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AIM JOURNAL

Advanced Computer exit

Healthcare and back-office software provider Advanced Computer Software (ACS) is recommending a bid that is 14 times the price at which the company floated eight years ago.

ACS was originally Drury Lane Capital, a shell backed by Marwyn that joined AIM at 10p a share in 2006. Vin Murria became chief executive in the summer of 2008 and set out to become a consolidator in the healthcare software market. The first purchase was Adastra, which supplies medical event management, data distribution and clinical support software to out-of-hours services providers, for £12.2m in cash and shares – issued at 17p each. That valued the company at £32m. Since then, ACS has consistently made acquisitions as well as achieving organic growth. Vin Murria still owns 12.2% of ACS.

Vista Funds, a private equity firm that focuses on acquiring software companies, is offering 140p a share in cash for ACS, which values the company at £725m. Vista will be able to finance larger acquisitions than ACS could as an independent company and thereby be able to grow ACS much faster.

Central Rand attracts interest

An approach for the main subsidiary of South Africa-focused gold explorer and miner Central Rand Gold has sparked a reassessment of the underlying value of the company and two more approaches. There could be more to come, with at least three other parties studying data supplied by the company.

Central Rand Gold signed an initial memorandum of understanding with Hong Kong-based Hiria, which is offering $150m for the subsidiary. Hiria is a subsidiary of Canada-based leasing business Marsa, which has invested in iron and nickel mining in Indonesia, the Philippines and Tanzania and it wants to expand in Africa and Asia. This sparked an approach from Beijing Ankong Investment, a subsidiary of Hong Kong-based financial firm Phoenix Tree Investment Group, which is offering $148m for the subsidiary. Shengbang Jiabo (Beijing) Consulting is the third interested party and it is also offering $150m. Due diligence has begun and this will need to be completed by the end of March. These deals will require regulatory clearance.

The attraction of the business is not immediately obvious and cash operating costs are high – $1,987/ounce in the first half of 2014. At the end of June 2014, Central Rand Gold had debt of $19.3m and cash in the bank of $4.39m. The group is loss-making and has net liabilities. Gold production has fallen because of high water levels but operational costs have been reduced.

In this issue

HubInvest publishes AIM Journal

www.hubinvest.com

general news

Pharma back in favour on AIM

Despite recent weakness in the performance of AIM, pharma sector companies are still keen to join the junior market. Three are due to float this month and there have already been 15 pharma, health and medical devices companies that have joined the junior market this year.

Midatech Pharma is developing a drug delivery method using a patented form of gold nanoparticles, which can "target individual cell types with specific targeting agents". There is an additional technology that encapsulates the drug in polymer microspheres, which is being acquired at the same time as the company joins AIM. Midatech, which is chaired by former Shire Pharmaceuticals boss Rolf Stahel, is raising £32m.

Liverpool-based Evgen Pharma (www.evgen.com) is a drug developer that is focusing on cancer and neurological conditions. Evgen wants to raise up to £20m.

Dr Mark Wyatt is a representative of fund manager Enterprise Ventures, which manages two funds that are major shareholders, on the Evgen board. He is also a director of OptiBiotix Health, which reversed into a shell during the summer. OptiBiotix uses naturally occurring bacteria in the gut to develop food ingredients and supplements to treat lifestyle ailments such as obesity and high cholesterol. Its share price has more than doubled since it joined AIM.

Quantum Pharma is already profitable and plans to pay dividends. The flotation provides a partial exit for existing shareholders, including Lloyds Development Capital and chief executive Andrew Scaife. Quantum manufactures medicines and supplies other medical products to pharmacies, hospitals and care homes. Quantum is raising £29.6m for itself and much of this cash is going to pay off borrowings.

Dealogic acquired

Former AIM company Dealogic is recommending a bid led by private equity firm Carlyle. The cash offer is $12.0816 (775p) a share, which values the financial data provider at $700m (£439m). There is also a partial share and cash alternative. Financial publisher Euromoney will take a 15.5% stake in the bid vehicle. Dealogic joined AIM in May 2004 and at the time of the flotation a decade ago it was valued at £154m. Management felt that the company's share price performance was not reflecting the progress of the company and they decided to recommend that shareholders vote to leave AIM in 2011. At that time, Dealogic returned £34.2m of cash to shareholders via a tender offer at 330p a share. So, anyone who did not tender their shares will make more than double the tender price from this bid.

NewRiver Retail buys out portfolio partner

Retail property investor NewRiver Retail is acquiring 90% of a property joint venture with a fund managed by Pacific Investment Management Company for £71m in cash. NewRiver Retail has raised £75m at 275p a share in order to finance the purchase. This is higher than the most recently published NAV per share for the company.

NewRiver Retail already owns the other 10% of the joint venture, which it acquired at the end of 2012. There is debt of £42.5m secured on the portfolio of properties. The portfolio includes five shopping centres plus a former department store in Hull which is near to one of the shopping centres. The properties cover one million square feet of space. Occupancy levels are currently at 97.7%. There are more than 200 tenancies, with an average outstanding lease of 7.2 years.

The net initial yield is 7.75%. In 2013, the underlying profit of the portfolio being acquired was £6.3m. The deal will enhance both NAV and earnings per share for NewRiver Retail. At the end of September 2014, NewRiver Retail reported a fully diluted NAV of 252p a share.

The company had net debt of £170.3m at the end of September 2014. NewRiver Retail had raised £85m at 265p a share last January but subsequently spent £174m on acquisitions, which include three large shopping centres bought for £140m through a 50/50 joint venture. That was offset by £34.3m raised from disposals. NewRiver Retail's portfolio includes shopping centres, high street shops, convenience stores and pubs.

NewRiver Retail started paying quarterly dividends this year rather than two dividends a year as it had done prior to becoming a Real Estate Investment Trust (REIT). The second and third dividends of 4.25p a share will both be paid at the end of January 2015. As a REIT, the company distributes at least 90% of its recurring profit in dividends.

advisers

finnCap consolidates number one position

AIM adviser finnCap increased its revenues by nearly a quarter in the six months to October 2014 and since then it has raised a further £30m for two new AIM entrants. finnCap, which sponsors AIM Journal, is the number one adviser on AIM, based on ARL Corporate Advisers Rankings, and it has 127 corporate clients, the majority of which are quoted on AIM.

Interim revenues grew from £6.9m to £8.5m, while profit increased from £1m to £1.3m. Annualised retainers improved from £4.4m to £4.6m. finnCap raised £135m for its clients in the first half. Since then, it has raised £20m for The People's Operator, which is a Shoreditch-based virtual mobile network operator.

The broker has also raised £9.6m at 135p a share for Constellation Healthcare Technologies Inc, which provides outsourced services to the US physician market. The move into crowdfunding will provide finnCap with another avenue for raising cash for its clients, whether they are quoted or not.

Following the move into the investment trust sector, finnCap has been appointed as a broker to The Ukraine Opportunity Trust and Qatar Investment Fund.

Raymond Greaves was appointed head of research at finnCap earlier this year. He recently published a research note on the palm oil producers sector in which he said that cheap valuations are likely to drive mergers and acquisitions in the sector over the next 12 months.

■ Daniel Stewart and Fox-Davies have both stepped down as nominated advisers and their clients have either found new nominated advisers or in the case of some are still looking for them. Daniel Stewart says the move will reduce revenues but that will be offset by related cost savings. Daniel Stewart is still seeking additional investment to cover the shortfall in its regulatory capital.

Fox-Davies was acquired by GXG First Quote company Optima Worldwide Group on 25 June and subsequently has acquired fund manager Strand Capital, which is the first move in developing an asset management operation. Fox-Davies has recruited six members of staff and opened an office in Geneva. Optima plans to move up to the GXG Main Quote next year.

ADVISER CHANGES - NOVEMBER 2014

COMPANY	NEW BROKER	OLD BROKER	NEW NOMAD	OLD NOMAD	DATE
Galileo Resources	Daniel Stewart/Hume	Hume/Shore	Beaumont Cornish	Beaumont Cornish	03/11/2014
Orogen Gold	Hume	WH Ireland/Hume	Cairn	WH Ireland	03/11/2014
Inspired Capital	Cenkos	Panmure Gordon	Cenkos	Altium	04/11/2014
Cambria Automobiles	Zeus/N+1 Singer	N+1 Singer/ Panmure Gordon	N+1 Singer	N+1 Singer	06/11/2014
Gable Holdings	Numis	Panmure Gordon	Numis	Panmure Gordon	11/11/2014
Paragon Diamonds	Northland	Northland/Sanlam	Northland	Sanlam	11/11/2014
Lighthouse Group	finnCap	Daniel Stewart	finnCap	Daniel Stewart	13/11/2014
Eco City Vehicles	Allenby	Numis	Allenby	Numis	14/11/2014
Arian Silver Corporation	Northland	Hume	Grant Thornton	Grant Thornton	17/11/2014
Quindell	Cenkos	Cenkos/ Canaccord Genuity	Cenkos	Cenkos	17/11/2014
Ferrex	Beaufort/finnCap	finnCap	finnCap	finnCap	19/11/2014
Venture Life Group	Panmure Gordon	WG Partners	Panmure Gordon	Charles Stanley	19/11/2014
UK Oil & Gas Investments	WH Ireland/Hume	Hume	WH Ireland	Beaumont Cornish	20/11/2014
Collagen Solutions	Panmure Gordon/ Zeus		Zeus	Zeus	21/11/2014
Tracsis	Investec	WH Ireland	Investec	WH Ireland	24/11/2014
Origo Partners	Smith and Williamson	Investec	Smith and Williamson	Smith and Williamson	26/11/2014
African Eagle Resources	Loeb Aron/Pareto	Pareto	Beaumont Cornish	Beaumont Cornish	27/11/2014
SWP Group	WH Ireland	Peel Hunt	WH Ireland	Peel Hunt	28/11/2014

Benchmark adds salmon eggs to its aquaculture operations

Aquaculture *www.benchmarkplc.com*

BENCHMARK (BMK)			95.5p
12 MONTH CHANGE %	N/A	MARKET CAP £M	131

Aquaculture and animal health company **Benchmark** is acquiring a fourth leg for its business. It is buying salmon genetics and breeding businesses SalmoBreed and Stofnfiskur. Benchmark will become the world's second-largest salmon egg producer.

A £70m placing at 85p a share will finance the acquisitions and provide £10m for the development of the BioCampus Facility in Edinburgh. The acquisitions will cost an initial £40.2m, with potential deferred consideration of up to £11.2m.

Norway-based SalmoBreed will cost an initial £19.5m. It develops genetic material for salmon eggs that improves disease resistance and growth. The initial focus has been Norway but there are opportunities to sell around the world. The plan is to change the royalty-based model to one generating revenues from the sale of eggs.

> The animal health market is forecast to grow at 7% pa

Iceland-based salmon breeding company Stofnfiskur will cost an initial £20.7m. Stofnfiskur supplies salmon eggs outside the natural season. The company is currently using 35% of its capacity. There will continue to be minority shareholders in Stofnfiskur and they will own 18.16%. Benchmark may try to buy these shares.

The acquisitions are forecast to generate combined revenues of £16.1m and more than £2m of EBITDA this year. There is plenty of spare capacity in the two businesses so if demand can be found these revenues could be higher.

Aquaculture is a fast-growing market and the farmed fish market is already a similar size to the farmed cattle market and growing much faster. Farmed fish is also set to overtake wild caught fish in terms of market size and with the depletion of the oceans' fish stocks the farmed fish market is likely to continue to grow rapidly on the back of a growing global population and rising demand for seafood. The animal health market is forecast to grow at 7% pa and aquaculture is set to grow faster than that.

Wolf on course for tungsten mining in Devon

Mining *www.wolfminerals.com.au*

WOLF MINERALS (WLFE)			14.75p
12 MONTH CHANGE %	-24.4	MARKET CAP £M	119.2

Wolf Minerals is well on the way to producing tungsten at its Hemerdon project in Devon now that the funding required to construct the mine has been secured. Production could begin before the end of 2015 and there is potential to increase the tungsten reserves.

Tungsten is used to make hard metals and steel alloys. It is normally sold as Ammonium Para Tungstate (APT) and the current price is more than \$300/mtu. Demand is expected to grow by around 5% a year up until 2018. Hemerdon could produce 3.5% of global demand in 2016. Hemerdon has proven and probable open pit ore reserves of 26.7Mt at a grade of 0.19%, plus tin. This should be enough to give the mine a 10-year life at 345mtu a year. Recent drilling results indicate that a further 4-6mt of ore could be available to be mined, which could grow ore reserves by up to 23%.

This can be done within the existing planning permission. If the area can be extended then there are likely to be additional reserves.

The capital cost of the mine is \$123m. Production costs, including debt service, are estimated to be \$170/mtu – well below current prices. Revenues of more than A\$100m are forecast for 2016, the first full year of production. That could generate EBITDA of more than A\$60m and make a big dent in the company's debt, meaning that dividends could be paid in future years.

company news

Tagging contract enables Solid State to be more generous with its dividend

Ruggedised components *www.solidstateplc.com*

Ruggedised equipment and batteries supplier **Solid State** managed to beat expectations for its interim results despite its recent trading statement. The business is trading well even though the Ministry of Justice contract for monitoring hardware for offender tagging is not contributing yet.

The Ministry of Justice contract is for a minimum of three years and should be worth £34m. Solid State's expertise in ruggedised equipment helped it win this business and there is potential to extend the contract. Initial deliveries will be in the fourth quarter of this financial year.

In the six months to September 2014, revenues grew 39% to £17.1m, while pre-tax profit jumped 175% to £1.55m. The improvement has come from a combination of organic and acquisitive growth and the concentration on higher-margin business. Net debt was £1m at the end of September 2014. The order book was worth £18.4m at the end of September 2014. Solid State is still looking for acquisitions that can add customers and products, and provide cross-selling opportunities.

Solid State is targeting a dividend cover of 2.5 times

Full-year profit is forecast to improve from £2.4m to £3.1m. The strong share price performance since the award of the tagging contract means that the profit multiple is around 22 times prospective 2014-15 earnings. That is before any significant contribution from the new contract, which should push profit up to £5.1m next year once those revenues start to flow through. That equates to a 2015-16 multiple of 13.

SOLID STATE (SOLI)			715p
12 MONTH CHANGE %	+171.9	MARKET CAP £M	59.6

Solid State has paid a dividend every year since floating in 1996. The interim dividend was increased from 2.75p a share to 4p a share. The company is targeting a dividend cover of 2.5 times – the figure was previously three times. WH Ireland has increased its current-year dividend forecast from 9p a share to 12p a share and next year's from 11p a share to 20p a share. That puts the shares on a prospective yield of 2.8%, with the expectation of further strong dividend growth.

Fusionex could become an analytics GIANT

Analytics software *www.fusionex-international.com*

Business analytics software developer **Fusionex International** was one of the darlings of AIM earlier this year when investors flocked to companies involved in big data. That initial hype has fallen away and the share price has halved from its high for the year. While the shares are still on a heady rating there is enormous potential for its GIANT software.

GIANT enables users to rapidly download and analyse data while also being easy to use and cost effective. Fusionex has used its software in collaboration with Intel to predict failures in control relays in the production process. This indicates that interest in the software is coming from significant companies. There have been a handful of sales of GIANT this year and there should be increasing momentum next year. Even so, other revenues will continue to be much larger than those generated by GIANT for the next couple of years.

FUSIONEX INTERNATIONAL (FXI)			390p
12 MONTH CHANGE %	+24.6	MARKET CAP £M	167.7

Fusionex is already profitable and generating cash from operations, although it does capitalise some of its development costs. Net cash of RM38.8m (£4m) is forecast for the end of 2014 and this is expected to grow the following year.

A dip in profit is forecast for 2014 and then a rise to RM23.9m in 2015, with earnings per share of 9.4p. That means that the shares are still trading on 40 times 2015 prospective earnings.

company news

Sirius Real Estate takes fast track to Johannesburg junior market

Commercial property *www.sirius-real-estate.com*

Commercial property investor **Sirius Real Estate** has obtained a quotation on the AltX market in South Africa and acquired a portfolio of five German business parks for €76m. At the same time, €40m was raised from a placing at €0.38 a share, which was equal to the market price.

Sirius has been courting South African investors for some time and it took advantage of the fast-track listing process that was introduced for AltX by the Johannesburg Stock Exchange at the end of September. AIM is included in the four specified stock exchanges covered by the new rule.

Sirius owns and operates business parks and offices in major German cities. The placing and a bank facility will finance the acquisition of the five business park sites – three in Berlin, one in Bonn and one in Aachen. This takes the number of sites to 35

> The shares are trading at an 18% discount to NAV

and they are valued at €459m. The new portfolio will add €6m to rental income, or €5m after interest costs. That is based on 83% occupancy, which is slightly higher than the 80% occupancy of the core portfolio.

The cash raising at a discount to the interim NAV will lead to a small decline in post-deal NAV to €0.464 a share. There are three sites that are up for sale and this will help to reduce borrowings. Pro forma net debt is €240m.

Last year, Sirius paid an initial dividend of €0.003 a share but from this year the policy will be to pay 65%

SIRIUS REAL ESTATE LTD (SRE)			€0.38
12 MONTH CHANGE %	+52.3	MARKET CAP £M	236.8

of funds from operations, which is recurring earnings after tax, adjusted for depreciation, amortisation of debt fees and other non-cash items. The relevant earnings do not include property revaluation gains and losses. This year's total dividend is expected to be €0.016 a share – an interim of €0.077 a share has already been announced - and this could rise to €0.02 a share next year. This provides a prospective 2014-15 yield of 4.2%.

Joint broker finnCap forecasts a profit including valuation movements of €22.9m in the year to March 2015. The shares are trading at an 18% discount to NAV, with potential uplift from increasing occupancy levels and rising rents.

Avanta agrees Toscafund bid

Serviced offices *www.avanta.co.uk*

Avanta Serviced Office Group is recommending a revised bid from its main shareholder, Toscafund Asset Management. Toscafund originally offered 110p a share for the serviced offices provider but this has been increased to 112p a share, which values Avanta at a fully diluted £44.4m. Avanta has stated that its 2014 figures will be better than expected.

Toscafund already owns 28.8% of Avanta and it had agreed to

AVANTA SERVICED OFFICE (ASOG)			109.5p
12 MONTH CHANGE %	-22.3	MARKET CAP £M	35.8

acquire Schroder's 15.1% stake. The management of Avanta own a further 18.2% of the company and they are accepting the bid. This means that Toscafund owns or has the support of 62.1% of the shares in Avanta.

Avanta operates 28 business centres, most of which are in Greater London. The company lost money in 2013 but its management says that the loss in 2014 will be much lower than expected. Prices are better than expected and the new sites are trading more strongly than forecast. The figures will also be helped by the release of a £450,000 provision relating to the King William Street site. The site in Beckenham has been sold. The improved trading conditions are expected to continue into 2015.

Stanley Gibbons widens collectibles offering

Collectibles seller *www.stanleygibbons.com*

Dividend

Collectibles retailer Stanley Gibbons increased its interim dividend by 0.25p a share to 3p a share, which is a continuation of its policy of regularly increasing its dividend. Stanley Gibbons started paying dividends a decade ago. In 2004, there was an 8p a share special dividend, following the sale of a stake in Provide Commerce Inc, and a regular total dividend of 2p a share. The underlying dividend has increased every year since then.

Stanley Gibbons can continue to steadily increase its dividend while retaining a comfortable cover from earnings. This year's dividend is expected to be 7.5p a share, rising to 8p a share next year when the cover should rise to three times. The 2015-16 forecast yield is 2.7%.

Business

Stanley Gibbons has been pushing forward with its strategy to widen the range of collectibles it can offer and improve its online offering. Recent acquisitions include coins dealer Noble Investments and antiques dealer Mallett; these bring to the group additional expertise as well as long-standing brands that date back centuries. The group can sell these products through its showrooms in London and New York or via its auction businesses.

The new website is marketplace.stanleygibbons.com and it has been soft launched, with the full launch expected in the first quarter of 2015. There have been costs incurred but no significant revenues as yet. There are more products to be added plus additional information but a loss of around £1.5m is expected for this year.

STANLEY GIBBONS (SGI)	
Price (p)	317.5
Market cap £m	148.6
Historical yield	2.4%
Prospective yield	2.5%

Stanley Gibbons tends to have a significant amount of money invested in stock. In the six months to September 2014, the stock figure rose from £42m to £50.7m – more than revenues in the previous full year. That is prior to the completion of the acquisition of Mallett, which adds a further £11m. Peel Hunt reckons that the stock should be worth at least £140m at retail prices.

In the six months to September 2014, underlying pre-tax profit quadrupled from £1.3m to £5.3m, with acquisitions contributing £2.4m, while earnings per share were 162% ahead to 10p a share. Like-for-like sales were flat. Net debt was £3.3m at the end of September 2014 but will have risen since the acquisition of Mallett, which cost £10.2m.

Standard Life has added to its stake since the interims, taking it to 7.38%. Ian Goldbart, who joined the company when Noble was acquired, has sold approximately one-third of his stake at 300p a share.

Mallett has been losing money but there could be annualised cost savings of around £800,000. Peel Hunt forecasts a 2014-15 profit of £11.2m, rising to £13.6m next year. The shares are trading on less than 16 times 2014-15 earnings, falling to 13 in 2015-16. That is a modest rating considering the quality of the brands and the potential for the upgraded online marketplace.

Dividend news

Transport resources optimisation and reporting software provider **Tracsis** more than doubled revenues to £22.4m in the year to July 2014. There was a strong contribution from the Sky High traffic data business acquired in the previous year. Pre-tax profit jumped from £3.3m to £5m, while net cash of £8.7m was ahead of expectations. The dividend was improved from 0.7p a share to 0.8p a share. WH Ireland forecasts a profit of £5.5m for 2014-15, but the outcome depends on orders for condition monitoring equipment and there is scope for upgrades. A rise in the dividend to 1p a share still means that it would be covered 16 times.

Photonics components and equipment supplier **Gooch & Housego** increased its total dividend from 6.3p a share to 7.2p a share, which is still nearly five times covered by underlying earnings per share for the year to September 2014. Acquisitions helped to grow revenues by 10% to £70.1m, while underlying profit was 19% ahead at £11.5m. Sales to the life sciences sector were flat but the core industrial and aerospace sectors were ahead of the previous year. Margins continue to improve and rationalisation of factory sites should help this to continue. This year's dividend should be at least 8p a share.

Despite a decline in interim profit, packaging and foils supplier **API** still increased its interim dividend by 7% to 0.75p a share and the prospective yield is currently just below 5%. Interim revenues were flat at £56.4m, while underlying profit dipped from £2.6m to £2.3m with the second half expected to contribute a similar level of profit. Earnings expectations have been downgraded but the dividend forecast has not. A total dividend of 2.2p a share should still be more than twice covered by earnings and the business remains cash generative.

Expert view: The broker

A new beginning for SacOil

By DR DOUGIE YOUNGSON

SacOil* has reinvented itself over the past year by changing its board, expanding its portfolio and restructuring its balance sheet. Consequently, we feel that the company is poised to embark on a strategy that could yield substantial shareholder value through asset monetisation and portfolio expansion via partnership agreements.

Nearly the whole board has been replaced, with the new directors bringing experience in the oil and gas sector. They have the right skill set to push ahead with the strategy of building a balanced exploration and production portfolio of assets across Africa.

Strategy review

The new management team has re-evaluated SacOil's strategy. Ultimately, the company wants a balanced portfolio of production, near-term production opportunities and exploration, and is targeting c10,000 boe/d within two years with the potential to acquire additional assets and move into additional countries.

There are two strands to the new strategy:

1. Monetisation of the existing portfolio; and
2. Expansion of portfolio to deliver production and cash flow.

Existing portfolio

In terms of the current portfolio, the two Nigerian PSCs are the most advanced, with both having near-term production and exploration potential. SacOil has determined that OPL 281 could be brought on stream (following the reinterpretation of the existing 3D seismic and then drilling three wells at a cost estimated at between US$20m and US$30m each) in less than two years. The company estimates that this PSC could yield 6-8,000bbl/d of production within two years.

Environmental studies are ongoing in both Malawi and Botswana and these are expected to be concluded in the short term. Given the exploration success in Kenya in the Great Rift Valley, Malawi looks very prospective and several companies are looking to secure acreage in order to attempt to replicate Kenya's exploration success.

Portfolio expansion

SacOil is evaluating several opportunities to expand the portfolio in the MENA region and has recently acquired a discovered asset in Egypt. Again the focus is on production and/or near-term development opportunities where it feels it can add value to the portfolio. The company may also look at mid and downstream opportunities (but not in terms of infrastructure development) where appropriate.

We feel that this is a very straightforward, sensible strategy which should be appreciated by the market given the realistic goals and timeframe. Clearly, the focus on developing and acquiring production would have a significant impact on valuation. Also, the acquisition of new assets would help verify the strategy and the subsequent newsflow should also help to drive the share price.

Valuation

We have calculated a risked exploration NAV (RENAV) for SacOil's current portfolio using the valuation from the 2013 CPR by DeGolyer and MacNaughton for the Egyptian asset, where we have used the NPV10 value for the 2P reserves for our calculations.

In Q4 2013, the company converted US$24.1m of debt into equity and also raised R3360m via a rights issue (at R0.27) which was completed in January 2014. Consequently, the company is now debt free and has c£18m of cash. This is sufficient capital to meet its short-term work commitments, but would not cover a large-scale drilling or development programme. Therefore, we feel that the key to future funding will be how it approaches expanding the portfolio and also how it deals with future partners.

A commonly used strategy by junior E&Ps is to acquire high interest stakes in attractive acreage, conduct exploration work to get enough data for a CPR and then farm out to a major.

How a farm-out is structured will vary, but normally the junior will receive some sort of capital repayment for costs incurred and some capped level of carry on drilling. It is very likely that SacOil will also use this strategy and so reduce its dependence upon the capital markets to fund its activities.

Partnering with a major also brings additional staff, technical knowhow and balance sheet strength, which should see projects being commercialised more quickly.

Our RENAV yields a value of 4.2p/share. The Lagia field in Egypt yields 0.5p/share. The company currently has c£18m of cash (0.6p/share) and no debt. We therefore initiate coverage with a risked target price of 5.3p/share.

**SacOil is a corporate client of finnCap*

DR DOUGIE YOUNGSON is a research director at finnCap

feature

Largest companies cause AIM underperformance

The largest companies have held back the performance of AIM in the past year and resources companies have performed so poorly recently that they are no longer dominating the list of largest companies.

Historically, when AIM underperforms there is invariably whinging about how the tail of smaller companies has held back the junior market. However, with the AIM index based on performance weighted by market value the performance of the smallest companies has little effect on the index.

The poor performance of the largest AIM companies is certainly the reason for this year's underperformance by AIM compared with the Main Market.

There are four out of the twenty largest AIM companies at the beginning of 2014 where the share price has risen so far this year. The share price of Songbird Estates has more than doubled, helped by the recent bid for the Canary Wharf property owner. Fellow property company New Europe Property Investments was the next best performer, with a 38.8% increase

Two out of the top 20 companies at the beginning of the year are no longer quoted on AIM. Thailand-focused oil and gas explorer and producer Coastal Energy was already the subject of a bid. Compañía Española de Petróleos (CEPSA) bid C$19 a share for Coastal – equivalent to around £11 a share at the exchange rate at the end of 2013 – which valued the company at C$2.2bn. Coastal, then known as PetroWorld Corp, floated at 10p a share nearly a decade ago.

Kurdistan-focused oil and gas explorer and producer Gulf Keystone Petroleum has moved to the Main Market but the share price has still fallen by 62.7%, with some of that fall before the switch.

This leaves 14 companies that continue to be on AIM and have fallen, with seven of these share prices more than halving. Three of those where the share price more than halved were resources companies – African Minerals, Energy XXI and Indus Gas. Online fashion retailer ASOS and video search technology developer Blinkx were both highly rated and their trading has been disappointing, while mobile banking technology provider Monitise is not profitable so it does not have any fundamentals to hold up its share price. Quindell's poor cash generation and controversy about its management hit its share price.

There are no oil and gas or mining companies left in the largest 15 AIM companies

Stripping out Coastal and Gulf Keystone, the top 18 companies at the beginning of 2014 were worth just over £20bn when AIM was worth £75.9bn. That is 26% of the market. Those same 18 companies were valued at £14.3bn at the end of November, when AIM as a whole was valued at £71.7bn - so they are just under 20% of the market.

Those market values are not like for like of course. Gulf Keystone and Green Dragon Gas have moved to the Main Market and there have been other large companies taken over, including Coastal and Max Property. Those four companies alone were worth nearly £3.5bn. Advanced Computer Software and Prezzo, which are being taken over, remain on AIM but they will be leaving by early next year.

To offset these departures, there are new AIM entrants and fundraisings by existing companies. In total, £5bn of new money has been raised in 2014. However, the underlying decline in AIM value appears to be predominantly attributable to the largest companies at the beginning of 2014.

The FTSE AIM All Share index has fallen by 14.7% so far this year. In the past, movements in the ASOS share price had a large effect on the AIM index. This is less true now that it is less than 3% of AIM's market value. ASOS is no longer the largest company on AIM, with Songbird taking over that role following a bid approach from Qatar Investment Authority and Brookfield Property Partners. The bid is 350p a share, which values Songbird at £2.6bn. This is a final offer so it cannot be increased.

The current largest 20 companies on AIM still include eleven that were in the list at the start of the year. The newcomers include online fashion retailer boohoo.com and Secure Income REIT, which floated earlier this year. GW Pharmaceuticals and Imperial Innovations both raised additional cash, which helped them move into the top 20. There are no resources companies left in the largest 15 AIM companies and

feature

only six in the top 50.

Blinkx and African Minerals are no longer anywhere near large enough to be in the top 50 AIM companies by market capitalisation.

Size

There is a view that companies need to get bigger to gain shareholder attention. To an extent that is true because some institutions do not look at smaller companies. There is also the idea that a larger company is somehow a better and safer investment than a smaller one. Well it was not true for Royal Bank of Scotland or a number of other large companies, including in more recent times Tesco. Looking at the size of a company does not give any indication of whether it is good or bad or just on too heady a profit multiple, such as Blinkx.

Size for size's sake is not a good thing. Quindell is an example of an excessively acquisitive company obsessed with becoming a much larger company in order to attract investor attention. It provides a perfect example of the pitfalls of a company gorging itself on acquisitions instead of concentrating on running its business well. It also shows how some companies try to get into sectors that could provide them with a higher rating. Quindell is classed as a technology company when it is really a services business, but ratings can be much higher in the former sector. Having a management treated with suspicion by a portion of investors did not help Quindell's share performance either.

Investors are starting to pay more attention to smaller companies. The latest indication of this is the recent £50m fundraising by new investment company River and Mercantile UK Micro Cap Investment Company Ltd. River and Mercantile is focusing on "companies with a free float market capitalisation of less than £100m at the time of purchase" so they could have a market value of more than £100m if some of the shares are tightly held. Most of the companies will be quoted on AIM and there will be 30 to 50 shareholdings.

Miton chief executive Gervais Williams's latest book, The Future is Small, argues that AIM, which he describes as "a magnet for smallness from around the world", has the potential to be the best-performing world market for many years to come. He says that in previous decades global growth was fuelled by increasing debt but this growth is stalling. This means that micro caps are becoming attractive again.

Institutions have been moving away from the smaller end of the market over many years but Williams argues that investors will start to move down the market cap range. However, it will take institutions years to get back into micro cap investments because of the difficulty in buying significant stakes in these companies. This provides a positive backdrop to the smaller end of the market over the next few years.

PERFORMANCE OF LARGEST 20 AIM COMPANIES

COMPANY	CODE	PRICE (P) (END 2013)	PRICE (P) (END NOV 2014)	% CHANGE	CAPITALISATION (£M) (END 2013)	CAPITALISATION (£M) (END NOV 2014)
ASOS	ASC	6124	2443	-60.1	5109	2038.1
Indus Gas	INDI	890.5	290	-67.4	1629.4	530.6
Gulf Keystone Petroleum	GKP	173.75	64.75	-62.7	1544.5	575.6
Songbird Estates	SBD	165.75	354.75	+114	1244.3	2663.1
Energy XXI (Bermuda)	EXXI	1571.75	382.27	-75.7	1234.6	363.1
Coastal Energy	CEO	1072	*	*	1214.1	*
Monitise	MONI	67	32.25	-51.9	1067.7	627.1
New Europe Property Investments	NEPI	458.53	636.24	+38.8	994.5	1725.1
Quindell	QPP	292.5** (19.5)	66.25	-77.4	979.2	284.7
Abcam	ABC	491	439	-10.6	973.3	870.2
PureCircle	PURE	587.5	565	-3.8	968.6	959.7
Blinkx	BLNX	205.25	23.75	-88.4	801.5	92.7
Origin Enterprises	OGN	571.08	658.11	+15.2	790.9	911.5
African Minerals Ltd	AMI	198.25	10	-95	656.9	33.2
James Halstead	JHD	313.5	310.75	-0.9	649.3	643.7
Datatec	DTC	317.5	292.5	-7.9	623.8	581.8
Bankers Petroleum Ltd	BNK	242.5	193.5	-20.2	613.3	489.4
Amerisur Resources	AMER	59.5	39.25	-34	600.6	398.2
Mulberry Group	MUL	955	790	-17.3	573	474
Optimal Payments	OPAY	353	388	+9.9	504.1	587.7

* Coastal Energy was taken over in early 2014. **15-for-one share consolidation.

statistics

Market Performance, Indices and Statistics

AIM SECTOR INFORMATION

SECTOR NAME	% OF MARKET CAP	% OF COMPANIES
Financials	23	18.6
Consumer services	13.9	10.9
Industrials	13.7	16.8
Oil & gas	11.9	12
Technology	10.8	10.9
Health care	8.8	6.7
Consumer goods	7.1	5.6
Basic materials	6.3	15.7
Telecoms	3	1.4
Utilities	1.6	1.4

FTSE INDICES

ONE-YEAR CHANGES

INDEX	PRICE	% CHANGE
FTSE AIM All-Share	725.66	-11.7
FTSE AIM 50	3588.27	-17.6
FTSE AIM 100	3205.47	-14
FTSE Fledgling	6807	+5.5
FTSE Small Cap	4368.89	+0.8
FTSE All-Share	3593.32	+1.3
FTSE 100	6722.62	+1

COMPANIES BY MARKET CAP

MARKET CAP	NO.
Under £5m	240
£5m-£10m	143
£10m-£25m	211
£25m-£50m	179
£50m-£100m	135
£100m-£250m	136
£250m+	52

KEY AIM STATISTICS

Total number of AIM	1096
Number of nominated advisers	44
Number of market makers	52
Total market cap for all AIM	£71.5bn
Total of new money raised	£88.9bn
Total raised by new issues	£38.9bn
Total raised by secondary issues	£50bn
Share turnover value (2014)	£37.3bn
Number of bargains (2014)	5.67m
Shares traded (2014)	286.7bn
Transfers to the official list	170

TOP 5 RISERS OVER 30 DAYS

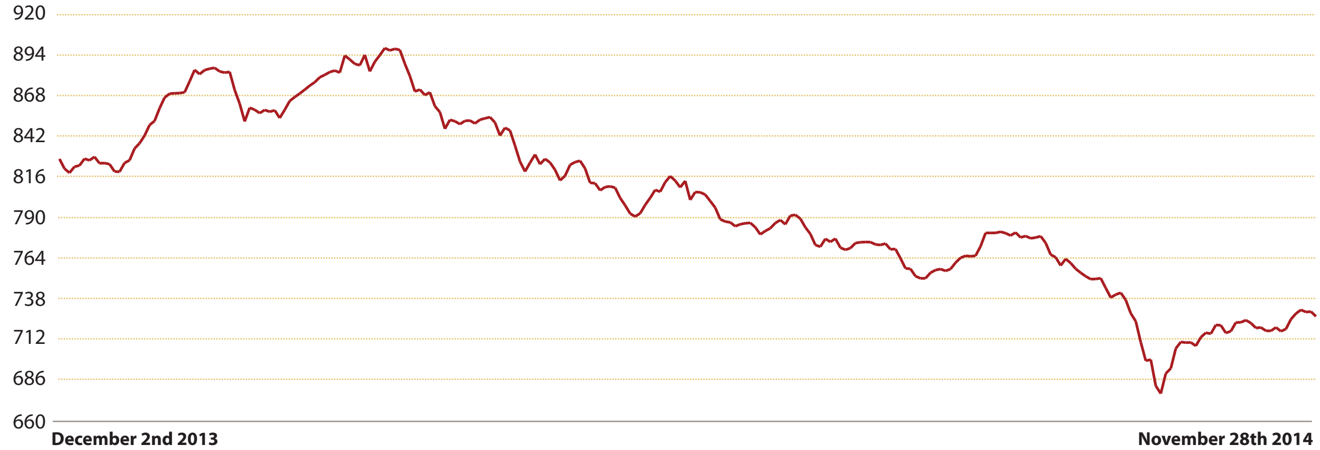
COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
MediaZest	Media	0.51	+251.7
Central Rand Gold Ltd	Mining	18.5	+131.3
OptiBiotix Health	Pharma	22.12	+118.5
Fitbug Holdings	Leisure	11.12	+99.6
Paragon Diamonds	Mining	5.72	+80.3

TOP 5 FALLERS OVER 30 DAYS

COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
Great Western Mining	Mining	0.68	-56.7
San Leon Energy	Oil and gas	1.14	-55.5
Quindell	Support services	66.25	-52
Serica Energy	Oil and gas	8.63	-48
Nandan Cleantech	Cleantech	4	-46.7

AIM - 1 YEAR INDEX CHANGE

Source: London Stock Exchange



Data: Hubinvest Please note - All share prices are the closing prices on the 30th November 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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