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AIM JOURNAL

London Stock Exchange loses TSX bid

The London Stock Exchange has admitted defeat in its plan to merge with the Toronto Stock Exchange (TSX) and this could make it a target for one of its rivals. Nasdaq OMX could take the opportunity to make another bid for its London rival.

It appears that the Maple consortium will succeed in its bid for TMX, the owner of the TSX, because the London Stock Exchange could not get support from two-third's of the Canadian exchange's shareholders.

The London Stock Exchange is pushing forward with plans to bring together the London and Chile stock markets but this is a smaller deal and it is still some way off. It would give London access to the Latin American Integrated Market (MILA), which was formed at the end of May when Chile, Peru and Colombia combined their stock markets to compete with larger rivals in the region. Four Chile-focused companies – Geopark, Herencia Resources, Mariana Resources and Metminco – are quoted on AIM.

Nasdaq bid £12.43 a share for the London Stock Exchange in 2006. It is thought by analysts that it would have to bid nearer £15 a share, which would value the target at £4bn. The two biggest shareholders in the London Stock Exchange are Borse Dubai with 20.6% and Qatar Investment Authority with 15.1%.

Better North Sea tax news

There has been good news for AIM companies involved in the North Sea following a decision by the Treasury to increase the annual rate of Ring Fence Expenditure Supplement (RFES) from 6% to 10%. This is a small piece of good news for companies that were hit by North Sea tax changes in the Budget.

Chancellor of the Exchequer George Osborne announced in his Budget in March that he was increasing the supplementary levy on North Sea producers from 20% to 32%, which takes the total tax rate to 62%. In fact, older oil fields, which are still subject to Petroleum Revenue Tax (PRT) could have an effective tax rate of 81%. This has made oil companies look at other areas of the North Sea because they are wary of investing in the UK sector.

The change to RFES enables explorers to increase the value of carried forward losses from capital expenditure on projects by 10% for a maximum of six years. The increase in RFES will be effective from the beginning of January 2012. There have also been hints that there could be tax help for marginal fields.

Westhouse believes that Nautical Petroleum and its own client EnCore Oil could get the most significant benefits from the latest tax change.

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HubInvest publishes AIM Journal

www.hubinvest.com

general news

Proposed REIT changes could embrace AIM

Accountants PwC and the Association of Investment Companies (AIC) are two of the organisations that are backing a suggestion that Real Estate Investment Trusts (REITs) should be allowed to be quoted on AIM.

HM Revenue & Customs launched a consultation process at the time of the Budget in March and comments were invited from interested parties. The plan is to include any changes in the Finance Bill 2012 and draft legislation is due to be published in the autumn.

One of the main measures proposed was to allow REITs to be quoted on "alternative exchanges, such as the UK Alternative Investment Market (AIM) or EU Multilateral Trading Facilities".

Proposals to allow REITs to be quoted on AIM, or similar markets, "will pave the way for incubator REITs, as smaller volumes of property will be able to be widely held", according to Rosalind Rowe, real estate partner at PwC. She adds that the measures proposed will make "REITs more cost-effective to set up and easier to operate". The other measures include the scrapping of the entry charges for companies joining the REIT regime and allowing larger investors to build up significant shareholdings.

The AIC believes that the attraction of trading shares on AIM would be diminished unless ISA rules are changed so that REITs traded on AIM can be included in an ISA. The AIC recommends that a change should be made in the ISA rules. It also says that the abolition of the conversion charge could attract offshore companies to become UK resident in order to gain REIT status.

RAB to leave AIM

Resources investor RAB Capital wants to cancel its Aim quotation and it says that it will offer shareholders the chance to take 10p a share in cash or swap each of their shares for one in a new holding company. Redemptions by investors are likely to reduce assets under management to a level that cannot sustain RAB as a quoted company. Re-registering as a private company will reduce overheads. Asia-based Sunwah International wants to buy two funds from RAB. Sunwah would make an upfront cash payment for RAB Energy Fund and the RAB Octane Fund, with further consideration coming from granting RAB a share in their management and performance fees. RAB does not expect the disposal to raise material proceeds. RAB will still own RAB Special Situations Fund and other funds.

Former Langbar boss sentenced to one year in prison

Stuart Pearson, the former chairman of ex-AIM company Langbar International, has been sentenced to one year in prison for misleading the market. The Serious Fraud Office says that his statements were designed to boost the share price. "This was fraud on a grand scale with scant regard for the essential integrity of the financial markets or for the inevitable losses and misery caused to the investors," says SFO director Richard Alderman.

Pearson, who is 63 years old, was found guilty of three counts of making misleading statements to the market, including saying that money that did not exist had been transferred from Brazil to the Netherlands.

Langbar was originally known as Crown Corporation when it floated in 2003. Pearson joined the board in June 2005 and claimed that Langbar, which was renamed after a village in Yorkshire, had a net asset value of £357m and that $295m had been transferred from Banco do Brasil to an account in the Netherlands. Pearson insisted at the time that he had seen the paperwork. However, the money did not exist and nothing was ever transferred. Pearson was acquitted of 10 other charges.

Langbar still exists and the current management is pursuing claims against professional advisers and is also pushing forward with litigation against original chairman Mariusz Rybak and related parties. Last year, Langbar merged with Chester Holdings and its shareholders received shares in a new Bermuda-based holding company, Chester Group. Small shareholders were given the chance to receive cash for their shares. The Langbar subsidiary will continue to pursue the litigation, while Chester will make investments without being hampered by the Langbar name and reputation.

advisers

Signs of an AIM new issue revival

More companies joined AIM in June than in any month since December last year. There were 14 new entrants in each of these months. There are signs that the new issue market is picking up, with more companies to come in July. However, there have been false dawns before so it is by no means certain that the improvement will be sustained into the autumn.

The last time there were more new entrants to AIM in one month was in June 2008 when there were 15. This included three transfers from the Main Market and three reversals. Last month included 12 new companies, with Sinclair IS Pharma transferring from the Main Market and PowerHouse Energy reversing into Bidtimes. The money raised in June this year was £169.5m, which is well below the £304.9m raised in June 2008. The cash raised this June is more than three-fifths of the total raised for the year so far, compared with around one-third in June 2008.

Back in 2008, the strong June was followed by 10 new entrants in July and then a drop off in numbers until a recovery in December. There appear to be at least 10 companies that are due to float this month. There is no guarantee that all these companies will come to AIM, though.

Numis, Allenby and Merchant Securities each floated two companies in June. Numis raised £46.9m for outsourced healthcare services provider Circle Holdings and conveyancing start-up In-Deed Online. Allenby raised £11.75m for social media investor Jellybook Ltd and iron ore explorer Strategic Minerals.

Merchant Securities raised £6.5m for Music Festivals Group via a combination of ordinary shares and convertible loan notes. Merchant Securities was also involved in the reversal of waste-to-energy business PowerHouse Energy into Bidtimes but there was no new cash raised at the time.

However, the biggest fundraising was by Jeffries International for Poland-focused gas explorer 3Legs Resources. 3Legs Resources raised £62.5m, roughly two-fifths of the cash raised in June. Just over £105m was raised by resources companies during the month. Although Singer was nominated adviser and broker to Sinclair IS Pharma when it switched to AIM following the merger of Sinclair Pharma and IS Pharma, Jeffries took over the roles before the end of the month.

ADVISER CHANGES - JUNE 2011

COMPANY	NEW BROKER	OLD BROKER	NEW NOMAD	OLD NOMAD	DATE
James Cropper	Arbuthnot	Brewin Dolphin	Arbuthnot	Brewin Dolphin	01/06/2011
Mediterranean Oil & Gas	Panmure Gordon/WH Ireland	WH Ireland	WH Ireland	WH Ireland	01/06/2011
Cubus Lux	Keith, Bayley, Rogers	Hybridan	Northland	Northland	03/06/2011
Scancell Holdings	XCAP	Matrix/Zeus	Zeus	Zeus	03/06/2011
Roxi Petroleum	Renaissance Capital	Matrix	Strand Hanson	Matrix	06/06/2011
Vitesse Media	Westhouse	Seymour Pierce	Westhouse	Seymour Pierce	07/06/2011
Afferro Mining Inc	RBC/Evolution	Evolution	Evolution	Evolution	08/06/2011
Iofina	Ambrian/Mirabaud	Strand Hanson	Mirabaud	Strand Hanson	08/06/2011
Viridas	Rivington/Arbuthnot	Arbuthnot	Arbuthnot	Arbuthnot	10/06/2011
Universe Group	Allenby	Arbuthnot	Allenby	Arbuthnot	13/06/2011
Boomerang Plus	FinnCap	Altium	FinnCap	Altium	14/06/2011
Argo Real Estate Opportunities Fund Ltd	Shore Capital/FinnCap	FinnCap	FinnCap	FinnCap	14/06/2011
Brightside Group	Collins Stewart/Evolution	Evolution	Evolution	Evolution	16/06/2011
China Wonder Ltd	Northland/Rivington Street	WH Ireland/Rivington Street	Northland	WH Ireland	16/06/2011
Mercury Recycling	Shore Capital	Smith & Williamson	Shore Capital	Smith & Williamson	20/06/2011
Mwana Africa	XCAP/Ambrian	Ambrian	Ambrian	Ambrian	20/06/2011
Enova Systems Inc	Daniel Stewart	Investec	Daniel Stewart	Investec	21/06/2011
Sinclair Pharma	Jeffries	Singer	Jeffries	Singer	23/06/2011
Jubilee Platinum	Shore Capital/FinnCap	FinnCap	FinnCap	FinnCap	24/06/2011
EnCore Oil	Cenkos/Westhouse	Westhouse	Cenkos	Westhouse	27/06/2011
Nostra Terra Oil & Gas	Alexander David	Alexander David	Shore Capital	Religare	27/06/2011
Turbotec Products	Seymour Pierce	Evolution	Seymour Pierce	Evolution	27/06/2011
AIM Investments	Daniel Stewart	Northland	Daniel Stewart	Northland	28/06/2011
Connemara Mining	Westhouse/Optiva	Optiva/Smith & Williamson	Westhouse	Smith & Williamson	28/06/2011
Noventa Ltd	Religare	Religare/Canaccord Genuity	Religare	Religare	28/06/2011
ARC Capital Holdings	Numis/ LCF Edmond de Rothschild	LCF Edmond de Rothschild	Grant Thornton	Grant Thornton	29/06/2011
Sirius Minerals	Liberum/XCAP	XCAP	Beaumont Cornish	Beaumont Cornish	29/06/2011

company news

Capital Pub management rejects 200p a share indicative bid from Fuller

Pubs operator *www.capitalpubcompany.com*

Brewer Fuller Smith & Turner has until 5pm on 1 August to announce a firm bid for **Capital Pub Company** but the 200p a share indicative offer is not going to be enough to tempt management or investors. "The group may now be in play but for any bid to succeed we would anticipate an eventual takeout price to exceed 250p a share", says Ian Berry of Cenkos.

Berry argues that Fuller could generate £2m of synergies from acquiring Capital Pub. Part of this will come from putting its own beer through the Capital Pub estate. He points out that Capital Pub has carefully built up its pub estate over the past decade and good-quality freehold London pubs are hard to buy.

> Capital Pub's management has a good track record of acquisitions

Capital Pub believes it can continue to do well on its own and move from an estate of 34 pubs to 45-50 pubs by mid-2013 but Fuller is more sceptical. However, Capital Pub's management has a good track record of acquisitions and it will not just go out and buy anything to get to that target.

Trading is strong, with revenues growing 24% to £27.2m and profit jumping 48% to £4.1m in the year to March 2011. In the 10 weeks to

CAPITAL PUB COMPANY (CPUB)			196.5p
12 MONTH CHANGE %	+ 81.1	MARKET CAP £M	52.9

4 June 2011, sales are 20% higher. Capital Pub has added a number of pubs in the past year but there is also like-for-like growth helped by the fact that the London economy is relatively strong.

Net debt has been reduced to £21.2m at the end of March 2011 and a further £5m of bank facilities have been agreed. Capital Pub has chosen this time to resume dividend payments. It stopped paying dividends in 2008 in order to conserve cash and keep its borrowings down. The final dividend is 2.25p a share and an interim is planned for this financial year.

Institutional backing for Green Compliance

Water, fire and pest control compliance services *www.greenco2plc.comv*

Figures from **Green Compliance** for the year to March 2011 show the progress that has been made since the new management team took charge. Revenues jumped from £547,000 to £18.2m – mainly as a result of acquisitions. However, the acquired businesses generated like-for-like growth of 9%.

Stripping out acquisition costs of £1.32m and amortisation and share-based costs of £2.4m, Green Compliance reported a profit of £1.31m.

Green Compliance has raised £9.1m from share placings in the past year in order to finance acquisitions. Net debt was £3.7m at the end of March 2011.

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

There is a £338,000 property held for sale. The banking facility has been increased to £7.5m in order to give scope for more bolt-on acquisitions.

Chief executive John Prowse helped to build up Iron Mountain in Europe and used to run the compliance division of Connaught – not one of its problem areas. He has made 11 acquisitions and closed the loss-making energy services business since taking charge.

The strategy is to consolidate businesses in the water hygiene, pest control and fire protection compliance sectors. These are fragmented markets. Green Compliance is already in the top three in water and pest control and the top ten in fire protection. Cross-selling opportunities will also be targeted.

House broker Collins Stewart forecasts a trebled profit of £3.6m this year. The shares are trading on nine times prospective 2011-12 earnings. The financial institutions backing the company understand that further fundraisings will be required to grow the business. A 50-for-one share consolidation is planned to take the company out of the penny share bracket.

company news

Asian Citrus's impressive growth not recognised by market

Orange producer, juice manufacturer *www.asian-citrus.com*

Hong Kong-listed shares in Chinese companies have performed poorly in recent months and **Asian Citrus**, whose shares are listed in Hong Kong as well as being quoted on AIM, has been dragged down with the rest. That appears unfair because Asian Citrus is on course to report continued profit growth and directors are buying shares.

There have been corporate governance and food quality scandals relating to Chaoda Modern and Sino Forest but Asian Citrus has never had those kinds of problems and it has always made sure that it has kept its UK investors well informed.

Trading is certainly going well. The summer orange crop at the Hepu plantation was 73,194 tonnes, up from 72,408 tonnes the previous summer. The average selling price of the summer oranges rose by 10%.

The average selling price of the summer oranges rose by 10%.

Overall group production increased from 186,938 tonnes to 216,892 tonnes in the year to June 2011.

Plans to buy land for an additional plantation sited in Fuchuan County of Guangxi fell through but Asian Citrus is still looking for another site. There are also plans to expand the Beihai Perfuming Garden Juice Company business by opening another factory by the end of this year. The juice business was acquired at the end of 2010.

Asian Citrus can generate cash while investing in its plantations and paying a rising dividend. House broker Seymour Pierce forecasts

ASIAN CITRUS (ACHL)			59p
12 MONTH CHANGE %	+ 28.3	MARKET CAP £M	716.9

a rise in profit from RMB281.3m to RMB498.6m in the year to June 2011, with earnings per share rising by one-third even after last December's share placing. These figures exclude any gains on the book value of the orange trees in the plantations. The prospective profit multiple is 13, falling to less than 11 in 2011-12. The full-year figures will be published in September.

Board directors are taking advantage of the weak share price. Executive chairman Tong Wang Chow acquired 200,000 shares at 58.36p each and that took his stake to 22.67%. Non-executive director Nicholas Smith has bought 100,000 shares at 59.38p each.

Wynnstay Group grows agricultural volumes

Agricultural products, retail *www.wynnstay.co.uk*

Inflation sent **Wynnstay's** interim revenues higher but there is underlying growth in the figures.

Revenues jumped from £120.3m to £164.7m in the six months to April 2011.

Most of that growth came in the agricultural side where there has been significant inflation in raw materials prices. Feed volumes grew by 5% and seed sales were also strong. The Country Stores are trading well but there are some signs of pressure on the Just for Pets stores. Shoppers are buying lower-priced pet ranges than they did before.

WYNNSTAY GROUP (WYN)			359.5p
12 MONTH CHANGE %	+ 36.7	MARKET CAP £M	59.6

Wynnstay tries to make a set amount per unit on its agricultural and feed businesses so percentage margins have fallen.

Pre-tax profit grew 12% to £3.97m. Net debt always rises at the interim stage. It was £12.4m at the end of April 2011 but it should be back down to £7m by the end of the financial year. The interim dividend has been increased from 2.4p a share to 2.6p a share. Net assets, including intangibles, are 303p a share.

WH Ireland forecasts a rise in full-year profit from £6.42m to £6.89m but earnings per share will be flat because of recent share issues.

There will be a five-month contribution from Wreakin Grain, which is being merged with Wynnstay's existing grain trading activities to form GrainLink, which will have national coverage.

company news

DiamondCorp set for production at Lace mine in 2012

Diamonds miner *www.diamondcorp.plc.uk*

DiamondCorp survived the slump in diamond prices and is well placed to take advantage of their strong recovery over the past year. The results of a bulk test at the Lace diamond mine in South Africa are due at the end of July and they will indicate diamond grades and enable the company to raise cash to develop the mine.

The fall in the diamond price had left DiamondCorp short of cash. However, a number of investors could see potential and injected cash into the business. The main investor is AIM-quoted European Islamic Investment Bank, which owns 26.5% of DiamondCorp. The initial fundraisings were at 7p a share and 8.5p a share. DiamondCorp recently raised £3m at 13p a share and there was strong demand from investors.

The fruits of that investment are showing through. DiamondCorp plans to start the development of Lace in the second half of this year and ramp up to full production in 2012. Lace has produced diamonds in the past and this development will give it a mine life of 25 years and enable the company to produce 500,000 carats a year. The mine life should be 25 years. DiamondCorp owns 74% of the company that runs the mine and has lent it the cash to progress with testing and the initial development. This cash has to be paid back with interest before dividends can be paid to all the subsidiary's shareholders.

DiamondCorp expects to produce 500,000 carats per annum

DIAMONDCORP (DCP)			31.5p
12 MONTH CHANGE %	+ 85.3	MARKET CAP £M	25.9

There is also a joint venture in Botswana. DiamondCorp is earning a 77.5% stake in the Jwaneng South joint venture by funding a definitive feasibility study by June 2014. There are three kimberlite targets earmarked for priority drilling and mini-bulk testing is about to commence.

In the second half of 2011, DiamondCorp wants to raise up to £12m in order to finance the planned development of the Lace mine. That will cost £20m gross but revenues generated during development should mean that the net cost will be £10m. Some of this cash will also go on exploration in Botswana.

AngloGold Ashanti's premium stake in Stratex

Gold miner and explorer *www.stratexinternational.com*

AngloGold Ashanti is investing £3m into **Stratex International** at a premium to the average share price prior to the deal. This will give AngloGold an 11.5% stake in Stratex and provide exposure to the exploration interests in Ethiopia. The cash will be spent on speeding up exploration in the Afar Epithermal Gold Province in Ethiopia and Djibouti. Stratex is also talking about spinning off these East African operations into a separate company.

South Africa-based gold miner AngloGold is already partnering Stratex on the Megenta epithermal gold discovery. Exploration is at an early stage but AngloGold is obviously optimistic about the prospects for the region.

STRATEX INTERNATIONAL (STI)			8.12p
12 MONTH CHANGE %	+ 138.8	MARKET CAP £M	27.4

AngloGold is paying 7.72p a share, which is 10% higher than the 20-day average price. Stratex says that it will use at least one-third of the £3m in Africa with the rest going on working capital and the Turkish business.

House broker Westhouse has put a valuation of 1p a share on the African assets but this could prove conservative. A spin-off of those assets could happen in the next six to 12 months. AngloGold wants to retain at least 10% of the spin-off. That would leave Stratex itself to concentrate on the Turkish mining operations, where it recently signed up Antofagasta as a partner on some projects. Another Turkish project, Inlice, is on course to produce gold in the first half of 2012.

Oil exploration boosts Falkland Islands trading

Trading, transportation and storage *www.fihplc.com*

Dividend

Falkland Islands Holdings (FIH) has more than doubled its dividend over the past ten years. Back in 2001, FIH paid a dividend of 4.6p a share. The total dividend for last year was edged up from 9p a share to 9.5p a share. House broker Altium forecasts a rise to 10p a share in the year to March 2012 and further growth to 11p a share in 2012-13. These payments would be covered about two times by earnings.

Net debt was £2.1m at the end of March 2011. The operations are cash generative although additional working capital was required in the Falkland Islands because of growth in trading. There is also a pension deficit of £2.1m, which is expected to fall over the next two years.

Business

FIH has benefited from the additional activity in the Falklands that has come from oil exploration in the region but UK activities have not fared as well. Revenues grew from £29.2m to £31.8m and underlying profit edged up from £2.69m to £2.73m, although that improvement was attributable to a drop in interest costs.

In the Falklands, investment in the retail operations has boosted sales by one-fifth and automotive sales rose even faster. Most of the other operations also increased their sales although freight sales declined by 30% because freight tariffs were increased by the Ministry of Defence. Fishing is important to the economy and catches have recovered in recent months.

FALKLAND ISLANDS HOLDINGS (FKL)	
Price	310p
Market cap £m	28.6
Historical yield	2.9%
Prospective yield	3.2%

Reduced business with government-run museums has hit the profitability of art handling and logistics provider Momart. Revenues from commercial gallery services jumped by 30% but this was not enough to offset the loss of profit in the rest of the business.

Portsmouth Harbour Ferry Company is cash generative but there is little growth in the business. The number of passengers has declined. Fares have been increased by 17.5% to help pay for the lease on a new £5m pontoon in Gosport and it is uncertain how this fare increase will affect passenger numbers.

The company's net asset value has fallen over the past year but that was due to the fall in the value of the 8.2% holding in Falkland Oil and Gas (FOGL) from £15.5m to £10.7m. Any positive drilling news might boost the value of the stake but it is highly speculative. Even so, the trading operations will continue to benefit from the oil exploration even if FOGL does not make a commercial discovery. Net assets are £30.6m, although that also includes £13.1m of intangible assets.

Altium forecasts a flat profit in the year to March 2012 and a rise to £2.9m in 2012-13. The shares are trading on 14 times 2012-13 forecast earnings.

Dividend news

Insolvency practitioner **Begbies Traynor** has cut its final dividend following a fall in profit but reaffirmed its long-term progressive dividend policy. Profit fell from £11.3m to £7.6m in the year to April 2011 because activity levels were poor. The total dividend for the year is 2.2p a share, down from 3.1p a share. That is covered just over 2.5 times by underlying earnings from continuing operations, which is the lower end of the dividend cover that Begbies likes to maintain. Net debt was £22.5m at the end of April 2011 but there should be some income from the disposal of non-core assets, including the tax division, which is in the books at £7m.

Monitoring and data management systems supplier **Brulines** has made a significant investment in its remote monitoring technology and it should start to pay off over the next couple of years. Brulines has continued to increase its dividend payout to shareholders despite that investment. In the year to March 2011, the total dividend increased 3% to 5.65p a share. The decline in the pubs market and costs of integrating the fuel solutions businesses acquired meant that profit fell from £5.1m to £3.9m last year, even though revenues grew from £19.8m to £24.3m. House broker Cenkos believes that the 2011-12 profit will recover to £4.5m, with a dividend of 6p a share, giving a yield of 5.7%.

E-learning software supplier **ILX** has been able to reinstate its dividend after reaping the benefits of concentrating on the international expansion of its best practice e-learning software and closing poorly performing operations. A 1.5p a share dividend is payable on 14 October. The dividend was withdrawn last year because ILX wanted to spend the cash on developing its business and reduce its net debt, which was down from £3.16m to £1.89m at the end of March 2011.

expert views

Expert view: The broker

IQE's low-risk exposure to high-growth markets

By LORNE DANIEL

IQE* is at the heart of a number of the high-tech and high-growth markets of the 21st century. It is a global leader in the production of compound semiconductor (CS) materials in the shape of epitaxial wafer products.

The company provides exposure – free of product-risk – to continuing growth in wireless communication and exciting developments in consumer electronics (optical interconnection, finger navigation, gaming, and laser cosmetics) and energy efficiency (solar power, LED lighting, power switching), and the enormous potential of new materials and properties made available from combining compound semiconductor material on silicon.

Global leader

IQE is a leading global supplier of CS materials, in the form of coated semiconductor wafers (2" to 12" diameter discs) used as the base material in the production of CS microchips which handle radio frequency and light processing applications.

The wafers are sold to microchip manufacturers whose CS chips are the enabling technology behind such modern developments as wireless, LEDs, lasers and optical interconnection.

In broad terms, IQE takes intrinsic (pure) semiconductor wafer substrates from a range of suppliers (some are produced in-house) and uses its expertise in a process known as epitaxy to coat them with layers of various chemical elements. These layers give the material greater ability to work with radio and light spectrums.

IQE is a key player in the industry, incorporating high levels of materials technology with critical IP involved in the preparation and very specific set-up and qualification of the tools. Replacing the supply from IQE would be expensive and difficult. IQE also provides greater security of outsourced production because it can dual source from plants in the UK, Asia and the US.

Wireless

One of IQE's strengths is that it has a 30% share of the fast-growing wireless market. This contributes 76% of group revenues and the revenues from this market grew by 32% last year. Mobile handset sales will total over 1.5bn units in 2011 and, as smartphones become an increasing proportion of these sales, demand for IQE's products will rise even faster. This is because smartphones each require a number of its chips because of the need to connect to wi-fi and other systems, switching between frequencies and increasing demand for faster data transfer. More of these chips are being made by outsourced suppliers, such as IQE.

The Optoelectronic market generates one-fifth of revenues. We are more cautious about this market because copper has proved remarkably good, drive costs are quite high and drive speeds do not require the speed that optical connection offers. LED use in general lighting should provide the longer-term growth and concentrated photovoltaic power chips will also be a big market. The rest of the revenues come from electronics.

In the long term, we expect IQE to benefit from significant technological advances in supplying new high-tech materials for infrared, laser, solar power, lighting and computing.

A recent assessment has found that the March earthquake brought no immediate threat to the supply of gallium and arsenide raw materials. The disruption may actually benefit IQE in epitaxial substrate markets since rival Japanese suppliers had been running at full capacity with little stock. Japan supplies 20% of global Si GaAs epitaxial substrates.

There is significant operational gearing in the financial model

Finance

There is significant operational gearing in the financial model, which should yield strong profit performance from the revenue growth. There is a 50% drop through on direct variable costs before fixed direct overheads. Gross profit margins were 23% in 2010. However, the operational gearing should see those gross margins rising towards 25% by 2013.

FinnCap forecasts a rise in revenues from £72.7m in 2010 to £83m in 2011, with underlying pre-tax profit improving from £7.6m to £9.3m. IQE will continue to invest in increasing capacity.

Given strong drivers and encouraging news from suppliers and customers, sales are likely to outperform expectations and the high operational gearing will fuel growth in earnings. IQE is well financed following last September's fundraising and investment is well targeted.

This is a buying opportunity. Recent market weakness has affected IQE, which has lost one-third of its value since February. Our price target is a return to the 60p level on the back of earnings growth, likely upgrades and significant new markets being opened.

** IQE is a corporate client of FinnCap*

Lorne Daniel is a technology analyst at FinnCap.

feature

Pension challenges for the future

All companies, whether quoted or not, have to take notice of new pensions regulations that will force them to provide pension benefits to all of their eligible employees. This will be an additional cost in terms of pension contributions and the administration that will be required.

Pensions only tend to come into the minds of AIM investors when they are looking at the size of the pension deficit that a company has. While pension deficits on existing schemes are still relevant the topic of pensions will become important to all companies over the next few years as the UK government brings into force new pension regulations that cover all companies that have employees in the UK.

This will be an additional cost to companies and in some cases it could be a significant one.

Steve Bee of Jargon Free Pensions (www.jargonfreepensions.com) says that "every half century or so we have massive pensions changes". The last major shake-up of the pensions scene was in the 1950s. In 1958, the Fabian Society said that the pension regulation that had been put into force would not work. The argument was that there was no compulsion for employers to provide a pension scheme so a large number of employees would still be left without any pension provision other than that provided by the government. This proved an accurate forecast and has prompted changes more than 50 years later.

According to personnel and employee benefits services provider Q&A People Matter (www.qnapm.com) 86% of employers do not provide any contribution towards pension schemes. These can range from relatively large companies to small businesses. However, this will not continue to be true for many more years because all employers will have to make a contribution to every eligible employee's pension and the employee will also be expected to contribute.

Legislation

The Pensions Act 2008 states that: "The employer must make prescribed arrangements by which the jobholder becomes an active member of an automatic enrolment scheme..."
The 2008 Act was passed under the previous government but the new government is following the same principle. The Pensions Bill 2011 was introduced to the House of Lords in January and it moved to the House of Commons in April. The Bill has reached the committee stage. This is followed by the report stage then a third reading of the Bill. Amendments will be considered and then Royal Assent will be granted.

> Administration of the pension scheme could cost companies up to £168 a year for each employee

The Bill covers the raising and equalisation of the pension age and many other relevant issues as well as the legislation requiring all employees to be put into a pension scheme.

The new legislation means that each employee has to be put into the scheme although they can choose to opt out. It also means that the employee and the employer have to pay contributions to the pension scheme. The collection of these contributions will fall onto the employer, thereby adding a further administrative burden.

By 2016 all employers will have to comply with the new pension rules. They will have to register with the Pensions Regulator when they launch their pension schemes.

The Pensions Regulator has estimated that it could cost £7 to £14 a person a month to administer the pension provision. That is up to £168 a year for each employee. For many companies that cost could be substantial, particularly for service companies that have a large number of employees.

ELIGIBLE EMPLOYEES

- Employees aged at least 22 years old and under State Pension Age
- Work or ordinarily work in the UK
- Have qualifying earnings
- Includes part-time and contract workers

QWPS

Companies will have to provide a Qualifying Workplace Pension Scheme (QWPS). There will be a minimum contribution to the scheme of 8% of an employee's qualifying earnings, of which the employer must contribute at least 3% of the qualifying earnings of each employee. The employee has feature

to make up any difference between the employer contribution and the 8% minimum level.

Any new employee will be auto-enrolled into the scheme within 90 days of joining a company. The employer must provide the relevant information to the new employee and details of the employee to the provider of the pension scheme. The employer then has one month to opt out of the pension scheme. The employee has to ask the employer for an opt-out notice and then send it back to the employer to make it known that they want to opt out. The first month's contribution will then be refunded.

Employers are not allowed to give out the opt-out form unless it is asked for. They have to be careful because they must not discourage membership of the pension scheme or encourage opt-outs. In fact, they are not allowed to offer advice to their employees.

Employers will be hit by fines if they do not comply with the pension regulations or if they use recruitment practices to try to get around the rules.

There are exclusions, particularly if the company already runs a pension scheme but there are certain conditions that have to be complied with that might require changes to existing schemes. Talking at the Finance Directors Planning Forum organised by Chantrey Vellacott DFK, Steve Bee said that even companies that already have a contributory pension scheme will need to check the eligibility criteria so that it is brought into line with the new regulations. Many existing schemes have a minimum employment period of more than 90 days before an employee can join. That would have to change.

The definition of qualifying earnings is currently between £5,715 and £38,185 a year. These figures include bonuses, overtime, maternity pay and similar benefits. The qualifying earnings range will be increased in line with rises in earnings.

Companies do have a choice when setting up a scheme. They can either organise their own provision or do it through the National Employment Savings Trust (NEST), which is a trust-based defined contribution scheme. NEST is effectively a default QWPS provider and it will be run by a quango. There is an upper contribution limit of £3,600 a year for the NEST scheme.

NEST is designed for low-to-medium earners and there will be limited retirement options and limited investment options.

Compliance

Employers will be required to keep six years of detailed records. The Pensions Regulator can phone the company or even turn up at its door unannounced. The regulator can ask for all pension information and it even has access to the HM Revenue & Customs database.

The timing for complying with the regulations depends on the size of the business. This is based on the number of employees on PAYE. The largest firms have to comply first and then the smaller ones will catch up (see table). The Department for Work and Pensions will remind the employer 12-18 months before the date when they are required to comply with the regulations.

During this phasing-in period the employer contribution for all sizes of company will be 1% of qualifying earnings, while the employee will also contribute 1% of qualifying earnings. After October 2016, the employer contribution goes up to 2% and the employee contribution to 3%. One year later the full contributions, 3% from employer and 5% by employee, will need to be made.

PPF

AIM companies with existing schemes have even more to think about.

The Pension Protection Fund (PPF) has confirmed details of its new levy rules which will come into effect in 2012-13. The PPF has been running since 2006 and it has used its experience, and 45 submissions to its consultation, to come up with the latest rules.

This new framework will be fixed for three years. The PPF claims that the levy will be based on average funding levels so that the short-term ups and downs of the financial markets are not reflected in the measure of underfunding risk. The risk of individual pension fund investment strategies will be taken into account for the first time.

There are ten insolvency risk rating bands. The original idea was to have six bands but there were worries that the changes in levy between bands might have been too steep.

There are certain circumstances when the levy parameters can be revised in the three-year period. This would be if the levy estimate:

- exceeds the levy ceiling for the given year;
- results in the scheme-based levy estimate exceeding the statutory maximum of 20% of the total levy; or,
- varies from the previous year's estimate by more than 25%.

There will be a further consultation when the levy estimate is published in the autumn. This will provide companies with the first opportunity to comment on the stress tests and the rate of the levy.

PHASING IN OF PENSION COMPULSION

PHASING-IN PERIOD	TYPE OF COMPANY
October 2012-October 2013	800 to 120,000 employees
October 2013-July 2014	50 to 799 employees
July 2014-February 2016	Fewer than 50 employees – phased in based on PAYE reference numbers
February 2016-October 2016	Companies started since October 2012

Market Performance, Indices and Statistics

AIM SECTOR INFORMATION

SECTOR NAME	% OF MARKET CAP	% OF COMPANIES
Basic materials	21.4	14
Oil & gas	23.5	10.3
Financials	18.9	23.3
Industrials	9.5	18.4
Technology	7.3	9.9
Consumer services	8.2	11.4
Health care	4.8	5.2
Consumer goods	4.1	5.3
Telecoms	1.3	1.1
Utilities	1	1

FTSE INDICES

ONE-YEAR CHANGES

INDEX	PRICE	% CHANGE
FTSE AIM All-Share	864.23	+33.3
FTSE AIM 50	3634.07	+38.9
FTSE AIM 100	3961.62	+35.6
FTSE Fledgling	5056.04	+28.6
FTSE Small Cap	3299.58	+25
FTSE All-Share	3120.33	+25.5
FTSE 100	5989.76	+24.6

COMPANIES BY MARKET CAP

MARKET CAP	NO.
Under £5m	245
£5m-£10m	152
£10m-£25m	239
£25m-£50m	214
£50m-£100m	131
£100m-£250m	99
£250m+	75

KEY AIM STATISTICS

Total number of AIM:	1,155
Number of nominated advisers	61
Number of market makers	50
Total market cap for all AIM:	£77.78bn
Total of new money raised	£75.05bn
Total raised by new issues	£34.39bn
Total raised by secondary issues	£40.66bn
Share turnover value (2011)	£18.86bn
Number of bargains (2011)	2.60m
Shares traded (2011)	88.90bn
Transfers to the official list	155

TOP 5 RISERS OVER 30 DAYS

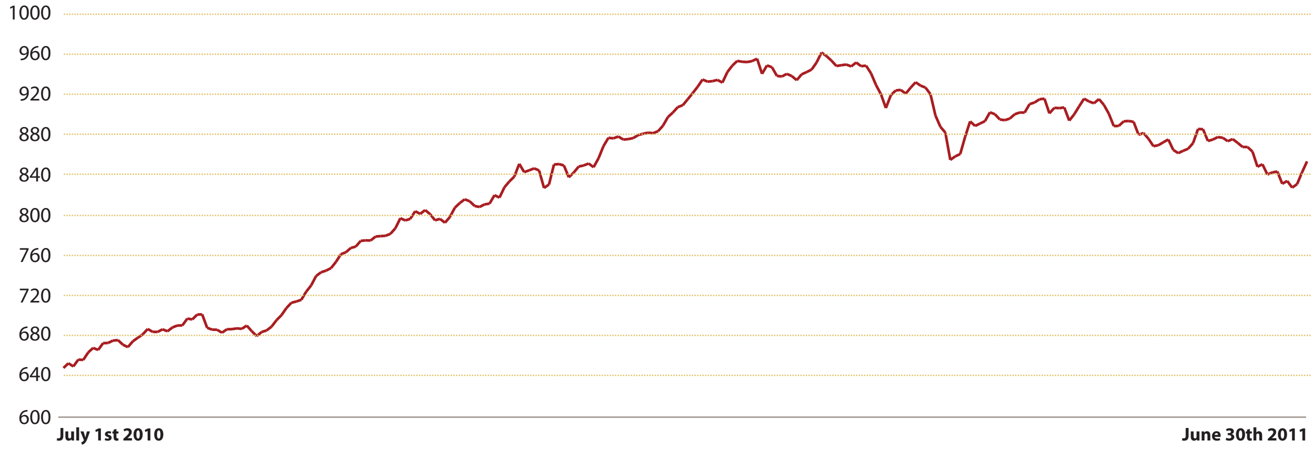
COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
Greka Drilling	Oil and gas	54	+134.8
IPSO Ventures	Financials	4.38	+118.8
Astaire Group	Financials	0.92	+92.6
Saville Group	Support services	23	+84
Independent Resources	Oil and gas	54	+83.1

TOP 5 FALLERS OVER 30 DAYS

COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
WYG	Support services	2.08	-99.7
Leed Petroleum	Oil and gas	0.14	-98.9
Noventa Ltd	Mining	42.25	-75.4
Invista Real Estate Investment	Financials	13.75	-54.9
SeaEnergy	Cleantech	29	-53.9

AIM - 1 YEAR INDEX CHANGE

Source: London Stock Exchange



Data: Hubinvest Please note - All share prices are the closing prices on the 1st July 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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