

AUGUST 2011

AIM JOURNAL

THE ONLINE MONTHLY FOR THE ALTERNATIVE INVESTMENT MARKET

Government pushes through EU rules

EU changes have come into force that will enable AIM companies to raise up to €5m from investors without issuing a prospectus. This is double the previous figure of €2.5m and will make it easier and cheaper to raise cash. The offer can be made to up to 150 people, up from 100 previously.

The UK government has implemented the changes within six months of their passing by Brussels. Tim Ward, chief executive of the Quoted Companies Alliance (QCA), says that "we continue to push for more proportionate rules in cases where a prospectus is needed". Ward believes that the EU could go further in making it easier for companies to raise cash. One

example concerns rights issues, where the QCA believes that there is no need for information already in the public domain to be disclosed again in a prospectus.

Ward has also responded to the EU Corporate Governance Green Paper by stressing the importance of a principles-based approach to corporate governance. "A proportionate approach does not, by definition, mean lower standards when applied to smaller quoted companies. What each company decides to do will involve considering the views of investors and other stakeholders. How well a company adopts a proportionate approach will have an impact on long-term value."

Rockhopper proves well is commercial

Further drilling on Rockhopper Exploration's Sea Lion prospect to the north of the Falkland Islands indicates that this discovery is commercially viable.

The results of the third appraisal well are at the upper end of expectations. Rockhopper says that the main fan is "full to spill", which means that there was so much oil in the reservoir that some has spilled out around the sides. There is likely to be an upgrade of estimates of the value of the discovery on the back of these results.

Rockhopper owns 100% of Sea Lion. RPS Energy had estimated that a mid-case valuation for Sea Lion, based on an oil price

of \$80/barrel, is \$2.5bn (£1.5bn). Using the existing high case assumption that valuation would be \$8.4bn (£5.1bn). The mid-case is more than enough to justify developing the discovery.

Brendan Long, the oil and gas analyst at broker Merchant Securities, believes that the market is not fully recognising the value of the Sea Lion asset. Long argues that Sea Lion is an asset that will attract the attentions of the largest oil companies in the world. They could be partners or even acquire Sea Lion. Long believes that if the market continues to ignore the value of Sea Lion then it could be sold via a competitive bidding process.

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New issue flow continues despite tough markets

New issues continue to flow onto AIM even though global stock markets remain volatile. There were 12 new additions in July, although that includes two reversals and one transfer from the Main Market. That is fewer than the 14 new admissions in June but it is still a reasonable flow of companies and more have floated in August.

One of the companies that have already joined AIM in August is Escher Group, which supplies point of sale software to post offices around the world. Escher raised £15.4m at 170p a share and this will help to clean up its balance sheet and provide development capital for the business. Escher has proved an attractive investment for institutional investors. These include Legal & General, which has taken a 15% stake, ISIS which holds 10.6% and 6.9% shareholder Octopus Investments.

Escher is based in Ireland but its

origins are in Boston in the US. As the volumes of mail decline post offices seek to offer additional services in order to generate more revenues. Escher's software enables new product lines to be added more easily and efficiently. The Riposte software is used in 30 countries and territories and handles more than 13bn transactions a year. The customer base includes An Post (Ireland), Deutsche Post and SAPO in South Africa. Africa is a region that Escher believes will provide new customers over the coming years.

One of the companies that is on course to float later in August is China-based shipbuilder Dongfang Shipbuilding, which is expected to be valued at £32.3m. No money is expected to be raised in the flotation. Dongfang builds multi-purpose container ships and chemical tankers at its shipyards in Anhui and Zhejiang provinces.

Capital pub accepts bid

Capital Pub Company has recommended a 235p a share bid from brewer and pub operator Greene King, although shareholders will no longer be paid the 2.25p a share maiden final dividend proposed with the full-year results of Capital Pub. This bid values Capital Pub at £70m.

The bid is well above the 200p a share indicative offer from London-based brewer Fuller Smith & Turner but it is lower than the 250p a share takeout price suggested by broker Cenkos. Capital Pub's management held discussions with major shareholders who were keen to accept a bid in excess of Fuller's. There was a rival bidder but the Greene King bid was deemed to be the best.

The combined business will own 250 pubs in Greater London and Bury St Edmunds-based Greene King hopes to increase food and accommodation revenues from the acquired pubs.

Aurora Russia outlines exit strategy for portfolio

A major shareholder in Aurora Russia, an investor in small Russian companies in the financial, business and consumer services sectors, wants to make changes to the company's board. This has sparked a series of meetings with other shareholders about an exit strategy for the investment portfolio.

Aurora believes that it can return the equivalent of its current net asset value to shareholders and it plans to improve its communications with those shareholders by providing quarterly

information. The board argues that the company's portfolio is mature and three of the investments are ready to float on the stock market or for a trade sale. There will be a planned exit strategy for each investment and the expected time frame is two years. The reported NAV was 79.9p a share at the end of March 2011.

Dan Koch and Alexandr Dumnov have resigned from the board and Geoff Miller, who joined the board in June, has taken on the role of chairman. Timothy Slesinger wanted

Koch and Dumnov removed from the board along with Grant Cameron and John Whittle as part of the general meeting he requisitioned for 24 August. Slesinger wants himself and Peregrine Moncrieffe appointed to the board. The board advises shareholders to vote against all the resolutions.

Aurora joined AIM in March 2006 when it raised £75m – £70.5m after expenses – at 100p a share. The current share price is little more than one-third of that figure and around one-half of the current NAV.

advisers

Restructuring in the AIM broking community

Tough stock market conditions are sparking a round of restructuring and potential takeover activity in the AIM broking sector. Secondary commission revenues remain weak and many firms have not generated the corporate fees that they had hoped for. However, in the past, many potential deals have fallen through.

It is not just the weaker brokers that are involved in potential deals, though. Investec has approached Evolution Securities. The main attraction is the Williams de Broë wealth management division of Evolution, which has just sealed the acquisition of the UK wealth management business of BNP Paribas for a £5m premium to its net asset value. That deal

increases Evolution's assets under management by £1.8bn to £7.8bn. Investec would like to merge Williams de Broë with its wealth management division which has £30bn under management.

It is thought that Investec is not interested in the broking division of Evolution and it would offload that part of the group. Evolution Securities made a profit of £1.3m in the first half of 2011, which was much better than expected.

There have also been rumours that Arbuthnot Securities is up for sale but Arbuthnot Banking Group stated in its interim results that it would retain the broking business, which lost £3.4m in the first half of 2011. This loss was due to a lack of

corporate finance fees and a one-third drop in commission income. The broker made a profit in 2010 but lost money in the previous two years.

Matrix is also cutting jobs in its broking operation and it is likely to concentrate on property, resources and investment trusts.

Lawrence Banks has stepped down as chairman of Ambrian Capital, another firm rumoured to want to sell its broking business.

In its recent first-quarter results presentation, Canada-based broker Canaccord indicated that it is interested in acquisitions, particularly in Asia and Latin America. In its subsequent note, Charles Stanley suggested that Canaccord might even consider buying a firm in the UK.

ADVISER CHANGES – JULY 2011

COMPANY	NEW BROKER	OLD BROKER	NEW NOMAD	OLD NOMAD	DATE
Crystal Amber Fund Ltd	Numis	Numis / Merchant	Merchant Securities	Merchant Securities	01/07/2011
Frenkel Topping	Shore Capital	WH Ireland	Shore Capital	WH Ireland	01/07/2011
Serabi Mining	Fox-Davies	Hybridan	Beaumont Cornish	Beaumont Cornish	01/07/2011
Lochard Energy Group	finnCap	Northland	finnCap	Northland	04/07/2011
Polo Resources	Evolution	Canaccord Genuity	Evolution	Canaccord Genuity	04/07/2011
Regeneris	Panmure Gordon/Arden	Arden	Arden	Arden	04/07/2011
Sylvania Platinum Ltd	RBC / Ambrian	Ambrian	Ambrian	Ambrian	04/07/2011
Eredene Capital	Arden / Numis	Numis	Numis	Numis	05/07/2011
Juridica Investments Ltd	Peel Hunt / Cenkos	Cenkos	Cenkos	Cenkos	05/07/2011
Ovoca Gold	Fairfax IS / Davy	Davy	Davy	Davy	05/07/2011
Sutton Harbour Holdings	Arden	Arden	Arden	Evolution	06/07/2011
Alpha Strategic	Arbuthnot	Evolution	Arbuthnot	Evolution	07/07/2011
Baobab Resources	Fairfax IS	Fairfax IS	Fairfax IS	Strand Hanson	07/07/2011
Proximagen Group	Matrix	Numis	Matrix	Numis	07/07/2011
Camco International	Singer	Singer / Peel Hunt	Singer	Singer	13/07/2011
Mattioli Woods	Canaccord Genuity	Evolution	Canaccord Genuity	Evolution	14/07/2011
Rurelec	XCAP	Religare	Daniel Securities	Daniel Securities	14/07/2011
Leni Gas & Oil	Shore Capital / Panmure Gordon	Panmure Gordon	Beaumont Cornish	Beaumont Cornish	15/07/2011
Pan Pacific Aggregates	Alexander David / XCAP	Matrix / XCAP	Zeus	Matrix	19/07/2011
Botswana Diamonds	Westhouse	finnCap	Westhouse	finnCap	20/07/2011
Copper Development Corporation	GMP / Evolution	Evolution	Beaumont Cornish	Beaumont Cornish	20/07/2011
Altona Energy	Old Park Lane / Evolution	Evolution	Evolution	Evolution	21/07/2011
IPSA Group	WH Ireland	Execution Noble	Execution Noble	Execution Noble	21/07/2011
Pivot Entertainment Group	XCAP / Seymour Pierce	Seymour Pierce	Seymour Pierce	Seymour Pierce	21/07/2011
Sound Oil	Investec	finnCap	Smith & Williamson	finnCap	21/07/2011
Solid State	WH Ireland	Fox-Davies	WH Ireland	Fox-Davies	22/07/2011
Equatorial Palm Oil	Mirabaud	Mirabaud / Shore Capital	Strand Hamson	Shore Capital	25/07/2011
Sky High	WH Ireland	Northland	WH Ireland	Northland	25/07/2011
Metminco Ltd	Canaccord Genuity / Liberum	Investec	Canaccord Genuity	Investec	26/07/2011
Ortac Resources Ltd	Seymour Pierce / Optiva	Seymour Pierce / Optiva	Seymour Pierce	Beaumont Cornish	26/07/2011
African Minerals Ltd	Deutsche Bank	Canaccord Genuity	Deutsche Bank	Canaccord Genuity	28/07/2011
Nanoco Group	Canaccord Genuity / Merrill Lynch	Merrill Lynch	Canaccord Genuity	Zeus	28/07/2011
PSG Solutions	Northland	finnCap	Northland	finnCap	29/07/2011

company news

Breedon Aggregates makes first acquisition and moves into profit

Building materials

www.breedonaggregates.com

Breedon Aggregates has made its first acquisition since it reversed into an AIM shell and its directors are buying shares. Breedon paid £10.15m for the business of C&G Concrete, which was in administration.

C&G is a good geographic fit because it links existing operations in the East Midlands and East Anglia. C&G operates three sand and gravel quarries and 13 ready-mixed concrete and mortar plants in Lincolnshire, Cambridgeshire and Humberside. Revenues were £12m in 2010. C&G also owns a farm of 286 acres with planned mineral deposits near Woodhall Spa in Lincolnshire. C&G has planned mineral reserves of 6.6m tonnes and potential further resources of 17.6m tonnes.

C&G Concrete is a good geographic fit

In the six months to June 2011, Breedon generated revenues of £84.7m, compared with a pro forma figure of £42.7m in the first half of 2010. Underlying interim pre-tax profit is £768,000, compared with a small pro forma loss in the corresponding period. Net debt was £92m at the end of June 2011.

Chairman Peter Tom has invested £56,000 in two tranches at 18.5p a share and 18.75p a share, while non-executive director David Williams invested £59,250 at 19.75p a share. Both men had invested even more when they exercised warrants at

BREEDON AGGREGATES LTD (BREE)	19.38p
12 MONTH CHANGE % +38.4	MARKET CAP £m 108.9

16.5p a share during June. Tom bought £247,500-worth of shares and Williams invested £165,000, as did fellow non-exec David Warr. When Breedon was acquired by AIM shell Marwyn Materials last September, a placing at 12p a share raised £50m - £44.25m after expenses.

Breedon says that the trading outlook in England is positive but it is difficult in Scotland where the company is more dependent on the public sector. The improvement in trading will continue in the second half. However, the first half rate of improvement will not be sustained.

Redhall wins adjudication ruling against Vivergo

Engineering

www.redhallgroup.co.uk

Redhall has been hit by a dispute with bioenergy firm Vivergo Fuels, which contracted Redhall to fit the pipework for its bio-ethanol plant. This dispute has hampered Redhall's growth plans but there are signs that it should be sorted out in Redhall's favour.

Vivergo is a joint venture between BP, British Sugar and DuPont. An independent adjudicator has decided that Vivergo unlawfully tried to terminate the contract and, by denying Redhall's employees access to the site, it had repudiated the contract. Redhall had completed 78% of the contract and is seeking damages on top of the money it is owed. The company has spent £16.7m, including

GREEN COMPLIANCE (GCO)	1.3p
12 MONTH CHANGE % -38.7	MARKET CAP £m 23.7

legal fees and payments to workers on the site.

Trading in the third quarter has been in line with expectations. Net debt was £10.8m at the end of March 2011 because of a £14.6m cash outflow relating to Vivergo.

Nuclear remains a long-term growth opportunity for Redhall. The recent electricity market reform white paper provides a positive backdrop. The carbon price floor system could provide £1bn of support for nuclear and renewable energy developers.

Decommissioning and new nuclear capacity are both areas where Redhall can generate revenues. The white paper is also likely to encourage investment in gas-fired generation, where Redhall can provide equipment and services.

Acquisitions are unlikely to happen in the short term because the focus is on sorting out the Vivergo situation first. Redhall will hopefully stabilise its financial position after the dispute is settled.

The plan is to grow revenues by £125m over the next five years with acquisitions contributing £70m and the rest coming from the existing businesses.

company news

Angel raises finance to bring Greenland mine back into production

Mining

www.angelmining.com

Greenland-focused minerals producer and explorer **Angel Mining** has raised a total of £2m at 2p a share and revised the terms of its Standby Equity Distribution Agreement (SEDA) from Yorkville. Angel needs to invest the cash in installing a cable car for access to the Black Angel mine, which it is redeveloping.

Yorkville is doubling the size of the SEDA it is providing to Angel from £5m to £10m. The original SEDA was agreed in April 2009. The new terms are more favourable to Angel. The shares will be issued at a 2.5% discount to the prevailing market price during a ten-trading-day pricing period prior to each draw-down. Yorkville receives a commission of 2.5% of any advance. The cash can be drawn down over 32 months.

Angel has produced its first gold at the Nalunaq gold mine

Yorkville has also provided cash in the form of a promissory note of \$1.35m and this can be increased to up to \$3.65m. The interest rate is 4% and the note can be converted at 3p a share.

Angel has produced its first gold at the Nalunaq gold mine and that is generating cash for the business. The mine has a life of two years at the moment but there is scope to extend that through exploration. Grades can range from 5g/t to more than 100g/t. Angel expects to reach an annual production rate of 24,000 ounces of gold in the fourth quarter

ANGEL MINING (ANGM)		2.08p
12 MONTH CHANGE %	- 58.4	MARKET CAP £m
		16.7

of 2011. The cash cost is expected to be \$700/ounce. Not cheap but still well below the current gold price.

The Black Angel zinc/lead mine is still the main focus of the group. The cable car will be installed in the second half of 2011 and the processing plant will be built next year. The mine was in production between 1976 and 1990 and \$80m will need to be invested in the mine to recommence production. The company hopes that Black Angel will recommence production by the first half of 2013. The metal produced could fetch \$2,500 per tonne and the cost of mining is estimated at \$1,500 per tonne. There is potential to explore in the surrounding area.

China Africa seeks acquisition opportunities

Mining

www.chinaafricares.com

Hong Kong East China Non-Ferrous Mineral Resources Co (HK ECE) intends to use newly floated AIM company **China Africa Resources** as its vehicle to build up a significant mining business focused on Africa.

China Africa Resources joined AIM on 1 August when it raised £4.7m at 40p a share, valuing the company at £9.2m.

HK ECE injected all of that cash and it owns 65% of the mining company, with AIM-quoted Weatherly International holding

CHINA AFRICA RESOURCES (CAF)		359.5p
12 MONTH CHANGE %	+ 36.7	MARKET CAP £m
		59.6

25%. Weatherly distributed the other 10% to its largest shareholders. Smaller Weatherly shareholders with fewer than 300,000 shares received a cash distribution instead.

China Africa Resources is developing the Berg Aukas lead, zinc, vanadium project in northern Namibia and a full feasibility study is being started. The study will cost

\$3m and should be complete by the end of 2012. The mine ceased production in 1978 when the zinc price fell below \$550/t. The mine will be brought back into production if it is deemed to be commercial.

In the longer term the company will buy other assets, which could include mines owned by its shareholders.

China Africa Resources has set aside £1m of the cash raised in the flotation for acquisitions and due diligence.

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company news

Angle focuses cash on cancer diagnostics developer Parsortix

Technology commercialisation

www.angleplc.com

Angle has decided to focus its efforts and cash on its cancer diagnostics business Parsortix. Angle will not be investing further cash in its other investments and it will seek to raise more cash by exiting from those businesses over the medium term.

Angle's revenues, which are predominantly from the technology management services business, were flat at £2.42m in the year to April 2011, although the profit before controlled investments slumped from £327,000 to £80,000. A reported profit of £66,000 was turned into a loss of £261,000. The company's investments, other than Parsortix, have been ring-fenced and are not dependent on funding from Angle.

Angle has an effective 83% stake in Parsortix, which is developing non-

Parsortix is developing cancer diagnostics products

invasive foetal and cancer diagnostics products. The latter is likely to be the first to be developed. Angle believes that it can identify circulating cancer cells using its technology. Because it is a diagnostics product it could gain FDA approval by July 2013. Sales for research purposes could start earlier. Angle wants to undertake further development before signing up a partner.

In the middle of July, Angle raised £1.25m at 25p a share. Last October, Angle raised £760,000 at 23p a

ANGLE (AGL)		27.5p
12 MONTH CHANGE %	+ 6.8	MARKET CAP £m 8.22

share and by the end of April 2011 there was £619,000 in the bank. The management consultancy business has generated cash in the past but it is getting more difficult to win new contracts and it is unlikely to be much of a contributor in the short term. In the longer term an exit from computer graphics business Geomerics could generate significant cash.

The current cash in the bank should be enough to finance the development of Parsortix up until beta testing of the cancer diagnostics product, which is expected to be by October 2012.

Nokia deal pushes Synchronica towards profit

Mobile messaging technology

www.synchronica.com

Mobile messaging and email technology developer **Synchronica** has completed the \$25m acquisition of Nokia's operator branded messaging business. This acquisition has strengthened Synchronica's position in the North American market.

Synchronica, which is also quoted on the Toronto Venture Exchange (TSX-V), has paid \$4m in cash and the other \$21m of the consideration is deferred. Nokia has also been issued with 18.33m warrants. Synchronica has raised £9.4m at 16p (C\$0.25) a share in order to finance the acquisition and additional working capital for the enlarged group. The cash was raised in North America and the UK.

SYNCHRONICA (SYNC)		16.5p
12 MONTH CHANGE %	- 31.3	MARKET CAP £m 21.1

The deal includes a support and development contract for the Nokia messaging software which will generate \$18m in revenues over an 18-month period. The contract could be lengthened and possibly increased in size. Synchronica continues to win new contracts. An Indian handset manufacturer has ordered \$1.4m worth of licences for Synchronica Mobile Gateway, which includes push email, instant messaging and social networking services. The deal has been done via a reseller.

An operator in the Middle East has ordered additional Mobile Gateway licences worth \$740,000. The original order at the end of 2010 was worth \$1.5m. House broker Northland forecasts more than trebled revenues of \$34m in 2011 combined with a move into profit. The 2011 profit forecast is \$2.4m and a full contribution from the Nokia assets means that the profit is expected to increase to \$14.2m in 2012. The shares are trading on 14 times prospective earnings for 2011, falling to less than four in 2012. Synchronica has struggled to make money but if it can show that it can achieve these forecasts then investors will reassess its valuation.

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www.cleantechinvestor.com

dividends

Solid State doubles dividend payout

Electronic components distributor

www.sssplc.com

Dividend

Solid State has taken the decision to pay a much larger dividend than in the past. The latest dividend was doubled to 6p a share. It had been 3p a share for the previous two years and the previous peak had been 3.5p a share.

The dividend cover is still 2.6 times underlying 2010-11 earnings. Solid State plans a progressive dividend policy and a dividend of 6.5p a share is forecast for the current year. That will be covered less than 2.4 times because of limited profit growth and slightly lower earnings per share due to the exercise of share options.

Solid State's balance sheet included net debt of £1.8m at the end of March 2011. The business is cash generative and it can afford to pay a significant dividend. The main alternative use for the cash will be acquisitions.

Business

Kent-based Solid State is a distributor of electronic components and the UK's largest supplier of lithium batteries. Key markets include military, aerospace, oil and gas, medical and satellite.

Revenues were 57% higher at £21.2m in the year to March 2011, while pre-tax profit jumped 135% to £1.24m. The figures include an initial contribution from recent acquisition Rugged Systems. Profit would still have doubled without its contribution of £102,000. The business cost £254,000.

Cash generated from operations was held back by higher stocks of key components which were taken on due to uncertainties about Japanese supply. There was also greater capital spending because of the factory

SOLID STATE (SSP)	
Price	124.5p
Market cap £m	8.45
Historical yield	4.8%
Prospective yield	5.2%

relocation by batteries supplier Steatite. Rugged Systems has been integrated into the 26,000 square feet facility in Redditch.

The core electronic components distribution business, whose revenues rose 32%, is expected to continue to grow but at a slower pace. Steatite grew revenues by 29% even though the business was relocated during the year. Growth rates for Steatite may also slow down. Group gross margins are expected to be maintained at 27.8%. If trading remains strong then the current-year forecast should be beatable.

Solid State has a record order book and first-quarter profit is higher than for the same period last year. Solid State recently switched broker from Fox-Davies to WH Ireland. The new broker forecasts a profit of £1.34m on revenues of £22.9m in 2011-12. A profit of £1.45m is forecast for the following year. The shares are trading on eight times 2011-12 prospective earnings.

Solid State has bought four companies in the past nine years and it is looking for more acquisitions. Ideally they should have revenues of £4m-£8m and help to widen the customer and/or product base. Underperforming niche businesses are the focus. Solid State is willing to pay around four to five times pre-tax profit for an acquisition.

Dividend news

Confectionery and snack foods supplier **Zetar** reported a 6% improvement in underlying profit to £6.7m in the year to April 2011 and it has chosen to pay a maiden dividend of 2.25p a share. Considering earnings per share were 38.5p a share this dividend is not a great drain on Zetar's finances. Net debt rose from £11.1m to £14.9m by the end of April 2011 but this was mainly due to the late Easter. The confectionery division increased its profit contribution but the natural snacks business made a reduced profit because of higher costs. Analysts' forecast a profit of at least £7m for 2011-12 and Edison expects the dividend to be edged up to 2.5p a share.

Terra Catalyst Fund is paying its first ever dividend of 2p a share for the period to September 2011 and it says that it plans to pay a dividend of 2p a share every six months. The investment company's investment manager, Laxey Partners, believes that cash inflows will provide enough cash to pay the dividends. Two of Terra Catalyst Fund's investments, NR Nordic and Carpathian, have been liquidating their property portfolios and will distribute cash to shareholders over the next 12 months. Spazio Investment's property portfolio will take longer to liquidate.

Stamps and collectibles dealer **Stanley Gibbons** increased its interim dividend by 11% to 2.5p a share, which is in line with the growth in earnings for the six months to June 2011. Stanley Gibbons is developing an online trading platform that should be launched before the end of this year. A new office in Hong Kong is planned for the autumn and there are meetings planned with potential trading partners in the US. The company is also diversifying the range it offers by adding rare coins, commemorative medals and military medals. However, stamp trading activities remain the main money maker.

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 **expert views**
 **Expert view: The broker**

Moving from concept to industrial process

By DAVID BUXTON

During July, finnCap held an industrial presentation day at its offices and the speakers included Andrew Woollett, chairman of ZincOx Resources, which is developing a zinc recycling project in South Korea.

ZincOx has sold and written down its non-core mining assets in order to concentrate on the construction of its first zinc reprocessing plant and then constructing further processing plants worldwide. It aims to become the largest zinc recycler and major world producer.

Dust

Electric Arc Furnaces are currently used for manufacturing one-third of the world's steel, with substantial quantities of electric arc furnace dust (EAFD) produced as waste. EAFD is a rich source of high-grade zinc (18-22%) and to a lesser extent iron. EAFD can be recycled and the resultant zinc concentrate is expected to be of a much higher quality than most mined zinc concentrate (5-6%). As such it should gain a premium price.

Around half of the world EAFD steel waste, and all the Korean waste, goes to landfill. Recycling is both environmentally and economically attractive for steel makers. Using steel waste offers a continuous supply not constrained by a single mine's reserve lifetime. About 400 sites produce >7m tonnes of EAFD pa. This considerable installed base represents a scale growth opportunity for ZincOx to replicate plants close to other steel plants.

ZincOx's Korean Recycling Project (KRP) is based on an existing process using a rotary hearth furnace to extract iron. ZincOx uses a modification of this to extract zinc

from EAFD waste. It is not therefore a blue-sky process, as a pilot plant in Belgium has already validated the process, and scaling up appears the only challenge.

The supply of steel industry wastes has been agreed for up to 400,000 tons, with a 10-year agreement with the South Korean steel recycling industry. Off-take agreements, with a beneficial pricing structure, are in place with Korea Zinc.

Financing

The project in Pohang, South Korea, has two phases. Financing is in

reduced dilution from any future equity issue.

Year-end net cash at £38m amounts to 49.3p a share. This cash balance is expected to be utilised during the completion of the Korean plant.

Profitability

EBITDA from phase 1 is expected to be \$30m (£18.8m) a year, while phases 1 & 2 are expected to generate \$53m (£33.2m) a year from 2013, on an expected investment of \$207m (£129m). We prefer to use a traditional P/E based valuation rather than a DCF. This is appropriate as the Korean plant

We consider that the group's current value is too low

place through project financing, in partnership with Korea Zinc. The site has been given tax incentives by the Korean government, which means it has a five-year tax-free and rent-free period, and a low rent thereafter.

The total cost of phase 1 is \$110m and it is part funded by the group's own cash and partly by a \$50m loan package with Korea Zinc. Phase 1 is under construction, a recent update confirmed it is on budget and on schedule for completion in 1Q12.

Phase 2 is expected to start in July 2012 and complete in July 2013. Its total cost was recently revised down by \$46m to \$100m. Management has started negotiations with banks on the financing of phase 2. A significant indication is that the group plans to base phase 2 financing on achieving profitability of phase 1. This has significant ramifications as it reduces the rate of interest charged and enables a higher level of debt gearing. The result is profit enhancement through lower interest charges and

should soon be in production and EPS are forecast at 10.3p in 2012 and 14.3p in 2013. The 2012 P/E of seven, falling to five in 2013 appears too low. The NPV for Korea is £142m, or 183p a share, while the shares currently trade at a 62% discount to their unfinanced NPV.

We consider that the group's current value is too low. Once production commences the discount to NPV should dissipate. Even then, potential developments across the world are valued at zero. The group is valued at a substantial discount to the implied value of phase 1 and phase 2 of the Korean plant. It is therefore valued at a fraction of the possible larger market opportunity.



DAVID BUXTON is a research director at finnCap. He organised the successful finnCap industrials presentation day where the AIM-quoted companies presenting included Avingtrans, Redhall and 600 Group.

feature

How AIM has fared since Northern Rock

It is nearly four years since Northern Rock had to be rescued by the UK government and just under three years since Lehman Brothers filed for bankruptcy. It has been a tough time for all markets since then and AIM has taken some hits but it remains in good shape.

The AIM index reached its recent high of 1,236.58 on 13 July 2007 and one month later Northern Rock had got into financial difficulties. Ever since then it has been tough for AIM and the companies and advisers involved in the junior market.

Lehman Brothers filing for bankruptcy in September 2008 provided a further jolt for the stock market. There have been periods when things appear to be getting better but they have not always carried on for long. There has been a recovery in the past three years, though.

Despite the predictable wailings and predictions of doom when stock market conditions turn down for a sustained period, AIM is still around and raising money for companies. Recent weeks have brought further uncertainty and fears for stock markets but AIM will undoubtedly ride out

AIM COMPANY NUMBERS

	JULY 2011	JULY 2008	JULY 2007
AIM Index	865.07	823.35	1195.42
Market valuation	£75.63bn	£79.05bn	£108.07bn
Number of companies	1151	1639	1673
Number worth > £1bn	7	5	4
Number worth < £25m	622	964	836
% worth < £25m	54	58.9	50

to leave AIM because they felt that it was not worth having a quotation. There were others, though, that were taken over or that switched from AIM to the Main Market, or in some cases to Hong Kong or other international markets. Many of those that switched to the Main Market, such as property investor Hansteen and Domino's Pizza, have moved into the FTSE 250 index.

left AIM in recent years. For example, all four companies worth more than £1bn in July 2007 have left. Resources companies Sibir Energy, Nikanor and Uramin have been taken over, while newspaper publisher Mecom moved to the Main Market. Of course, Mecom ran into financial problems and it is no longer worth anywhere near £1bn.

The general focus has been on the number of very small companies ditching their AIM quotation and the numbers are certainly lower. The number of companies valued at less than £25m has slumped from 836 to 622 but the percentage of the total has risen from 50% to 54% in the past four years. The fall in the value of many AIM companies in line with the market in the past four years is part of the reason why the number of small companies has not declined faster.

In fact, the percentage of companies worth more than £50m has fallen from 31.8% to 26.3%. At the higher end of the market, where companies are worth more than £250m the numbers have fallen but the percentage of AIM's market value they account for has grown from 40.2% to 48.4%. This is because there are more very

There were 40% more trades in the first seven months of 2011 than in the same period in 2007

these problems as well.

Not everything has gone backwards on AIM. There has been progress in some areas and lower numbers are not necessarily a bad thing.

Company numbers

Everyone knows the number of companies on AIM has fallen sharply since it peaked at 1,700. The number of companies has declined by one-third since that peak with companies leaving for a variety of reasons. A large number of those companies decided

As one of the original reasons for having AIM was to nurture companies so that they could move to the Main Market, this shows that it is doing its job.

Predictably, there have also been AIM companies getting into financial difficulties and being placed in administration and even liquidated. This happens to some companies on all stock markets and there are always going to be more on markets that have younger companies that are still developing rapidly.

Large and small companies have

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large companies on AIM than before, particularly those worth more than £1bn, and this has boosted the overall average company market value slightly from £64.7m to £65.7m. Eight companies account for 14.7% of AIM.

New entrants

The main reason for the decline in AIM company numbers is not the cancellations but the lack of new companies to replace them. There have always been a significant number of cancellations.

The number of cancellations is lower so far this year and this has helped to stem the decline in numbers despite

to be more realistic.

The number of companies languishing below their flotation prices in 2006 and 2007 bears witness to this. Although the weak markets have not helped, the ridiculous valuations at the time have given way to more realistic valuations. In some cases the valuations might still be held back by investor perceptions relating to the flotation.

The money raised by new issues has fallen even more sharply than their numbers. Some companies decide to come to AIM via an introduction and hope to raise cash after the shares start trading. This does not always work. Sometimes these companies are left

Prior to this year, the highest average daily number of trades was 16,460 in 2007. So far this year, the average is 24,018. The 2007 figure was for the whole year and in July the average was 16,735.

Following a strong first five months the June and July averages have fallen. The July 2011 figure was 19,254. The averages may continue to decline while there is so much uncertainty in the global markets but it appears that 2011 will still be a record year.

It is not all good news, though, the value of those trades is worth half as much as it was in 2007. This indicates that while there is more activity the money changing hands is significantly reduced. It has fallen much more than the total value of AIM so even adjusting for that it is much lower. Some of the larger, more actively traded companies have left AIM through takeover or by moving to another market.

Even so, these figures show that there is still significant investor interest in AIM but it appears to be skewed more towards the smaller end of the investment scale. Much of the trading comes in oil and gas and mining shares. However, trading in industrial and technology companies appears to be relatively weak.

AIM is by no means perfect. However, it is still providing cash to companies so that they can invest in their businesses. There will be more turbulent times in the short term and in years to come but AIM still has a strong base from which it can take advantage of any upturn.

The percentage of the AIM companies worth less than £25m has risen from 50% to 54% in four years

the low level of new entrants. In fact, there was no fall in the number of companies on AIM in July 2011, which was mainly due to the number of new entrants being higher than earlier in the year.

By 2007, the number of new admissions had already declined from its peak in 2006 when it reached 462. New admissions were still running at a strong pace, with an average of more than one new entrant every working day.

It may seem perverse to say it but it is never a good thing when there are hundreds of new entrants in one year. It is good for the short-term revenues of the brokers, accountants and lawyers, of course, but it is not good for the market and, therefore, the advisers themselves in the long term. It can lead to investor fatigue with institutions being swamped by new investment propositions and hamper the ability of the better companies to raise money.

When flotations are running at high levels it means that nearly any company can float. If the numbers are more limited then generally only the better ones will be able to join the market and the valuations tend

with illiquid shares where the share price stagnates or falls and makes it even more difficult to raise cash. These are the types of companies that get frustrated with being on AIM and subsequently leave because they are disillusioned.

Trades rise

There were 40% more trades in the first seven months of 2011 than there were in the same period in 2007. That is 1bn more trades in AIM shares so far in 2011, yet the equivalent period in 2007 was a strong time for the market.

HOW AIM HAS FARED SINCE NORTHERN ROCK CRISIS

	JANUARY TO JULY 2011	JANUARY TO JULY 2008	JANUARY TO JULY 2007
Money raised	£3.12bn	£3.65bn	£11.7bn
By new admissions	£0.42bn	£1bn	£4.66bn
By existing companies	£2.7bn	£2.65bn	£7.04bn
New admissions	50	79	174
Cancellations	95	134	135
Number of trades	3.46bn	2.53bn	2.46bn
Value of share turnover	£24.51bn	£35.92bn	£46.46bn

statistics

Market Performance, Indices and Statistics

AIM SECTOR INFORMATION		
SECTOR NAME	% OF MARKET CAP	% OF COMPANIES
Oil & gas	22.8	10.6
Basic materials	20	14.1
Financials	19.4	23
Industrials	9.9	18.3
Consumer services	8.4	11.1
Technology	7.6	10.1
Health care	5.2	5.3
Consumer goods	4.2	5.5
Telecoms	1.4	1.1
Utilities	1	1

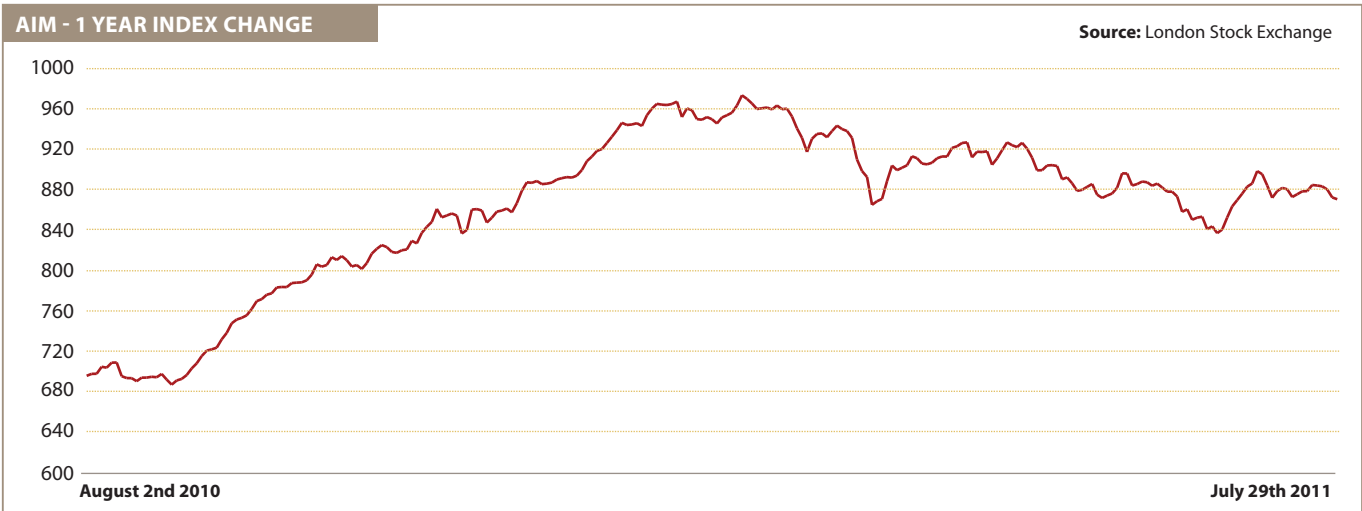
KEY AIM STATISTICS	
Total number of AIM	1,151
Number of nominated advisers	61
Number of market makers	50
Total market cap for all AIM	£75.60bn
Total of new money raised	£75.58bn
Total raised by new issues	£34.56bn
Total raised by secondary issues	£41.02bn
Share turnover value (2011)	£21.95bn
Number of bargains (2011)	3.05m
Shares traded (2011)	102.74bn
Transfers to the official list	157

FTSE INDICES		
INDEX	PRICE	ONE-YEAR CHANGES % CHANGE
FTSE AIM All-Share	862.75	+25.8
FTSE AIM 50	3520.56	+24.7
FTSE AIM 100	3967.04	+27
FTSE Fledgling	4946.34	+22.2
FTSE Small Cap	3263.85	+17.3
FTSE All-Share	3004.41	+10.6
FTSE 100	5774.43	+9.8

COMPANIES BY MARKET CAP	
MARKET CAP	NO.
Under £5m	243
£5m-£10m	157
£10m-£25m	237
£25m-£50m	207
£50m-£100m	136
£100m-£250m	105
£250m+	67

TOP 5 RISERS OVER 30 DAYS			
COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
Strategic Minerals	Mining	12.75	+96.2
African Medical Investments	Health	5.62	+95.7
INVU	Software	0.82	+94.1
eXpansys	Retail	2.27	+85.7
API Group	Packaging	47.5	+65.2

TOP 5 FALLERS OVER 30 DAYS			
COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
Pan Pacific Aggregates	Mining	0.07	-81.6
Armour Group	Consumer	2.12	-50
Kea Petroleum	Oil and gas	5.38	-50
Plethora Solutions	Health	4	-43.9
WYG	Support services	59.5	-42.8



Data: Hubinvest Please note - All share prices are the closing prices on the 1st August 2011, and we cannot accept responsibility for their accuracy.

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finnCap is already ranked as a top-ten AIM adviser and broker and occupies leading positions in several sectors. In technology it is No. 1

ranked by number of AIM clients, and no 2 in life sciences. finnCap's 45-strong team has established leading positions in the small cap consumer, industrials, insurance, support services, financials and mining sectors. The finnCap research team was shortlisted at the 2009 AIM awards.

finnCap works with over 65 corporate clients and raised just over £90m for clients in 2009. It is a Nominated Adviser (NOMAD) for AIM companies and a Corporate Adviser for Plus Markets. In 2007, private

client stockbroker 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 took a significant equity stake in the business.

In 2010, finnCap employees and non-executive chairman Jon Moulton acquired the outstanding 50% of the company that was previously owned by JM Finn. The company name has changed to finnCap Ltd, in line with the trading name.



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PUBLISHED BY:	Hubinvest Ltd,	Mobile:	07849 669 572
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