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DECEMBER 2023

THE ONLINE MONTHLY FOR THE ALTERNATIVE INVESTMENT MARKET

AIM JOURNAL

Signs of an AIM recovery

AIM, and smaller companies in general, sharply outperformed the Main Market in November, but it is still underperforming in the year so far. AIM rose 5.2% during the month, while the FTSE 100 index was only 1.7% ahead. The previously underperforming FTSE AIM UK 50 was 6.7% higher. The FTSE Small Cap index rose more than 5%r, suggesting that smaller companies may be starting a period when they are catching up the performance of the larger companies.

The reduction in the inflation rate is helping to boost investor optimism, while bid activity is also helping smaller companies' overall performance, which does tend to lag behind the larger counterparts. It is too early to say this is a sustained recovery. It will take a few months for it to be a trend. Smaller companies remain cautious about prospects, but earnings multiples are relatively low. There are still profit warnings, but there appear to be an increasing number of positive trading statements. There remains a lack of new admissions, but there are companies such as Venus Minerals that will float when market conditions improve.

Shore Capital points out in its monthly smaller companies publication Share & share alike that "historically, equity markets rally when the perception grows that we are at, or close to, the peak of interest rates. This has especially been the case for the UK smaller companies sector". The broker believes that valuations are undemanding.

Molten Ventures buys Forward

Forward Partners has agreed an all-share bid from fellow technology investment company Molten Ventures, valuing the company at £42.1m. Black Rock is a major shareholder in each of the companies and it is contributing up to £25m of a £57.4m placing and Primary Bid offer by Molten Ventures at 270p/share.

Molten Ventures, which was quoted on AIM before moving to the Main Market, is offering one share for every nine Forward Partners shares, which is equivalent to around 30p/share. The Forward Partners share price was trading above that level just before the bid was announced. At the end of September 2023, Molten Ventures had a NAV of 735p/share, while at the end of June 2023 Forward Partners had a NAV of 67p/share.

Molten Ventures says that during the past six months deal timelines have extended – for both fundraisings and exits. This is holding back the progress of the company, but it has brought up opportunities such as the Forward Partners merger. There are investments held by Forward Partners that could become part of the group's core portfolio.

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SigmaRoc lime assets purchase

Building materials supplier SigmaRoc is set to become one of the top 30 AIM companies by market capitalisation when it completes the acquisition of the European lime assets of international building materials supplier CRH for €1.1bn, some of which is deferred. The combined group will have pro forma revenues of more than £1bn and the deal should be earnings enhancing. Net debt could be more £500m when the acquisitions are completed, but more than £100m in cash could be generated each year to reduce that figure.

The deal is in three phases. The initial phase covers Germany Czechia and Ireland, followed next March by the UK assets. Finally, once regulatory approval is received for the assets in Poland these will be acquired, probably in April. This a good geographic fit for SigmaRoc and will enable it to offer a wider range of products in some markets.

Integrating the businesses should also produce cost savings. Management believes that savings could add at least €30m/year to profit by 2027. Gross margins are similar, but operating margins are higher for the lime assets than they are for the existing business. There are concerns about trading conditions, but these are assets that have been consistently profitable, even in 2008 and 2009.

Lime will account for around one-sixth of group revenues. It is not just used in construction, it is sold to customers involved in chemicals, steel, paper, environmental and food. Lime is used in the production of lithium batteries. The European limestone markets are expected to grow at around 2.5%/year up until 2031.

Tribal dispute

Education software and services provider Tribal Group adjourned the general meeting to approve the takeover bid from Ellucian Company. The 74p/share cash offer values Tribal at £172m. The share price has not been that high since September 2022, following disappointing interims. Even so, there are shareholders that are opposing the bid. Investor Jenzabar Inc has been mopping up shares in the market and taken its stake to 26.5%, which could be enough to scupper the bid. Tribal directors have reiterated their backing of the bid. The new date for the general meeting is 11 December. The Competitions and Markets Authority investigating whether there is likely to be a substantial lessening of competition.

No signs of merger activity slowing

Bidders continue to run their eye over potential AIM targets and takeover activity is maintaining its momentum. Some bids offer large premiums, but others are at rock bottom levels.

Hotel Chocolat is recommending a 375p/share bid from Mars, nearly treble the previous market price. That values the chocolate company at £534m. The share price has not been that high for 18 months. Mars is keen to help Hotel Chocolat expand into new regions. The track record of international expansion by the company has been mixed and it will help to have the backing of a larger company with greater resources. Shareholders can accept an alternative offer of one rollover share in the bid vehicle for each share. The value of these shares will be dependent on the performance of the business, and this would be taking a risk.

City Pub Group is also the subject of an agreed bid at a significant premium. Young & Co's Brewery is offering 108.75p in cash and 0.032658 of an A share for each City Pub Group share, valuing it at 145p/share or £162m. Young's has been seeking to grow its managed pubs business and believes it is rare to have the opportunity to acquire such an attractive portfolio of pubs. The deal will increase the number of pubs owned by 50 to 279. A significant amount of City Pub Group's central overheads of £5.6m could be saved.

DX has agreed a 47.5p/share bid from HIG European Capital Partners, which values the freight and parcels company at £315m, after the payment of a final dividend of 1p/share.

There is a potential bid at 0.25p/share for sustainable fuel technology developer Velocys from a consortium including Lightrock and Carbon Direct Capital Management. This would ensure long-term funding of the business. The low share price makes it difficult to finance the operations.

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Venture Capital Trust relief extended to 2035

The sunset clause for Venture Capital Trusts (VCTs) and the Enterprise Investment Scheme (EIS) has been extended by the Chancellor of the Exchequer from April 2025 to April 2035. This ensures that tax relief will continue and help to encourage investment in smaller, younger companies.

The schemes were subject to an evaluation exercise by the HMRC as part of its plan to evaluate tax relief. The findings of the research report by Kantar Public were published in November. This paper reported that 95% of investee companies that raised money via EIS were new, independent start-ups, which was slightly higher than the comparative group without the tax relief.

There were 48% of EIS investee companies that could be described as knowledge intensive, compared with 17% of non-EIS companies, and they were also more likely to claim R&D tax relief. Three-quarters of EIS investee companies strongly agreed that the funds helped the business to grow and 53% thought they might not still be in business without EIS.

The Venture Capital Trust Association calculates that in the last tax year there was £1.08bn raised by VCTs, which is 5% lower than the all-time record of £1.13bn in the 2021-22 tax year. This means that there is plenty of cash in VCTs, but the AIM-focused ones have lacked opportunities to invest.

Amati AIM VCT bemoans that there have been fewer fund raisings and points out that companies are finding it increasingly difficult to gain approval for fundraisings from the HMRC. Amati AIM VCT invested £8.8m in the six months to July 2023 and £3.7m since then. The VCT has also sold many qualifying holdings over the past 18 months. This led to the decision to pay a second interim dividend of 2.5p/share in January. The second dividend is normally paid in April. The first interim of 2.5p/share was paid in November.

■ PrimaryBid has appointed Stacey Parsons as managing director and head of fixed income as part of its plan to make corporate and government debt issues more available to private investors. Stacey Parsons has more than 25 years' experience in the sector, including time as a gilt-edged market maker and head of fixed income at Winterflood Securities. She was a founder of the Investor Access to Regulated Bonds working group and a member of the London Stock Exchange Primary Markets Group. The FCA is consulting on reforms to the debt market.

■ VSA Capital says that the owners of a 19.8% stake in Lush Cosmetics and Lush Cosmetic Warriors who agreed to sell the stake to Aquis-quoted Silverwood Brands are asking the broker to help unwind the transaction. Lush blocked the transfer of the shares. The original owners of the stake are threatening legal action if VSA Capital does not comply with the request. They also want VSA Capital to return the commission it earned on the transaction. VSA Capital says the claim has no merit.

ADVISER CHANGES - NOVEMBER 2023

COMPANY	NEW BROKER	OLD BROKER	NEW NOMAD	OLD NOMAD	DATE
NetScientific	Panmure Gordon	WH Ireland	Panmure Gordon	WH Ireland	11/2/2023
Chaarat Gold	Axis Capital Markets / Panmure Gordon	Canaccord Genuity / Panmure Gordon / Cavendish	Strand Hanson	Canaccord Genuity	11/6/2023
Firering Strategic Minerals	Shard / Optiva	Optiva	Spark	Spark	11/13/2023
Gemfields	Liberum	Liberum / Cavendish	Liberum	Cavendish	11/16/2023
Mirriad Advertising	Allenby	Panmure Gordon	Allenby	Panmure Gordon	11/23/2023
Borders & Southern Petroleum	SP Angel	SP Angel	SP Angel	Strand Hanson	11/28/2023
Totally	Canaccord Genuity	Canaccord Genuity / Singer	Canaccord Genuity	Canaccord Genuity	11/28/2023
GENinCode	Cavendish	Stifel Nicolaus / Cavendish	Cavendish	Stifel Nicolaus	11/29/2023

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Sorting out DCB masks the cash generative ability of the core Kinovo operations

Property services *www.kinovoplc.com*

Property services provider **Kinovo** continues to rebuild its core business, although progress is still partially masked by the DCB contract problems. Once that is out of the way, Kinovo will be a more obviously cash generative business that is winning new contracts and framework agreements.

In the six months to September 2023, revenues edged up by 2% to £30.3m. That was held back by delayed renewables business – energy efficiency products and heat pumps. The mechanical and electrical and building maintenance operations grew strongly. The mix of business improved margins. Underlying pre-tax profit improved from £2.1m to £2.63m

Next year cash will increase

Even though there is a continued cash outflow due to the requirements to finish the remaining contracts of DCB, which had been guaranteed by Kinovo on its disposal, net cash was £1m at the end of September 2023. There are nine projects that need to be completed and five should be finished by the end of 2023 with two more set to finish by March. The construction partner for another project has gone into administration and that could be a terminable event for the contract. The final project may take until 2026. There was an additional provision of £460,000 during the period. Most of the remaining cash outflow is likely in the second half.

KINOVO (KINO)			52p
12 MONTH CHANGE %	+79.3	MARKET CAP £M	32.6

A new office has been opened in Norfolk to take advantage of the business that is being won in the region. New framework contract wins have yet to make a major contribution. Canaccord Genuity forecasts an increase in underlying pre-tax profit from £4.9m to £5.8m. Earnings growth will be held back by the higher tax rate. Net cash will decline because of the payments relating to DCB, but next year the cash pile should rise to more than £4m. The shares are trading on less than eight times prospective earnings.

Another upgrade for Renold

Chain manufacturer *www.renold.com*

Chain and transmission equipment supplier **Renold** reported interims in line with the previous trading statement and the full year outcome will be better than expected. Renold has invested in improving efficiency and it is gaining market share. There is a strong underpinning of repair and maintenance work.

In the six months to September 2023, revenues were 8% ahead at £125.3m and pre-tax profit 55% higher at £11.3m. Much of the growth in profit came from the transmission equipment division were margins rose significantly as

RENOLD (RNO)			33.1p
12 MONTH CHANGE %	+45.8	MARKET CAP £M	69.2

revenues grew on the back of the new MoD naval contract. The chain division also improved revenues and margins. The international spread of the business means that weakness in some markets is offset by others.

Order intake has slowed, but that is at least partly down to increased confidence in the supply chain. The trend to move manufacturing back from China will benefit Renold.

Cavendish increased its full year pre-tax profit forecast from £17.1m to £19.2m. The pension liability is expected to be £57.7m at the end of March 2023, while net debt of £27m is forecast. The prospective multiple is less than six. That reflects concerns about the debt and pension liability. Renold has shown that it can generate cash and borrowings should reduce, although more acquisitions are a possibility as part of the strategy to consolidate the chain business. The share price is starting to perk up and over the the valuation should improve.

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Live events business helps to offset weaker content creation equipment sales at Focusrite

Audio equipment *www.focusriteplc.com*

FOCUSRITE (TUNE)			460p
12 MONTH CHANGE %	-44.2	MARKET CAP £M	269.8

It was always going to be a tough proposition for audio equipment designer and supplier **Focusrite** to follow two years of significant growth in revenues, partly sparked by Covid lockdowns. It was not a surprise that revenues dipped 3% to £178.5m in the year to August 2023, even with a contribution from acquisitions. Destocking and inflationary pressures have hit the business.

Gross margins improved as freight rates reduced, but higher overheads more than offset that. There was also a one-off foreign exchange gain of £2.3m in the previous year. Underlying pre-tax profit fell from £36.5m to £28.8m before acquisition and restructuring costs. Net cash from operating activities

Destocking hit the business

improved from £11.3m to £25.4m. Even after the cost of acquiring audio software company Sonnox, net debt was modest at £1.3m.

The only content creation brand that grew revenues was ADAM Audio, which was helped by the introduction of a new product range and the ending of component issues. The launch of the fourth generation of Scarlett home studio products helped the Focusrite brand to claw back some of the decline in first half revenues.

Live events are getting back to former levels, and this enabled the audio reproduction division to grow revenues from £31.9m to £41.5m. The product range is being extended so that Focusrite can generate more sales from larger venues.

The share price has fallen back sharply this year, although it is still higher than at the bottom of the market in March 2020. The shares are no longer on a premium rating. There is unlikely to be a significant improvement in pre-tax profit this year. Cash will build up if there are no acquisitions, which is unlikely. There is a £50m HSBC debt facility, that lasts until September 2027, to help finance opportunities if they arise.

SRT Marine revenues set for second half jump

Marine technology *www.srt-marine.com*

SRT MARINE SYSTEMS (SRT)			42.25p
12 MONTH CHANGE %	-5.5	MARKET CAP £M	81.3

There were no revenues from systems in the first half at maritime systems developer **SRT Marine Systems**, but that will change in the second half when the systems business makes a significant contribution as work on contracts reaches points where it can be invoiced, and revenues recognised. The order book is worth £160m and this underpins the second half revenues.

Interim revenues fell from £18.8m to £5.5m, although transceivers revenues were higher. A £2.2m pre-tax profit was turned into a loss of £4.5m. That is before capitalised development spending. A new transceivers product is set to be launched in 2025. Additional staff have been taken on to help the business to grow.

Earlier this year, SRT raised £5.36m from a placing and Primary Bid offer at 50p/share. This provided working capital while projects reach a stage where they generate cash. Debt facilities are also available. There should be a large cash inflow from operations in the full year, which will nearly cover the capitalised development and capital spending. Net debt is expected to be £2.2m at the end of March 2024, before SRT moves into a net cash position in March 2025.

In the year to March 2024, revenues should jump from £30.4m to £70.9m, including a £55.8m contribution from systems. Last year's loss could be turned into a £7.2m pre-tax profit. The marine systems market is huge and SRT has a pipeline of potential projects worth £380m.

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Cambridge Nutritional Services focuses on core personalised health operations and reduces loss

Personalised health *www.cnsplc.com*

CAMBRIDGE NUTRITIONAL SCIENCES (CNSL)	2.75p		
12 MONTH CHANGE %	-19.1	MARKET CAP £M	6.5

Cambridge Nutritional Sciences is the new name of Omega Diagnostics, and the latest interims provide the base for a new start for the company. The benefits of concentrating on its core personalised health and nutrition business following the sale of the CD4 diagnostics business are beginning to show through.

The international spread of the business is attractive and North America is a largely untapped market. Products include food allergy tests FoodPrint and Food Detective. The menus of these products are being expanded to include the microbiome. A new app called MyHealthTracker has been developed to make it easier for patients to conveniently manage their gut health. There is also a UK testing laboratory.

Production yields are improving

In the six months to September 2023, interim revenues on continuing operations rose 44% to £4.9m and the underlying loss was reduced from £703,000 to £326,000. There was a boost to FoodPrint reagents revenues due to order backlogs from the previous year. There is strong underlying momentum, though.

Manufacturing problems have been sorted out and production yields are improving. A new manufacturing facility is required, although the existing lease has been extended to June 2025.

The dispute with HMRC over the Covid tests contract hangs over the business. The prepayment by the HMRC of £2.5m is included in deferred income, pending resolution of the dispute. If it is required to be repaid there should still be sufficient cash for the business. Management is confident that it has a substantial counterclaim.

Cavendish expects the full year loss to be reduced from £2.5m to £600,000. There should be £4.2m in the bank at the end of March 2024 and the cash outflow is reducing so there is no medium-term requirement for any additional share issues.

ECO Animal Health investing in the future

Animal health products *www.ecoanimalhealthgroupplc.com*

ECO ANIMAL HEALTH (EAH)	103p		
12 MONTH CHANGE %	+4	MARKET CAP £M	69.8

Recovery in China and growth in other international markets is fuelling the progress of **Eco Animal Health**. Interim gross margins declined, but they are expected to recover in the second half.

Interim revenues rose by 9% to £38m, but there was a swing from profit to loss due to higher overheads. North America was the strongest market, while there was a recovery in China and Japan. Net cash was £20.6m at the end of September 2023, although only £9m is held outside China.

There is a flow of new products set to come to the market over the next few years and this will begin to pay back the investment ploughed into them. Since, 2017, annual development spending has nearly doubled from £5m to £9.7m. This will reduce the dependence on Aivlosin, an antibiotic for respiratory and gastro diseases in pigs, but there is still plenty of growth in that treatment as additional approvals are gained in new markets. Permission has been granted in North America to administer Aivlosin to breeding sows.

There is estimated to be 90% visibility on second half revenues, which tend to be higher than in the first half. A change in the mix of revenues should help to improve margins. Underlying pre-tax profit is expected to improve from £3.9m to £4.3m. The shares are trading on 73 times prospective 2023-24 earnings. The key to the value of the business is the new product launches and brand extensions over the coming years. Chief executive David Hallas has bought 37,759 shares at 105.9p each.

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Aeorema Communications set for international expansion

Events services *www.aeorema.com*

Dividend

Aeorema Communications paid its maiden dividend of 1.5p/share in 2013. The next two years the annual dividend was 5p/share. That was reduced to 2p/share in 2015-16 and 0.5p/share the following year. Over two years it was rebuilt to 1p/share before Covid led to the suspension of the dividend.

The dividend was reinstated at 2p/share in 2021-22 and was increased by 50% to 3p/share this year. That is covered 2.3 times by earnings.

Business

London-based Aeorema, which was originally known as Cheerful Scout, has been on AIM for more than two decades. It organises events and creates content for customers and has developed a strong client base. The events could be for product launches or promotion of the business.

The acquisition of Eventful broadened the range of services offered, including incentive travel and venue sourcing. The original video post-production business still contributes to the group, but it is a much smaller percentage of revenues.

The performance of the business has been erratic in the past, but profitability appears set to continue to grow on the back of recent investment in sales and marketing. The customer base includes large multinational organisations, such as Wall Street Journal, Vodafone, KPMG and Microsoft, and this is enabling growth outside of the UK, particularly in North America, where an office has been opened.

The 2022-23 figures were better than expected and revenues have more than tripled since 2018-19. In the year to June 2023, revenues jumped from £12.2m to £20.2m, while pre-tax profit improved from £844,000 to £1.05m. There was pent up demand for live events after lockdowns. Additional investment in expansion, particularly in North America, held back the profit contribution. Costs included recruitment fees, which will not be repeated.

AEOREMA COMMUNICATIONS (AEO)	
Price (p)	79.5
Market cap £m	7.6
Historical yield	3.8%
Prospective yield	3.8%

Importantly, cash generated from operating activities was £1.46m and after capital investment and dividends the cash increased by £730,000. Net cash was £2.3m at the end of June 2023, although it has since declined to £1.9m. NAV was £2.81m at the end of June 2023, including intangible assets of £566,000.

The cash pile could be used for acquisitions, Management is aware that buying people businesses comes with pitfalls, so it is being cautious. Something that adds to the sectors covered or expands the business in North America or other regions would help growth. Even without acquisitions, the company can grow, though.

Profit is set to improve this year with the benefits of the North American investment starting to show through. House broker Allenby did not publish a forecast in its latest note. That does not help the share price, which is trading on a historic multiple of eleven with cash covering more than one-quarter of the market capitalisation.

Dividend news

DSW Capital has reduced its interim dividend to 1.25p/share, but the total dividend for the year will be maintained at 3.76p/share, even though it will only be covered 1.1 times by forecast earnings. The professional services network operator reported a 31% decline in income from licensees in the first half due to much lower M&A activity, which still accounts for more than two-thirds of income. However, management is optimistic about the second half with new teams contributing and other services generating more income at the end of the tax year. Full year pre-tax profit is likely to be around £1.2m, compared with £1.4m last year.

Rail optimisation software and services provider **Tracsis** reported full year figures in line with expectations. Both the rail technology and the data and analytics divisions grew organically. Rail technology should continue to grow by 10%/year and there is potential to improve margins. The dividend was raised by 10% to 2.2p/share. Net cash was £15.3m at the end of June 2023 and the cash will continue to build up. This year is likely to be significantly second half weighted. Cavendish forecasts a 2023-24 pre-tax profit of £15.6m, up from £13.7m last year. The dividend is expected to be 2.4p/share.

Telecoms testing instrumentation supplier **Calnex Solutions** maintained the interim dividend at 0.31p/share even though revenues slumped from £12.7m to £7.8m and the company moved from a pre-tax profit of £3.1m to a loss of £600,000. The Americas have been most impacted by the weak spending. There is still £13.5m in the bank and there is not likely to be a significant outflow in the second half. Cavendish expects breakeven for the full year, compared with a pre-tax profit of £7.2m last year, on revenues of £17m, which are lower than in 2020-21. The full year dividend should be maintained.

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Expert view: Registrars

The 2023 Autumn Statement – did it contain insight to how HMG sees markets of the future?

By Hardeep Tamana

Last month's Autumn Statement may have been thin on the ground when it came to headline grabbing give-aways. In a mini budget that seemed focused on offering invectives to get benefit claimants back to work, there were however some interesting moves that have the potential to bolster the UK's popularity as a listing venue.

The changes to Inheritance Tax did not transpire – and for equity markets that is probably no bad thing – but we did see some subtle changes announced when it comes to Stamp Duty and Stamp Duty Reserve Tax. This levy is often seen as an unnecessary impediment to trade and of course is something that AIM market listed shares are already exempt from. The proposed change will however allow FCA regulated MTFs operated by investment firms and approved as "recognised growth markets" by HMRC to access the "growth market exemption" without needing to be recognised stock exchanges. So that is a boost for institutional investors who may be able to access a wider cohort of assets that can be traded without incurring Stamp Duty.

The cost to the Treasury is touted as being negligible – a suggestion that few issuers would move from a current regime where there is a stamp duty liability down to a venue where the growth market exemption would apply. However, with around half of Europe's MTFs reported as being based in the UK, this offers another clear signal that current regime is committed to doubling down on its efforts to attract more capital raising activity to take place here.

The increase in company market capitalisation level to £450 million from the previous £170 million also served to expand choice as to whether entities falling into this bracket will decide to position themselves on a recognised growth market and access the exemption, something that offers a potentially important sub-text over how capital market structures are set to evolve in the years ahead. The detailed regulations will be key to understanding the application of the proposals.

> There were some interesting moves that have the potential to bolster the UK's popularity as a listing venue

Increased flexibility

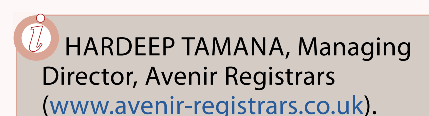
Extending from that, much has been written over the last couple of years highlighting the general dearth of IPO activity, with the finger of blame often being pointed at rising interest rates suppressing risk appetite and general lack of investor enthusiasm. However, with the total number of companies listed on the London markets being in long term decline – a pattern that is repeated across many established venues across the globe – it is worth noting that issuers appear to be actively seeking out the alternatives that are available to them. Technology, along with an implicit understanding that unlisted or off market assets often attract far more justifiable valuations than their main board counterparts, has fuelled significant growth here.

With that in mind, the decision by the UK Government to push through what may on the face of it look like a modest change in taxation policy for smaller issuers could indeed be interpreted as them being in front of the curve - and worthy of greater fanfare. Not only should this help cement the UK's position as the MTF location of choice in Europe, but it also has the potential to give issuers more flexibility. And whilst that will in turn force AIM to ensure it remains at the top of its game, this brings us conveniently back to the Inheritance Tax exemption that listings benefit from.

However, regardless of overlying market venues, there's going to be a common theme for the majority of the buy side that UK securities are settled on its sole domestic CSD, CREST. As we get close to the 10th anniversary of the CSDR - which envisaged a choice of multiple digital settlement venues - only a few attempts have been made to provide alternate market infrastructure.

And it is perhaps surprising we haven't seen even greater fragmentation given the evolution of new technology, but national CSD settlements monopolies prevail across the world. Does this simply reflect the path of least resistance in the markets, or is it illustrating how much of a challenge it is to open up choice in the back-end infrastructure?

Regardless of the challenges, we offer UK securities core registry services and a pathway into CREST and other national CSDs. Whether these are mainstream issuers looking to list in London or elsewhere internationally, speak to us to explore the solutions available.


HARDEEP TAMANA, Managing Director, Avenir Registrars (www.avenir-registrars.co.uk).

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Pessimism on the rise in smaller companies

The latest QCA survey of smaller quoted company sentiment undertaken by YouGov indicates the frustrations of companies on the public markets. There has been a downturn in expectations for the economy and the prospects of the companies themselves.

Three-fifths of respondents to the latest Quoted Companies Alliance (QCA) survey have a negative experience of being quoted in 2023. The 31st edition of the Small and Mid-cap Sentiment Index was undertaken in the autumn. During this period AIM was continuing to decline and fully listed smaller companies were also finding being quoted tough.

There were 101 AIM and Main Market respondents to the YouGov survey. One company was valued at more than £1bn. At the other end of the scale there were 33 companies with a market capitalisation of less than £25m. The other main block of respondents was the 31 companies valued at between £100m and £499m.

There were 23% of respondents that were very negative about their quoted experience, while only 16% were positive. Two-thirds of companies felt that low valuations were a major issue. Lack of investor interest (62%) and lack of liquidity (59%) were also major issues, and they will hold back the valuation. Only 9% felt that a lack of supportive media coverage is a problem.

The other big issue about being quoted is excessive compliance and burdening governance, which was a factor for 62% of companies.

Advantage?

When asked about the advantages of being quoted 23% of the companies said that there were none. That is a worryingly large number. It indicates cynicism about the public markets. If smaller companies came back into favour, then the percentage might decrease. However, this figure could be an indication of more companies dropping their quotation over the coming months.

There are 32% that say that their visibility has not improved since flotation. However, this may not be as bad because some companies will already be well known and/or will not associate any additional interest with being quoted.

When asked about the advantages of being quoted 23% of companies said that there were none

There are two-fifths that believe that they have gained greater awareness among investors. One-third believes that there is increased credibility, with nearly one-quarter saying it has improved their brand recognition.

Sentiment

Companies have become much more pessimistic about the economy and their own prospects. The view of economic prospects has nearly fallen back to the level it was one year ago. A figure of 50 in the survey is neutral and anything above it is optimistic and below it is pessimistic. The latest number is 37.4. To put that in perspective, there are only two times that the number has been lower. That was 12 months ago with 33.1 and at the start of Covid lockdowns in 2020 when the number was 26.2.

Smaller companies tend to be much more optimistic about their own prospects. This number has never fallen below 50 over the 31 surveys. The lowest number was again in the early days of Covid and that was 50.9. The latest figure of 54.2 is the next lowest number.

The companies believe that their mean expected turnover could increase by 12.5% over the next 12 months, which is down from a growth rate of 16.6% six months ago.

The companies have never believed it has been more difficult to raise money from share issues than they do now. The mean score has dived from 5.8 to 4.3 – this figure is out of 10. That is the first time the figure has been below 5.

The difficulty of raising cash through listed debt issuance is deemed to be 2.7, down from 3.9, which is a new low. Plans by Primary Bid to become involved in debt issues could help. In contrast, bank debt is the easiest way to raise money according to companies with a score of 5.2.

There are signs that there could be an upturn in the prospects for quoted companies and the next report will provide an indication if managements are becoming more positive.

The survey can be found at www.theqca.com.

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Consolidation opportunities in the lithium sector

RFC Ambrian believes there could be further consolidation in the lithium sector involving both mining companies and other energy businesses. Two AIM companies are included in the analysis.

Lithium is one of the fastest growing mineral sectors and production has more than trebled in the six years to 2022, but there are still plenty of opportunities in the sector. Even with this increased production there is rising demand for batteries that will lead to supply shortages by the end of the decade. There has already been rationalisation in the sector, but RFC Ambrian believes that there will be more, and it has identified 21 potential candidates.

> Oil company ExxonMobil is drilling its first lithium well in Arkansas

Larger lithium companies may want to acquire additional projects, while oil and gas companies may seek to diversify into lithium. ExxonMobil is drilling its first lithium well in Arkansas, targeting lithium-rich saltwater from underground reservoirs. Smaller explorers are likely to seek critical mass by combining with their peers.

Although the consolidation continues the total value of lithium deals in 2023 is lower than in 2022, even though the number of deals has increased by one-fifth.

Most of the projects assessed by RFC Ambrian are held by junior mining companies listed on the ASX or the TSX Venture Exchange. They also include ones owned by AIM-quoted companies European Metal Holdings and CleanTech Lithium.

Although production is increasing further growth in supply will be required. On top of this, Europe and the US want to encourage production in their own regions. This provides a positive backdrop for financial backers.

European Metals Holdings

European Metals is also listed on the ASX and the Cinovec hard-rock lithium and tin project in Czechia is the largest of this kind in Europe. The enterprise value/NPV is 4%, while enterprise value/lithium resource is $23/tonne. A definitive feasibility study should be completed by the end of 2024.

CEZ Group, which is 70%-owned by the Czechia government, owns 51% of Cinovec with European Metals owning the other 49%. The underground project could produce 22,500 tonnes/year of lithium carbonate for the first two decades. Initial capex is likely to be $644m and after-tax NPV8 is $1.9bn.

This is a project that would be attractive to acquirers because of its relevance to the European market. The ownership structure could complicate deals and makes them dependent on the view of the government.

CleanTech Lithium

There are two Chile-based projects held by CleanTech Lithium and both are 100% owned. The enterprise value/NPV is 1%, while enterprise value/lithium resource is $12/tonne.

The Laguna Verde brine project is still at an early stage. Using direct lithium extraction technology should increase recoveries and have less environmental impact than conventional brine extraction. There could be 20,000 tonnes of battery grade lithium carbonate produced each year. Initial capital expenditure of $384m is estimated with a post-tax NPV8 of $1.8bn.

Francisco Basin is less well developed with a pre-feasibility study likely to be completed by the end of 2024. The initial capex estimate is $450m and the after-tax NPV8 of $1.1bn.

In November, CleanTech Lithium raised £8m via a placing at 22p/share, which was more than originally sought, and a one-for-45 open offer could raise up to £500,000. The open offer closes on 13 December. The cash will be used for the development of the Laguna Verde project, where a pre-feasibility study is due in the first quarter of 2024, and finance additional drilling at Francisco Basin to update the resource estimate.

The final components of the direct lithium extraction pilot plant for Laguna Verde have been received and it should be commissioned by the end of the year. That will produce battery grade lithium carbonate.

RFC believes that both projects are likely to be of interest to a third party in the medium-term. It ranks both highly compared to other brine lithium projects analysed.

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Market Performance, Indices and Statistics

AIM SECTOR INFORMATION

SECTOR NAME	% OF MARKET CAP	% OF COMPANIES
Consumer	24.2	16.1
Industrials	20	17.2
Health Care	12.3	10.3
Financials	11.4	10.5
Technology	11.1	13
Basic materials	8.8	15.2
Energy	6.9	10.9
Telecoms	1.8	1.8
Property	1.7	2.2
Utilities	1.6	0.8

FTSE INDICES

ONE-YEAR CHANGES

INDEX	PRICE	% CHANGE
FTSE AIM All-Share	713.78	-15.9
FTSE AIM 50	3723.7	-19.7
FTSE AIM 100	3417.27	-16.6
FTSE Fledgling	10490.2	-9.4
FTSE Small Cap	6006.53	-3.5
FTSE All-Share	4053.8	-2.1
FTSE 100	7453.75	-1.6

COMPANIES BY MARKET CAP

MARKET CAP	NO.
Under £5m	139
£5m-£10m	101
£10m-£25m	149
£25m-£50m	100
£50m-£100m	110
£100m-£250m	98
£250m+	72

KEY AIM STATISTICS

Total number of AIM	769
Number of nominated advisers	25
Number of market makers	20
Total market cap for all AIM	£72.3bn
Total of new money raised	£133.9bn
Total raised by new issues	£47.9bn
Total raised by secondary issues	£86bn
Share turnover value (Oct 2023)	£43bn
Number of bargains (Oct 2023)	8.48m
Shares traded (Oct 2023)	620.8bn
Transfers to the official list	202

TOP 5 RISERS OVER 30 DAYS

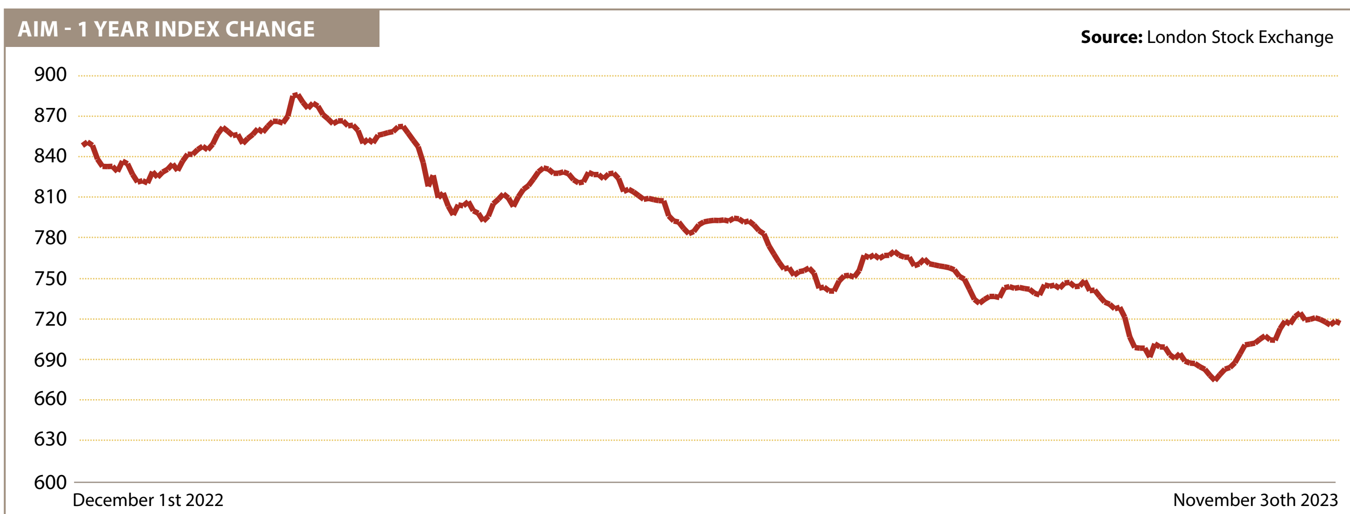
COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
Hotel Chocolat	Food	367	+171
Empire Metals	Mining	11.3	+154
Quadrise	Cleantech	1.79	+107
Orioe Resources	Mining	0.163	+94
Future Metals	Mining	3.35	+91.4

TOP 5 FALLERS OVER 30 DAYS

COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
Active Energy Group	Cleantech	1.85	-57.5
Surface Transforms	Automobiles	11	-56.4
Verditek	Cleantech	0.195	-54.1
Jarvis Securities	Financials	46.5	-51.8
Mosman Oil & Gas	Oil and gas	0.0115	-51.1

AIM - 1 YEAR INDEX CHANGE

Source: London Stock Exchange



Data: Hubinvest Please note - All share prices are the closing prices on the 30th November 2023, and we cannot accept responsibility for their accuracy.

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AIM Journal

AIM Journal is a monthly publication that focuses on the Alternative Investment Market (AIM) of the London Stock Exchange and the companies and advisers involved in the junior market.

Each month the publication includes information about AIM-quoted company news, changes to the brokers and nominated advisers, AIM statistics and general articles concerning AIM.

AIM Journal has been published for nearly a decade. There is no other publication of its type with a pure AIM focus and a sponsorship model, making it free to readers.

The pdf-based publication has an email database of company directors and advisers and an email with a link to the latest edition is sent out each month when the AIM Journal is published.

The AIM Journal can also be downloaded from the website www.AimJournal.info/archive.

The readership via the email is predominantly a professional one. One-quarter of readers are company directors, one-fifth solicitors and accountants, one-fifth brokers and 15% PRs. The rest of the readership is made up of investors, journalists and other individuals.

AIM

The Alternative Investment Market (AIM) was launched on 19 June 1995 with ten companies that had a total market value of £82.2m at the end of the first day's trading. The total amount of money raised by new and existing companies in the remainder of 1995 was £96.5m.

More than 3,800 companies have joined AIM since then, although it should be remembered that some of these are the same companies readmitted after a reverse takeover. These companies have raised more than £134bn either when they join AIM or while they are trading on the junior market.

In 1995, there were 29,099 trades with a total value of £270.2m. These days it is unusual if there are not that many trades in a single day, although their total value tends to be less than £270m.

Companies in the FTSE 100 that started on AIM include online gaming operator GVC, engineer Melrose Industries and student accommodation developer Unite Group. Healthcare properties investor Primary Health Properties, self-storage firm Big Yellow, animal genetics provider Genus, and online gaming technology developer Playtech are FTSE 250 index constituents.

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