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THE ONLINE MONTHLY FOR THE ALTERNATIVE INVESTMENT MARKET

# AIM JOURNAL

## No discount planned for MySale

Online members-only shopping club operator MySale Group is planning to join AIM and hopes to achieve a valuation of between £340m and £390m after raising £40m of new money. Arcadia owner Sir Philip Green recently acquired 25% of MySale for nearly £50m. The market for AIM new admissions, particularly retailers, has become tougher and the profit warning from ASOS (see below) may make it even more difficult to make the expected valuation.

Australia-based MySale owns the Ozsale website (www.ozsale.com.au), which sells products from well-known and emerging brands to its members at a significant discount to the recommended retail price. Management is keen to expand outside Australasia and MySale has bought Cocosa in order to acquire its database of more than 800,000 customers and website. Cocosa was being wound down but the acquisition will form the basis of MySale's new UK operation.

Another discount online retailer, MandM Direct, where former N Brown boss Alan White is chairman, is also planning to join AIM. MandM offers discounts of up to 75% on well-known fashion brands, such as adidas, Converse and Diesel, and helps these brands to clear their excess stocks. Private equity firm TA Associates acquired the business in 2007 for £86m and it wants to sell half of its stake. A valuation of between £140m and £170m has been suggested.

## ASOS loses its shine

Since ASOS is the biggest company on AIM, a sharp movement in its share price can have a significant effect on the performance of the market. So the third-quarter profit warning by the online fashion retailer led to a 1.5% decline in the FTSE AIM All Share index and a 4.5% slump in the FTSE AIM 50 index. The ASOS share price fell by 31% to 3120p on the profit warning.

ASOS admitted that it had to discount in order to continue to grow its sales internationally because of a rise in sterling and this led to a near-4% fall in gross margin. UK retail sales were 43% ahead, while underlying international sales growth was 28%. The operating margin is expected to fall from 6.5% to 4.5% this year. ASOS intends to introduce different pricing structures for individual countries or regions.

Peel Hunt slashed its profit forecast from £65m to £45m on the back of the profit warning. Even after the share price decline ASOS is still trading on a premium rating but its size makes it increasingly difficult to grow at the rates achieved in the past.

## In this issue

general news

# M&A increases on AIM

The volume and value of AIM companies' M&A increased sharply in 2013 and this higher level of activity appears set to continue, according to M&A on AIM 2014 published by Vitesse Media. Support services and software continue to be the sectors where there is the most activity.

In 2013, there were 181 acquisitions and 82 disposals, up from 146 and 57 respectively in 2012. Total deals were valued at £2.4bn, which is much higher than the 2011 peak of £1.9bn. The biggest deal was the £240m disposal of the Venus Rock Golf Resorts in Cyprus by Dolphin Capital. In fact, four deals accounted for 28% of the total.

Cash was the preferred method of payment, with 9% of the deal value paid in shares. However, in the software sector, where share prices have risen strongly in many cases, 28% of the payment for deals was in shares. This has changed in 2014. In the first quarter of 2014, 30% of the deal value was paid in shares. This is mainly due to the £152m acquisition of Himex by Quindell, where the vast majority of the consideration was in shares.

Back in 2010, 18% of the deal consideration was deferred or dependent on performance but this fell to 11% in 2013. The majority of this consideration was conditional on performance or other factors.

Motor dealer Vertu Motors and Helios Underwriting, which is building a portfolio of Lloyd's syndicates, were the two most active companies in 2013, with each completing five deals. Quindell and telecoms company Coms completed four deals each.

# Biofrontera UK intro

German biotech firm Biofrontera has joined AIM so that it can tap into the specialist healthcare funds in London. Biofrontera is already listed in Frankfurt and it is in the process of moving to the Prime Standard. No money was raised when Biofrontera joined AIM but it has already raised €15.3m after expenses earlier this year. The introduction to AIM valued Biofrontera at €69.9m. Biofrontera is already selling Ameluz, a prescription drug used to treat a superficial skin cancer called actinic keratosis, in Germany and other European countries. US FDA approval is being sought and a regulatory submission will be made in early 2015. Ameluz is used in conjunction with a specialist lamp, which provides a strong red light that triggers a chemical reaction. Biofrontera plans to extend the use of Ameluz to other conditions.

# Dart flotation scuppered by IGas recommended bid

M&A activity is continuing in the oil and gas sector. ASX-listed Dart Energy Ltd, which was planning an AIM flotation, has agreed a share-based bid from rival shale oil and gas explorer IGas Energy, which values the company at A$211.5m (£117.1m). This will create a group with more than one million net acres of UK licences.

Dart shareholders will receive 0.0817 of an IGas share for each Dart share that they hold and they will own 30.5% of the enlarged group. Dart has 24 licences in the UK that have potential for shale gas and coal bed methane. Dart has a coal bed methane project in Scotland and the first commercial gas sales could be achieved in 2016. There are also non-core interests in Australia, Germany, Belgium, Indonesia and India and these will be sold. IGas will have 13 licences where exploration work is funded by GDF Suez and two licences funded by Total.

In April, Dart announced its intention to join AIM and at that time the company's market capitalisation on ASX was the equivalent of £67.8m. The plan was for the shares to be introduced to AIM on 12 May. The bid is at a much higher valuation and Dart shareholders will continue to have exposure to the assets through the stake in IGas, which has a much wider portfolio of interests.

Coal mine methane producer and power response provider Alkane Energy is transferring its shale assets to Egdon Resources in return for an 18% stake in the purchaser. The deal is valued at £8m. Alkane still owns the rights to coal gas in these licence areas, covering 800 square kilometres, and it will be able to focus on its core activities. There will be an exceptional gain on the disposal. Alkane will provide connectivity to the grid for any shale gas produced. Government regulatory approval is awaited so the deal can be completed. Alkane has agreed to retain its shares for at least 12 months and it can nominate an Egdon board director. Egdon has raised £7m from a placing and open offer at 20p a share to fund exploration for the next three years.

advisers

# Resources adviser Fox-Davies agrees bid

AIM adviser Fox-Davies Capital, which was founded by polo enthusiast Daniel Fox-Davies, has agreed to merge with a company quoted on the GXG First Quote market. This is the latest deal involving an AIM adviser, with other recent examples including the acquisitions of First Columbus by Allenby and Ocean Equities by Norwegian investment bank Pareto Securities.

Optima Worldwide Group Ltd has exchanged contracts to acquire Fox-Davies for £4m. Fox-Davies says that it has raised more than £1 billion for its natural resources and other clients over the 13 years since it was formed. Fox-Davies chief executive Karl Hughes became a non-executive of the bidder three weeks before the deal was announced. Optima has been traded on GXG since December 2012 and it planned to become a provider of professional and corporate finance services.

At 2.45p a share, Optima is currently valued at £25.4m. Results for the year to June 2013 were published in February. They show a NAV of £9.45m but this is predominantly goodwill on acquisitions plus money owed by a former director. In the report and accounts Optima said that it had agreed to acquire corporate finance business Strand Capital but there has been no announcement that this acquisition has been completed.

**Cenkos Securities** says that its business continues to trade strongly and revenues are well ahead of the same time last year. This appears set to continue because there is a strong pipeline of new business.

**Numis Corporation** more than doubled its interim profit. In the six months to March 2014, revenues rose £51.5m and underlying profit is 125% higher at £20.7m. There is a strong balance sheet, with £67.9m of cash at the end of March 2014. The interim dividend has been increased by a quarter to 5p a share.

AIM adviser **finnCap** has already completed two financings through its finnCap Angel Network (fAN Club) and undertaken comprehensive due diligence on more than 50 investment propositions. A £8.5m equity and debt financing enabled online contact lens retailer Getlenses Group to acquire Vision Direct, while £400,000 has been raised for Wifinity, which is an internet service provider focused on the defence, leisure retail and education sectors. Three further potential fundraisings are in the pipeline.

**ADVISER CHANGES - MAY 2014**

| COMPANY | NEW BROKER | OLD BROKER | NEW NOMAD | OLD NOMAD | DATE |
|---|---|---|---|---|---|
| **Audioboom (One Delta)** | Arden | Sanlam | Arden | Sanlam | 01/05/2014 |
| **Ortac Resources Ltd** | SP Angel/ Cantor Fitzgerald | Cantor Fitzgerald | Cantor Fitzgerald | Cantor Fitzgerald | 01/05/2014 |
| **Secure Trust Bank** | Oriel/ Canaccord Genuity | Canaccord Genuity | Canaccord Genuity | Canaccord Genuity | 02/05/2014 |
| **Obtala Resources Ltd** | Fox-Davies | Macquarie | Fox-Davies | Macquarie | 12/05/2014 |
| **Strategic Natural Resources** | Beaufort | Allenby | Allenby | Allenby | 13/05/2014 |
| **Adamas Finance Asia Ltd** | WH Ireland | Laurel Capital Kingsway | WH Ireland | WH Ireland | 14/05/2014 |
| **Haydale Graphene Industries** | Cantor Fitzgerald/ Hume | Hume | Cairn | Cairn | 14/05/2014 |
| **Limitless Earth** | Peterhouse/Global Investment Strategy | Global Investment Strategy | Cairn | Cairn | 14/05/2014 |
| **accesso Technology** | Numis/ Canaccord Genuity | Canaccord Genuity | Canaccord Genuity | Canaccord Genuity | 19/05/2014 |
| **WANdisco** | Investec/UBS | UBS/Panmure Gordon | Investec | Panmure Gordon | 19/05/2014 |
| **AfriAg** | Cairn | Allenby | Cairn | Allenby | 21/05/2014 |
| **Cenkos Securities** | Smith & Williamson | HSBC | Smith & Williamson | HSBC | 21/05/2014 |
| **URU Metals Ltd** | Northland/Beaufort | WH Ireland/ Beaufort | Northland | WH Ireland | 22/05/2014 |
| **Tangiers Petroleum Ltd** | RFC Ambrian | Peel Hunt | RFC Ambrian | RFC Ambrian | 23/05/2014 |
| **Mortice Ltd** | Allenby | Cantor Fitzgerald | Allenby | Cantor Fitzgerald | 27/05/2014 |
| **Octagonal** | Cairn | Sanlam | Cairn | Sanlam | 27/05/2014 |
| **Landore Resources Ltd** | Hume | Strand Hanson | Strand Hanson | Strand Hanson | 28/05/2014 |
| **Cellcast** | Allenby | Zeus | Allenby | Zeus | 30/05/2014 |
| **Range Resources Ltd** | Cantor Fitzgerald/GMP | GMP | Cantor Fitzgerald | RFC Ambrian | 30/05/2014 |

company news

# Organic growth supplements acquisition contributions at Advanced Computer Software

*Health and business software provider* *www.advancedcomputersoftware.com*

Health and business IT services provider **Advanced Computer Software** has the ability to grow organically as well as via acquisition. In the year to February 2014, revenues jumped 68% to £203.2m on the back of acquisition activity over the past two years. However, organic growth was 5%, or 7% if CSH is excluded.

The long-term growth record is shown by the compound annual growth rate in revenues of 46% over five years. There are many acquisitive companies that can achieve that rate of growth in revenues but what makes Advanced Computer Software different to many of those is that underlying earnings per share grew by 31% a year over the same period and cash generation is strong.In 2013-14, underlying pre-tax profit moved ahead from £24.1m to £38.5m. The dividend was raised by 10% to 0.44p a share, which is covered 15 times by underlying earnings per share.

## All three divisions grew organically

All three divisions grew organically, with the strongest growth in health and care. There are 68 community care contracts worth more than £1m each being issued over the next three years. The health and care division has already won five contracts, averaging £2m a year each. The business solutions division is growing at double the rate of the market if CSH is excluded. CSH revenues were flat following its acquisition but it did contribute to profit growth.

SaaS and subscription revenues were nearly one-fifth higher at £40.9m and they account for one-third of recurring revenues, which were 64% of group revenues. The group is focusing on selling cloud managed services to the existing clients of other divisions. If 10% of the business solutions clients were to buy these services at £10,000 a year they would generate annual revenues of £20m.

| ADVANCED COMPUTER SOFTWARE (ASW) | | | 127.75p |
|---|---|---|---|
| 12 MONTH CHANGE % | +41.6 | MARKET CAP £M | 610.6 |

The group order book is worth £209m and more than two-thirds of this will be recognised in this financial year. Panmure Gordon upgraded its forecasts after the publication of the full-year results. The broker expects Advanced Computer Software to improve its underlying profit to £43.3m, giving a prospective multiple of 18 in 2014-2015. This is before any further acquisitions, which should enhance earnings further.

# Cash pile finances e-Therapeutics until 2017

*Drug discovery* *www.etherapeutics.co.uk*

Drug discovery company **e-Therapeutics** has received positive initial results from the phase 1 trial of its potential brain cancer drug ETS2101 and drug storage issues have been resolved. The company has other trials in progress and enough cash to finance its activities until 2017.

The company uses its network pharmacology platform to help it to make drug discoveries. Cells are networks and when they are diseased they become disordered. This means that multiple interventions are required to make a treatment effective. The company's platform is used to discover what to target in order to make the greatest impact and what drugs will do this. The best drug candidates can then be chosen and developed.

| E-THERAPEUTICS (ETX) | | | 29p |
|---|---|---|---|
| 12 MONTH CHANGE % | -17.7 | MARKET CAP £M | 76.6 |

The cash outflow from operations was £5.72m in the year to January 2014. There was £43.1m in the bank at the end of January 2014 thanks to the £40m raised last year. There is a further £1.1m of cash to come from R&D tax credits.

Additional clinical data from phase 1 trials of ETS2101 are expected later this year and the results of the phase IIb trial of the ETS6103 treatment for depressive illness will be available in 2015.

# Scapa continues to edge up margins as healthcare growth fuels progress

*Adhesive tapes and films* *www.scapa.com*

Bonding materials and adhesive components supplier **Scapa** continues to improve its margins in its main divisions and there is scope for further improvement. The main growth came in the healthcare division, helped by strong growth in the wound care market.

In the year to March 2014, revenues were 8% ahead at £226.1m, while the underlying profit improved from £12.7m to £14.9m, helped by tight cost control. The tax rate was reduced from 35.4% to 29.5%. The dividend has been doubled to 1p a share and it is still seven times covered by underlying earnings. The business generates cash and had net cash of £5.4m at the end of March 2014.

Healthcare accounted for less than one-third of group revenues but its margins are higher than the rest of the group. Trading margin of 14.7% is nearly three times the margin of the industrial division, which makes the healthcare division the biggest profit contributor. The healthcare business has filed patents for polyurethane Gel adhesive formulation and antimicrobial silicon and it is this type of innovation that enables the margins to be higher. Capacity has been increased in order to satisfy demand.

> Scapa's strategy is to concentrate on markets where it has critical mass

The industrial division continued to improve its figures even though many of its markets remain tough. Automotive is the best-performing sector and submarine and fibre-optic cables are another market that Scapa is focusing on. Scapa's strategy is to concentrate on markets where it has critical mass but it can take a long time to secure orders.

| SCAPA (SCPA) | | | 132p |
|---|---|---|---|
| 12 MONTH CHANGE % | +61 | MARKET CAP £M | 193.7 |

The electronics division continues to make a small loss, although it broke even in the second half. This business is much smaller than the other two divisions and it would benefit from acquisitions to increase its scale.

Further cost savings will come from the merger of three pension schemes, which means that pension admin costs will be significantly reduced. House broker N+1 Singer forecasts a 2014-15 profit of £15.8m, giving a multiple of 18. Scapa considered a move back to the Main Market but decided against it.

# Produce Investments acquires Jersey Royal brand

*Potatoes supplier* *www.gvaphost.co.uk/PROD/*

Potatoes supplier **Produce Investments** is buying The Jersey Royal Company for £15m in cash and shares and it has acquired an option to purchase the freehold site of Jersey Royal's main packing facility in Jersey within three years for £6.35m.

Jersey Royal supplies the eponymous potato brand and it also owns the Kent Potato Company, which packs and sells locally produced potatoes. Jersey Royal has been trading for more than two decades and in 2013 it generated revenues of £31.5m and made a £100,000 loss. In 2010 Jersey Royal made a profit of £5m on similar revenues. That suggests that the group could make a positive contribution to Produce Investments, which believes that the Jersey Royal acquisition should be earnings enhancing in 2015.

| PRODUCE INVESTMENTS (PIL) | | | 270p |
|---|---|---|---|
| 12 MONTH CHANGE % | +100 | MARKET CAP £M | 70.5 |

Produce Investments is paying £11m in cash and issuing 1.59m shares for Jersey Royal. A share placing at 220p a share, raised £6m to help finance the acquisition.

The enlarged group will have a wider range of potato varieties and Jersey Royal provides access to earlier season potatoes as well as to additional retailers. The Produce Investments potato packing facility at Tern Hill in Shropshire will be closed in August and packing focused on sites in the Scottish borders and Cambridgeshire.

company news

# ACM Shipping recommends merger deal with larger Main Market rival

*Ship broking* *www.acmshippinggroup.com*

| ACM SHIPPING (ACMG) | | 246.5p | |
|---|---|---|---|
| 12 MONTH CHANGE % | +53.6 | MARKET CAP £M | 43.6 |

Fully listed Braemar Shipping Services is merging with rival ship broker **ACM Shipping Group** in a cash and shares deal that values ACM at a fully diluted £55m. This merger will create a leading global ship broker and it should be earnings enhancing in the first full financial year.

The bid is 250p a share in cash and two new Braemar shares for every five ACM shares. There are opportunities for individual shareholders to vary the amount of cash and number of shares received but the total number of shares issued and cash paid will remain the same. At a Braemar share price of 535.8p, this deal values ACM at 264.3p a share. A second interim dividend of 7p a share is being paid, which means that the total for the year is unchanged at 10.15p a share. ACM shareholders will get 28% of the enlarged group. The chairman, chief executive and finance director will all come from Braemar, with two executive directors coming from ACM.

> The combined group will have better market coverage

ACM has been reporting improving figures following an upturn in the shipping cycle. In the year to March 2014, revenues were 8% higher at £27.9m, while underlying profit recovered from £2.7m to £3.4m. Net cash was £4.6m at the end of March 2014. The order book is worth $16.1m.

The combined group will have better market coverage in the ship-broking sector and there should also be cost savings. The increased operational scale should enable larger transactions to be handled.

The combined business will have operations in Europe, Asia Pacific, Africa and the Middle East. Braemar is not only a ship broker but also provides environmental, technical and logistical services.

# Rockhopper diversifies into the Mediterranean

*Oil and gas* *www.rockhopperexploration.co.uk*

| ROCKHOPPER EXPLORATION (RKH) | | 97.5p | |
|---|---|---|---|
| 12 MONTH CHANGE % | -26.3 | MARKET CAP £M | 277.6 |

Falkland Islands-focused oil and gas explorer **Rockhopper Exploration** is diversifying geographically by acquiring fellow AIM-quoted oil and gas explorer Mediterranean Oil & Gas, which has interests in Italy, Malta and France. This could spark further acquisition activity among the sub-scale oil and gas companies focused on the Mediterranean.

Mediterranean is already producing gas both onshore and offshore of Italy. The bid is valued at 6.5p a share made up of 4.875p in cash and 0.0172 of a Rockhopper share for each Mediterranean share. This initial bid values Mediterranean at £29.3m but there is also potential contingent consideration of up to 3.55p a share. The payment of the contingent consideration is dependent on the HQ prospect having potential recoverable 2C contingent resources equal to or in excess of 80mmbbl, which would make the prospect commercially viable. Mediterranean has been hit by regulatory problems and other setbacks.

Mediterranean has £10m in the bank, while Rockhopper has cash of £147m but it will have to fund its share of drilling in the North Falkland basin in 2015.

Rockhopper and its partner Premier Oil and Falklands Oil & Gas Ltd (FOGL) have signed a rig contract covering a six-well exploration programme that is expected to commence in the second quarter of 2015. Four of these wells are in the North Falkland basin (Chatham, Zebedee, Isobel/Elaine and Jayne East). Rockhopper has a 40% stake in Chatham and 24% of the three other wells. The first two wells are within the Greater Sea Lion field. FOGL and its partner Noble Energy plan two wells in the South Falklands basin.

# Tangent's online growth enables dividend rise

*Printing services* *www.tangentplc.com*

## Dividend

Tangent Communications announced a 20% increase in its dividend to 0.24p a share when it published its 2013-14 figures. That dividend is covered 2.7 times by underlying earnings. Tangent has been paying dividends since 2008 and up until this year it has been maintained at 0.2p a share.

The balance sheet is strong, with net cash of £2.8m at the end of February 2014. This figure is forecast to increase to £3.4m by the end of February 2015 even though the dividend will lead to a £700,000 cash outflow. Tangent can buy back up to 10% of its shares.

The dividend is expected to be maintained this year but further growth in earnings provides an opportunity for a further increase.

## Business

Tangent offers a range of printing and digital marketing services to large and small businesses. In the year to February 2014, revenues were 11% higher at £27m, while pre-tax profit rose by 172% to £2.33m. That figure is flattered by the fact that non-recurring expenses were much higher in the previous year. Stripping those out, the pre-tax profit improved from £1.59m to £2.46m.

The growth in revenues came from the printing operations, where revenues increased from £13m to £15.9m. The Ravensworth subsidiary has been boosted by a recovering UK property market and an online photo-editing service is being launched this year. Printed.com is the part of the business that is more focused on smaller and medium-sized businesses.

| TANGENT COMMUNICATIONS (TNG) | |
|---|---|
| Price | 10p |
| Market cap £m | 27.7 |
| Historical yield | 2.4% |
| Prospective yield | 2.4% |

The disappointment was Goodprint where a new management team is adapting the business and revenues were lower than their pro forma equivalent last year. More e-commerce expertise has been brought on board and the advertising budget reduced. A new service offering delivery of business cards in four hours has been launched in London. Goodprint also offers Tangent the opportunity to expand internationally because it has revenues from 17 international markets.

The agency revenues were 14% lower at £11.1m but this was down to the disposal of its Australian operations but profit improved as margins were higher on the lower revenues. New services are being developed but this may hold back short-term profit.

Online generated revenues were 34% last year and the strategy is to increase these to 50%. House broker Canaccord Genuity forecasts a 2014-15 profit of £3.1m, which puts the shares on just over 12 times prospective 2014-15 earnings. Next year, Tangent should receive a boost from the General Election. The 2010-11 figures benefited from the 2010 election and there is a good chance that there will be at least some uplift from it even if it is not as much as last time. EU elections do not tend to have the same effect so they will not have a significant effect this year.

# Dividend news

Property fund manager **First Property** is confident that it can replace the business that it will lose when its contract to manage the USS Fprop Managed Property Portfolio comes to an end in August 2015. The USS fund has £160.5m under management, which is 47% of total funds under management of £341m. Management is confident that it has enough time to replace the USS fees with returns from new investments particularly by Fprop PDR, a recently launched fund acquiring office blocks and gaining permission for converting them to residential. However, it means that management has exercised caution about the dividend. The total dividend improved from 1.08p a share to 1.12p a share even though earnings per share more than doubled to 4.53p a share.

In-home digital entertainment technology developer **Amino Technologies** is increasing its interim dividend by 15% to 1.15p a share and it has stated that it will continue its progressive dividend policy up until the year to November 2016. The interim results announcement will be on 14 July but Amino says that the figures will be in line with expectations. Revenues will be second-half weighted this year, which is in line with normal trading patterns, but it means that first-half revenues will be lower. There was net cash of £19.7m at the end of May 2014.

Residential property developer **Telford Homes** increased its total dividend from 4.8p a share to 8.8p a share. This is on the back of more than doubled profit of £19.2m for the year to March 2014, as operating margin improved from 9.7% to 17.1%. Telford has already secured 98% of expected open market completions for 2014-15. Telford believes that it should be able to achieve a cumulative profit of more than £120m over the four financial years to March 2018.

expert views

## Expert view: The broker

# Hardide at a turning point

By DAVID BUXTON

After a disappointing 2013 and several years of start-up losses, advanced coatings provider Hardide* appears close to a turning point, with a number of new customer application programmes nearing a decision stage. An initial contract with GE has recently been announced, while other programmes continue. These often take time to reach production, so as we initiate our coverage we take a more cautious view on the rate of revenue ramp-up than on other market forecasts. Nevertheless, Hardide has the opportunity to deliver substantial growth through the commercialisation of its unique surface-coating technology.

Based on our forecasts, which management deems to be safe and conservative, the near-term valuation appears full while our "what if" scenario highlights a more interesting financial investment case. Longer term, this replacement technology has significant growth potential and warrants investor attention.

## Coatings

Hardide has developed a high-performance surface-coating process, which provides ultra-hard resistance to abrasion and wear as well as high qualities. The process is based around the use of tungsten hexafluoride gas in conjunction with a low temperature chemical vapour deposition (CVD) technique. It is a premium priced coating process, but confers premium metal attributes.

Revenues continue to be dominated by one significant blue-chip customer in the oil services sector, which has remained a loyal customer for several years albeit having displayed volatile ordering patterns.

The group's principal strategy is one of customer diversification. It intends to grow its customer list and product applications. Therefore as new customers come on board the revenue base will become more widely spread and less susceptible to fluctuations by one dominant customer. This is important for growth, but also to the group's risk profile.

Hardide is making good progress in its efforts to diversify its revenue base, targeting a number of different sectors, including the aerospace sector. It currently is working on approvals programmes as a chrome replacement coating with both Airbus and AugustaWestland. These programmes have the scope to become game-changing for Hardide. However, gaining approval in the aerospace sector with its rigorous testing and certification process remains a lengthy process. Indeed, the long sales cycles in a number of Hardide's target markets remain a challenge. Hardide is seeking aerospace Nadcap approval which should assist this process.

The group has taken several years to develop its product and is still at a fairly early stage of market acceptance. Several of the company's target markets still require arduous testing and verification procedures before technical acceptance can happen. Testing expenditure is likely to continue to facilitate new customer sign-up.

The group is currently operating close to its breakeven point, with enough spare capacity for the time being (including a mothballed facility in Houston). Profitability should be achieved through further revenue growth or new customer programmes. Near-term growth should need only fairly modest additional working capital and, in due course, investment in additional facilities.

Management has reduced annual overheads and cash burn to a minimum. In the short term, if revenues exceed current guidance the group will expand its marketing, sales and technical functions in order to attract more new customers. In the medium term, the group should display very high levels of operational gearing, with a high gross margin and rapid drop-through effect.

The group's greatest challenge is to achieve broad market acceptance of its technology. In a highly operationally geared business good shareholder returns will occur once it can generate a substantial increase in customer demand and significantly scale up its productive capacity. Additional reactors cost £0.5m but add revenue capability of around £1.5m pa. If fully utilised, this would imply a gross profit of £1m pa at the current gross margins, thereby covering its investment cost by a factor of 2x a year (assuming minimal additional overhead expenses).

## Valuation

The shares have picked up recently with increasing optimism over the outcome of potential trials and new commercial agreements, countered by more cautious forecast guidance. The recent conversion of loan notes has also triggered increased share liquidity. As such the valuation is very forward looking, on a 2015-16 P/E of 36. Our one-year fair-value price target is 2.1p, nevertheless longer-term appeal rests on the substantial growth opportunities.

**Hardide is a corporate client of finnCap*

DAVID BUXTON is a research director at finnCap.

feature

# AIM liquidity improvement has not narrowed spreads

As AIM's liquidity improves this should hopefully mean that some of the bid-offer spreads of the individual companies will narrow. However, there does not appear to be an improvement in the narrowest spreads from three years ago.

Liquidity continues to improve for AIM as a whole, assisted by the ability of investors to include AIM shares in ISAs and likely to be further helped by the recent removal of stamp duty from AIM share trades.

The improvement in liquidity has accelerated since last August, when AIM shares became eligible for ISAs. April marked the new tax year so there is an additional ISA allowance of £15,000, up from £11,520 the previous year, some of which will undoubtedly find its way into AIM shares.

Trading volumes have started the year strongly, with the average daily value of trades in the first four months of 2014 hitting £220.3m – only 2006 with a figure of £230.2m and 2007 where the average daily value of trades was £296.6m have higher averages for a full year, although the average for the first four months of 2008 was also higher. In 2008, the average daily value of trades fell off a cliff in the second half of the year as the global economy slumped.

The April 2014 figure was £238.4m, the highest monthly figure since February 2012. There has been growth in the average daily value of trades in each of the first four months of the year. There tends to be a seasonality to these values and the summer is generally less busy so the average for 2014 could fall over the next few months. Even so, it is significantly higher than the daily average of £117.1m for the whole of 2013, which was achieved thanks to an improvement from August onwards.

The average daily number of bargains in the first four months of 2014 was 28,405, which is more than 10,000 bargains higher than the average in the first four months of 2007. That indicates how much more activity there is now than there was around the peak of the market but in monetary terms the figures are not as high. That suggests that there are many more small deals in AIM shares.

The April 2014 average number of daily bargains was 31,891, which compares with 18,237 average trades for April 2013 and 20,547 average daily trades in June 2011.

## Trading volumes have started the year strongly

The tables for the percentage of individual companies' market value traded and the individual bid-offer spreads give an indication of the liquidity of AIM.

AIM Journal undertook a similar piece of analysis in June 2011 (http://www.hubinvest.com/AIMPDFJune2011_21.pdf).

**MOST TRADED AIM SHARES ON 9 JUNE 2014**

| COMPANY | MARKET CAP £M | % TRADED |
|---|---|---|
| Leni Gas & Oil | 72.9 | 11.39 |
| Great Western Mining | 2.5 | 9.36 |
| Cupid | 30.3 | 7.15 |
| Walker Greenbank | 108.6 | 5.68 |
| EKF Diagnostics | 109.7 | 5.12 |
| Red Rock Resources | 5.6 | 4.55 |
| Restore | 135.2 | 4.06 |
| Ferrum Crescent Ltd | 6 | 4.01 |
| Range Resources Ltd | 67 | 3.75 |
| Solo Oil | 14 | 3.44 |

**Source:** www.morningstar.co.uk

### Percentage traded

The first table shows the companies that have had the largest percentage of their market value traded. The figures in the table are a snapshot of one day. Because it is a random day it means that the next day is likely to include many different companies. The main example of this would be ASOS. If the figures had been from the day when it published its profit warning then the percentage traded would have been much higher. There were still shares equivalent to nearly 3% of the online fashion retailer's market value traded on 9 June 2014, which is two trading days after the profit warning. ASOS has been one of the most traded companies for many years. In April, nearly one-third of its market value was traded.

Unsurprisingly, many of the companies where a large percentage of their market value has been traded are small.

According to research by Allenby Capital, the smallest companies are the

## feature

most traded ones on the junior market based on the most recent monthly figures. The companies valued at less than £2m had 4.8% of their market value traded during the month. Companies valued at more than £100m had 4% of their market value traded. The lowest level of trading was in the market capitalisation range of £25m to £50m, where 2.1% of their market capitalisations was traded.

Considering that mining and oil and gas companies have been less favoured in recent times it is surprising that the top ten is still dominated by these resources companies. The number in the top ten has still declined from eight to six compared with three years ago.

### Bid-offer spreads

There is a big difference to the narrowness of bid-offer spreads between 2011 and 2014 – at least in terms of the narrowest examples. Again, this is a snapshot and the spreads can vary throughout a single day.

Only five of the spreads in the latest table would have got in the top 20 list for 9 June 2011. The narrowest spread in the latest table of 0.05% is wines retailer Majestic Wine. That compares with a 0.13% spread for London Mining, which topped the table three years ago. The 20th entry in the 2011 table was ASOS with a spread of 0.42% (the latest spread for ASOS is 0.66%), compared with 0.94% for Plus500 in the latest table. To put this in perspective, though, the 20th narrowest spread in the FTSE SmallCap index is recruitment firm Robert Walters with a spread of 0.96%.

Many companies where a large percentage of their market value has been traded are small

In 2011, there were 42 AIM companies whose bid-offer spread was less than 1%. Admittedly, the spreads from 2011 do appear to be more narrow than might have been expected. It may be that the date originally chosen three years ago was unusually positive. However, the June 2011 average daily bargains figure was two-thirds of the most recent level and the total value of those deals was less than two-thirds of current average daily values.

Eight of the latest top 20 are among the 50 largest companies on AIM and all of them are relatively large. That is no surprise because the larger, more traded companies are likely to have narrower spreads. Smaller companies may be traded regularly but their spreads can still be relatively wide – particularly if they are penny shares.

None of the companies' that were included in the top ten narrowest spreads in 2011 are even in the top 20 this year. Online gaming technology provider Playtech and Avocet Mining have moved to the Main Market since 2011 so they would not be eligible. Other than ASOS, only Blinkx and online retailer of antibodies Abcam are still in the top 20.

The make-up of the sectors in the lists has changed significantly. There were 11 resources companies in the 2011 list and four in the 2014 list, although Quadrise Fuels International is not a standard oil company because it has a licence to manufacture an oil-in-water fuel emulsion that is a low-cost substitute for heavy fuel oil used in the power generation and shipping markets.

What these figures do show is that, whether or not the spreads were narrower previously, there are still plenty of companies that have reasonable spreads even if there are still some examples of AIM shares with much wider spreads.

**AIM SHARES WITH NARROWEST % SPREADS ON 9 JUNE 2014**

| COMPANY | MARKET CAP £M | % BID-OFFER SPREAD |
|---|---|---|
| Majestic Wine | 305.1 | 0.05 |
| Tungsten Corp | 292 | 0.17 |
| Numis | 330.6 | 0.35 |
| Highland Gold Mining | 211.4 | 0.39 |
| Blinkx | 251.1 | 0.4 |
| Optimal Payments | 639.81 | 0.44 |
| Telit Communications | 233.1 | 0.49 |
| Clinigen | 375.6 | 0.55 |
| IDOX | 152.8 | 0.58 |
| Greenko Group | 242.9 | 0.62 |
| ASOS | 2669.6 | 0.66 |
| Nichols | 391.9 | 0.66 |
| Hargreaves Services | 391.9 | 0.66 |
| Ithaca Energy | 249.3 | 0.66 |
| First Derivatives | 198.4 | 0.79 |
| Quadrise Fuels International | 254.3 | 0.79 |
| San Leon Energy | 63.3 | 0.8 |
| Abcam | 798.3 | 0.88 |
| Telford Homes | 207.2 | 0.93 |
| Plus500 Ltd | 675 | 0.94 |

**Source:** www.morningstar.co.uk

statistics

# Market Performance, Indices and Statistics

## AIM SECTOR INFORMATION

| SECTOR NAME | % OF MARKET CAP | % OF COMPANIES |
|---|---|---|
| Financials | 20.2 | 19.1 |
| Consumer services | 14.4 | 9.9 |
| Oil & gas | 14.5 | 12 |
| Industrials | 13.7 | 17.5 |
| Technology | 12 | 10.3 |
| Health care | 7.1 | 6.1 |
| Basic materials | 6.6 | 16.4 |
| Consumer goods | 6.7 | 5.8 |
| Telecoms | 3.4 | 1.4 |
| Utilities | 1.5 | 1.4 |

## KEY AIM STATISTICS

| | |
|---|---|
| Total number of AIM | 1096 |
| Number of nominated advisers | 46 |
| Number of market makers | 51 |
| Total market cap for all AIM | £76.4bn |
| Total of new money raised | £86.6bn |
| Total raised by new issues | £38.1bn |
| Total raised by secondary issues | £48.5bn |
| Share turnover value (2014) | £18.3bn |
| Number of bargains (2014) | 2.36m |
| Shares traded (2014) | 113.6bn |
| Transfers to the official list | 169 |

## FTSE INDICES

ONE-YEAR CHANGES

| INDEX | PRICE | % CHANGE |
|---|---|---|
| FTSE AIM All-Share | 815.34 | +11.7 |
| FTSE AIM 50 | 4299.29 | +16.9 |
| FTSE AIM 100 | 3627.11 | +8.3 |
| FTSE Fledgling | 6965.78 | +28 |
| FTSE Small Cap | 4484.62 | +13.4 |
| FTSE All-Share | 3655.01 | +5.2 |
| FTSE 100 | 6844.51 | +4 |

## COMPANIES BY MARKET CAP

| MARKET CAP | NO. |
|---|---|
| Under £5m | 233 |
| £5m-£10m | 149 |
| £10m-£25m | 216 |
| £25m-£50m | 166 |
| £50m-£100m | 138 |
| £100m-£250m | 132 |
| £250m+ | 62 |

## TOP 5 RISERS OVER 30 DAYS

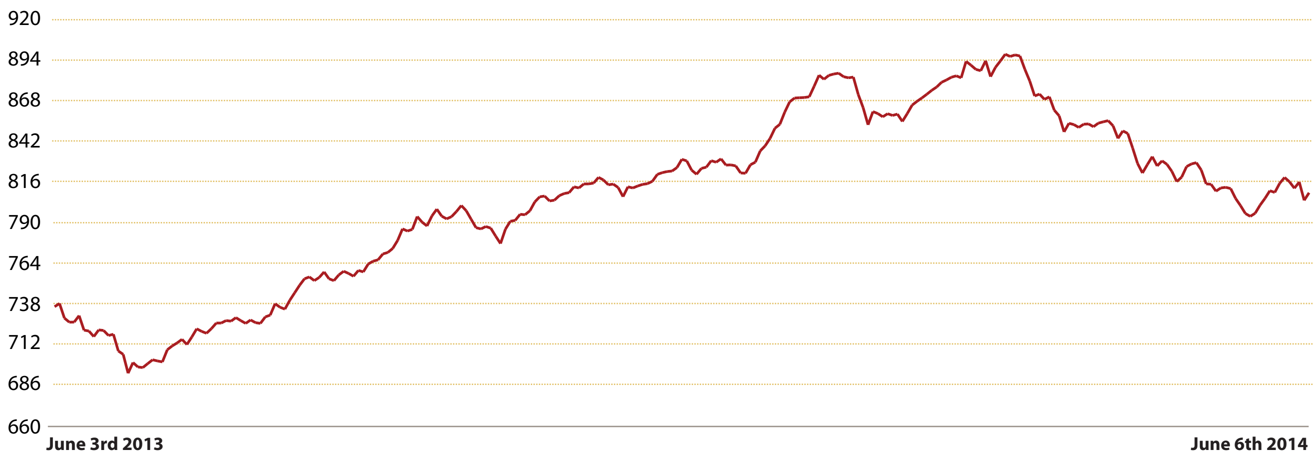
| COMPANY NAME | SECTOR | PRICE (p) | CHANGE (%) |
|---|---|---|---|
| Rose Petroleum | Oil and gas | 2.4 | +255.6 |
| Caza Oil & Gas Inc | Oil and gas | 20.88 | +85.6 |
| Rare Earth Minerals Ltd | Mining | 0.84 | +83.7 |
| Edge Resources Inc | Oil and gas | 11.88 | +66.7 |
| Leni Gas & Oil | Oil and gas | 1.48 | +64.1 |

## TOP 5 FALLERS OVER 30 DAYS

| COMPANY NAME | SECTOR | PRICE (p) | CHANGE (%) |
|---|---|---|---|
| blur Group | Technology | 95.5 | -60.4 |
| UBC Media | Media | 2.88 | -54 |
| William Sinclair | Consumer | 58.25 | -47.1 |
| Petro Matad Ltd | Oil and gas | 2.88 | -46.5 |
| Ferrum Crescent Ltd | Mining | 0.65 | -44.7 |

## AIM - 1 YEAR INDEX CHANGE

**Source:** London Stock Exchange




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

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finnCap 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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