SEPTEMBER 2014

THE ONLINE MONTHLY FOR THE ALTERNATIVE INVESTMENT MARKET

AIM JOURNAL

Blinkx exits AIM indices

Online advertising company Blinkx has dropped out of the FTSE UK AIM 50 index and FTSE AIM 100 index following the slump in its share price over the past year. There has been criticism of the company's business model and a profit warning.

The share price has declined by three-quarters over one year and more than two-fifths since the previous FTSE AIM indices review. An announcement at the beginning of July warned that earnings would be lower than expected amid concerns about privacy and effectiveness of the advertising. Arbuthnot Banking Group is the other company dropping out of the AIM 50, while outsourced technology services provider Regenersis and Hurricane Energy are the two new entrants.

Online retailer MySale Group, café operator Patisserie Holdings and China-focused lottery products supplier DJI Holdings, all new AIM companies, have joined the AIM 100 index, as have drug developer Vernalis, textile rental company Johnson Service Group and Central Asia Metals. Along with Blinkx, collectibles retailer Stanley Gibbons, Indian wind power generator Mytrah Energy, Immunodiagnostic Systems Holdings, Eland Oil & Gas and African Minerals have dropped out of the AIM 100. The African Minerals share price has declined by two-thirds in the past quarter. The Ebola outbreak in western Africa has hit the share price but funding worries have not helped either. Alan Watling has been reappointed as chief executive.

AIM's younger profile

Younger investors are more interested in AIM investments than their older counterparts according to research commissioned by execution-only stockbroker TD Direct Investing. The results of the study show that 3.5 times as many 30-44 year olds are investing in AIM as 45-75 year olds and 89% of the younger demographic is confident that AIM can provide positive returns.

Three-quarters of the AIM investors say that the positive economic outlook is a reason that they are investing in AIM companies. This was closely followed by the potential high returns (71%) and the fact that AIM shares are allowed in ISAs (70%). TD Direct Investing says that a quarter of its clients are investing in AIM shares.

Cynics might suggest that the older group of investors may have had their fingers burnt by AIM investments in the past. The younger investors are likely to have missed out on the decline after the tech boom at the turn of the century and many may have avoided subsequent declines. The quality of companies that these younger investors are buying will be important in maintaining this positive attitude.

In this issue

HubInvest publishes AIM Journal

www.hubinvest.com

French wine float for AIM

New admissions have yet to take off again after the summer lull but one company that is planning to join AIM in November is Burgundy-based wine producer Domaine Chanzy, which has been under its current ownership since 2012.

Domaine Chanzy plans to take advantage of an Enterprise Investment Scheme and Venture Capital Trust qualifying share issue to raise between £2m and £5m. The cash will be used to buy more vineyards, modernise production equipment and boost distribution and marketing. OLMA Private Equity Fund owns around 75% at present and this will be diluted to below 50%.

The company owns a number of vineyards in Burgundy covering more than 32 hectares in total. Domaine Chanzy's strategy is to become one of the top ten wine producers in the locality. The average selling price per bottle was €7 in 2013 and this is expected to increase to €10.60 this year. The Maison Chanzy brand was launched this year to produce higher-priced luxury wines. Part of the strategy is to increase exports, which were 24% of revenues in 2013.

Domaine Chanzy is the first French wine company to join AIM although there have been other wine companies on AIM. US-based Cosentino Signature Wines and Australian wine producers Dromana Estates and Palandri floated on AIM around a decade ago. All of these companies decided to leave AIM and the wine businesses subsequently got into financial difficulties, although ASX-listed Dromana has tried to reinvent itself, first as a mining company and then as a cloud-based IT supplier. South-east England-based wine producer Gusbourne reversed into Shellproof, which already had vineyard interests, one year ago.

Chatham delay

Offshore phosphate exploration company Chatham Rock Phosphate Ltd is delaying its move to AIM. The New Zealand NZX Alternative Market company says that it will restart the process after it receives marine consent, which is expected by the end of November. At the beginning of September, Chatham Rock filed evidence from 31 expert witnesses and answers to 62 queries from the Environmental Protection Authority. Hearings commence on 25 September and are expected to last six weeks. In August,

Chatham Rock raised NZ$1.22m (£624,000) at NZ$0.12 and expects to raise a further NZ$1m. The share price has halved to NZ$0.125 a share in the past two months. There are economically significant deposits of rock phosphate nodules lying on or just below the surface of the seabed at the Chatham Rise off the east coast of New Zealand.

AIM's higher shell standard

Shell company General Industries has joined the standard list and its admission shows how much more lax the rules of the standard list are than those of AIM.

General Industries may be a familiar name because it is the fourth time that Richard Wollenberg of Cardiff Property has floated a shell under that name. The first two were floated on AIM and the third on Plus-quoted (ISDX). The first shell initially bought the UK's largest independent Orange mobile phone dealer, Celltalk, but this acquisition was unsuccessful and was put into administration, while the holding company ended up as miner Kiwara. The second is now drug developer Immupharma, while the third became explorer Galileo Resources and moved to AIM.

The latest General Industries is focused on acquisitions in the services sector and it raised £930,000 at 10p a share and pro forma cash is £965,000. A new AIM shell would have had to raise at least £3m and it has a limited timescale in which to make an acquisition. The company does not intend to appoint a sponsor. Shares can be issued or bought back without an annual vote by shareholders.

The flotation document states: "It should be noted that the UK Listing Authority will not have the authority to (and will not) monitor the Company's compliance with any of the Listing Rules which the Company has indicated herein that it intends to comply with on a voluntary basis, nor to impose sanctions in respect of any failure by the Company so to comply". At least AIM companies have a nominated adviser to ensure compliance with AIM rules.

A standard listed company does not have to gain shareholder approval for any reverse takeover, although General Industries says that it will do so. The company will have to apply to the UKLA to be relisted after a reverse takeover.

advisers

Improved Share successfully executes fee switch

Share continues to increase its percentage of the execution-only broking market and its Share Centre subsidiary increased dealing commissions by 16%. In 12 months. The market share has risen to a new high of 8.15% in the first half of 2014.

The previous market share peak was 7.33% in the third quarter of 2013 when AIM shares were initially allowed in ISAs. Account fees grew by 8% as the move to fixed fees proved successful despite the loss of inactive client accounts. The operational gearing effect of the additional revenues meant that an 8% increase in interim revenues to £7.9m led to a 28% jump in underlying pre-tax profit to £1m.

The main concern is interest income. This has become less important since the decline in interest rates but it still makes a contribution. However, regulatory changes could reduce the contribution further. Share has used collateralised deposit agreements with building societies to generate additional interest income but a change in the rules so that clients' funds have to be on call means that this will not be allowed any more unless Share is successful in applying for an exemption. A rise in interest rates would help to offset some of the negative impact of these rule changes. There was net cash, excluding customer deposits of £172.5m, of £12.5m at the end of June 2014.

Edison forecasts a rise in full-year profit from £2.3m to £2.6m. The dividend is forecast to increase from 0.52p a share to 0.62p a share. That will still be covered 2.3 times by earnings per share. A further improvement in profit to £3.2m is expected in 2015. The forecasts take account of a decline in interest income and this offsets upgraded expectations for revenues.

Oriel Securities has successfully reapplied as a nominated adviser following the change of control of the broker. Oriel had to reapply after Missouri-based Stifel Financial Corp acquired its parent company in the summer.

The Small Cap Investors Club is hosting the first of a series of seminars with investment manager Downing on 16 September. Judith MacKenzie of Downing will introduce a new Micro-Cap Report. The first seminar will explore the long-term value that is still to be found in the often overlooked small-cap world. The event is being held at Grange St Paul's Hotel between 8am and 10.30am (http://www.smallcapclub.co.uk/register/4585772964).

ADVISER CHANGES - AUGUST 2014

COMPANY	NEW BROKER	OLD BROKER	NEW NOMAD	OLD NOMAD	DATE
RM2 International SA	RBC/Cenkos	Cenkos	Cenkos	Cenkos	01/08/2014
Strategic Minerals	Allenby	Allenby/Daniel Stewart	Allenby	Allenby	01/08/2014
Verona Pharma	N+1 Singer	WH Ireland	N+1 Singer	WH Ireland	06/08/2014
Ortac Resources Ltd	Loeb Aron/ SP Angel/ Cantor Fitzgerald	SP Angel/ Cantor Fitzgerald	Cantor Fitzgerald	Cantor Fitzgerald	07/08/2014
Red Rock Resources	Dowgate	SI Capital /Beaufort	Grant Thornton	Grant Thornton	11/08/2014
Regency Mines	Dowgate	SI Capital /Beaufort	Grant Thornton	Grant Thornton	11/08/2014
Pan African Resources	Peel Hunt/ Canaccord Genuity	Canaccord Genuity/ finnCap	Canaccord Genuity	Canaccord Genuity	14/08/2014
Patagonia Gold	Cantor Fitzgerald	Mirabaud	Strand Hanson	Strand Hanson	14/08/2014
Alba Mineral Resources	Dowgate	Northland	Cairn	Northland	15/08/2014
Proteome Sciences	finnCap/Cenkos	Cenkos	Cenkos	Cenkos	19/08/2014
Gemfields	BMO/ JP Morgan Cazenove	JP Morgan Cazenove/ Canaccord Genuity	Grant Thornton	Canaccord Genuity	21/08/2014
Ashcourt Rowan	Cantor Fitzgerald	Cantor Fitzgerald/Peel Hunt	Cantor Fitzgerald	Peel Hunt	26/08/2014
Inspirit Energy Holdings	Beaufort/Westhouse	Peterhouse/Westhouse	Westhouse	Westhouse	26/08/2014
Auhua Clean Energy	WH Ireland	Peat/Cornhill	Grant Thornton	Grant Thornton	27/08/2014
Jubilee Platinum	Daniel Stewart	Daniel Stewart	Daniel Stewart	finnCap	27/08/2014

company news

Visa deal begins to pay back for CloudBuy

Spend analysis software *www.cloudbuy.com*

Spend analysis and e-procurement technology developer **CloudBuy** has still to fully benefit from the investment it is making in marketing its software but there are initial positive signs in the interims. Management is confident that CloudBuy can achieve the target revenues of £50m by 2018 despite the significant growth required. Social care and international business could help to generate these revenues.

In the six months to June 2014, revenues improved from £1.38m to £1.47m. CloudBuy grew even though company formation services revenues fell. There was also a dip in the small contribution from Coding International, which is the part of the business that collates government information and provides CloudBuy with the expertise that enables it to develop its technology to suit government requirements. Doubled overheads meant that the reported loss jumped from £301,000 to £1.62m.

The partnership with Visa in Asia Pacific is paying off

Overall billings were 50% higher at £1.77m, with all the growth coming from the spend analysis and e-procurement operations. Not all of these billings have been recognised as revenue yet. The partnership with Visa in Asia Pacific is beginning to pay off but because the model involves collecting a small percentage of transactions it will take time for the revenues to build up. An e-procurement contract with the Australian State Government was announced and in time this could become worth up to A$7.2m (£4.1m) a year. Jonny Holden, who was running EMEA, has been appointed group chief operating officer.

CLOUDBUY (CBUY)			44p
12 MONTH CHANGE %	+46.7	MARKET CAP £M	48.9

There was a cash outflow of £1.88m but the £5.1m that was raised last year meant that there was still £2.3m in the bank at the end of June 2014. As the trade debtors unwind the cash outflow should reduce and CloudBuy is not expected to run out of cash.

CloudBuy shares have fallen back by around one-third from their 12-month high. Westhouse has maintained its expectations and still expects CloudBuy to move into profit in 2015 but forecast revenues are a long way from the £50m target.

Kromek set to double revenues again

Radiation technology *www.kromek.com*

Radiation technology developer **Kromek** is still at an early stage in its evolution so it is not surprising that there have been some ups and downs since it joined AIM. Revenues are growing strongly and the order book is at a record level but there is still some way to go to make a profit.

In the year to April 2014, revenues jumped from £2.69m to £5.97m, while the pre-tax loss, excluding negative goodwill, increased from £4.07m to £4.3m. Just over £1m of product development costs were capitalised. There is still £6.56m in the bank and there could be more than £3m left by the end of next April.

KROMEK (KMK)			49.5p
12 MONTH CHANGE %	N/A	MARKET CAP £M	53.5

The target markets are medical imaging, nuclear detection and security screening – the first two are markets worth more than $1bn. Cadmium zinc telluride (CZT) technology is a better semiconductor than rival technologies and produces a higher-resolution image. In medical imaging the technology offers the potential for earlier diagnosis and more efficient treatment. More accurate radiation detection and improved baggage scanning are the other main drivers for the use of the technology.

The loss could fall to less than £1.5m in 2014-15 assuming revenues at least double again. A seven-year contract has been won from a Chinese medical equipment manufacturer that is worth $1.4m in 2014-15 and $10.2m in 2015-16.

company news

Wildhorse reduces fundraising price after withdrawal of Linc from deal

Minerals explorer *www.wildhorse.com.au*

WILDHORSE ENERGY (WHE)			0.33p
12 MONTH CHANGE %	- 90	MARKET CAP £M	1.34

Underground coal gasification (UCG) projects developer **Wildhorse Energy** has cancelled its rights issue following the withdrawal of Linc Energy Ltd from discussions for the purchase of Wildhorse's UGC assets. Matthew Swinney has resigned as managing director and so have three non-executive directors.

In February, heads of agreement were signed with Linc for the acquisition in return for A$4.04m (£2.3m) of Linc shares. Wildhorse would have continued to have some interest in the Mecsek Hills UCG project in Hungary whose development would have been pushed forward by Linc using its proven technology. Linc had provided a loan of A$400,000 to cover costs related to the UGC activities.

Linc Energy is not buying the UGC assets

In June, Wildhorse proposed a one-for-two non-renounceable rights issue at $0.007 a share in order to raise A$1.435m. The original closing date was 24 July but this date was extended twice before the issue was cancelled.

Wildhorse plans to consolidate 30 existing shares into one new share and it will then undertake a five-for-one entitlement issue at a post-consolidation share price of $0.05 – equivalent to $0.00167 per old share. This will raise up to $3.4m. Costs are being reduced and the cash will be put towards existing projects and seeking new natural resource opportunities. Swinney earned A$327,000 in the year to June 2013. Ian Middlemas has stepped up to chairman and the previous chairman, Mark Hohnen, has moved to non-executive director. Mark Pearce has been appointed as a non-executive director.

Wildhorse retains the UGC assets but it does not have the finance to develop them. Wildhorse also has an interest in the Mecsek Hills Uranium Project in Hungary, which has a current JORC inferred resource of 77Mlbs of uranium.

Coal of Africa premium cash call

Coal miner *www.coalofafrica.com*

COAL OF AFRICA (CZA)			3.61p
12 MONTH CHANGE %	- 52.5	MARKET CAP £M	37.8

Coking coal miner **Coal of Africa** announced a fundraising at double the market price. The share price has risen since but it remains well below the issue price of 5.5p a share – the price has fallen by more than 90% in three years. The £38.2m ($64.9m) raised will enable Coal of Africa to pay off liabilities while it tries to sell the Mooiplaats colliery.

Coal of Africa has already agreed to pay $10m to get out of a take-or-pay contract with South Africa-based ports and shipping company Grinrod. Coal of Africa was not able to supply all the coal it was obliged to. A further $30m will settle the money owed for acquiring the tenements for the Greater Soutpansberg project, where there are potentially 1.6 billion tonnes of coal, and $25m will finance modification to the plant at the Vele colliery. Coal of Africa also needs $6m to pay off an Investec working capital facility. The company will require a further $16m of working capital for the next 18 months. Those last two will not be covered by the amount of cash raised.

The Mooiplaats disposal should contribute some of the money required. There was $2.03m in cash at the end of June 2014.

The placing is in two stages, with £13.8m raised in stage one once shareholder approval has been gained at the general meeting on 25 September and regulatory clearance. The stage two placing worth £24.2m requires TMM Holdings, which provides security services, to secure the finance to acquire the shares assigned to it. There have been talks with alternative investors if TMM does not obtain the funds.

company news

Asian growth set to propel Empresaria's international expansion

Recruitment services *www.empresaria.com*

Positive interims have led to profit upgrades for recruitment firm **Empresaria Group**. The international spread of operations is an attraction, with markets improving in the UK and Germany and potential growth in Asia.

In the six months to June 2014, revenues dipped from £95.6m to £94m but this was due to currency movements and disposals and underlying growth in net fee income was 11%. There was underlying net fee income growth in all three main regions, with the rest of the world growing at an underlying rate of 16%. The UK contribution to net fee income is slightly higher than from continental Europe and rest of the world but the three geographic divisions are of similar size. Admin expenses were broadly flat so pre-tax profit improved from £1.6m to £2m.

> There was underlying net fee income growth

Technical and industrial and financial sectors generated the most growth. Permanent revenues grew by 10%, with the strongest improvement in the UK. Temporary revenues were slightly lower due to branch closures. Permanent and temporary both grew in Asia and there were strong performances in Japan and India. A new managing director has been hired for the Chinese business.

Net debt of £6.5m was £2.4m lower than the previous June but higher than the net debt of £5.8m at the end of 2013. Cash flow is normally much stronger in the second half. The 0.35p a share final divided was covered nearly 18 times by last year's earnings and that cover will rise if the dividend is maintained in order for cash to be conserved to invest in growing the operations. In the first half, a Dubai professional search was acquired and new offices opened in Hong Kong, Malaysia, Chile and Mexico.

The share price has recovered but the multiple remains modest. The 2014 earnings forecast has been increased by 7.5% to 6.85p a share – partly due to a lower tax charge. The shares are trading on just over seven times prospective 2014 earnings.

EMPRESARIA GROUP (EMR)			50.5p
12 MONTH CHANGE %	+30.7	MARKET CAP £M	19.3

Patience required with Electric Word

Information publisher *www.electricwordplc.com*

Education, health and sports information publisher **Electric Word** continues to switch subscriptions from paper-based to digital but house broker Panmure Gordon has downgraded its forecasts because of the slow pace of progress.

In the six months to May 2014, revenues improved from £6.48m to £6.84m and Electric Word made a small underlying profit. The cash inflow from operating activities increased from £168,000 to £411,000. Net debt was £89,000 at the end of May 2014. Deferred income increased from £3.11m to £3.61m during the six-month period.

ELECTRIC WORD (ELE)			3.6p
12 MONTH CHANGE %	+122.2	MARKET CAP £M	14.6

The sport and gaming division remains the strongest part of the business and its operating contribution increased from £77,000 to £629,000, although that is partly due to the timing of exhibitions. Healthcare increased its loss as new products are developed. The education catalogue business is being wound down and the publications portfolio consolidated.

Not all parts of the group are expected to improve their trading in the full year and investment in new digital products will hold back profit this year. Panmure Gordon has more than halved its profit forecast for 2013-14 to £370,000 and has cut its 2014-15 forecast to £1.09m. That means that the shares are trading on 20 times 2014-15 prospective earnings. Electric Word is moving in the right direction but it will take longer than initially thought.

StatPro continues cloud Revolution

Portfolio analysis software *www.statpro.com*

Dividend

StatPro maintained its interim dividend at 0.85p a share when it published its interim figures for 2014. The total dividend in 2013 was 2.8p a share and it could be increased to 2.9p a share this year even though earnings per share are expected to fall as investment in moving to cloud-based products takes time to generate greater revenues. The dividend would just about be covered by forecast earnings for 2014 even if it were maintained.

StatPro floated on the Main Market in May 2000 and then moved to AIM in June 2003. During 2005, a capital reconstruction enabled Statpro to start paying dividends. The maiden dividend was a final dividend of 0.5p a share announced with the 2005 figures. In 2006, the total dividend was 1p a share and the dividend has, so far, been increased every year since then.

Business

StatPro has been supplying portfolio analysis software for two decades and it is going through a major shift of emphasis from conventional software sales to cloud-based sales via StatPro Revolution, which enables portfolio information to be shared with as many people as the subscriber wants. The initial cloud-based service was launched in 2011 but StatPro R+ is set to be launched next year and this will be a replacement for the company's Seven product. This should help to accelerate the move of existing customers to the cloud but it will still take a number of years.

One of the attractions of StatPro is its recurring revenues base. The current level of annualised recurring revenues is £28.4m, and the 322 StatPro Revolution clients account for £4m of this. Clients who subscribe for the cloud-based service generate £9.9m of the recurring revenues in total. Asset managers generate the majority of revenues but third-party administrators, pension funds and wealth management firms also use the company's software.

STATPRO (SOG)	
Price (p)	84
Market cap £m	56.7
Historical yield	3.3%
Prospective yield	3.4%

The focus is generating more revenues from larger clients and the average revenue per client for StatPro Revolution increased by 26%. The minimum subscription has been increased to $18,000 a year. In the six months to June 2014, group revenues fell from £16.5m to £15.7m but on a constant currency basis there was a 4% increase. Underlying profit halved from £2.56m to £1.26m due to additional sales and product investment costs. Net cash was £3.18m at the end of June 2014.

Growth will come from migrating existing clients to StatPro Revolution and associated products and from new clients. Adding additional analysis will help to attract new clients. StatPro's management believes it has a lead over its competitors.

Panmure Gordon expects profit to decline from £4.1m to £2.7m in 2014 and then start to grow again. The shares are trading on 29 times prospective 2014 earnings. Patience is required for StatPro but as long as StatPro R+ is launched on time and revenues start to build up this patience should be repaid.

Dividend news

Property developer **Northacre** has declared an interim dividend of 35.43p a share, following a 40p a share dividend the previous year. This dividend will cost £15m, which is equal to the dividend payments received from developments last year. There was £21.2m in the bank at the end of 2013. Resolutions at the AGM that would allow the company to issue shares without further shareholder approval have been withdrawn. Changes to a consultancy services agreement with ADCM, which is related to 68.8% shareholder Spadille, mean that it will no longer receive a performance fee and the £1.2m annual fee will be reviewed each year. There are also plans to amend the articles of association.

Packaging supplier **Robinson** has increased its interim dividend by 12% to 2.25p a share even though first-half trading was flat. However, a strong second-half contribution from recent acquisition Madrox should offset weaker trading in the rest of the business. Full-year underlying profit is expected to improve from £2.3m to £2.7m, although earnings per share are expected to decline from 14.1p to 12.8p. The full benefits of the Madrox acquisition should come through in 2015 when earnings per share of 20.1p are forecast. At 225p, the shares are trading on 11 times forecast 2015 earnings.

Animal feeds, fuels and food distributor **NWF** increased its 2013-14 dividend by 6% to 5.1p a share even though underlying profit dipped from £8.5m to £7.7m. A sharp improvement in the contribution from the food distribution business was offset by the effects of the mild winter on the fuels division and lower feed demand. NWF intends to invest in new depots for the fuels division but the main focus of expansion is likely to be feeds through the expansion of the product range. A recovery in profit to £8.2m is forecast for 2014-15.

expert views

Expert view: The broker

Seeing Machines secures Takata deal

By LORNE DANIEL

Seeing Machines* reported full-year figures ahead of expectations on the back of strong DSS unit sales to the mining sector. A major tier-1 automotive alliance with Takata and initial order from GM for up to 500,000 vehicles over five years mean that the company is well on track to deliver growth forecasts.

Australia-based Seeing Machines has developed an eye- and face-tracking technology platform used in products and applications that range from devices that improve driver safety and save lives to assessing trainees in simulators. The technology is used across the automotive, mining, transport and aviation industries, as well as by leading academic research groups and transportation authorities.

Investor focus is clearly on DSS and the eye-tracking technology behind it. The technology and the company itself have been embraced and endorsed by many global giants such as Caterpillar, BHP Billiton, and now Takata and General Motors.

We continue to see strong demand from the mining industry for DSS units to monitor driver fatigue and distraction on fleets of large mining trucks. Seeing Machines now has over 3,500 units deployed (mostly in the mining industry), steadily building a stream of recurring revenue from monthly charges. A number of major Caterpillar dealerships agreeing to resell DSS product under the agreement signed last year.

Interestingly, recent contracts have featured DSS deployment outside of the haul truck fleets, with orders for installation in water trucks (used to damp down dusty mine sites) and mine buses taking employees back and forth from site to barracks. For every haul truck (38,000 globally), there are three of these other vehicles on mine sites – so this represents a fourfold increase in the addressable mining market.

Commercial

The next market targeted is after-sales fitting to commercial fleets in the road transport industry, including trucks and coaches. A pilot scheme with Royal Beuk, which runs luxury coaches across Europe, seems to have been successful, with hopes the Dutch company will extend the deployment to its full fleet of 85 coaches after a nine-month evaluation period. In South Africa a leading haulage insurance underwriter is introducing DSS units to one of its major fleet customers, with a view to rolling the product out to all 25,000 vehicles it insures in the country. We note that reduced insurance premiums and claims costs have been a very successful driver for the telematics industry.

In the US market alone there are over 26m commercial trucks, with 2.4m of the heaviest Class 8 trucks. Every year, large-truck accidents kill over 4,000 (800 of them truck drivers) and injure 150,000 people in the US and the number is rising by 4% each year. Many of these accidents are caused by fatigue or distraction.

The global automotive market is too large for one small company to address. The DSS technology is therefore offered to OEMs through a partnership with a Tier-1 multi-national component supplier. Seeing Machines has signed a 15-year strategic alliance with TK Holdings, the Americas subsidiary of Takata Corporation. Based in Japan, Takata is a global provider of automotive safety equipment and components such as airbags, seatbelts and steering wheels to virtually all manufacturers, including Toyota, Honda, Nissan, Mazda, Ford, Chrysler and BMW. Following the alliance with Caterpillar in the off-road market, this is the second large global industry leader to adopt Seeing Machines' technology.

> Seeing Machines is now a global technology business

Financials

Revenue growth was an impressive 43% to A$16.8m in the year to June 2014, due to the demand from the mining industry; DSS sales grew 57% year on year to A$14.5m from 1,059 units (averaging A$12,000 per unit including some monthly support revenue). DSS thus contributed 86% of the revenue (up from 79% last year).

Looking ahead, we expect Seeing Machines to be generating net profits in excess of A$16m in 2017-18. Putting those earnings on a conservative P/E multiple of 13x (based on the FTSE All Share Technology Index) suggests a current valuation of A$200m for the business. At current exchange rates this would be a market capitalisation of £115m, or 14p per share, easily supporting our current 12p target price.

However, it should be appreciated that Seeing Machines is now a global technology business, deriving earnings from the worldwide mining industry, and increasingly focused on US markets for future revenues. As such we feel it will eventually be valued as a US technology business on a far higher earnings multiple.

**Seeing Machines is a corporate client of finnCap*

LORNE DANIEL is a research director at finnCap feature

Chinese companies still to convince investors

Chinese companies on AIM still have a mixed record and they need to improve their performance in order to win round investors.

Chinese companies continue to join AIM but there are still mixed feelings among investors even though many of the new entrants are profitable, dividend-paying companies.

There has undoubtedly been a change in the type of Chinese companies that have joined AIM over the years. Many of the early companies were fairly small and were not necessarily profitable. These days they are normally profitable and offer dividends to investors.

In the April 2012 edition of AIM Journal (http://www.hubinvest.com/AIMPDFApril2012_31.pdf) we talked about corporate governance of Chinese companies and how the companies could regain investor confidence. At that time, we wrote that there need to be more examples of good long-term performance rather than short-term gains. Sadly, there are still not enough of these examples. There are some good Chinese companies, though, and they could help to increase the confidence of investors.

Companies

Many Chinese companies that joined the junior market in the past decade or so have left AIM, saying that the cost and time involved were not worth it because they would not be able to raise money. In fact, Kada Technology Holdings and Green China Holdings floated in 2012 and both left after less than two years.

Not all the Chinese companies leave for a negative reason, some decide to switch markets. Solar wafer company Renesola joined AIM in August 2006, obtained a listing of its ADSs on the New York Stock Exchange (NYSE) at the beginning of 2008 and subsequently decided to concentrate on the NYSE listing in 2010.

West China Cement (WCC) had one cement plant at the time of its AIM flotation in December 2006, when it raised £22m at 105p a share, and at one point the share price was above 700p. Joining AIM helped WCC to finance its growth and build new plants but it also gave it an improved standing in its market.

When it decided to move to the Hong Kong Stock Exchange (HKSE) in 2010, West China Cement raised more cash to help finance expansion of capacity and the repayment of loans. There was a 50-for-one share split prior to the move, which means that the initial AIM flotation price was equivalent to 2.1p. The offer price was HK$1.69/share, which was right at the top of the indicative range. Following a strong first year of trading on the HKSE, where the share price more than doubled, a decline in profit due to the weak construction sector has sent it into reverse and it is currently trading at HK$0.87, which is the equivalent of just under 7p. Even after the share price fall this is more than treble the original AIM placing price.

Software supplier Sinosoft left AIM in 2010 following a tender offer at 8p a share and it joined the HKSE last year.

Liquidity

One thing that has continued to be true over the years is that many Chinese companies raise very little cash when they float. They may have wanted more cash but the broker finds that it is unable to raise the level of cash originally sought. Having gone through the process many companies decide to continue and raise more cash later. However, by starting out by raising a small amount of cash there is not always enough ongoing interest in the shares in the market and it is difficult to find additional investors.

There are two sides to the liquidity coin. In the short term, a lack of available shares to trade can lead to a jump in the share price when trading commences. This is not just true of Chinese companies; the surge in the share price of software company Arria NLG was undoubtedly down to there not being enough available shares in relation to the investor interest and the subsequent 80%-plus fall reflects the realisation that the company has little in the way of cash or revenues.

In contrast, many of the Chinese AIM companies do have revenues and make a profit. Yet, the lack of liquidity means

The performance of the business will always be the most important thing

feature

that the slightest knock to expectations can have a large effect on the share price. The Naibu share price dropped by around one-fifth when it admitted that labour shortages meant that it would not open its Quangang shoe-manufacturing facility because of a lack of available workers and the production would have to be outsourced instead, thereby hitting margins.

Logistics services provider China Chaintek experienced the other problem with a lack of liquidity. When the lock-in period for existing shareholders came to an end a large number of shares came onto the market and the share price slumped, even though the disposal was handled by the broker, and it has not recovered since despite positive trading statements.

Qualities

Jeff Teo, founder and managing director of mergers and IPO advisory business Agile Partners, is also a non-executive director of doors manufacturer Jiasen International. He says that Chinese companies are always asked why they are coming to AIM so they need to have a good reason and have growth prospects. He argues that a company needs to be a significant size and be profitable and offer dividends to investors.

Teo also believes that the people involved are also key to success. He argues that the ideal board has five members - two or three executives and two or three non-executives, at least one of whom is based in London. Teo argues that a good finance director is particularly important, as is a reputable auditor.

There are some good Chinese companies

Cash generation is important. Customers are used to having longer to pay in China so cash flow tends to be poorer than many, but not all, UK companies. Even allowing for this, some Chinese companies still have poor cash generation and to be taken more seriously it is important that they show that a large chunk of the profit that they announce is turned into cash within a reasonable period.

The most recent Chinese and China-related companies to join AIM have generally got off to a good start. However, all of them issued new shares accounting for less than 10% of the enlarged share capital when they floated. It will be interesting to see whether these initial gains will be retained. Most of the China-focused companies that joined AIM in 2012 and 2013, excluding resources companies, are trading below their issue price. Some have disappointed but many have grown profit and paid dividends in subsequent years.

The success story among the 2012 flotations is electric scooter manufacturer Vmoto. This company was already quoted on the ASX prior to joining AIM so it already had experience of being a quoted company but the business has also traded strongly since joining AIM. This shows that it is not impossible to perform strongly and have this reflected in the share price.

The performance of the business will always be the most important thing. Investors who are sceptical will not be easy to win round but if a company performs well then it will be harder to ignore.

RECENT CHINA-FOCUSED AIM FLOTATIONS

CODE	COMPANY	BUSINESS	DATE	ISSUE PRICE (P)	PRICE NOW (P)	% CHANGE
GTS	GTS Chemical Holdings	Chemicals	01/08/2014	36	39	+8.3
PFIT	Pressfit Holdings Ltd	Engineering	01/08/2014	9.5	9.5	0
DJI	DJI Holdings	Online gaming	24/07/2014	100	138	+38
JSI	Jiasen International Holdings Ltd	Doors manufacturer	14/07/2014	82	80.5	-1.8
ZBO	Zibao Metals Recycling Holdings	Non-ferrous metals trader	20/06/2014	8	11	+37.5
JQW	JQW	e-commerce services	09/12/2013	70	57	-18.6
GWIN	Gowin New Energy Group Ltd	LED	07/11/2013	7	2.75	-60.7
CHRR	China ReRun Chemical Group Ltd	Chemicals	16/10/2013	10	16	+60
CAMK	Camkids	Outdoor clothing	24/12/2012	88	61	-30.7
VMT	Vmoto Ltd	Electric scooters	09/11/2012	1.3	2.7	+107.7
MNCS	LZYE (now MNC Strategic Investments)	Education/shell	17/09/2012	8000* (8)	250	-96.9
CTEK	China Chaintek	Distribution	20/08/2012	160	92.5	-42.2
NTLG	New Trend Lifestyle Group	Feng shui services	28/06/2012	8	7.38	-7.8
GMC	Global Market Group Ltd	e-commerce services	22/06/2012	130	57	-56.2
NBU	Naibu	Sportswear	05/04/2012	124	50	-59.7
ACE	Auhua Clean Energy	Solar water heating	02/04/2012	40	23.5	-41.3

Prices at 5 September 2014. * After 1,000-for-one consolidation.

statistics

Market Performance, Indices and Statistics

AIM SECTOR INFORMATION

SECTOR NAME	% OF MARKET CAP	% OF COMPANIES
Financials	20.6	18.5
Oil & gas	15	12
Industrials	13.8	17.1
Consumer services	12.8	10.6
Technology	10.9	10.7
Basic materials	7.1	16
Health care	8.3	6.4
Consumer goods	7	5.9
Telecoms	2.8	1.4
Utilities	1.7	1.4

FTSE INDICES

ONE-YEAR CHANGES

INDEX	PRICE	% CHANGE
FTSE AIM All-Share	780.5	+3.6
FTSE AIM 50	3831.41	-3
FTSE AIM 100	3378.99	-1.6
FTSE Fledgling	6926.04	+19.3
FTSE Small Cap	4467.16	+8.9
FTSE All-Share	3639.54	+5.6
FTSE 100	6819.75	+5.2

COMPANIES BY MARKET CAP

MARKET CAP	NO.
Under £5m	233
£5m-£10m	135
£10m-£25m	227
£25m-£50m	168
£50m-£100m	143
£100m-£250m	133
£250m+	64

KEY AIM STATISTICS

Total number of AIM	1103
Number of nominated advisers	46
Number of market makers	52
Total market cap for all AIM	£75.1bn
Total of new money raised	£88.1bn
Total raised by new issues	£38.6bn
Total raised by secondary issues	£49.5bn
Share turnover value (2014)	£28.8bn
Number of bargains (2014)	4.07m
Shares traded (2014)	204.6bn
Transfers to the official list	169

TOP 5 RISERS OVER 30 DAYS

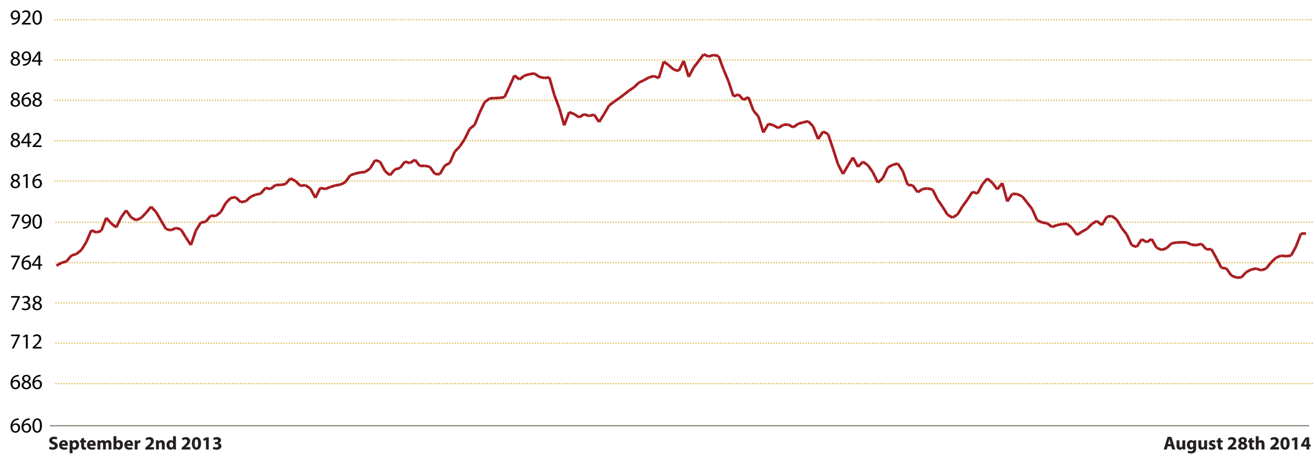
COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
Evocutis	Shell	0.45	+111.9
Ultima Networks	Technology	0.93	+94.7
Roxi Petroleum	Oil and gas	22.88	+92.6
AfriAg	Agriculture	0.69	+54.4
Renewable Energy Holdings	Cleantech	1.75	+48.9

TOP 5 FALLERS OVER 30 DAYS

COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
Bellzone Mining	Mining	0.58	-73.3
Kea Petroleum	Oil and gas	0.87	-62.2
African Minerals Ltd	Mining	30.75	-57.7
ARC Capital Holdings Ltd	Financials	$0.28	-43
Eco City Vehicles	Automotive	0.38	-42.3

AIM - 1 YEAR INDEX CHANGE

Source: London Stock Exchange



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

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Partners for growth

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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