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AIM JOURNAL

Plackett targets overseas earners

BlackRock small company fund manager Richard Plackett believes that small companies will continue to outperform their larger counterparts. He expects the UK economy to perform poorly but he reckons that UK companies with overseas earnings will do well.

Plackett is particularly keen on companies with a high proportion of earnings in Asia. He says that Asian countries are still financially strong and expects them to grow even if recovery stalls in the US and UK. The weak UK economy could lead to further weakness in sterling which will further boost overseas earnings.

Plackett, who runs BlackRock UK Special Situations, says that he invests in AIM companies and that he "judges companies rather than the markets they are on". He does not compromise his criteria in terms of management, strong market position, cash generation, long-term record and strong balance sheet and he also does more research work on AIM companies.

Plackett expects that there will be a rise in new issues and the quality will be much higher than in the boom times.

Plackett also believes that there will be more takeover activity next year. He says that there has not been much takeover activity in his own portfolio until the recent bid for AIM-quoted online market research company Research Now (see page 4). "In the first year of a recovery the focus is on rescue rights issues then, as the recovery matures, there are more takeovers," says Plackett.

The four areas Plackett is focusing on are industrials, technology, commodities and Asian banks.

Regal Petroleum fined £600,000

The AIM Disciplinary Committee has fined Regal Petroleum £600,000 and publicly censured the oil company for a catalogue of breaches of AIM rules. The breaches happened between June 2003 and May 2005. The first was on 27 June 2003 – nine months after Regal joined AIM. The breaches relate to the Kallirachi Prospect in the North Aegean Sea.

Regal did not take reasonable care to ensure that the information it published was "not misleading, false or deceptive and did not omit any information likely to affect the import of the notifications". Regal also failed to announce "without delay" the poor test results of its first well and the abandonment of the second well.

Regal was deemed to have created a misleading impression about the prospect and to have been "consistently over-optimistic". Regal did not accurately reflect the test results, either.

During this period Regal raised more than £100m on the back of the misleading information.

Regal's present management team is keen to point out that they were not involved in these breaches.

In this issue

general news

AIM cleantech sector shrinks but recovery underway

AIM's cleantech sector has risen by nearly 60% since its low point in the middle of February. The strength of the sector may encourage cleantech new issues next year.

The Sigma Capital Cleantech index has been rising since mid-February although it is still 10% lower than one year ago. The recovery of the AIM cleantech sector lagged behind the FTSE AIM All Share index but since February it has been performing more in line with the wider index. The companies in the index are valued at a total of £2.2bn.

The fuel cell sub-sector has been a significant influence on the strong performance of cleantech, although it has been weaker in recent weeks. Ceramic Fuel Cells and AFC Energy are two fuel cell developers that have recovered strongly from a low base. The storage sub-sector has also been strong but this is dominated by back-up batteries producer China Shoto, which has benefited from 3G base station investment in China and India.

The solar, transport and biofuels sub-sectors have all performed poorly. Declining selling prices have hit the solar sector.

The number of cleantech companies in the Sigma Capital Cleantech index has fallen in the past year but this means that the better established businesses are left. Many of the companies that are no longer on AIM were poorly funded and at an early stage of their development. There are 40 companies in the index. When the Sigma Capital Cleantech index was launched there were 61 constituents and 12 months ago there were 55.

Takeovers have also reduced the number of cleantech companies. The numbers could fall further because carbon trading business Trading Emissions and clean energy investment company Leaf Clean Energy are in merger talks and plan a move to the Main Market. Wind power generator Novera Energy is the subject of a bid.

Cazenove cashes in

Broker and nominated adviser Cazenove is selling the remaining 50% of its business to joint venture partner JPMorgan, the major US investment bank. The 50% stake in JPMorgan Cazenove will cost £1bn.

That values the JPMorgan Cazenove business at £2bn, against a valuation of £700m when the original deal was made.

JPMorgan Cazenove is known for its FTSE 100 clients but it is also a nominated adviser and it has more than a dozen AIM clients. They include recent new issue LXB Retail Properties, which raised £110m in October, and brewer Young & Co. Oil services group Lamprell and investment company LMS Capital have both graduated from AIM to the Main Market in the past year.

JPMorgan Cazenove is also nominated adviser and joint broker to Aero Inventory, which went into administration in November. The aero parts inventory manager, which raised £11.9m in February 2009, had stock problems and its banks refused to continue to provide cash to the business.

Bargains approach peak levels

Trading on AIM has recovered strongly this year when it is measured in terms of number of bargains. The monetary value of the shares traded has lagged behind the levels in 2008. However, this changed in September 2009 when the average daily value of shares traded was £221.3m against £181.3m in September 2008.

These figures suggest that there is more activity at the private client level of the market with small investors attracted back to AIM because of rising share prices.

The average number of daily bargains has been higher than in the corresponding month of 2008 in four out of the past six months and the difference in one of the other months was 29 bargains. The overall average number of bargains for the first nine months of 2009 was 16,320, which is higher than the average for the whole of 2008 but slightly lower than in the first nine months of 2008. There is an improving trend so the outcome for the whole of 2009 should be much better than in 2008 which had a weak end to the year. To put this in perspective the highest figure for the whole year was 2007 when the average number of bargains was 16,460. AIM is on course to surpass that average this year.

That is not the case in value terms. Weak trading in the early months of 2009 means that the average daily value for 2009 so far is less than for 2005 and less than one-half the peak of £296.6m in 2007.

Mining and oil and gas companies are proving particularly attractive to investors. Companies in these sectors regularly top the lists of AIM's most traded shares each month.

advisors

Westhouse moves ahead without Hanson

Hanson Westhouse is changing its name to **Westhouse** following Robert Hanson's decision to leave the company and sell his stake. The broker continues to grow and it is adding a market making arm to the business early next year.

Hanson was chairman of Hanson Westhouse before it gained its AIM quotation via reversal into SovGEM and subsequently became a member of the broker's advisory panel. Hanson sold his 19.6% stake during October.

Chief executive William Staple bought 48,296 of the shares, taking his stake in Hanson Westhouse to 8.72%, while finance director Jonathan Azis acquired 16,666 of the shares, taking his stake to 1.03%. Tom Price, who is joining the firm as a corporate finance director, bought 416,666 shares, giving him a 4.1% stake. These shares were all bought at 60p each. That suggests that Hanson raised £1.35m from the stake sale.

The company is not short of experience in its core markets. It has a large number of individuals experienced in the smaller companies market on its company board and its advisory board. They include Beeson Gregory (Evolution) founder Andrew Beeson, KBC Peel Hunt founder Christopher Holdsworth-Hunt and former Hoare Govett boss Peter Meinertzhagen.

Hanson Westhouse has appointed Simon Doyle as director of market making. He previously worked for Wedd Durlacher, which became part of BZW, Altium and, most recently, Seymour Pierce. Doyle has more than 30 years' experience. The plan is to commence market making in the first half of 2010. Staple believes that the firm is losing out on business by not making markets in shares. He also reckons that the capital requirement should be relatively small. Hanson Westhouse has a capital base that is six times the regulatory requirement so it will not be stretched financially.

The company is not planning to buy up other brokers. Staple believes that it is better to win new clients rather than acquire another broker that will be difficult to integrate.

Shareholders will vote on the change of name to Westhouse Holdings at an EGM on 25 November.

■ Soon after his departure from Hanson Westhouse was announced Robert Hanson joined unquoted AIM adviser Strand Partners as chairman. Strand has changed its name to Strand Hanson.

A management team acquired the business from Richard Fenhalls and its founding shareholders in April 2009. The business has offices in London and South Africa.

Hanson has used some of the cash raised from the sale of his Hanson Westhouse shares to take a 10% stake in Strand Hanson, which hopes that he will help it gain clients in Asia. Hanson spent a number of years in China and south east Asia early in his career when he was employed by NM Rothschild.

ADVISER CHANGES - OCTOBER 2009

COMPANY	NEW BROKER	OLD BROKER	NEW NOMAD	OLD NOMAD	DATE
Independent Resources	Seymour Pierce	Seymour Pierce	Seymour Pierce	Deloitte	01/10/2009
Vision Opportunity China Fund Ltd	Canaccord Adams	Fairfax IS	Canaccord Adams	Fairfax IS	02/10/2009
Coms	Astaire	Alexander David	Astaire	Astaire (Dowgate)	06/10/2009
eg solutions	Arbuthnot	Brewin Dolphin	Arbuthnot	Brewin Dolphin	06/10/2009
ILX Group	FinnCap	Arbuthnot	FinnCap	Arbuthnot	06/10/2009
Armor Designs Inc	Shore Capital	Merchant Securities	Shore Capital	ZAI	06/10/2009
Advanced Computer Software	Seymour Pierce/Mirabaud	Seymour Pierce	Seymour Pierce	Seymour Pierce	07/10/2009
Fusion IP	Seymour Pierce	Nomura Code	Seymour Pierce	Nomura Code	07/10/2009
Saville Group	FinnCap	Arbuthnot	FinnCap	Arbuthnot	08/10/2009
ImmuPharma	Panmure Gordon/Noble	Panmure Gordon	Panmure Gordon	Panmure Gordon	09/10/2009
Globo	Astaire/Daniel Stewart	Astaire/NCB	NCB	NCB	09/10/2009
Gulf Keystone Petroleum	Mirabaud	RBC/Tristone	Strand Hanson	RBC	13/10/2009
Galantas Gold Corp	Beaufort International	Lewis Charles	Blomfield	Blomfield	15/10/2009
XXI Century Investments	Strand Hanson	KBC Peel Hunt/ING	Strand Hanson	Strand Hanson	15/10/2009
Origo Resource Partners	Liberum	Liberum	Hanson Westhouse	Smith & Williamson	16/10/2009
Provexis	Evolution	Arbuthnot	Evolution	Arbuthnot	20/10/2009
Crimson Tide	Seymour Pierce	WH Ireland	Seymour Pierce	WH Ireland	20/10/2009
Taliesin Property Fund	Hanson Westhouse	NCB	Hanson Westhouse	NCB	21/10/2009
Energem Resources Inc	Strand Hanson	Canaccord Adams	Strand Hanson	Canaccord Adams	22/10/2009
Alexander David Group	Alexander David	Alexander David	Strand Hanson	Dowgate	22/10/2009
Renewable Energy Holdings	Novus	Ambrian	Strand Hanson	Ambrian	26/10/2009
Lok'n Store	Arbuthnot	Investec	Arbuthnot	Investec	27/10/2009
Xcite Energy	Arbuthnot	Thomas Weisel Partners	Strand Hanson	Strand Hanson	28/10/2009
Bango	Cenkos	Panmure Gordon	Cenkos	Panmure Gordon	28/10/2009
Dominion Petroleum	Seymour Pierce/Canaccord Adams	Seymour Pierce/Tristone	Seymour Pierce	Seymour Pierce	30/10/2009

AIM Awards

Online retailer Abcam heads the class at the 2009 AIM awards

Online antibodies retailer *www.abcam.com*

The 2009 AIM awards were held at Old Billingsgate Market in London on 15 October and the winner of Company of the Year was the online retailer of research grade antibodies **Abcam**. Chief executive Dr Jonathan Milner accepted the award for a company that has been one of the undoubted success stories of AIM.

Abcam raised £10m at 167p a share when it joined AIM in November 2005. The current share price is approaching six times that level and it has practically doubled in the past year.

Abcam was a worthy winner of the 2009 award for AIM company of the Year

Revenues grew 55% to £56.8m in the year to May 2009 but in constant currency terms the growth figure is 28%. This worked its way through to profits as well. Even so, underlying profit growth is still significant and most companies' will be envious of how fast Abcam can grow.

Pre-tax profits rose from £7.95m to £16.3m. Gross margins were up from 60.7% to 65.8% – including 3% from currency movements. Abcam has been profitable since 2002 and it is a highly cash generative business with net cash of £25.5m. The company paid a total dividend of 12.11p a share for 2008-09 – equivalent to 35% of earnings.

ABCAM (ABC)			901p
12 MONTH CHANGE %	+ 96.9	MARKET CAP £M	319.5

The company's success comes from spotting a highly lucrative niche market and servicing it efficiently. In 11 years Abcam has gone from a vision to a fully fledged global online market leader. The overall market share is 10% but more than one-half of researchers have used an antibody from Abcam in the past 12 months.

Entrepreneur snapped up by US rival

Online market research *www.researchnow.co.uk*

Research Now chief executive Chris Havemann did not have long to enjoy his award for Entrepreneur of the Year award at this year's AIM awards before a bid was announced for his company. Online market research panels operator Research Now recommended a 430p a share bid from US-based rival e-Rewards. Don't feel too sorry for Havemann because the plan is that he will take over as chief executive of e-Rewards.

The bid values Research Now at £85.1m. The indicative offer was originally made on 4 September – more than one month before Havemann won his award. The deal will create one of the leading online data collection and panel providers in the world. The two companies fit well geographically.

RESEARCH NOW (RNOW)			420p
12 MONTH CHANGE %	+66.3	MARKET CAP £M	79.8

The enlarged group is keen to retain the other members of the Research Now management who will be taking some of the consideration in management loan notes which are exchangeable for shares in e-Rewards. These loan notes will be worth £10.6m, thereby reducing the cash outflow from the bid to £74.5m.

Research Now was prospering as an independent company despite tough trading in the market research sector. Pre-tax profits rose 43% to £3.48m in the six months to April 2009.

Earlier this year, AIM-quoted ToLuna paid $40m for the research fieldwork division of US-based Greenfield Online from Microsoft. A deal that won it the AIM award for Transaction of the Year.

Max Property scoops new company award

Property investor *www.maxpropertygroup.com*

MAX PROPERTY (MAX)			117.5p
12 MONTH CHANGE %	N/A	MARKET CAP £M	258.5

Max is the latest vehicle for property entrepreneur Nick Leslau

Property investor **Max Property** stood out in a year of few new issues. Max beat off competition from software consultancy Avisen, telecoms services provider Daisy and healthcare systems company MediLink-Global to win the Best Newcomer award, which was sponsored by FinnCap.

Jersey-incorporated Max is the latest vehicle for property entrepreneur Nick Leslau, who ran Prestbury, which was quoted on AIM between 1997 and 2000. Leslau and the rest of the management team invested £25m of the £220m raised at 100p a share in May 2009. This was an impressive achievement considering that it was still a relatively tough time to raise cash.

The plan is to put the cash to good use by buying good quality properties in the current weak UK property market. Max is willing to gear up to make acquisitions and it has already made its first move. Max acquired a portfolio of light industrial property from the receivers of Industrious Group for £227m, net of two disposals. The yield of these properties, even taking into account voids and other costs, is 10.3%. Max still has free cash of £110m.

Max will invest its cash over a five year period. Leslau intends to wind Max up after 7.5 years.

Other awards

Best Performing Share
FutureGene

Best Communication
May Gurney Integrated Services

Best Use of AIM
Vertu Motors

Best Technology
ImmuPharma

AIM Transaction of the Year
ToLuna

Achievement in Sustainability
Modern Water

Best Research
Edison Investment Research

Special Achievement Award
Peter Ashworth

Asian Citrus wins international award

Orange grower *www.asian-citrus.com*

ASIAN CITRUS (ACHL)			46p
12 MONTH CHANGE %	+166.7	MARKET CAP £M	354.5

Orange plantations owner **Asian Citrus** may be planning a listing on the Hong Kong market but it has no intention of leaving AIM. The AIM quotation has given the newly crowned AIM International Company of the Year access to cash to grow its orange plantations.

Asian Citrus was one of the early Chinese entrants to AIM back in August 2005. It has been consistently profitable during its time on the junior market. The company operates two plantations, at Hepu and Xinfeng, and is investing in a third at Hunan. There are currently 2.9m orange trees on the first two plantations, most of which are already bearing fruit, and management plans to plant 2.4m trees at Hunan by the end of 2013.

Each existing share in the company was subdivided into 10 new shares on 4 November. The original flotation price was 112p a share but after the subdivision the equivalent price is 11.2p a share. That means that the current share price is four times that level.

Asian Citrus hopes that the Hong Kong listing on 26 November will help to improve the liquidity of the shares. There are similar companies quoted on the market and it will also make it easier for the local population to deal in the shares.

company news

LiDCO on course to move into profit

Cardiac monitoring equipment *www.lidco.com*

Medical device developer **LiDCO Group** reported strong revenue growth for the six months to July 2009 and it has not yet benefited from signing up Aspect Medical Systems as the exclusive US distributor of its LiDCOrapid monitor.

LiDCO develops and manufactures minimally invasive monitoring technology that monitors the amount of blood flowing around the body. The company grew its revenues by 23% to £2.49m. More importantly, recurring revenues increased by two-fifths to £1.63m as more money is generated from sensors and fees for each time a monitor is used. The loss increased slightly from £1.07m to £1.2m.

Aspect will help the LiDCOrapid monitor break into the US anaesthesia and surgery markets. Aspect also has the non-exclusive right to distribute the LiDCOplus cardiac output monitor. Aspect will employ the company's US sales team, thereby saving LiDCO $850,000 a year. An upfront fee of $1.15m is being paid for these rights. Aspect also received warrants over 8% of LiDCO's share capital.

LiDCO raised £3.19m at 10p a share in May 2009. The cash was needed to finance the orders it was receiving because bank finance was difficult to secure at the time. The share price has doubled since then. LiDCO still has £2.6m in the bank.

LiDCO is expected to lose around £1m this year, which represents a small second half profit, and it is on course to make a profit of £1m in the year to January 2011.

Recurring revenues increased by two-fifths to £1.63m

LIDCO (LID)			23.5p
12 MONTH CHANGE %	+168.6	MARKET CAP £M	40.9

Aero Inventory uncovers parts headache

Aero parts management *www.aero-inventory.com*

Aero parts inventory manager **Aero Inventory's** board has appointed KPMG as administrator to the business after it discovered discrepancies in its aero engine parts stock records. Finance director Hugh Bevan has resigned and chief executive Rupert Lewin's contract has been terminated but he remains on the board. The former management has been criticised for its high levels of pay.

When Aero Inventory wins a contract it always buys the stock of parts held by the customer. This makes it a cash hungry business. There should not be any impact from the problems on cash flow but write-downs are likely. It is impossible to assess how big the write-downs will have to be. Debt was raised against the value of the stock and this is why it was difficult to raise more finance.

Aero Inventory was not able to deliver its accounts to its banks in line with the timing in its borrowing agreements. This is a breach of a non-financial covenant and the banks were not prepared to provide any more funds. Alternative avenues for raising cash failed to come up with any money in time.

The board believes that the stock problems may have a material impact on the 2007-08 audited accounts and the 2008-09 accounts, which have yet to be audited. The accounting problems relate to a parcel of stock purchased in the financial year to June 2008. The problems do not just cover the book value of stock but also stretch to the number of parts physically in stock.

The administrator will continue to oversee the review of the accuracy of previous financial reports.

The shares were suspended on 26 October at 264p each, which valued Aero Inventory at £138.3m. That is well down on the all-time high of 722.5p a share achieved at the end of 2007.

The banks were not prepared to provide any more funds

AERO INVENTORY (AI.)			264p
12 MONTH CHANGE %	+5.4	MARKET CAP £M	138.3

Gold buying provides bumper year for H&T

Pawnbroker *www.harveyandthompson.com*

H&T	(HAT)
Price	283p
Market Cap £m	100
Historical Yield	2.3%
Prospective Yield*	2.8%

*Based on current exchange rate

Dividend

Pawnbroker H&T has a progressive dividend policy. H&T paid 5p a share in 2007 and then increased the dividend to 6.5p a share in 2008. Those increases have not even kept pace with earnings growth.

The latest interim dividend was increased by 25% to 2.5p a share. Analysts are forecasting a total dividend for 2009 of between 7.5p and 8p a share. An 8p a share dividend is likely to be covered four times by 2009 earnings. Earnings per share growth is expected to be around 50% in 2009 although a boom in buying gold has flattered that figure.

The dividends paid in 2009 have cost £2.5m and this could rise to nearer £3m next year.

Expanding the business is costly, with additional cash needed for working capital and spending on new sites. Twelve new stores will open in the second half talking the total to 122 by the end of 2009. Management wants to double store numbers over the next five years and this will require significant investment. Gold buying has increased working capital needs significantly and this will eat into the cash generated in 2009.

H&T has a £50m borrowing facility which lasts for four years. KBC Peel

Hunt forecasts net debt of £42.1m at the end of 2009.

Business

It is a cliché that pawnbrokers do well in recessions and while that may be true they don't seem to do too badly in better economic times either.

The trading statement in October confirmed that trading was well above expectations thanks to gold buying. The core pawnbroking business is growing in line with expectations.

Consumers are becoming increasingly aware of the idea of selling unwanted gold. The adverts on the television for various gold buying companies appear to have had a positive effect on this side of H&T's business. H&T has even opened 56 standalone units that focus on gold buying.

H&T reported underlying profits of £7.7m in the first half of 2009 and is on course to make £17.4m in the full year.

The gold buying boom can't be relied on to continue indefinitely. Management advised against any upgrades for 2010 – profits of less than £15m are forecast for 2010. Even so, underlying earnings growth between 2008 and 2010 is expected to be well over 20% and that is based on conservative forecasts. The shares are trading on around 10 times consensus forecasts for 2010.

Dividend news

Telecoms and IT staff provider **Networkers International** is paying a special dividend of 2.1p a share following the disposal of its Saudi Arabian joint venture for $4.2m. Management also intends to implement a progressive dividend policy from now on. Networkers has never paid a dividend before but the intention is to distribute 25% of post-tax earnings. This is a highly cash generative business even though profits fell from £2.95m to £2.2m in the six months to June 2009. Following its merger with MSB, Networkers had net debt of £20.7m at the end of 2006. That fell to £2.9m by the end of June 2009. The special dividend will cost £2m.

Self-storage centres operator **Lok'n Store** is paying a final dividend of 1p a share having passed its interim due to the economic uncertainty at the time. The company paid an interim of 0.33p and a final of 0.67p a share for 2007-08. Management says that it intends to return to paying an interim dividend this year.

Finance provider **ACP Capital** is returning 5.05p a share (£10.5m) to its investors. This is dependent on 54.2%-owned **ACP Mezzanine** paying a 7.05 eurocents a share dividend, which will generate €9m for ACP Capital.

Niger Uranium is not paying a cash dividend but it plans to distribute part of its stake in fellow AIM-quoted miner **Kalahari Resources** to its shareholders. They will receive 20.66 Kalahari shares for every 100 Niger shares they own. The record date for the distribution is 24 November. Niger will retain 2.68m Kalahari shares. Niger has £1.4m in cash and could receive a further £4.29m if option holders exercise their options in order to obtain Kalahari shares.

expert views

Expert view: The broker

Construction yet to fully benefit from fiscal stimulus

By LESLIE KENT

At the time of the banking crisis, the UK government (along with the other members of the G8) verbally committed itself to a fiscal stimulus involving much needed investment in infrastructure and public services to help support a severely injured underlying economy. At this juncture, it has not materialised and the last budget actually mentioned a halving of investment in public services until after the general election.

Whilst we understand the need to take decisive action to prevent the collapse of the country's financial industry, we believe that it is important for the government to revisit capital expenditure in infrastructure and public services in order to create some momentum in the non-financial sector.

It would serve two purposes. The first would help on the employment front because the construction industry can be a large employer of skilled and semi-skilled labour and, secondly, it would leave a lasting legacy that would enable the speedier transfer of goods and services around the country for the future.

New orders decline

The problem is that New Orders in the Construction Industry for the first half of 2009 shows that the total order flow is slowing not simply because of house building but the impact of private industrial and commercial activity. Total new orders are down from £20,703m to £15,184m or 27% but it is not all housing. However, stripping out the housing numbers leaves volumes that are still down 22% compared with the first half of 2008. Industrial (£593m v. £1,186m) and commercial (£3,419m v. £7,065m) orders have halved as one might expect given the tough economic conditions but the strongest area remains infrastructure which is up 22% (£3,799m v. £3,101m).

Looking across the industry's sectors, we believe that the house building industry has now stabilised and that the Barratt Developments preliminary figures, coupled with the £720m fund raising and the massive land write-downs, could prove to be the low point in the industry's fortunes. Most of the house builders' balance sheets have now been recapitalised and they are waiting for a pick-up in volume.

> It will take several years for the house builders to restore revenue and profitability to 'normal' levels.

The contracting sector is likely to encounter a paucity of new domestic orders and will start chewing through some pretty good margin order books in the second half of 2009.

On a more positive note, we believe that the wide ranging support services side of the industry will continue to benefit as an inefficient government continues to outsource more to the efficient private sector in order to gain better value for money in what could be a very austere economic climate for several years.

In mid year, we suggested share prices had anticipated too much from a cyclical recovery and that there remained plenty of scope for disappointment in both the revenue and profitability of the house builders' late summer results season. This proved accurate.

Slow recovery

We believe it will take several years for the house builders to restore revenue and profitability to 'normal' levels and, at this juncture, can see no reason for them to sell above doubtful asset values. The most important housing quarter since the close of 1993 will be the first quarter of 2010 because, traditionally, people do not move house in front of a general election.

Having suggested that contractors with PFI/PPP and support services divisions offered the best value in mid summer, we are now concerned that their order books could shrink especially given the likely post election government spending squeeze and a return to austerity.

> It is important for the government to revisit capital expenditure in infrastructure and public services in order to create some momentum.

Given the uncertainties in the general economy which will have a major bearing on the building and construction sector, we recommend that investors remain underweight and seek solace from individual stock selection.

LESLIE KENT is Research Director at FinnCap

feature

Stand-by agreements take off

It has been a struggle for all firms, big and small, to raise money over the past 18 months, and that difficulty has prompted some to look at different ways of raising cash.

Companies quoted on AIM have managed to raise significant amounts of money from investors despite the problems of the world economy and small company stock markets in particular.

By the end of October share issues from companies already quoted on AIM had totalled £3.6bn in 2009, exceeding the £3.2bn raised in the whole of 2008. It is well down on the £9.6bn raised in 2007 but 2009 will still be a clear number three in the history of secondary fundraisings on AIM. That is after a slow start to the year.

But the days of easy, cheap finance are long gone and although in the long run that might prove to be a good thing for the economy and also the firms themselves, it presents problems for companies with an immediate need for more cash to fund a deal or specific project.

To get around the problem, companies have had to become more inventive in the way they raise cash.

Convertible share issues have become more common again but in a weak equity market they, like straight share issues, can give rise to substantial dilution of existing shareholders, something that might take years to overcome.

Interest charges on convertible loans can also be high, with an equity element often used as trade-off to get the coupon down, again giving rise to more dilution.

SEDA opportunity

One instrument that has been gaining momentum as an alternative, especially among AIM-quoted companies and small caps, is the standby equity distribution agreement (SEDA).

Advocates argue that its structure can reduce possible dilution and also gives companies more flexibility in their financing.

> The SEDA structure can reduce possible dilution and gives companies more flexibility in their financing.

Paul Strzelecki is the UK managing director at Yorkville Advisors, a multi-billion dollar US-based fund that specialises in this type of finance. He says business has never been better.

"Our pipeline is bigger than ever," he says. As the credit crunch hit companies across the world, so the deals have become equally global, with companies listed on Nasdaq, the Johannesburg Stock Exchange and in London all using SEDAs to raise cash, he adds.

A SEDA arrangement, sometimes called an equity line of credit, involves an agreement between a company and a capital provider for a fixed length of time and for a set amount of money.

The company will raise the cash by selling small tranches of shares to the capital provider, which then either sells them into the market or keeps them on its own book.

"SEDAs are unique in that they give management control of equity dilution," Strzelecki says. "All managements think their companies are undervalued. A standby arrangement allows them to raise money against the future price of the shares. They can pull money down when they decide the price is right."

The fallout from the credit crunch and the level of control stand-by arrangements can give has meant that SEDA's are starting to be recognised as useful financial tools by managements, Strzelecki says.

He estimates the total current value of SEDAs that have been set up around the world this year at about $1.4bn.

AIM deals

Yorkville itself has set up stand-by deals with a number of AIM-listed companies this year with a total value of about £75m, with deal sizes ranging between £3m and £30m. The arrangements tend to last for between two and three years so the company has plenty of time to draw down the cash.

Most are either miners or oil and gas explorers. Strzelecki says the timetable of most mining or resource projects makes it easier for management to decide when to raise money against the standby arrangement.

The stand-out deal is a £30m facility arranged for Kurdistan oil explorer Gulf Keystone, although

feature

there have also been smaller deals with Regency Mines, Frontier, Victoria Oil & Gas, Red Rock Resources and Angus & Ross. As we went to press Yorkville signed a $30m facility with Maple Energy.

A standard deal would involve the capital provider buying shares at a small discount to the average prevailing share price over preceding days.

There is an arrangement fee on top but Strzelecki argues that for the SEDA provider the real opportunity is in knowing and really understanding the trading volatility of the shares to take advantage of the spreads on offer.

Gulf success

Yorkville will look at the share price over the previous ten days to establish the purchase price, which is normally a small discount to the average share price. In the case of Gulf Keystone it is 5%.

He points to Gulf Keystone as an example of how well the concept can work.

Yorkville set up the stand-by agreement in May, when Gulf Keystone's share price was languishing below 20p. However, a subsequent huge discovery on the Shaikan-1 well subsequently sent the share price up to over 100p.

Gulf Keystone initially drew down £800,000 at 15.39p a share in May followed by a further £1.6m at 14.61p a share in June, £4.5m at 89.72p a share in October and £4.6m in the middle of November at 99.6p a share. There is still £18.5m available to draw down. The arrangement lasts for up to 36 months.

Other providers have also set up established stand-by facilities with AIM companies.

Global Emerging Market, a US-based $2.7bn alternative investment group, set up a three-year £5m facility with Ascent Resources in May.

That deal gives Ascent the option to request that GEM subscribes for a number of shares up to a maximum of five times the average daily trading volume in the 15 trading days immediately preceding the date of the subscription notice.

GEM has the right to buy between 50% and 130% of the subscribed shares and can buy up to 200% with Ascent's consent. The shares will be priced at a 9% discount to the average closing mid price of the shares over the 15 trading days immediately following the issue of the subscription notice.

Healthcare group African Medical Investments meanwhile has entered into a £28.7m equity line agreement with New York-based Harbinger Capital. AMI wants the cash to open more health clinics in Africa.

This was a sizeable deal that upfront saw Harbinger subscribe for 74m shares, or 38% of the enlarged share capital, at a price of 18p a share and for £13.3m in total.

In AMI's case, the subscription prices payable on subsequent draw-downs are predetermined and increase quarterly from 23p a share in the first quarter of 2010 to 71p a share in the first quarter of 2013. The amounts of the subsequent quarterly subscriptions range from £0.6m to £1.5m. AMI shares currently trade at 19.25p each.

Supportive finance

One of the concerns of investors over the use of a stand-by deal is the possibility of large chunks of shares being sold without warning. However, Strzelecki says that Yorkville never takes more than a day's worth of liquidity and never holds a notifiable interest in the company.

Strzelecki also emphasises that Yorkville will never short a company for which it has arranged a stand-by facility.

It should mean that the arrangement is effectively invisible to the market, although the company will announce the commitment fee when set up and usually if it sells some shares against the facility.

When normality returns

How SEDAs fare when, or if, lending conditions return to normal remains to be seen but Strzelecki is upbeat that the concept has legs because of the flexibility it gives management.

"Some use it for working capital support, while others even use it as a bargaining tool when negotiating for loans with the bank," he adds. Some companies even use the stand-by facility to pay back loans. Companies also don't have to use the facility at all if they decide that they don't need the cash.

> Some firms use SEDAs as a bargaining tool when negotiating for loans with banks.

As well as companies, attitudes among advisers are also becoming more favourable. The London Stock Exchange has even indicated that it is "amenable to requests on the blocklisting rules" that would make the stand-by facilities easier to administer.

This growing recognition is perhaps a sign that newer more flexible funding mechanisms do have a role to play in raising money for companies, especially at the lower end of the market and in times when the traditional sources of company finance have all but dried up.

And although it is unlikely that instruments such as stand-by facilities will ever displace traditional fund raising methods such as placings and open offers, for smaller companies they could become a lot more commonplace.

statistics

Market Performance, Indices and Statistics

AIM SECTOR INFORMATION

SECTOR NAME	% OF MARKET CAP	% OF COMPANIES
Financials	25.6	23.1
Basic materials	19.6	13.0
Oil & gas	16.2	8.7
Industrials	12.1	18.7
Consumer services	8.0	12.9
Technology	6.8	9.6
Consumer goods	4.0	5.1
Health Care	3.7	6.1
Utilities	2.7	1.2
Telecoms	1.3	1.6

FTSE INDICES

ONE-YEAR CHANGES

INDEX	PRICE	% CHANGE
FTSE AIM All-Share	649.01	+47.6
FTSE AIM 50	2665.57	+35.4
FTSE AIM 100	2895.11	+45.1
FTSE Fledgling	4014.57	+64.8
FTSE Small Cap	2791.82	+45.2
FTSE All-Share	2584.59	+20.6
FTSE 100	5044.55	+17.5

COMPANIES BY MARKET CAP

MARKET CAP	NO.
Under £5m	358
£5m-£10m	219
£10m-£25m	298
£25m-£50m	203
£50m-£100m	134
£100m-£250m	97
£250m+	43

KEY AIM STATISTICS

Total number of AIM companies	1,353
Number of nominated advisers	63
Number of market makers	49
Total market cap for all AIM	£56.58bn
Total of new money raised	£63.23bn
Total raised by new issues	£32.68bn
Total raised by secondary issues	£30.56bn
Share turnover value (2009)	£23.95bn
Number of bargains (2009)	£3.08m
Shares traded (2009)	£145.64bn
Transfers to the official list	133

TOP 5 RISERS OVER 30 DAYS

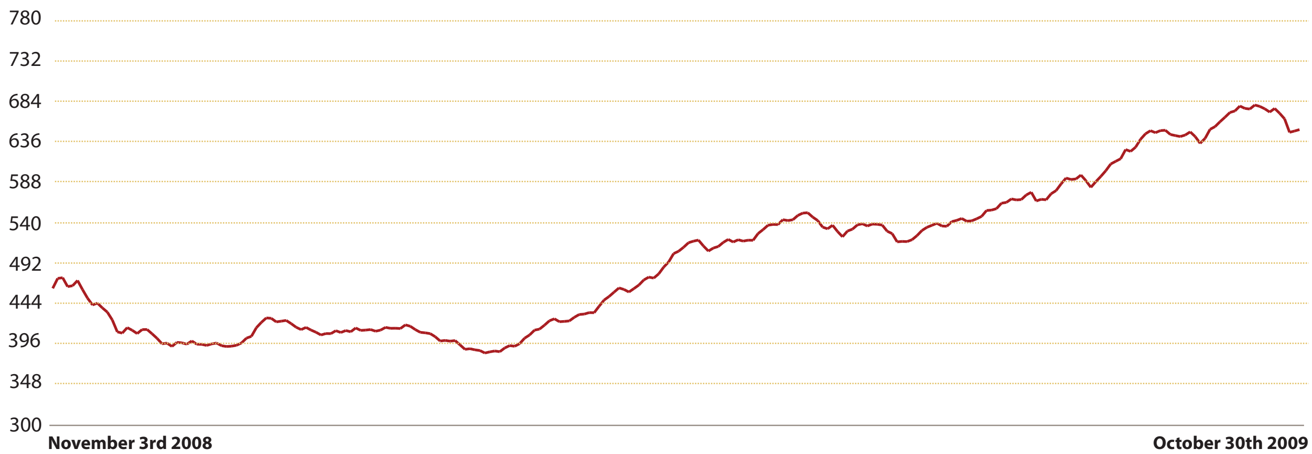
COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
Berkeley Mineral Resources	Mining	2.23	+535.7
Nostra Terra Oil and Gas	Oil and gas	1.81	+441.8
Red Leopard Holdings	Shell	0.23	+283.3
Physiomics	Healthcare	0.6	+215.8
Enegi Oil	Oil and gas	20.25	+179.3

TOP 5 FALLERS OVER 30 DAYS

COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
Global Brands SA	Travel & leisure	3.625	-79.3
Batewin Litwin NV	Oil equipment	2.9	-74.8
Millbrook Scientific Instruments	General industrials	0.375	-62.5
Asia Digital Holdings	Media	0.75	-53.9
Baobab Resources	Mining	6.375	-51

AIM - 1 YEAR INDEX CHANGE

Source: London Stock Exchange



Data: Hubinvest Please note – Share prices are closing prices on 16 November 2009, except risers and fallers, which are 29 October 2009, and we cannot accept responsibility for their accuracy.

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FinnCap is a client focused institutional broker and corporate advisor, with a strong track record in advising and raising capital, providing research and after-market care for both growing and established smaller companies. The institutional broking team provides a dedicated, bespoke agency broking service to fund managers and private client brokers.

FinnCap employs 39 members of staff and is 50% owned by JM Finn, an independent private client stockbroker founded in 1945. In 2008, FinnCap won 14 new clients and has a total of 60 clients. FinnCap is a Nominated Adviser (NOMAD) for AIM companies and a Corporate Adviser for Plus Markets.

In August 2007, JM Finn transferred its corporate finance, research and institutional broking business into a new subsidiary, JMFinn Capital Markets (FinnCap). The management team and employees of FinnCap have taken a significant equity stake in the business, meaning they have made a substantial financial commitment.

About J M Finn & Co

JM Finn is an independent private client stockbroker with approximately £4bn under management as at July 2007. Its 260 staff are based in London, Bristol, Leeds and Suffolk.

JM Finn was founded as a partnership in 1945, incorporated as a private limited company in 2006 and has been a member of the London Stock Exchange for over 60 years.

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