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AIM JOURNAL

Westhouse agrees Arbuthnot purchase

Westhouse Securities has agreed heads of terms to acquire rival AIM adviser Arbuthnot Securities and it says that there are likely to be further consolidation opportunities. No price has been disclosed and the deal is still subject to due diligence and regulatory approval. There is no indication of how the acquisition will be financed and what working capital requirements there will be.

This deal will help to tackle the overcapacity at the smaller end of the broking market.

Arbuthnot Banking Group (ABG) says that it had initially decided to continue to support Arbuthnot Securities but trading conditions deteriorated and it had better opportunities elsewhere in the group – including Secure Trust Bank, which was recently floated on AIM with ABG retaining majority control. Arbuthnot Securities lost £3.4m in the first half of 2011. Westhouse reported a loss of £241,000 in the six months to June 2011, which was much less than the underlying loss in the first half of 2010.

There have already been redundancies at Arbuthnot Securities but there could be more when the merger goes ahead. This deal is just the latest in a number involving AIM advisers, including the bid for Merchant Securities (see page 3).

Avocet leaving AIM with 1,700% gain

Gold miner Avocet Mining says that it plans to return to the Main Market after more than nine years on AIM during which its share price has jumped more than 1,700%. Of course, the rise in the gold price is a big factor in the performance but moving to AIM helped Avocet to restructure its business and focus on gold.

Avocet joined AIM on 26 July 2002 and at that time the share price was around 12.5p. By the beginning of November 2011, the share price had risen to 228p. In contrast, at the beginning of April 1996, the Avocet share price was around 240p so the company has effectively regained the losses its share price suffered in the six years prior to moving to AIM.

In the year to March 2002, Avocet lost £10.9m on revenues of £25.5m. Admittedly, there would have been a small profit if write-downs on its tungsten assets, sold later in 2002, were excluded.

The year end has changed to December and the reporting currency is dollars. In 2010, Avocet made a profit on continuing operations of $17.5m. If discontinued operations in Indonesia are included, the profit is $33.5m. Avocet has raised $197m from the sale of these assets. Unwinding a hedge has pushed Avocet into loss so far this year.

In this issue

HubInvest publishes AIM Journal

www.hubinvest.com

general news

Parseq boss accepts lower bid for shareholding

Parseq chief executive Rami Cassis is selling his stake in the financial services software provider for less than the headline bid of 9p a share but he is unlikely to lose out because of his stake in the bidder. Cassis owns 35.5% of the Parseq share capital and he will receive 5.43p a share for this stake. The recommended bid values Parseq at £33.8m, whereas if the 7.5p a share offer had gone ahead it would have valued Parseq, formerly Intelligent Environments, at £32.8m.

The independent directors of Parseq have agreed the 9p a share bid. Cassis will receive £500,000 in cash and the rest of his consideration in loan notes. Although Cassis is effectively taking cash for his shares he will be interested in the bid vehicle "by virtue of him and the Cassis Trustees being limited partners in CNH Capital, the parent undertaking of CNH Bidco". This means that he will continue to benefit from the growth of the business.

The original bid did not take full account of the potential of the Mobinetic mobile banking software business. This is beginning to start generating significant revenues and there will be much more to come when O2 launches its new e-bank service, which will generate transaction fees for Parseq.

Merchant Securities forecasts a 2011 profit of £2.2m, rising to £5.1m in 2012. That means that the proposed bid values Parseq at less than nine times 2012 prospective earnings.

CNH has received irrevocable acceptances of 50.05% of the Parseq share capital, although some will lapse if the document is not sent out within 28 days or if a rival bid is launched that is more than 10% higher than the CNH bid.

New bid for Kalahari

China-based uranium supplier CGNPC Uranium Resources has indicated that it wants to launch a new bid for Kalahari Minerals after the original offer lapsed due to market uncertainties around the Japanese earthquake and Fukushima nuclear incident earlier this year. CGNPC is suggesting an offer of 243.55p a share in cash. That is well below the original 270p a share bid. CGNPC will have to make a firm bid by 8 December. Although Kalahari, whose main asset is 42.7% of Namibian uranium explorer Extract Resources Ltd, still thinks that CGNPC is an ideal partner no bid has been agreed and discussions continue. The Chinese company had to wait six months after the original bid lapsed before it could make a contested bid. However, it is likely to want to agree terms with Kalahari.

Mirach Energy plans AIM quotation to enhance expansion plans

Singapore-based oil and gas explorer Mirach Energy plans to obtain a secondary quotation on AIM. At the same time Mirach will raise money via a share placing in order to build up a UK shareholder base and to finance expansion.

The strong oil and gas sector on AIM has attracted Mirach, which believes that AIM will enhance its profile "in the UK, the People's Republic of China and Singapore". Mirach is already listed in Singapore and requires shareholder approval to come to AIM.

Mirach has exploration licences in South Sumatra, Kamundan and Wiriagar in Indonesia and in offshore Cambodia. None of these are generating revenues. Mirach also offers oilfield services that enable enhanced oil recovery.

On top of the oil activities, Mirach has the rights to produce and sell coal from an open pit mine in Samarinda, East Kalimantan. The area covers around 100 hectares and has good local infrastructure. Coal production started in October 2010.

In the six months to June 2011, Mirach increased its revenues from $456,000 to $3m, although the loss fell only slightly from $896,000 to $807,000. This loss was struck after $956,000 (nil) of amortisation of capitalised exploration spending. There was an operating cash inflow of $1.19m during the period.Most revenues come from coal mining with the rest from oilfield services.

Mirach had $25.6m in the bank at the end of June 2011. During the period it issued $11.7m of 3% secured convertible bonds 2014.

advisers

AIM consolidation accelerates

Westhouse's proposed acquisition of Arbuthnot Securities may be the most high profile deal in the AIM adviser sector but it is just one of many in the past month. It follows the recently completed purchase of Evolution by Investec. Since then, there have been a number of deals involving advisers at the smaller end of the market.

Merchant Securities is recommending a 22p a share cash bid from South Africa-based financial services group Sanlam but in this case the Merchant management will have a 25% stake in the company acquiring the business and continue to run it. Management are effectively locking themselves into the business through arrangements where they will own shares and be stopped from selling them for three years unless it is "in order to alleviate the severe personal hardship of the B shareholder concerned". Any subsequent share sales have to be made to another B shareholder, the employee benefit trust, a new employee or back to the company itself.

Management and the employee benefit trust are swapping some of their Merchant shares for B shares representing 22.27% of the buyout vehicle and subscriptions for additional shares at 22p each will take the management stake to 25%. Merchant is a profitable business and it has been growing its list of AIM clients.

Ambrian Capital is selling its broking business Ambrian Partners to Australia-based RFC Group. RFC (www.rfc.com.au) is already a nominated adviser and this deal will strengthen its presence in London. RFC will become one of the main AIM advisers in the mining and energy sectors. The final price for the disposal will be based on the balance sheet at the end of October 2011. Ambrian Partners made a profit of £318,000 in 2010 and £21,000 in the first half of 2011.

Rivington Street Corporate Finance is being acquired by Plus-quoted Webb Capital, the new vehicle for former Unicorn Asset Management boss Peter Webb. As well as growing its AIM client list, Rivington Street CF is also the largest Plus-quoted corporate adviser.

Webb will pay a mixture of shares and cash with part of the consideration deferred. Rivington Street Holdings could end up with 9.99% of Webb. Dru Edmonstone will become chief executive of Rivington Street CF until the deal is completed.

ADVISER CHANGES - OCTOBER 2011

COMPANY	NEW BROKER	OLD BROKER	NEW NOMAD	OLD NOMAD	DATE
Angel Mining	Fox-Davies	Fox-Davies	Fox-Davies	WH Ireland	03/10/2011
Obtala Resources Ltd	Macquarie	ZAI	Macquarie	ZAI	03/10/2011
Hirco	Singer	HSBC	Singer	HSBC	04/10/2011
Proton Power Systems	Arbuthnot/ Allenby	Arbuthnot	Arbuthnot	Arbuthnot	06/10/2011
Plant Impact	WH Ireland	Allenby	WH Ireland	Allenby	07/10/2011
Alecto Minerals	Fox-Davies/ Fairfax IS	Allenby	Fox-Davies	Allenby	10/10/2011
Ukrproduct	Allenby	Metropol (UK)	WH Ireland	WH Ireland	10/10/2011
YouGov	Numis	Numis	Numis	Grant Thornton	10/10/2011
Titan Europe	Arden	Seymour Pierce	Arden	Seymour Pierce	11/10/2011
Infrastructure India	Macquarie / Smith & Williamson	Smith & Williamson	Smith & Williamson	Smith & Williamson	13/10/2011
Produce Investments	Shore / Investec	Investec	Investec	Investec	14/10/2011
Global Energy Developments	Northland	Matrix	Northland	Matrix	17/10/2011
RCG Holdings Ltd	Smith & Williamson	Evolution / Evolution China	Smith & Williamson	Evolution	17/10/2011
ZincOx Resources	Peel Hunt / finnCap	Ambrian / finnCap	Peel Hunt	Ambrian	18/10/2011
Earthport	Charles Stanley / Panmure Gordon	Panmure Gordon	Panmure Gordon	Panmure Gordon	19/10/2011
Manganese Bronze	Matrix	Matrix	Grant Thornton	Matrix	19/10/2011
Accsys Technologies	Numis	Numis / Matrix	Numis	Matrix	21/10/2011
Avacta Group	Panmure Gordon	XCAP	Panmure Gordon	Grant Thornton	21/10/2011
Blackstar Group SE	Liberum	Collins Stewart	Liberum	Collins Stewart	21/10/2011
Ferrex	Collins Stewart	Ocean	Grant Thornton	Grant Thornton	24/10/2011
Jubilant Energy NV	Deutsche Bank / Evolution	Evolution / Renaissance Capital	Evolution	Evolution	24/10/2011
Athol Gold	XCAP	Rivington Street	Libertas	Libertas	25/10/2011
Legendary Investments	Simple Investments	Northland	Grant Thornton	Northland	26/10/2011
Brady Exploration	Rivington Street/ Allenby	Allenby	Allenby	Allenby	27/10/2011
Imaginatik	Northland	Arbuthnot	Northland	Arbuthnot	28/10/2011
Victoria Oil & Gas	Macquarie / Fox-Davies	Fox-Davies	Strand Hanson	Strand Hanson	28/10/2011

company news

International growth propels ASOS forward as UK flattens out

Online fashion retailer *www.asosplc.com*

Weak UK sales have been more than offset by strong international growth as **ASOS** builds its revenues in key global markets.

ASOS has been putting a lot of effort into the US market in the past year and during the first half it launched country-specific sites for Australia, Italy and Spain. In the first half, US sales rose 136% to £15.5m, while EU sales grew 73% to £48.5m. Sales in the rest of the world quadrupled and overall international sales were 58% of group revenues of £217.3m, up from £139.7m.

UK sales were 8% ahead but they were flat in the second quarter. The performance in the UK is not as good as that of online rival Next Directory, although Next like-for-like high street sales are falling.

ASOS management argues that the weak UK market is not a concern because it can generate better margins from international sales. They believe that the UK should do better in the third quarter but it is difficult to assess the outcome, especially as this is the key quarter for the business. The best weeks are at the end of November because online Christmas sales tend to be earlier than high street sales.

International sales were 58% of group revenues

ASOS is still investing in the new warehouse facility. Even so, it still had net cash of £10.4m at the end of September 2011.

The new warehouse in Barnsley will support £1.2bn of annual sales.

ASOS (ASC)			1479p
12 MONTH CHANGE %	+ 11.6	MARKET CAP £M	1130.5

The transfer from the old to the new warehouse appears to have gone relatively well but there were additional costs of running two sites and moving to Barnsley. These costs totalled £7.17m and there were none in the corresponding period – although there were £12.9m of exceptionals in the second half.

That is why reported interim profit fell from £7m to £4.49m. Marketing spend was lower in the first half but more will be spent in the second half this year.

The shares are still trading on a prospective multiple of around 40 – even after recent share price declines – and this rating does not allow for any slip-ups.

Airsprung agrees bid from property man

Beds and sofas manufacturer *www.airsprung-group.co.uk*

Beds and sofas manufacturer **Airsprung** is recommending a 31p a share bid from Andrew Perloff's acquisition vehicle Portnard, which had previously made a mandatory offer of 27p a share.

The mandatory offer followed Portnard's purchase of Redbird's 29.96% stake in Airsprung. That took Jersey-based Portnard's stake to 42.3%.

The bid has increased in value from £6.45m to £7.9m. The company's NAV, excluding intangible assets, was £8.77m at the end of March 2011. That is after taking into account a pension scheme deficit of £2.45m. The NAV includes land and buildings in the books at £4.95m (before depreciation) – based on an open market value on 1 April 1997. The current value of these assets could be much higher even on the basis of their existing use. Perloff believes that Airsprung is unlikely to be allowed to redevelop the Trowbridge site for non industrial use – for the time being at least.

AIRSPRUNG (APG)			30.5p
12 MONTH CHANGE %	+ 64.9	MARKET CAP £M	7.3

Even so, the Airsprung board believes that the bid offers a fair valuation for the business based on current market conditions. Portnard says that it will continue to run the business and has no plans to make changes.

Airsprung reported a fall in pre-exceptional profit from £978,000 to £884,000 in 2010-11. Airsprung has won new business this year but the retail outlook is poor.

company news

GB Group consolidates market share in ID verification sector

ID verification and security *www.gb.co.uk*

GB Group has strengthened its position in the ID customer registration sector through the purchase of Capscan Parent for £11.2m – net of cash acquired. The deal consolidates GB's number two position in the UK and provides exposure internationally, as well as enhancing earnings per share.

The ID customer registration business is not growing quite as fast as the ID verification business, which is growing at 10% a year, but it is still very profitable and renewal rates are good. GB's biggest competitor is Experian's QAS subsidiary, which generates revenues of around £50m in the UK. Capscan generated revenues of £6.8m in the year to March 2011.

More than three-quarters of revenues are recurring

GB's revenues in this area will be around £12m. There should also be cross-selling opportunities for other identity management and security products to Capscan customers. In the year to March 2013, the enlarged group is expected to generate revenues of £39.1m.

A share placing at 40p a share raised £8m and another £3.2m will come out of GB's existing cash pile. Four of the five directors bought shares in the placing.

GB GROUP (GBG)	43p		
12 MONTH CHANGE %	+ 23.7	MARKET CAP £M	45.9

GB reported a rise in profit from £577,000 to £835,000 in the six months to September 2011, as revenues improved from £11.6m to £12.4m. More than three-quarters of revenues are recurring.

GB still has £15m of tax losses so it will be able to keep the profit it generates. This means that net cash could increase to £4.2m by the end of March 2013. Underlying earnings per share have been upgraded by 0.1p to 3p a share in 2011-12 and by 0.4p to 4p a share in 2012-13.

AIM helps Hangar 8 to soar

Passenger jet manager *www.hangar8.co.uk*

Passenger jet manager and operator **Hangar 8** has benefited from its higher profile since it floated on AIM in November 2010 and it intends to supplement its organic growth by using its quotation to help finance bolt-on acquisitions.

Hangar 8 has increased the number of jets that it has under management from 19 to 32 over the 14 months to June 2011.

There are 14 jets available for chartering and this part of the business is growing fastest. Charter rates are rising and the number of charter hours flown was 58% higher at 3,813.

There are a number of benefits of using Hangar 8 as the manager of an aircraft. The company can save a jet owner 20% on its insurance costs and it can also provide fuel at lower prices.

HANGAR 8 (HGR8)	108p		
12 MONTH CHANGE %	N/A	MARKET CAP £M	6.84

Hangar 8 has an airline licence so it does not have to pay VAT on the importation of a jet on behalf of an owner. Management fees are paid monthly and are based on the type of aircraft.

Revenues jumped from £10.9m in the year to April 2010 to £18.2m in the 14 months to June 2011. The growth came mainly from charter revenues, which grew from £8.19m to £14.1m.

The costs of restructuring and the flotation led to Hangar 8 reporting a loss in the 14 months to June 2011. The underlying pre-tax profit was £636,000. Hangar 8 had £2.22m in the bank at the end of June 2011.

There are plans to bring maintenance in-house, which should save money and improve profit further.

House broker Daniel Stewart has cut its 2011-12 profit forecast from £1.5m to £1.2m because of increased investment in operations. The shares are trading on seven times prospective 2011-12 earnings.

company news

Scotgold gains planning permission for Cononish gold mine

Gold exploration *www.scotgoldresources.com.au*

Scotgold Resources has gained planning permission for the Cononish gold and silver project in Scotland.

The National Park Authority Board voted in favour of granting permission for the project, which was in line with the recommendation by executive director Gordon Watson. However, the recommendation is subject to a number of legal agreements and outstanding issues.

A total of 50 conditions are being placed on the development. Scotgold is confident that these issues can be concluded in a satisfactory manner.

The news comes one year after the Loch Lomond and The Trossachs National Parks Board voted to refuse Scotgold's planning application for the establishment of a mine at Cononish. In all, it has taken three years to get to this point.

The mine is expected to create 52 jobs

The mine is expected to create 52 jobs and generate more than £80m of economic benefits to the Scottish economy.

Scotgold has to fully restore the mine site and put some of its mining waste back into the mine. The company also has to plant trees not only on the site but in the wider Cononish Glen area. The report felt that after this had been done "there will be an improvement to the landscape and relative wildness of the area". It is these improved restoration plans that have helped Scotgold to gain the planning permission.

There was an operating cash outflow of A$661,000 (£423,000) in the three months to September 2011 and in the same period A$1.57m was raised from share issues. By the end of the quarter there was A$1.88m in the bank. At the beginning of 2010, Westhouse estimated that capex of around £10m would be required for the mine but that figure might be different now.

SCOTGOLD RESOURCES LTD (SGZ)	5.63p		
12 MONTH CHANGE %	+ 50.1	MARKET CAP £M	10.9

Resource increase fails to boost Madagascar Oil

Oil and gas *www.madagascaroil.com*

The Madagascar Oil share price has not recovered from its suspension three weeks after flotation even though the potential oil resource estimate has increased sharply since then. Madagascar Oil joined AIM one year ago when it raised £50.5m at 95p a share. The company is interested in five blocks onshore in western Madagascar. Soon after the flotation the Madagascar government indicated that it wanted to acquire four of the five blocks. It was particularly interested in the Tsimiroro asset. The share suspension lasted for more than six months and work was delayed. In June, the Madagascar government acknowledged the validity of the company's ownership of the Tsimiroro production sharing contract and the right to extend it for a further two years from August 2012. The estimate of the amount of oil in place at Tsimiroro has recently been increased by 75% to 1.7bn barrels, of which 1.1bn barrels could be recoverable. Another 20 wells will be drilled through to the end of 2012.

MADAGASCAR OIL (MOIL)	28.25p		
12 MONTH CHANGE %	N/A	MARKET CAP £M	54.3

Edison estimates that the core NAV of Madagascar Oil is 276p a share but there are large risks. Although there are undoubtedly significant potential resources it might not be easy to exploit them because of fluid complexities and logistical problems. A steam flood pilot at Tsimiroro, which will last 18 months, will indicate whether the resources could be commercial. If it is successful a major oil company might be attracted to the project.

At the end of August 2011, Madagascar Oil had cash balances of $56m and that is expected to fall to $41.7m by the end of this year. This cash could be used up by the end of 2012.

dividends

First Derivatives displays consistent growth

Risk and data management software *www.firstderivatives.com*

Dividend

First Derivatives has consistently paid dividends since 2004 and the payout has risen substantially over the years. It joined AIM in March 2002 and the first dividend it paid was a final of 1.1p a share for the year to February 2004. In the year to February 2011, the total dividend was increased from 9.5p a share to 10.15p a share. In both of these years the dividend was just under three times covered by earnings per share. This has been a consistent cover in recent years.

The latest interim dividend was increased by a relatively modest 3% to 3p a share, which reflected slower growth in earnings in the period.

Net debt was £20.3m at the end of August 2011. The company owns flats that were bought to house its contractors. It is selling these properties and this will boost the cash in the balance sheet. At the end of February 2011, the properties were valued at £17.7m in the balance sheet and at £22.7m by an external valuer. During the first half of the financial year there was a £154,000 gain on two property disposals, which raised £1.47m in total.

Business

First Derivatives supplies software for trading risk management and data management and it has a strong record of profit growth, particularly in the past five years. The customer base is made up of banks, brokers, trading exchanges and hedge funds. Volatile markets and new capital adequacy rules help to increase demand for the company's software.

Revenues rose 26% to £22.4m in the six months to August 2011, while the profit was 5% higher at £3.4m. The growth in profit was held back by an increase in the amortisation charge from £575,000 to £808,000 but it was also flattered by the £154,000 property disposal gain. There were no disposals in the previous year. Capitalised software development costs increased from £958,000 to £1.89m.

Most of the revenue growth came from consulting but there was also growth in software revenues. Overall software revenues were 5% higher at £7m, but the recurring revenues were 52% ahead. Although First Derivatives has signed up 14 new customers for the Delta Flow foreign exchange-related software these orders will not make a contribution until next year. The suite of software can be widened to include additional areas of the financial market.

The consulting division has good visibility of contracted revenues and a growing customer base. Revenues rose by one-third and First Derivatives is competing for larger projects than in the past.

House broker Charles Stanley forecasts a full-year profit of £7.6m. That means that the shares are trading on just over 14 times prospective 2011-12 earnings.

There is a strong pipeline of potential orders and the longer-term outlook for risk management software is positive.

FIRST DERIVATIVES (FDP)	
Price	477.5p
Market cap £m	78.9
Historical yield	2.1%
Prospective yield	2.3%

Dividend news

Coins and stamps dealer **Noble Investments** reported strong profit growth from £2.18m to £3m in the year to August 2011 despite a slump in revenues due to a greater proportion of auction business where the whole value of the sale is not taken to revenues, just the commission. A profit of £3.3m is forecast for this year. Net cash fell from £3.5m to £1.46m but this was down to prepayments on collections being auctioned – predominantly the Prospero collection, which is due to be auctioned in New York during January. The total dividend has been increased from 3.5p a share to 4.3p a share.

Technology and consumer PR firm **Next Fifteen Communications** reported growth in underlying profit from £6.6m to £8.4m in the year to July 2011 as its digital business grew rapidly. The total dividend moved up from 2.05p a share to 2.25p a share this year. That is much slower growth than earnings but Next Fifteen tends to steadily increase the dividend whatever the growth rate of earnings or even if earnings decline. Edison Investment Research expects earnings growth of 10% a year for the next two years.

Self-storage warehouses operator **Lok'nStore** has announced a trebling of its dividend to 3p a share. A final dividend of 2.67p a share will be paid following an interim of 0.33p a share. Next year the interim will be one-third of the total. The dividend is covered around four times by cash generated and should be increased in line with EBITDA growth. This will depend on the investment opportunities, though. Management decided not to invest in new sites back in 2007 and this proved to be wise. This strategy could change following a deal with supermarket operator Lidl, which plans to take part of the company's site in Maidenhead.

expert views

Expert view: The broker

ChromaWhite to shine bright

By DAVID BUXTON

LED lighting fixtures and engines developer PhotonStar LED* has raised £1.35m through a placing at 12p a share in order to invest in ChromaWhite, its next generation LED product.

ChromaWhite offers a step change in costs that should make LED lighting much more cost effective. This is eventually expected to grow into a volume market product and could add around £0.9m to EBITDA, enhancing EPS by 41% in 2013. The shares remain a highly attractive way of playing the rapidly growing LED market.

Outsourcing

The group plans to sub-contract assembly to an experienced partner in its first few years of production. This should prove to be a more earnings-enhancing route for PhotonStar than in-house manufacture (in the near term) as it involves minimal capex of around £250,000 and thus a lower equity requirement. Outsourcing appears a sensible option for the first years of this promising, but as yet unlaunched, product. Even though unit costs are slightly higher, costs overall are more flexible. Indeed, we estimate that outsourcing production adds 11% to EPS versus the in-house alternative.

Execution risks are reduced by outsourcing production: it reduces the risk of investing and operating a mid-volume production facility and employing production staff. Also without the need to install new equipment and using the subcontractor's existing facilities the time to market is accelerated by one-quarter.

When demand for ChromaWhite is greater and more established, the group still has the option to install its own manufacturing equipment.

Lower costs

ChromaWhite, follows on from the technologically acclaimed SmartWhite, whose principal weakness was its high price, which restricted market take-up. ChromaWhite is around 50-60% cheaper than today's LED light engines, using fewer components but still producing high-quality, colour-tuneable light with a CRI index level of 90-96. The closer to 100 the index is, the closer to replicating the Sun's own light and thus the better the quality of light. This is important as it has health and well-being impacts – affecting human alertness and productivity.

Building the ChromaWhite light engine into a lighting system would give 30-50% cost savings.

ChromaWhite could enhance EPS by 41% in 2013

The product is also configured to Zhaga standards, which are increasingly being adopted as the industry standard.

The product has several patents pending, but also relies on know-how that offers a strong barrier to reverse-engineering. Management believes it also has a significant lead time advantage on its competitors. We believe that the addition of ChromaWhite is an important investment that substantially strengthens the group, albeit at the expense of a short-term reduction in profitability.

Since reversing into Enfis the management and operations of PhotonStar have considerably improved prospects. Operations have been streamlined with little disruption to production and significant new orders have been gained.

Forecasts

At the recent interims we reduced forecasts to recognise additional costs and a less buoyant business environment. For the remainder of 2011 we expect ChromaWhite will incur some pre-production costs, which have the effect of further reducing our 2011 profit forecasts.

2012 is a year of transition from loss into profit for the underlying group as well as the ChromaWhite product. We estimate that ChromaWhite production can start by Q1 and breakeven point be achieved by the autumn of 2012. Thus we factor in gross margins of 43%, and a loss of £0.18m on ChromaWhite – resulting in a pre-tax profit for the group of £0.88m in 2012. The increase in shares in issue means that EPS falls from 1p to 0.76p.

Our new 2013 forecasts show sales increasing for the existing group of £11.7m and profits of £1.78m. We factor in additional sales of £3.75m from ChromaWhite, with a contribution at the EBITDA level of £0.88m. We look for overall pre-tax profits of £2.15m and EPS of 2.02p – 41% higher than without ChromaWhite.

Following the placing and the first few months of expenditure on the project, net cash at the current year end is expected to be £0.76m, moving to £1.5m by December 2012, boosted by operational cash flow. The group has around £5.5m of accumulated tax losses, which can be utilised against the rising profitability.

**PhotonStar LED is a corporate client of finnCap*

DAVID BUXTON is a research director at finnCap

feature

AIM continues to attract institutional investors' money

The latest edition of the annual Institutional Investors in AIM report published by AIM-quoted Vitesse Media, in conjunction with Religare Capital Markets, shows that institutions are still investing money in AIM companies and they continue to account for the majority of investment in AIM.

Even in tough stock market conditions there are still companies seeking to join AIM and one thing that attracts them to the junior market is the potential institutional following they can obtain.

Singapore-listed oil and gas explorer Mirach Energy is the latest international company that wants to have a secondary quotation on AIM and one of its specific reasons for the move is to attract institutional investors in the UK. Mirach values the investor expertise in the resources sector in London - one-fifth of AIM's capitalisation is accounted for by oil and gas companies.

Vitesse Media's Institutional Investors in AIM report includes a breakdown of shareholders in the main sectors. The value of institutional investment in the oil and gas sector has risen by more than one-third, partly thanks to the large number of secondary fundraisings. Institutional investment in the sector has grown faster than in most other sectors.

BlackRock is the dominant institution in the oil and gas sector. The fund manager accounts for £626.2m of the £6.18bn institutional investment in the sector. Last year, BlackRock's oil and gas portfolio was worth £358m, out of £4.46bn of total institutional investment in the sector. The number of investments has increased from 19 to 23.

The second biggest investor in the sector is Lloyds Banking Group, including the shareholdings of Scottish Widows, which has more than doubled the value of its investments from £115.4m to £264m.

RAB Capital and Sprott Asset Management were previously above Lloyds in terms of the value of their oil and gas investments but both have experienced a drop in the value of their portfolio, even though RAB has increased its number of investments from 14 to 15. This is unusual for RAB because it has been cutting back on its investments in the past couple of years. The total number of AIM investments by RAB has fallen from 43 to 31 over the past year. Sprott, which has three oil and gas investments, has been hit by the fall in the value of Bankers Petroleum.

BlackRock is the dominant institution in the oil and gas sector

The value of institutional investment in the mining sector grew from £6.13bn to £6.62bn, which means that it stays the biggest sector by value. BlackRock has a similar amount of money invested in the mining sector as it has in the oil and gas sector. Again, mining is a sector where London is perceived to have international expertise.

International companies have the opportunity to choose any of the global markets and the fact that some of them choose AIM shows that it has a good reputation overseas despite worries about liquidity. Continental Coal is another example. It has an ASX listing but it was still keen to come to AIM in order to tap the UK investor base in the future.

In its flotation announcement Continental said that AIM provides it with "a strong platform from which to strengthen its shareholder base and increase its international profile". Continental's chief executive Don Turvey describes AIM as "one of the world's leading resources focused equities exchanges". Whether it is really resources focused or not, this shows that AIM is a strong global brand – at least in certain sectors.

Total investment

The total value of institutional shareholdings in AIM is £37.3bn this year, which is higher than the £32.7bn reported in the 2010 survey. Although the value of AIM has reduced in recent months, when the figures were calculated it was still higher than at the time of the 2010 survey, so these institutional shareholdings account for just over 54% of AIM's market value, down from 55.5% in 2010.

Institutional shareholdings account for just over 54% of AIM's market value

The value is still well below the £55bn total for 2007 but the number of companies on AIM, and its market value, has fallen sharply since then. This is reflected by the fact that institutional investment accounted for 46.4% of the

feature

value of AIM back in 2007. The peak percentage of institutional investment was in 2006 when it accounted for 56.7% of AIM's market value.

There is around £15bn of investment in companies focused on emerging markets, with Africa accounting for nearly one-third of this. Investment in China has fallen back over the past year as some of the larger Chinese companies have switched to other markets.

BlackRock is the biggest institutional investor in AIM. This is not a surprise because BlackRock has been top of the tree in previous years. What is impressive is the rapid rate of growth in the value of investments that the fund manager is achieving even though it has a large portfolio.

The value of BlackRock's total investment in AIM has jumped from £1.24bn to £1.92bn, which is just over 5% of the total value of institutional shareholdings. The number of investments held by BlackRock has risen from 130 to 141. The 55% increase in the value of its holdings follows the 60% increase achieved in the previous year.

BlackRock dominates investment in AIM companies valued at more than £100m. At the smaller end of AIM, fund managers of VCTs are more prevalent but they have a larger number of low-value investments. This means that they do not make it into the top ten by value.

Invesco was the second most significant institution in 2010 but Fidelity has moved up from fourth to second this year. The value of Fidelity's portfolio has increased by 20%, from £752m to £899m, which follows a 78% increase for 2010. All of the growth in the value of Fidelity's investments came from companies in developed markets because its investments in emerging markets fell in number and value.

Invesco's investment has dropped from £826m to £757m. The number of Invesco's investments has fallen from 74 to 55. The loss of the management of the Invesco Perpetual AIM VCT to Amati may have had something to do with this decline in number of investments although the VCT portfolio was not large enough to have made much of a dent in the total value of investments.

Henderson Global Investors is the most active institution in terms of number of AIM investments with the majority of them in companies capitalised at between £10m and £50m. Last year, Gartmore was listed separately but following its takeover these investments have been included in the Henderson total in the latest report. Together they have 167 investments but this represents a decline from their combined total of 187 – Gartmore 106 and Henderson 81 – last year. However, the combined investments have increased in value from £564m to £642m.

There have been a limited number of new entrants to AIM in the past year but institutions are taking stakes in the ones that make it to the market. BlackRock invested a total of £76.6m in 13 of them. Zanaga Iron Ore, healthcare company Circle Holdings and China-focused onshore drilling company Greka Drilling are the largest of these BlackRock investments.

Henderson has invested in six new issues and the other large AIM investors have invested in a handful of new issues, normally the larger, more established companies that have floated.

MOST ACTIVE INSTITUTIONAL INVESTORS ON AIM

INVESTOR	NO. OF INVESTMENTS	VALUE OF INVESTMENTS (£M)
BlackRock	141	1919.35
Fidelity	86	899.25
Invesco	55	756.52
Lloyds Banking Group	56	702.29
Prudential	43	678.53
Henderson Global Investors	167	642.26
Capital Group Companies	35	608.90
Challice Limited	1	527.69
Citivic Nominees	5	509.63
JPMorgan Chase	64	458.77

INSTITUTIONAL INVESTORS IN OIL & GAS PRODUCERS

INVESTOR	NO. OF INVESTMENTS	VALUE OF INVESTMENTS (£M)
BlackRock	23	626.21
Lloyds Banking Group	7	263.96
RAB Capital	15	181.09
Capital Group Companies	10	139.01
JPMorgan Chase	10	136.09
Sprott Asset Management	3	128.98
Henderson Global Investors	13	118.17
TD Waterhouse Nominees	19	114.64
Barclays	7	104.71
Mount Kellett Capital Management	1	100.22

statistics

Market Performance, Indices and Statistics

AIM SECTOR INFORMATION

SECTOR NAME	% OF MARKET CAP	% OF COMPANIES
Basic materials	21.3	15
Oil & gas	20.4	11
Financials	18.8	22.1
Industrials	10.8	18.6
Consumer services	8.2	10.8
Technology	7.8	9.8
Health care	5.8	5.4
Consumer goods	4.3	5.2
Telecoms	1.5	1.1
Utilities	1	1

FTSE INDICES

ONE-YEAR CHANGES

INDEX	PRICE	% CHANGE
FTSE AIM All-Share	727.16	-10.7
FTSE AIM 50	3011.54	-5.3
FTSE AIM 100	3267.57	-12.1
FTSE Fledgling	4298.11	-1.8
FTSE Small Cap	2858.22	-7.1
FTSE All-Share	2860.86	-2.6
FTSE 100	5544.22	-2.3

COMPANIES BY MARKET CAP

MARKET CAP	NO.
Under £5m	282
£5m-£10m	146
£10m-£25m	259
£25m-£50m	197
£50m-£100m	124
£100m-£250m	99
£250m+	49

KEY AIM STATISTICS

Total number of AIM	1,156
Number of nominated advisers	61
Number of market makers	59
Total market cap for all AIM	£63.7bn
Total of new money raised	£76.27bn
Total raised by new issues	£34.83bn
Total raised by secondary issues	£41.44bn
Share turnover value (2011)	£30.89bn
Number of bargains (2011)	4.45m
Shares traded (2011)	139.5bn
Transfers to the official list	158

TOP 5 RISERS OVER 30 DAYS

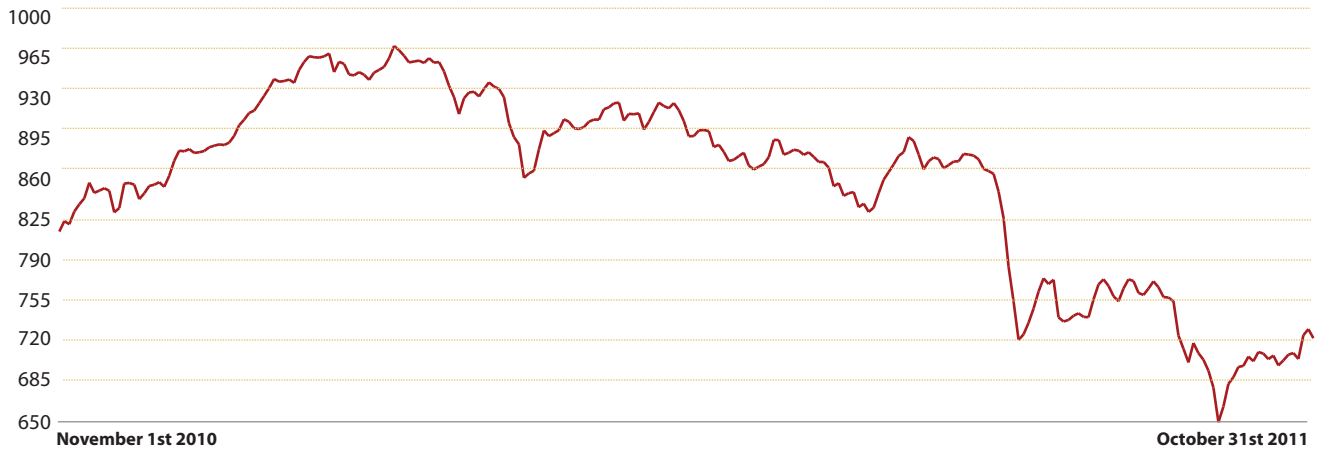
COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
MDY Healthcare	Healthcare	42.5	+203.6
RCG Holdings Ltd	Technology	8.5	+161.5
Zenergy Power	Cleantech	10.5	+100
Indian Restaurants Group	Shell	1.75	+75
Dominion Petroleum Ltd	Oil and gas	5.71	+65.5

TOP 5 FALLERS OVER 30 DAYS

COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
Twenty	Media	0.3	-65.7
Ceres Power	Cleantech	14.75	-54.3
Norseman Gold	Mining	7.21	-54.2
GMA Resources	Mining	0.12	-48.9
Patsystems	Technology	10.62	-46.2

AIM - 1 YEAR INDEX CHANGE

Source: London Stock Exchange



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

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finnCap

finnCap is an independent, client-focused institutional broker and corporate adviser, whose chairman is Jon Moulton. The firm is 95% employee owned and it has a dedicated small cap focus. finnCap's goal is to be the leading adviser and broker in the small cap space. The broker has a full service offering, plus strong aftermarket care and client service. A proactive team approach means that there is support from all departments for all of the firm's corporate clients. This helped finnCap become the 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 April 2009. More than £140m was raised for clients in the year to April 2011.

Clients have a combined market value of around £3bn, with an average market capitalisation of approximately £40m. The top 20 clients have an average market capitalisation of more than £100m.

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