugs could not offset the decline in animal identification chip and Buprecare ampoules revenues for Animalcare in the year to June 2012.

Production problems meant that there were no sales of Buprecare ampoules last year, which knocked £748,000 off revenues, but management is hopeful that sales will start again early in 2013. Buprecare is a post-operative analgesic. Newer drugs generated around £900,000 of additional revenues and this enabled the drugs division to contribute slightly higher gross profit in the period.

ANIMALCARE (ANCR)	
Price	132.5p
Market cap £m	27.4
Historical yield	3.4%
Prospective yield	3.4%

Animalcare has shed lower-margin identification products and this led to an improvement in the division's margins but this was not enough to prevent a decline in gross profit contribution. Animal welfare product revenues and profit were also lower.

Group revenues declined from £11.8m to £10.9m, while the underlying pre-tax profit fell from £3m to £2.3m through a combination of higher overheads and the lower profit contributions from the businesses.

One new drug, Vitofyllin, which is for problems associated with canine ageing, has already been launched this year and Animalcare is on course to launch three more before next June. In the longer term, the plan is to move into enhanced generic animal drugs and novel medicines. There are also plans to expand into North America. Database development for the identification chip business will lower costs and provide additional ways to generate revenues.

Last year's problems led to downgrades during the year. House broker N+1 Singer forecasts a 2012-13 profit of £2.6m and it expects Animalcare to take at least a couple of years to get back to the previous profit level. A trading update is due in January.

Dividend news

Retailer **Majestic Wine** continues to be highly cash generative even though it is investing in new retail sites. Interim figures show that Majestic generated £6.68m in the first six months of the financial year, which was more than enough to cover capital expenditure. Net debt increased to £2.9m due to the outflow from dividend payments. The interim dividend has been increased by 5% to 4p a share and the total for the year is expected to rise from 15.6p a share to 16.56p a share, which is covered 1.6 times by forecast earnings.

Engineering services provider **Renew Holdings** increased its total dividend from 3p a share to 3.15p a share in the year to September 2012. This is the first increase since 2008. Net debt was reduced from £6.8m to £5.5m at the end of September 2012. Margins are improving in both the engineering services and specialist building divisions. Overall revenues fell from £352.8m to £337.4m due to lower building revenues. Underlying profit moved ahead from £8.2m to £10m. Renew is focusing on non-discretionary spending rather than one-off projects. The engineering services order book has increased from £179m to £235m over the past year and the 2012-13 orders cover 65% of the division's expected revenues for the year.

Plastic components manufacturer **Plastics Capital** has doubled its interim dividend to 0.66p a share and the total for the year could be doubled to 2p a share. Last year's interim was the company's maiden dividend. Cash generated from operations continues to reduce borrowings and net debt was £8.6m at the end of September 2012. In the second half there will be an additional £1.2m of capital investment in new capacity for the high-strength film packaging business. Net debt could still fall to around £4m by March 2015, although that assumes no acquisitions are made.

expert views

Expert view: The broker

Ollachea feasibility study confirms promise for Minera IRL

By MARTIN POTTS

Latin America-focused gold producer Minera IRL* has completed the Definitive Feasibility Study for its flagship Ollachea gold project in Peru and this confirmed the attractions of the project with potential upside from further exploration.

Minera IRL offers exposure to a portfolio of gold mining and exploration assets in South America. In our view, the proven track record of the company and its senior management in identifying high-quality projects lifts it above many of its peers.

Ollachea

A mineral reserve of 9.3 million tonnes grading 3.4 g/t of gold and containing 1 million ounces of gold has been established for Ollachea. Average cash operating costs of only $499 per ounce, combined with a capital cost of $177.5m, result in a positive economic return.

Using the feasibility study numbers and our DCF model (see below), we derive a post-tax value of $194m for the company's 95% interest in the project, equivalent to 79.8p per share. We expect the mine to start generating revenue in 2015, building up to full production in late 2016.

Valuation

After adding in our updated valuations of the Don Nicolas project in Argentina, the Corihuarmi gold mine in Peru and the current cash position, we arrive at a valuation of $265.4m, equivalent to a target share price of 109.1p.

At this point in time, we give no value for the current exploration programme, which has the capacity to surprise on the upside. In particular, we would point to the substantial upside in resources at Ollachea, with drilling expected to start from the exploration tunnel within the next few months.

We see little downside, given that gold prices are still exceptionally strong, the mine and the development projects all have robust economics and the host countries are politically stable.

In terms of the company's future gold production, we have assumed that production at Don Nicolas starts before the end of 2013, although this may slip to early 2014. 2014 and 2015 are both set to be strong growth years as the two new mines are commissioned, with production settling to a steady state of around 120,000 ounces per year thereafter.

We expect that the revenues and hence profits of the Corihuarmi mine will fall sharply from 2012 onwards, down to falling gold grades as the higher-grade areas have been depleted, which puts a DCF valuation of $13.2m (£8.3m) on this mine.

We have updated a DCF model for the Don Nicolas project, using the numbers from the recent Definitive Feasibility Study. The current expectation is that financing arrangements will be in place before the end of Q1 2013 and that first production is possible before the end of the year. The DCF valuation on this basis is $50.6m (£31.3m).

Methodology

We have used DCF methodology to value the assets, to which we have added the estimated net cash position. The most recent balance sheet (30 September 2012) shows that the company then had net current assets of $7.6m (£4.7m), equivalent to 3.1p per share.

We have used a gold price of $1,500 per ounce throughout apart from 2012 where we are using $1,600. We have set a base date of 1 January 2013 for the DCF calculations and used an 8% discount rate for our base case valuations.

Attractive

Given that both of the new projects now have full feasibility studies and that we see no significant outstanding project risks, we see no need to apply any specific risk discounts. Our target price is therefore the same as our valuation of 109.1p a share.

The current share price of 55.5p offers an attractive entry point for investors seeking exposure to a low-risk gold miner and explorer with an attractive portfolio of growth projects. Our current target price gives 97% upside.

> The current share price offers an attractive entry point for investors

In addition, we see several opportunities for our target price to be increased. In the near term, the main driver will be exploration results from the Ollachea Tunnel – this is now more than 800 metres in and drilling will start soon. This work has the potential to increase the resource available for mining substantially.

*Minera IRL is a corporate client of finnCap.

MARTIN POTTS is a research director at finnCap.

feature

AIM miners find cash in short supply

It is difficult for mining companies to raise cash but the better-quality ones are still able to. Companies with early-stage projects are finding it tougher.

Mining is not a favoured sector of AIM anymore and it has been much more difficult for mining companies to raise cash over the past year or so. Investors have shunned risk and they are no longer keen on early-stage miners.

In fact, the joke at this year's Mines and Money exhibition in London was that it should just be called the Mines exhibition because there was no money around. Capital is certainly in short supply and there is strong competition for this funding. Phil Newman, chief executive of CRU Strategies, says that "investors have to be prised away from their cash" and they "have to get their hand to wallet reflex back".

Investors have to be prised away from their cash

Some investors prefer to invest directly in a commodity through an ETF rather than through a company, where risk is greater.

RFC Ambrian points out that many investors are looking for dividend income but only the mining companies with strong balance sheets are able to deliver this. This is in sharp contrast to a decade ago when income was the last thing on the minds of investors in most mining companies. Of course, the vast majority of AIM mining companies are nowhere near to paying a dividend.

Fashion

One of the problems with AIM is that there have been various fads and fashions when it comes to metals and minerals. In recent years, uranium and rare earths are two examples where investors have been attracted because of fashion and new companies with little in the way of substantial assets have been able to float or talk up small parts of their existing portfolios. When a particular commodity is in fashion then investors have not always been as discerning as they should be about individual companies and have been more worried about what minerals they are exploring for.

The companies themselves are guilty of jumping on the bandwagon and they have paid for it in some cases by disappointing investors and finding it difficult to persuade them to part with more cash.

On top of this, many of the companies are in highly risky geographic locations and this can sometimes hamper progress with a project if governments try to secure higher levels of domestic ownership.

Yet, there are some people that believe that all the trials and tribulations of recent times have provided buying opportunities but only at the higher-quality end of the sector. There are still things going for the sector. Not least, China, where despite a slowdown in growth rates the economy is still growing at a rate the West can only dream of. The rate of growth in demand for metals and other commodities may be slowing but overall demand is still increasing. China is still keen to take strategic stakes in miners with strong projects.

RFC Ambrian believes that commodity prices are likely to continue to rise over the longer term. The broker prefers gold, uranium, zinc and mineral sands companies. RFC argues that uranium, zinc and minerals sands should benefit from increasing demand and prices. The uranium price is particularly low following fears about nuclear power after the Japanese earthquake but China is still investing in new nuclear power plants and the price should eventually recover. That will then spark the investment in new projects.

According to Lawrence Roulston, editor of Resource Opportunities, 2012 "was a brutal year for the resources sector". He also believes that this is the best buying opportunity he has seen in the 30 years he has been involved in the global mining sector but only for selective companies.

He argues that the majority of exploration companies are still trading at above their real value. These are companies with no real assets or money and mediocre management. It is companies with tangible assets that have the upside potential.

Risk aversion

Accountant Ernst & Young says that risk aversion among investors is being combined with mining companies' own reluctance to further dilute the holdings of its existing shareholders at the current low share prices. Ernst & Young also reports that some small companies are getting to the point where they are having to make distressed asset disposals or undertake strategic reviews. The rest have to control their costs as carefully as possible in order to retain cash.

The Ernst & Young Mining Eye index monitors the performance of AIM mining companies and it fell by 3% during the third quarter of 2012, having slumped by 28% in the first half of the year. This has happened feature

even though commodity prices have strengthened.

The mining sector accounts for 13.7% of AIM's total market capitalisation, whereas three years ago it was 18.4%. Over that same period the oil and gas sector has increased in importance from 16.6% of AIM to 24.7%.

There is money around for good stories and management and there always will be

In terms of fundraisings, the oil and gas sector accounted for just over one-fifth of the cash raised in 2009, whereas the mining sector raised 29% of the total. The oil and gas sector has raised more money than the mining sector in every year since then. So far this year, more than 26% of the money raised has gone to oil and gas companies but mining companies have still managed to raise around one-fifth of the additional cash invested in AIM. This shows that although it is tough to raise cash some mining companies are managing to do it.

Alternatives

Ernst & Young says that the outlook for equity markets remains uncertain and unpredictable and "the apparent disconnect between asset prices and commodity valuations is showing little sign of abatement". It adds that equity is likely to be seen as expensive and dilutive and the option of last resort.

An alternative source of funding could be larger mining companies which are seeking to use their spare cash to acquire significant minority stakes in junior miners with interesting projects.

Many mining companies have sought alternative sources of finance from the likes of Yorkville and Darwin, which is associated with fund manager Henderson. The basic product of these companies is the Standby Equity Distribution Agreement (SEDA), or equity line of credit, where companies can sell small tranches of shares to the finance provider in return for cash. These deals are normally for a set amount of money but there is no obligation to fully utilise the SEDA and there is flexibility to raise cash from any other sources.

Yorkville has become more innovative in recent years and widened its range of products as well as participating directly in share placings by clients. For example, Yorkville provided ECR Minerals with a $1m loan secured over listed securities owned by the company as part of a wider package including a SEDA and other equity elements. Yorkville can convert the outstanding element of the loan into ECR shares at any time but the share price has to rise significantly from its level at the time of the deal to make this worthwhile.

Yorkville says that 80% of its business is repeat business, so the companies appear to believe the funding is effective.

M&A

Larger companies with strong balance sheets could be potential acquirers of smaller miners and there could be mergers among juniors so that they can pool their resources.

According to Ernst & Young, coal dominated global mining M&A activity in the first nine months of 2012. There is consolidation in the Chinese and Australian markets, while power generators are buying assets in order to secure a supply of coal.

The total value of deals in the first nine months of the year was $76.8bn, compared with $133.7bn in the same period of 2011. Coal-related deals were worth $14.8bn and accounted for one-fifth of the total M&A value in the period. Copper mergers were valued at $12.5bn and gold deals were worth $9.1bn.

Future

Michael Chender, the founder and chief executive of Metals Economics Group, says that junior miners tend to confound predictions of their demise and they become creative with their funding and deal structures.

The key to the future of junior miners on AIM is to follow up as many potential funding avenues as possible in order to gain as good a deal as possible. Mining companies with a decent and viable project that is already well down the line to becoming a mine should be able to find the necessary finance.

John Harrison, executive chairman of RFC Ambrian, says that there is money around for good stories and management and there always will be. He points out that in the past there were a lot of projects that did not deserve funding. "What the companies have to realise is that fund managers do not need to own their shares," he adds. Companies need to present their stories to investors before they need to raise money so that investors understand their strategy.

Junior miners are still important to the sector, particularly as larger mining companies leave exploration to them and concentrate on developing projects once they have been discovered. They are effectively moving the exploration risk from themselves to the junior explorers. For example, the juniors have been responsible for the majority of gold discovered since the mid 1990s.

Mining companies finding it difficult to raise cash is not an AIM problem it is a global problem. An upturn in confidence about the US and European economies is needed for sentiment towards AIM mining companies to really change. Many companies have been able to secure finance from London and in some ways it is good that it is the better companies that are able to do this.

statistics

Market Performance, Indices and Statistics

AIM SECTOR INFORMATION

SECTOR NAME	% OF MARKET CAP	% OF COMPANIES
Oil & gas	24.7	11.7
Financials	17.8	21.1
Basic materials	13.7	16.2
Industrials	12.1	18.5
Consumer services	9.3	9.5
Technology	8.5	9.7
Consumer goods	6.1	5.2
Health care	5.3	5.7
Telecoms	1.9	1.2
Utilities	1.1	1.2

FTSE INDICES

ONE-YEAR CHANGES

INDEX	PRICE	% CHANGE
FTSE AIM All-Share	692.84	-0.5
FTSE AIM 50	3095.65	+7.1
FTSE AIM 100	3106.31	-1.1
FTSE Fledgling	4577.7	+12.2
FTSE Small Cap	3274.76	+19
FTSE All-Share	3065.3	+8.1
FTSE 100	5866.82	+6.6

COMPANIES BY MARKET CAP

MARKET CAP	NO.
Under £5m	275
£5m-£10m	141
£10m-£25m	223
£25m-£50m	178
£50m-£100m	145
£100m-£250m	98
£250m+	42

KEY AIM STATISTICS

Total number of AIM	1,102
Number of nominated advisers	52
Number of market makers	57
Total market cap for all AIM	£60.6bn
Total of new money raised	£79.6bn
Total raised by new issues	£35.4bn
Total raised by secondary issues	£44.3bn
Share turnover value (2012)	£34.1bn
Number of bargains (2012)	4.83bn
Shares traded (2012)	178.6bn
Transfers to the official list	162

TOP 5 RISERS OVER 30 DAYS

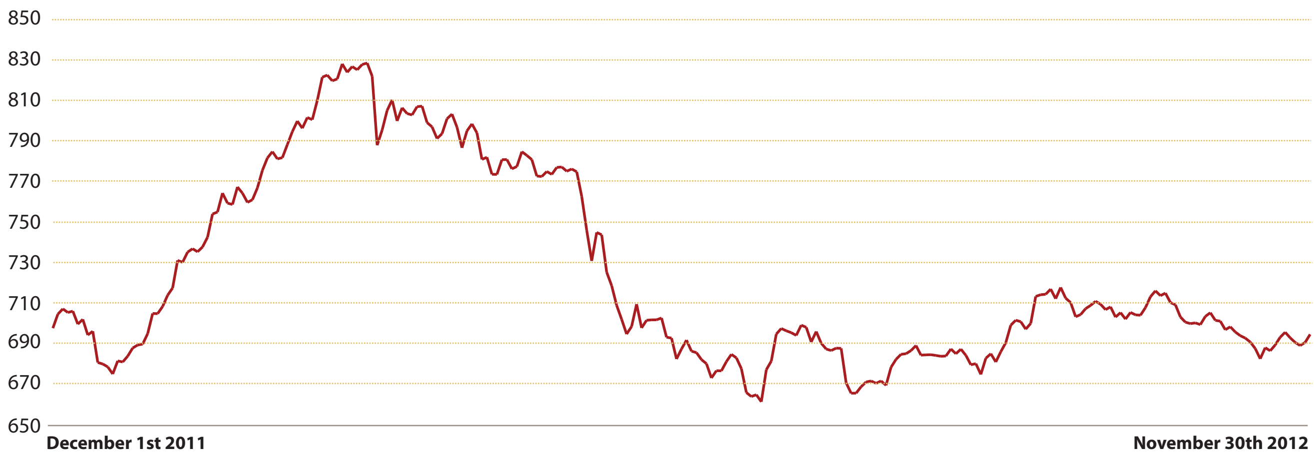
COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
Petrel Resources	Oil and gas	17.5	+185.7
Ceres Power Holdings	Cleantech	3.05	+154.2
Clontarf Energy	Oil and gas	3.75	+76.5
eServGlobal	Technology	23.38	+76.4
Stellar Resources	Mining	1.12	+60.7

TOP 5 FALLERS OVER 30 DAYS

COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
African Medical investments	Health	0.23	-70
Media Corporation	Leisure	0.14	-61.4
ATH Resources	Mining	0.33	-58.1
Enables IT	Technology	12.25	-57
Sunrise Resources	Mining	0.85	-56.4

AIM - 1 YEAR INDEX CHANGE

Source: London Stock Exchange



Data: Hubinvest Please note - All share prices are the closing prices on the 30th November 2012, and we cannot accept responsibility for their accuracy.

sponsors

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 helped finnCap become the fastest growing broker in both 2009 and 2010. finnCap is ranked as the number two broker/nominated adviser on AIM by overall client numbers. It is number one ranked in healthcare, technology and industrials sectors.

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 two years running.

finnCap has a strong track record of raising money for clients and it has advised on £280m of fundraisings and more than £300m of M&A transactions since June 2009. More than £140m was raised for clients in the year to June 2011.

Clients have a combined market value of around £3bn, with an average market capitalisation of approximately £40m. The top 20 clients have an average market capitalisation of more than £100m.

PUBLISHED BY:	Hubinvest Ltd,	**Mobile:**	07849 669 572
ADDRESS:	1C Beaufort Road, Kingston-upon-Thames, Surrey. KT1 2TH.	**EDITOR:**	Andrew Hore
		DATA:	Andrew Hore
TELEPHONE:	020 8549 4253	**PRODUCTION & DESIGN:**	David Piddington

SPONSORSHIP & ADVERTISING editor@aimmicro.com
or telephone 020 8549 4253