

JUNE 2012

# AIM JOURNAL

THE ONLINE MONTHLY FOR THE ALTERNATIVE INVESTMENT MARKET

## Housing associations plan REIT

There are plans for a £500m AIM flotation of a Real Estate Investment Trust (REIT) comprising properties owned by 10 housing associations in southeast England. These housing associations already manage more than 10,000 homes. The REIT, which is being advised by London-based lawyers Winckworth Sherwood, could join AIM as early as September.

The Treasury's consultation period for how REITs could be used to attract institutional investors to fund social housing ends on 27 June but the proposal has been launched ahead of this deadline.

The housing associations will continue to manage the homes. The REIT will last for 40 years and then ownership of the homes will revert to the housing associations.

If the flotation goes ahead as planned, it will raise cash to finance new homes and buy additional sites. Housing associations normally have to obtain cash from government grants, bank loans or debt provided from investors. By joining AIM additional cash can be raised through share issues and further scope will be given for investment. REITs have to pay most of their earnings to shareholders in the form of dividends. Returns will be indexed to social housing rents. This is expected to be around 4.5% a year.

A second REIT that will buy open market properties built by housing associations at a wholesale price is being prepared for launch in the autumn.

## Companies value non-exec independence

Nearly half of the small companies surveyed on behalf of the Quoted Companies Alliance (QCA) believe that non-executive directors should not be paid in shares.

There were 42% of the respondents that felt that it was important that the non-executives on the board maintained their independence in order to safeguard corporate governance.

This finding was part of the latest survey for the QCA/BDO Small & Mid-Cap Sentiment Index. More than three-quarters of the companies believe that non-executive directors on their own boards are well informed and able to challenge the executive management on their strategy.

An overwhelming 92% of the companies believe that there should be a corporate governance code for AIM and other small quoted companies that is appropriate to their size and complexity. They believe that companies should either comply with the standards or specifically state why they have not.

The survey also found that small companies are "increasingly optimistic about economic prospects". The index has risen from 40.9 in January to 47.3 in April this year and 55% of the companies expect to recruit in the coming year. Two-fifths of the companies are seeking to raise cash in the next 12 months.

### In this issue

**02 GENERAL NEWS**  
DEO deal

**03 ADVISERS**  
Plus uncertainty

**04 NEWS**  
ASOS internationalises

**06 NEWS**  
BP Marsh discount

**07 DIVIDENDS**  
GB Group identifies yield

**08 EXPERT VIEWS**  
Front line views on AIM

**09 FEATURE**  
AIM at 17

**11 STATISTICS**  
Market indices and statistics

## general news

# Parkmead acquires DEO as oil and gas consolidation continues

Merger activity continues in the oil and gas sector. Parkmead, the AIM-quoted oil company run by former Dana Petroleum boss Tom Cross, has agreed a £12.7m all-share bid for DEO Petroleum.

DEO is focused on exploration in the North Sea. This includes a 52% stake in the Perth field where it is also operator. DEO estimates that its share of recoverable resources is 21.5m barrels of oil. Parkmead will be able to help finance the development of this field and other discoveries. It is offering two shares for each DEO share, which values each DEO share at 29.5p, based on the Parkmead share price before the announcement.

The battle for Mozambique-focused explorer Cove Energy continues. Thailand-based PTT Exploration and Production has trumped Shell's 220p a share bid with

a recommended 240p a share offer that values Cove at £1.22bn.

New oil and gas companies are still joining AIM. Two of Cove's directors, Dr Stephen Staley and Michael Nolan, are on the board of Fastnet Oil & Gas, which was formed when Terra Energy reversed into shell Sterling Green. Fastnet will focus on exploration in North and East Africa, as well as Ireland.

Ecosse Energy has appointed Fox-Davies as nominated adviser and broker for a proposed flotation on AIM later this year. Ecosse will raise cash in order to meet exploration costs on two production sharing contracts in Indonesia. Ecosse has a 100% working interest in the Bengkulu Production Sharing Contract in Sumatra, Indonesia, which lasts 30 years. Ecosse has been listed on the Canadian National Stock Exchange since December 2009.

# FTSE 250 graduates

Both of the companies joining the FTSE 250 index following the latest quarterly review have graduated to the Main Market from AIM in recent years. Investment company Utilico Emerging Markets and Russian commercial property investor Raven Russia are the only two companies joining the FTSE 250 index in the review. Utilico moved to the Main Market last October, while Raven Russia moved in August 2010. Both companies joined AIM during July 2005, a year when new-issue numbers peaked. Last month, Raven Russia raised \$104m from a placing and open offer.

The changes will take the number of former AIM companies in the FTSE 250 index to 23. The others include wholesaler Booker, engineer Melrose, Domino's Pizza, sterilisation services provider Synergy Health, Aquarius Mining, gold miner Petropavlovsk and Petra Diamonds.

# Cluff returns to AIM with new cash shell

Algy Cluff has floated on AIM a new cash shell, which is seeking to acquire natural resources assets in the UK North Sea and Africa. The focus is underperforming, undervalued or undeveloped assets. Cluff Natural Resources (CNR) raised £3.75m from a placing and subscription at 5p a share, valuing the company at £4.35m.

This is a vehicle for investors who believe in Algy Cluff's ability to start another successful resources business. He is 72 years old, has four decades of experience in the resources sector and has an investor

fan base. In April he stepped down from AIM-quoted Cluff Gold. He has previously started Cluff Oil, Cluff Resources and Cluff Mining, which became Ridge Mining.

Algy Cluff is being paid £120,000 a year to be chief executive of CNR, which will be increased to £200,000 a year when an acquisition is made. However, if an acquisition is not made within six months the salary will be reduced to £80,000.

Algy Cluff paid the par value of 0.5p a share for his 10m shares in the shell – a total cost of £50,000. The other five directors bought 2m shares

in the subscription at a total cost of £100,000, which represents their first year's salaries paid in advance and immediately invested in shares. Non-executive Earl De La Warr also bought an additional £30,000 of shares in the placing.

Algy Cluff is also currently a director of Cluff Geothermal (<http://www.cluffgeothermal.com>), which plans to generate electricity from geothermal sources in the UK and East Africa. The company is currently assessing the best location for a geothermal borehole at Shiremoor, North Tyneside.

## advisers

# Plus future remains in the balance

There is a shareholder revolt at Plus Markets Group following the announcement of plans to sell Plus-SX, which operates the Plus-quoted market, to ICAP for £1. Some shareholders want to remove chief executive Cyril Theret and interim chairman Malcolm Basing from the board and scupper the sale. They believe that Recognised Investment Exchange status is worth a lot more than Plus Markets is receiving for the business and object to the high costs of the sale.

ICAP is financing Plus' deal costs up to £150,000 and will repay intercompany balances so the deal is worth more than £1. The majority of the shares voted at the upcoming general meeting need to be in favour of the sale. Dubai-based Gulf Merchant Bank says it is interested in buying Plus-SX. However, Plus Markets argues that if the sale does

not go through then the FSA will begin the process to revoke RIE status.

The future of Plus-quoted companies remains uncertain whatever happens. Hello Telecom already had an additional quote on GXG Markets' trading facility and IMC Exploration has obtained one since the sale was announced. US Oil & Gas and Proventus Renewables have left Plus-quoted and switched to GXG.

AIM-quoted Share's broking operation The Share Centre has agreed to take on the clients of online share dealer JPJShare.com, which is being closed by Rivington Street Holdings. The Share Centre has more than 220,000 clients. The deal should be earnings enhancing. Share's subsidiary Sharefunds has also taken on the investment management contracts for the Smaller Companies Growth Fund and the Smaller Companies Gold Fund

and it has appointed Webb Capital as investment adviser.

Plus-quoted Rivington Street Holdings has also changed the disposal terms for broking subsidiary Rivington Street Corporate Finance and it will retain a significant minority shareholding. No further regulatory approvals will be required so the transaction should be completed shortly. The management buy-out was announced at the end of last year. Since then the firm has traded strongly.

AIM adviser Canaccord Financial Inc intends to move from AIM to the Main Market at the end of June. Canaccord is already listed on TSX and the London transfer comes after the acquisition of fellow AIM adviser Collins Stewart Hawkpoint. Canaccord is going for a standard listing, which has lower regulatory requirements, rather than a premium listing.

### ADVISER CHANGES - MAY 2012

COMPANY	NEW BROKER	OLD BROKER	NEW NOMAD	OLD NOMAD	DATE
<b>Probability</b>	Numis	Daniel Stewart	Numis	Daniel Stewart	04/05/2012
<b>Sefton Resources</b>	Fox Davies/Dowgate	Dowgate	Northland	Northland	04/05/2012
<b>Sterling Energy</b>	Peel Hunt/Liberum	Liberum	Liberum	Liberum	04/05/2012
<b>Managed Support Services</b>	Rivington Street/Cenkos	Cenkos	Cenkos	Cenkos	08/05/2012
<b>Volvere</b>	N+1 Brewin	Westhouse	N+1 Brewin	Westhouse	08/05/2012
<b>Savile Group</b>	Cairn	finnCap	Cairn	finnCap	09/05/2012
<b>Noventa Ltd</b>	Allenby	Religare	Allenby	Religare	11/05/2012
<b>Sterling Green Group</b>	Shore	Merchant Securities	Shore	Merchant Securities	14/05/2012
<b>Bayfield Energy</b>	FirstEnergy/Seymour Pierce	Seymour Pierce	Seymour Pierce	Seymour Pierce	15/05/2012
<b>Creat Resources</b>	Daniel Stewart	Evolution China	Daniel Stewart	Evolution	15/05/2012
<b>Archipelago Resources</b>	Canaccord Genuity/Liberum	Ambrian	Grant Thornton	Grant Thornton	17/05/2012
<b>Frontera Resources</b>	finnCap/Old Park Lane/ Cornhill Capital	finnCap/Old Park Lane/ Cornhill Capital	finnCap	Strand Hanson	17/05/2012
<b>ITM Power</b>	Singer	Nomura Code	Singer	Nomura Code	17/05/2012
<b>Kibo Mining</b>	Northland/Cornhill Capital	Cornhill Capital	RFC Ambrian	RFC Ambrian	22/05/2012
<b>Invu</b>	WH Ireland	Canaccord Genuity	WH Ireland	Canaccord Genuity	23/05/2012
<b>Proximagen</b>	Cenkos	Singer	Cenkos	Singer	23/05/2012
<b>Insetco</b>	Cairn	Charles Stanley	Cairn	Charles Stanley	24/05/2012
<b>Leeds Group</b>	Cairn	Seymour Pierce	Cairn	Seymour Pierce	24/05/2012
<b>Litebulb Group</b>	First Columbus/finnCap	finnCap	finnCap	finnCap	28/05/2012
<b>Medgenics Inc</b>	Nomura Code /SVS	Nomura Code/SVS	Nomura Code	Religare	29/05/2012
<b>Oilex Ltd</b>	N+1 Brewin/RFC Ambrian	RFC Ambrian	RFC Ambrian	RFC Ambrian	30/05/2012

June 2012 | 3

## company news

# International sales push ASOS towards its £1bn target

Online fashion retailer

[www.asosplc.com](http://www.asosplc.com)

Online fashion retailer **ASOS** is still on course for its target of revenues of £1bn in 2015 even though the UK market is maturing and nearly all of the growth is from international operations. Danish retailer Best Seller has built up a 23.8% stake.

Revenues rose 46% to £495m in the year to March 2012. International sales more than doubled while in the UK revenues were 7% higher. This is the first year that international sales are higher than UK sales and it will be the engine of growth from now on although management does not expect to launch any new country-focused websites this year. Underlying pre-tax profit rose 43% to £40.9m even though free delivery offers have increased distribution costs.

The investment in the new warehouse has been completed but ASOS is spending significant amounts of cash on its technology platform.

## Underlying pre-tax profit rose 43% to £40.9m

Even so, the business is generating cash and net cash was £19.3m at the end of March 2012.

There will be no dividend for the foreseeable future as cash is being reinvested in the business.

ASOS is keen to remain focused on the twenty-something market and not dilute the brand. The ASOS own-brand is becoming more established in its own right.

ASOS management has been awarded a total of 4m shares under the management incentive plan. Chief executive Nick Robertson will receive 1.49m of these shares by the end of September 2013. These shares

ASOS (ASC)	1746p
12 MONTH CHANGE %	-26.2
MARKET CAP £M	1416.4

are worth £26m.

Lord Alli is stepping down as chairman later this year once his successor has been found. He joined the board just before the company joined AIM and he has a valuable share option. The agreement dated 16 January 2001 gives Lord Alli the right to acquire 1,579,657 shares within 10 years of the agreement for £200,000 in total. In 2010, the option agreement was extended to 1 January 2014. These shares would be worth £27.6m.

House broker JPMorgan Cazenove forecasts a 2012-13 profit of £53.5m on revenues of £679m. Earnings per share growth will be held back by the additional shares in issue and the prospective multiple is 37.

# API recovery gains momentum

Packaging foils and holograms maker

[www.apigroup.com](http://www.apigroup.com)

Packaging foils supplier **API** has recovered significantly in recent years and the share price is starting to reflect this.

The two major shareholders, Steel Partners and Wynnefield Capital, own a combined 62.2% of API and they are keen to realise their investments and have been pushing the company to put itself up for sale. The board believes it is too early but it has agreed to start a formal sales process in the autumn after API has started to benefit from

API (API)	56.75p
12 MONTH CHANGE %	+98.2
MARKET CAP £M	43.6

its five-year laminates contract with a large consumer goods company. Shipments are about to commence for this contract and it will contribute £10m this year and more than £15m in a full year.

Revenues grew 14% to £113.9m in the year to March 2012. Most of the growth came in the laminates and holographics divisions.

Laminates remains the main profit contributor but holographics and the US foils business reported sharp improvements in profit. Pre-tax profit increased 77% to £5.1m. There is scope to improve margins in the European foils business.

House broker Numis forecasts a 2012-13 profit of £7.6m, which means that the prospective multiple is seven. Net debt should be wiped out by the end of March 2013. It was £18.8m at the end of March 2010.

## company news

# Circle Holdings raises cash to cut debt and finance new opportunities

Hospital management

www.circleholdingsplc.com

**Circle Holdings** is doubling its share capital in order to cut debt and raise additional growth finance following the assumption of management control over Hinchingsbrooke hospital in February. This is the first time that a NHS hospital will be managed by the private sector. Circle Holdings is an investment vehicle that enables investors to invest in the underlying businesses in combination with the Circle Partnership, a partnership of doctors, nurses and healthcare professionals.

Circle will raise £46m after expenses via a placing and subscription at 70p a share. That was a 38% discount to the market price at the time but the price fell sharply after the fundraising announcement and it is now a premium. The latest fundraising is well below last June's

## Circle will use £14.1m of the cash to repay a loan

placing price of 152p.

Circle will use £14.1m of the cash to repay a loan from JCAM Global Fund, which matures next February and has an annual interest charge of 25%. A further £5m is required as working capital for Hinchingsbrooke and £2m for security relating to the contract. Other parts of the business also require working capital. Circle will try to raise additional debt funding but this is difficult.

In 2011, revenues from continuing facilities were one-fifth higher at £64.6m. Reported revenues declined from £76.5m to £74.6m, while the underlying operating loss fell from

CIRCLE HOLDINGS (CIRC)			65p
12 MONTH CHANGE %	N/A	MARKET CAP £m	40.8

£19.6m to £17.1m. The existing operations are unlikely to generate cash in the medium term and that is why the cash call is required. Net debt was £42.4m at the end of 2011.

Circle's first new-build hospital is in Bath and Circle Reading should open later this year. Circle is trying to raise the finance to build another hospital in Manchester. Land has been acquired in Birmingham but construction has been deferred. Circle also operates independent clinics in Windsor and Stratford-upon-Avon. The contract for Circle's Nottingham NHS Treatment Centre expires in July 2013. This contract is likely to be re-tendered.

# Fusion IP strategy starts to mature

University IP commercialisation

www.fusionip.co.uk

Technology commercialisation company **Fusion IP** has performed strongly over the past year and it has achieved its first exit from a major investment. A major licensing deal has also been signed.

Fusion has agreements with the University of Sheffield and Cardiff University, which give it the exclusive right to commercialise all of their intellectual property. Fusion would like to add a third university to the list. Fusion initially focused on medical research but it has been widening the scope of technologies it is involved with. Fusion has investments and loans

FUSION IP (FIP)		52.5p
12 MONTH CHANGE %	+144.2	MARKET CAP £m

in 20 spin-out companies.

There have not been many realisations of investments yet but Sycyp, which has developed a drug modelling and simulation platform, was bought by Certara for \$32m earlier this year and Fusion generated £4m from the sale. This helped to boost its cash pile to more than £8m.

A licence deal has been secured with a major pharmaceutical company for IP from the University

of Sheffield that will be used to develop an existing drug so that it can be used for certain endocrine diseases. The new version of the drug could be launched as early as 2016. Fusion believes that its royalties could peak at £1m a year, which would cover most of the company's annual overheads.

Fusion's net asset value was £31.3m at the end of January 2012, although this was before the Sycyp exit. That figure includes intangible assets of £10.4m relating to rights over the IP pipelines of the two universities. These rights are being amortised over 10 years.

June 2012 5

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## company news

# BP Marsh shares trading at 47% discount to net asset value

Financial businesses investor

[www.bpmarsh.co.uk](http://www.bpmarsh.co.uk)

**BP Marsh** invests in insurance brokers and other financial companies and takes significant minority stakes. Although investments are mainly UK-based they tend to have international exposure and BP Marsh takes a long-term view. The success of the investment strategy is not reflected in the share price. The shares are trading at a 47% discount to its latest NAV of 171p a share.

BP Marsh's main investment is Hyperion Insurance Group and there are plans for the company to float, possibly as early as next year. Hyperion is acquiring insurance broker Windsor in a deal that is reported to be valued at between £80m and £95m, which is nearly three times its valuation five years ago. Windsor was a fully listed business prior to a £33.7m

buy-out in 2007. At that time, the participating staff invested £6m in the new holding company. In 2011, Windsor generated EBITDA of £12m on revenues of £37.5m. In the year to September 2006, Windsor's revenues were £22.2m. There was no figure for EBITDA but operating profit was £3.7m, before interest income of £1.46m.

In May, BP Marsh raised £4.5m by reducing its stake in Hyperion. Following the latest deal the stake will be diluted from 16.2% to 14%. BP Marsh is confident that the value of the stake is still £29.4m – out of a total NAV of £50.1m. The initial investment cost £4.35m and most of the rise in NAV last year was due to Hyperion.

BP Marsh's average compound NAV growth has been 12% per annum since 1990 – excluding the

BP MARSH (BPM)		91p
12 MONTH CHANGE %	+ 2.8	MARKET CAP £m
		26.7

£10.1m raised on flotation.

BP Marsh announced a 1p a share dividend with its results. The company pays a dividend when it believes it has available funds and the post-balance sheet sale of the Hyperion stake has strengthened the balance sheet which gives enough confidence for the dividend payout.

Prior to the disposal there was £700,000 in the bank and a loan facility of £3.1m. The disposal cash will be used to repay the directors' loan and provide cash for committed investments. There should be £1.2m available for new investments plus a loan facility of £4.325m.

## Pan African pushes ahead with Evander buy

Mining

[www.panafricanresources.com](http://www.panafricanresources.com)

**Pan African Resources** is acquiring 100% of the Evander gold mine in South Africa for R1.5bn (£114m) in cash. The deal was changed after Pan African's partner, Wits Gold, pulled out of the original joint venture to buy the mine when the acquisition was delayed.

The purchase price for the cash-generative mine located in Mpumalanga, South Africa, has been reduced from R1.7bn (£128m) but it is still a large acquisition for Pan African.

PAN AFRICAN RESOURCES (PAF)		13.5p
12 MONTH CHANGE %	+ 25.6	MARKET CAP £m
		195.5

It intends to raise R600m from new bank debt and sell non-core assets including the Manica gold project in Mozambique. Even if it uses all its cash reserves Pan African will still need to raise at least £50m from a share issue.

The first R1bn is payable when the deal is completed and that should happen in October. The rest is payable

when the South African mining authorities give their consent, which is not expected until 2013. There is a break fee of R50m payable by Pan African.

Evander has an underground resource of 32.5m ounces and a reserve of 7.6m ounces. The acquisition should double Pan African's annual gold production to 200,000 ounces. The cash production cost of the Evander mine is around \$1,050/ounce.

6 June 2012

## Lighting - The Third Revolution

Infocus

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## dividends

# GB acquisitions yield improved income

Identity management services

www.gb.co.uk

### Dividend

Identity management services provider GB Group announced a dividend of 1.38p a share for the year to March 2012, up from 1.28p a share the previous year. GB pays one dividend each year.

GB got court approval for a capital reorganisation in March 2002 and this enabled it to pay dividends. The first dividend announced was 0.5p a share in 2003. The dividend was unchanged for the first three years and then it was 0.75p a share for two years. The dividend has been increased every year since 2008 even though it was not always covered by earnings.

A dividend of 1.5p a share is forecast for 2012-13. Additional shares in issue will hold back earnings and the dividend cover will fall from 3.6 times to 2.9 times.

The balance sheet is strong even though net cash declined from £6.17m to £4.76m over the 12 months to March 2012. Most of the payment for recent acquisitions came from a fundraising but the rest came out of existing cash resources. GB has a recognised deferred tax asset of £2.2m but there are further tax losses equivalent to a tax asset of £3.2m. This will help the group to retain more of its cash.

### Business

GB reported better than expected figures even though expectations had previously been upgraded during March. Revenues increased 31% to £31.8m in the year to March 2012. Acquisitions boosted these figures but organic growth was still 11%. The increased scale means that margins have improved. Underlying operating

GB GROUP (GBG)	
Price	70p
Market cap £m	75.6
Historical yield	2%
Prospective yield	2.1%

profit jumped 114% to £3.7m, while earnings per share doubled to 5p a share even though more shares were in issue.

The acquisitions also more than doubled the number of countries covered by GB's international electronic ID verification operations to 14. This is the part of the group that is growing fastest with revenues generated for each check. It provides clients with the ability to remotely verify the identities of their customers in order to prevent fraud and money laundering. GB takes its information from a number of sources, including DVLA, Royal Mail and Experian, which its main competitors can't do because some of the sources are in competition with each other. As internet usage rises the market for online verification services will continue to grow.

The DataSolutions division, which covers customer registration, marketing services and tracing services, is number two in the market but the main competitor has around 65% market share.

Recurring revenues are running at a rate of £30m a year. This is equivalent to nearly three-quarters of forecast revenues for the year to March 2013. Peel Hunt has raised its 2012-13 pre-tax profit forecast from £4.8m to £5.1m. The shares are trading on 16 times prospective 2012-13 earnings – 20 times based on fully taxed earnings.

## Dividend news

**Falkland Islands Holdings (FIH)** increased its dividend by 16% to 11p a share in the year to March 2012. This followed an 18% improvement in underlying pre-tax profit to £3.23m and strong cash generation. Art logistics provider Momart and Portsmouth Harbour Ferry Company both improved their contribution. Net debt was £5.53m at the end of March 2012, following a further £860,000 investment in Falkland Oil & Gas Ltd – the total stake is worth £12.8m. Demand for the company's services in the Falklands is likely to increase significantly following recent oil discoveries. FIH has set up a joint venture with Trant Construction to enable it to become involved in construction projects.

Coins dealer **Noble Investments** increased its interim dividend by 29% to 2.25p a share after a bumper first half. The 7% rise in revenues to £7m in the six months to February 2012 was relatively modest due to the change in mix from retail to auction. The \$25m of gross sales from the Prospero collection auction in New York are not included, just the auction revenues relating to the sale. Auction revenues are higher margin than retail sales so pre-tax profit jumped 59% to £2.42m. The second half will not be as strong as the first half. House broker forecasts a rise in full-year profit from £3.1m to £3.8m.

Touch sensors manufacturer **Zytronic** raised its interim dividend by 24% to 2.6p a share but this is partly a rebasing of the total dividend, which was 7.7p a share last year. Even an unchanged final would still represent growth of nearly 7% and it would be well covered by earnings. Revenues increased 17% to £10.6m in the six months to March 2012, while pre-tax profit jumped 68% to £2.1m. There was some additional benefit from one-off cash machine display orders.

June 2012 : 7

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**expert views**

**Expert view: The broker**

## Russian progress for Aukett

By **DUNCAN HALL**

**A**rchitect Aukett Fitzroy Robinson\* reported improved interim results with all geographical segments in profit, although challenging UK conditions obscure overseas progress.

The shape of the full-year outcome will now prove different from that envisaged at the outset of the year following a more sustained contribution from Russia. The UK contribution, although break-even in the first half, will continue to suffer from the consequences of a convoluted planning system and delays in project financing. Thus a first-half group profit of £0.17m will substantially support our full-year profit estimate of £0.2m.

For the second half, an anticipated

in preplanning and feasibility amount to £25.5m and projects on hold account for £42.2m.

The wider economy will dictate the pace of delivery but progress has been slower than expected during the first half. The outcome may improve but current estimates are of a negative outcome all the same.

### Forecasts

The full-year revenue forecast of £10.9m includes pass-through work related to Russia – running at £3m+ annually. Russian work was expected to tail off in the second half but is more likely to stay

months. However for investors, the commercial risk is Aukett's exposure to large overseas projects and a limited customer base. Both Sochi projects are substantial by Western standards, with the Winter Olympics project likely to reach a conclusion by the end of 2012, leaving the other Sochi project to provide longer-term earnings certainty.

The balance sheet is now in good order, following the difficult days of Russian payment delays and a defaulting debtor in the UK. Net cash of £0.8m at the end of March 2012 was flattered by the receipt of Russian revenue which was subsequently paid to sub-consultants after the period end. The underlying cash is nearer neutral (bank debt of £0.4m and cash of an equivalent amount).

### Valuation

The caution prevalent in European markets contrasts with a more positive outlook for the commodity-based Russian and Middle Eastern economies where projects put on hold are being revisited. Thus a pre-tax profit range of £0.2-0.4m over the next two years seems a fair prognosis although potentially lumpy overseas results will influence timing.

Group operating profit of £0.2m represents a 3% margin. UK profit, albeit it is carrying group costs, is negligible at the bottom of the UK commercial construction cycle, yet 8% for Russian work and 18% for Middle Eastern, vindicates Aukett's commitment to overseas work. A 5p target share price represents a one times revenue multiple but requires further margin improvement.

\*Aukett is a corporate client of finnCap

## Group profit will remain underpinned by Russian projects for the next 18 months

modest blended result will understate Russian progress for the year while obscuring the continuing difficult position of the domestic economy.

### Interims

At £2.3m, Russian revenues represent 43% of group income in the six months to March 2012, against 15% in the same period last year. The profit contribution of £0.191m also provided the group's pre-tax profit. The outlook for Russian work has improved from earlier forecasts following contract wins. We now expect a similar Russian result in the second half.

The UK broke even (2011: loss £0.57m) on revenue of £2.7m (2011: £2.3m), with improvement split between increased revenue and cost cutting.

Aukett's order book stands at £72.5m (UK £62.9m; Overseas £9.6m) but market conditions remain tough. Projects progressing to construction represent only £4.8m of that figure while projects

at around current levels into 2013 with big projects in Sochi and Moscow. Thus Russia is expected to be profitable into the first half of the next financial year.

Middle Eastern work has recovered but may not provide a sustainable earnings stream throughout 2012, despite the investment mood in the region having improved.

UK revenue has been hampered by slow progress into and through the planning process. Economic uncertainty introduces a further risk to pipeline forecasting and visibility in general. Meantime the group does not wish to reduce the cost base further for risk of impairing its critical mass. The UK should remain around break-even having reduced headcount by 40% to 126 since 2007. UK revenue is running at 38% of the level in 2007 and is not expected to pick up significantly until economic conditions/bank attitudes towards debt funding become more favourable.

Group profit will remain underpinned by Russian projects for the next 18



DUNCAN HALL is a research director at finnCap

## feature

# VCT rule changes provide birthday present for AIM

AIM is approaching its 17th anniversary and it has received an early present in the form of EU approval for the changes to EIS and VCT limits. The outlook for the short term is uncertain but in the longer term should be brighter.

The Alternative Investment Market (AIM) is 17 years old this month. The junior market has experienced a variety of market conditions both good and bad and it has outlasted many of its peers. In spite of the doom-and-gloom merchants there is no reason to think that AIM will not be around for many years to come. After all, there is certainly a need for a way of raising cash for growing companies.

## The average market value of an AIM company is just short of £64m

There have been various booms during the period, such as the internet boom at the turn of the century and the rise of the mining sector a few years later. There have also been plenty of tough years. Yet AIM is still around and even though the number of companies has fallen by more than one-third from the peak of 1,694 at the end of 2007 it is prospering.

The number of cancellations continues to outstrip new entrants to AIM – a trend that has been true for nearly every month in the past four years. This has meant that the average size of company has risen. The average market value of an AIM company is just short of £64m, compared with £24.3m at the end of 2008. The current figure is higher than the £57.6m average size at the end of 2007 when market valuations were much higher.

There have been 162 companies that have transferred from AIM to the Main Market or the Specialist Funds Market of the London Stock Exchange and 23 of those companies are going

to be in the FTSE 250 index when the next changes come into force. There have also been others that have moved to other stock exchanges, such as Hong Kong or Nasdaq. Greece-based mobile marketing technology company Velti was too small to join Nasdaq when it originally floated on AIM. The junior market enabled Velti to grow internationally and widen its range of services. Once it had outgrown the junior market it decided

that Nasdaq was the right market because of the growth prospects in the US.

Even more companies have moved in the opposite direction – from Main to AIM – and they include some of the AIM companies that had previously moved to the Main Market. Of those 162 companies that moved to the Main Market, 30 have returned to AIM at some point in subsequent years. Many of them were IT-related businesses that moved during the technology boom and then came back to AIM after their valuations had fallen sharply. The most recent to return was Sinclair IS Pharma, after Sinclair Pharma merged with AIM-quoted IS Pharma last year.

### Beginnings

AIM started with 10 companies and by the end of 1995 there were 121 companies on the market with numbers more than doubling to 252 by the end of 1996. Seven of the first 10 companies came from rule

4.2, a trading facility that the London Stock Exchange was in the process of closing. The closure of rule 4.2 also sparked the launch of Ofex (now Plus-quoted).

There were 82 former rule 4.2 companies out of the 103 companies that joined AIM by the end of October 1995. Another two transferred from AIM's forerunner the Unlisted Securities Market (USM), which was also closed.

None of the original 10 companies remain on AIM, although Athelney Trust is on the Main Market. The nearest thing to one of those original 10 companies is Patagonia Gold, which was spun out of Brancote, which was taken over by Meridian Gold Inc in August 2002. Brancote shareholders received 0.1886 of a Meridian share for each Brancote share, which valued the company at \$368m. That compares with the original valuation of Brancote of £5.7m, back in June 1995. Patagonia Gold is valued at more than £200m.

Seven of the original 10 AIM companies were taken over and former Business Expansion Scheme company Norcity II was wound up. Software company Formscan decided to dump its AIM quotation following years of patchy trading and it was loss-making for nearly all of that time. The renamed Inspectron left AIM in August 2009.

Dawson Holdings moved to the Main Market in 1998 but more than a decade later it ran into problems when it lost important newspaper distribution contracts. After just over two centuries of trading, and at one time being in the FTSE All-Share index, in 2011 Smiths News offered 17.722p a share for the company. This valued Dawson at £17.3m.

## feature

The eleventh company to join AIM was film producer Winchester Multimedia, which is still on AIM under the name of Content Media Corporation, and this is the company that has been on AIM the longest.

### Changing focus

AIM has become more international over the years. There were three

## The VCT and EIS rule changes are good news for AIM companies

international companies at the end of 1995 and there were still only 60 out of 754 AIM companies at the end of 2003. Things have changed significantly since then. One-fifth of AIM companies are currently classed as international. This underestimates the number because there are many UK-registered companies that have businesses that are predominantly international.

As we pointed out in last month's publication, the average number of daily trades is running at the highest ever levels for AIM. Their monetary value is still lower than at the peak of the market and this is only partly explained by the reduction in the value of AIM compared with five years ago.

Liquidity is not uniform across AIM, but it never is for any market. Some companies, such as Gulf Keystone Petroleum and ASOS, have remained highly liquid for many years, while others can have high percentages of their shares traded for a few months and then trading levels fall back. It depends on the attitudes of investors, although a small free float can have a negative effect on investor perception.

### Raising cash

State Aid approval has finally been received from the EU for the changes to the rules for the Enterprise Investment Scheme (EIS) and Venture Capital Trust (VCT). This will increase

the potential capital available to AIM companies. The gross assets limit for individual companies has been increased from £7m to £15m, while the maximum number of employees they can have moves from 50 to 250 and this will significantly increase the number of companies that can take advantage of this source of finance.

VCTs can invest up to £5m in each company, up from £2m. All the

changes take effect from 6 April 2012, subject to the UK legislation receiving Royal Assent. There does not seem any reason to think that the changes will not go ahead.

The Association of Investment Companies' research, *Delivering growth: The role of VCTs*, published in April reported that 37% of VCT investments were in AIM companies. The report shows the benefits of the VCT investment both to the

2.5% in 2006 to around 1% in 2009 but it recovered to 2% in 2011 as prospects became easier to assess.

The AIC reckons that the current pipeline of potential deals is stronger than it has been for some years.

### Future

The VCT and EIS rule changes are good news for AIM companies. It is hoped that they will provide more cash for small companies and help them to grow. Growth funding for these companies is still in short supply.

Fund manager Bluehone's proposed investment company, Bluehone Secured Assets (BSA), which is being set up to provide secured loans to companies capitalised at less than £50m, still has not got off the ground and its introduction to AIM has been delayed. This shows how difficult it can be to attract additional investment for small companies.

There have been other suggestions about how investment in AIM

## For every £1 of VCT tax relief, an additional £7 of turnover is achieved

companies and the tax man.

On average companies receiving VCT investment deliver a 16% year-on-year increase in employees. For every £1 of VCT tax relief, an additional £7 of turnover is achieved.

The research estimates that if a VCT investment is held for five years the additional tax paid by the investee companies over the period would cover the cost of income tax relief 3.5 times.

Demand for VCT funding has not reduced over the past few years. A survey of five VCT fund managers, which account for 37% of VCT assets under management, show that there are generally around 2,000 enquiries from companies each year. The percentage of inquiries that gained investment has fallen from more than

companies can be encouraged. Gavin Oldham of Share, which owns private client broker The Share Centre, has suggested that abolishing stamp duty on AIM shares would give a boost to liquidity.

What AIM really needs in order to prosper in the future are strong global stock markets. If investors do not have the confidence to invest in large companies then they are unlikely to want to invest in smaller ones.

Uncertainty is likely to continue for some time to come with Spain the latest country requiring rescue funding. The short-term outlook for AIM is likely to remain uncertain but the longer-term outlook should be better as long as the world economy settles down.

## statistics

# Market Performance, Indices and Statistics

AIM SECTOR INFORMATION		
SECTOR NAME	% OF MARKET CAP	% OF COMPANIES
Oil & gas	25.8	11.5
Financials	16.3	22.2
Basic materials	14.3	15.4
Health care	10.3	5.6
Industrials	9.8	18.8
Technology	7.8	9.5
Consumer services	6.4	9.5
Consumer goods	6.3	5.3
Telecoms	1.5	1.2
Utilities	0.8	1.1

KEY AIM STATISTICS	
Total number of AIM	1,117
Number of nominated advisers	59
Number of market makers	57
Total market cap for all AIM	£71.3bn
Total of new money raised	£78.3bn
Total raised by new issues	£35bn
Total raised by secondary issues	£43.3bn
Share turnover value (2012)	£17.8bn
Number of bargains (2012)	2.29m
Shares traded (2012)	87.8bn
Transfers to the official list	161

FTSE INDICES		
INDEX	PRICE	ONE-YEAR CHANGES % CHANGE
FTSE AIM All-Share	690.55	-22.5
FTSE AIM 50	2933.85	-17.9
FTSE AIM 100	3122.06	-23.8
FTSE Fledgling	4263.64	-16
FTSE Small Cap	2909.91	-11.6
FTSE All-Share	2760.62	-11.6
FTSE 100	5306.95	-11.4

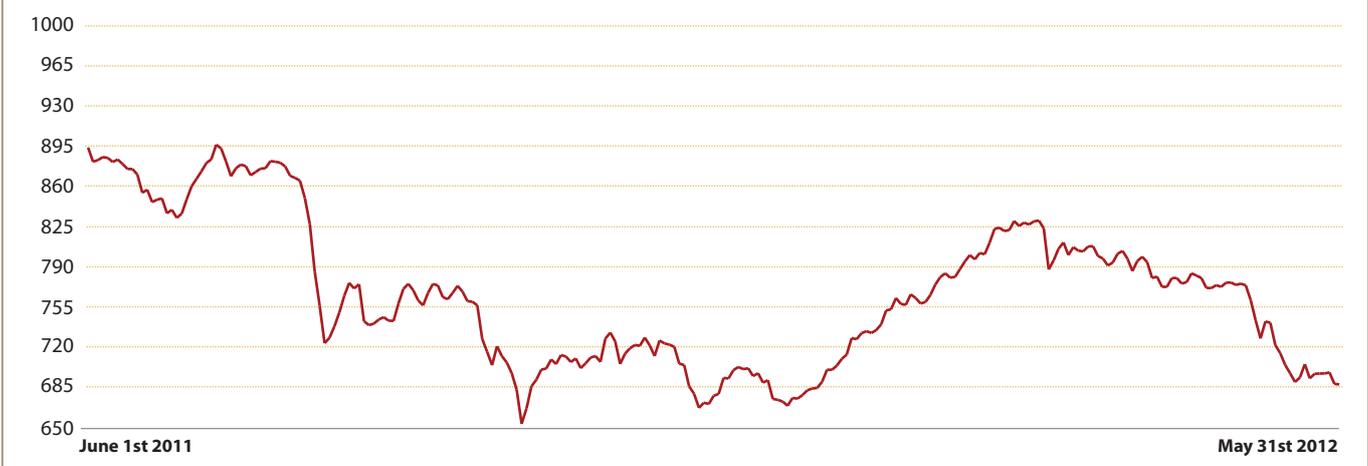
COMPANIES BY MARKET CAP	
MARKET CAP	NO.
Under £5m	257
£5m-£10m	152
£10m-£25m	231
£25m-£50m	192
£50m-£100m	134
£100m-£250m	93
£250m+	58

TOP 5 RISERS OVER 30 DAYS			
COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
Magnolia Petroleum	Oil and gas	2.1	+64.7
Lead All Investments	Financials	33	+63
Gasol	Oil and gas	0.58	+58.9
Kellan	Services	2.75	+57.1
West African Minerals Corp	Mining	57.5	+43.3

TOP 5 FALLERS OVER 30 DAYS			
COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
Pursuit Dynamics	Technology	16.25	-83.8
Adventis	Media	0.95	-77.3
Sceptre Leisure	Leisure	4.25	-72.6
Petro Matad	Oil and gas	9.62	-54.7
YCO Group	Leisure	3.5	-53.3

### AIM - 1 YEAR INDEX CHANGE

Source: London Stock Exchange



Data: Hubinvest Please note - All share prices are the closing prices on the 31st May 2012, and we cannot accept responsibility for their accuracy.

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fastest growing broker in both 2009 and 2010. finnCap is ranked as the number two broker/nominated adviser on AIM by overall client numbers. It is number one ranked in healthcare, technology and industrials sectors.

finnCap was shortlisted for AIM Broker of the year, AIM Adviser of the year and Analyst of the year at the 2011 Growth Company Awards. It has also been shortlisted for best research at the AIM Awards. finnCap's corporate broking and sales trading teams have achieved

Extel Top 10 rankings for two years running.

finnCap has a strong track record of raising money for clients and it has advised on £280m of fundraisings and more than £300m of M&A transactions since June 2009. More than £140m was raised for clients in the year to June 2011.

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