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AIM JOURNAL

Prospectus changes welcomed

Smaller companies pressure group Quoted Companies Alliance (QCA) welcomes the planned amendment to the European Commission's Prospectus Directive that means that companies can raise up to €10m without issuing a prospectus. This is double the existing figure but the QCA believes that the amount should have been increased to €20m.

Member states are allowed to exempt companies from publishing a full prospectus up to the €10m limit. The European authorities recognise that prospectuses have become too complicated and the plan is to make them shorter and clearer. Existing quoted companies will also be able to publish simplified prospectuses for secondary issues, which account for more than two-thirds of prospectuses currently approved.

Smaller companies with a market capitalisation of up to €100m have been able to produce less complex prospectuses and the threshold is being raised to €200m. The proposals will help to reduce the legal expenses of smaller companies when they are raising additional cash.

The European Securities and Markets Authority will provide free, online access to any prospectuses that are approved in the European Economic Area. This will make it more straightforward for investors to obtain information. The proposals still have to go before the European parliament and the Council of the EU.

Rockhopper Falkland merger

There is further consolidation in the Falkland Islands oil sector, with Rockhopper Exploration agreeing a merger with Falkland Oil & Gas Ltd (FOGL). The deal comes two years after FOGL merged with Desire Petroleum. This will leave Argos Resources and Borders & Southern as the other two AIM-quoted Falkland Islands-focused oil explorers.

This appears to be a well-timed approach from Rockhopper following its target's disappointing drilling news from the Humpback well at the end of October and the election of a new president in Argentina. The fact that the two companies are involved in many licences together and Premier Oil is a partner to them provides further impetus for the deal. The enlarged group will have an interest in all the main North Falkland Islands licences. Last year, Rockhopper acquired Mediterranean Oil & Gas, which provides regional diversification for shareholders in the group.

Cash is an even bigger reason for the deal. At the end of October the combined group had cash of £85.9m, with most of that held by Rockhopper, which has enough cash to fund its share of the cost of the first phase of the development of the Sea Lion discovery. Without a merger FOGL would face a decision on how to raise additional cash.

In this issue

HubInvest publishes AIM Journal

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general news

Coal consolidation in South Africa

Coal of Africa Ltd has launched a recommended offer for ASX-listed Universal Coal which is valued at A$126.4m. The bid is more than 40% higher than the rival offer from IchorCoal and could spark further consolidation in the South African coal sector. The deal, which is classed as a reverse takeover, will diversify the portfolio of projects and provide coal production and related cash flow.

The offer is A$0.20 in cash and one new Coal of Africa share for each Universal share. There is an alternative offer of a A$0.25 loan note per share, with an annual interest rate of 12.68%. Universal shareholders in the UK will be offered A$0.25 a share in cash instead of the cash-and-share offer. Ichor owns 29.99% of Universal so it can still have an influence because the bidder wants to acquire at least 75%.

Universal owns 70.5% of the Kangala colliery and 49% of the New Clydesdale colliery, which are located in the Witbank coalfield in South Africa. Coal of Africa's assets include the Makhado project, the Vele colliery, which is under care and maintenance, and three other early-stage projects. There is also the Mooiplaats colliery, which is not currently in operation but which Coal of Africa plans to sell.

Coal of Africa has signed a non-binding memorandum of understanding with Qingdao Hengshun Zhongsheng Group, which plans to acquire a 34% stake in the subsidiary that owns the mining rights to the Makhado project subject to being awarded the $400m engineering, procurement and construction contract. The indicative purchase price of $113.9m puts a value of $335m on the project. The transaction should be completed by the middle of 2016.

Plus500 minus

Playtech has pulled out of its bid for online CFD trading platform operator Plus500 because of delays in gaining regulatory approval. Despite the potential uncertainty about the future of the business the share price has bounced back after the announcement. Plus500 has had problems with regulators but it states that it "is not subject to restrictions imposed by any of its regulators". However, overall profit will be lower in 2015. An interim dividend of $0.2121 a share has been announced – the plan is it to pay 60% of retained profit in dividend - and a share buy-back programme of up to $20m will be put in place. Plus500 says that it had cash of $95m at the end of June 2015 and more has been generated since then. The dividend will cost $24.4m. Two non-execs have been buying shares.

High rating for Purplebricks

Online estate agency Purplebricks expects to be valued at £240.3m when it joins AIM on 17 December. That includes £25m of new money but it appears to be a heady valuation and is double the valuation put on the business in a fundraising during the summer.

In August 2014, Woodford Investment Management took a 30% stake in Purplebricks at a cost of £7m and it then maintained its stake by subscribing for shares in a fundraising one year later that valued the business at £100m. The 28.68% stake following the issue of the additional shares, down from 30.62%, will be worth £68.8m at the flotation price. The stake is held by two Woodford funds. At the end of October, the Woodford Patient Capital Trust held a stake valued at £7.4m, while the stake owned by Woodford Equity Income Fund was valued at around £39m. It appears that Woodford might have invested more since then but those valuations have still risen by around two-thirds at the expected valuation.

Existing shareholders, including co-founder and chief executive Michael Bruce, will be raising £33.1m from selling part of their stakes. Co-founder Kenny Bruce stepped down as a director of the holding company on 19 November but he is still sales director.

Midlands-based Purplebricks combines online technology and local property expertise and charges a fraction of the price traditional estate agents do. Purplebricks recently launched its operation in Scotland and it continues to expand its national coverage.

advisers

Corporate governance shortcomings highlighted

The third Corporate Governance Behaviour Review from the Quoted Companies Alliance (QCA) and accountant UHY Hacker Young shows that smaller companies are still not doing a good job of linking up corporate governance with their business strategy in their annual reports. However, on the bright side, the companies are getting better at presenting their corporate governance information in their accounts, which should be the shop window for their businesses.

The review, which can be found at http://www.theqca.com/article_assets/articledir_220/110271/QCAUHYCorporateGovernanceReview2015_Final.pdf, covers corporate governance disclosures in the annual reports of a random selection of 100 smaller companies quoted on the Main Market, AIM and ISDX and these disclosures are compared with minimum disclosures set out in the QCA's code.

The governance reporting tips that came out of the research include that companies should make their information interesting and consistent to the reader, as well as being honest and open about compliance rather than just ticking the boxes. The focus should be on any potential challenges in the future. The need to combine governance and strategy was also reiterated.

■ Daniel Stewart has eased its financial problems through an issue of non-redeemable, non-refundable convertible bonds that raised £650,000. The AIM broker is still trying to raise additional funds via a share placing.

There are two bonds being issued, with Epsilon Investments pte Ltd subscribing £349,000 and Kilimanjaro Private Capital PTE Ltd investing £299,000. Each of the investors can convert their bonds at 1.5p a share once they each pay an additional £1,000. Epsilon has also been issued 10 million warrants exercisable at 1.5p a share and Kilimanjaro issued warrants to subscribe for 8.75 million shares at 1.5p each. Trading in the shares was suspended at 1.63p each.

Epsilon already owns 29.3% of Daniel Stewart and this will limit its ability to convert its bond without the stake going above 30%, depending on how many other additional shares are issued prior to this conversion.

■ finnCap, sponsor of AIM Journal, tops the adviser rankings in terms of financial adviser clients on the Main Market and AIM. finnCap has 92 clients and has overtaken JP Morgan Cazenove, which has 91 clients. However, JP Morgan Cazenove generally has much larger clients, including a large number of companies in the FTSE 100 index. The US firm is broker to 214 companies, whereas finnCap has 109 brokerships – making it number five in that list. The majority of finnCap's clients are on AIM but it has been increasing its client base on the Main Market by taking on new clients, including Acal.

ADVISER CHANGES - NOVEMBER 2015

COMPANY	NEW BROKER	OLD BROKER	NEW NOMAD	OLD NOMAD	DATE
React Energy	Strand Hanson	Shore	Strand Hanson	Shore	02/11/15
Firestone Diamonds	Macquarie/GMP/ Mirabaud	GMP/Mirabaud	Strand Hanson	Strand Hanson	04/11/15
Versarien	WH Ireland	Panmure Gordon	WH Ireland	Panmure Gordon	04/11/15
Action Hotels	Zeus	Zeus/Investec	Zeus	Investec	12/11/15
Mariana Resources Ltd	Brandon Hill	Brandon Hill/Hybridan	RFC Ambrian	RFC Ambrian	12/11/15
Sula Iron & Gold	VSA	VSA /Daniel Stewart	Strand Hanson	Strand Hanson	13/11/15
Berkeley Energia	WH Ireland	Numis	WH Ireland	Numis	16/11/15
MartinCo	Cenkos	Panmure Gordon	Cenkos	Panmure Gordon	16/11/15
Rightster Group	Westhouse	Cenkos	Westhouse	Cenkos	17/11/15
VietNam Holding Ltd	Winterflood	Winterflood	Smith & Williamson	Altium	17/11/15
SeaEnergy	WH Ireland	Stifel Nicolaus	WH Ireland	Stifel Nicolaus	25/11/15

company news

Tracsis uses cash pile to make largest ever software acquisition

Transport software *www.tracsis.com*

Transportation software and services supplier **Tracsis** has made its largest ever acquisition and it is expected to enhance next year's earnings per share by 25%. The purchase of Ontrac will cost up to £19.5m and provides a use for a large chunk of the Tracsis cash pile, which is currently making a minimal contribution from interest income.

Tracsis is paying an initial £10.5m plus £915,000 in shares – at 463p each. There is a further deferred payment of £5m plus up to £3m subject to performance. Ontrac has developed software that digitises process-intensive workflows and enables sharing of information. The customer base includes the UK rail sector and local government.

Tracsis had previously reported another set of better than expected full-year results. The underlying profit for the year to July 2015 improved from £5m to £5.8m. As expected, the revenues from remote condition monitoring equipment fell sharply due to ordering patterns. This was made up for by a full-year contribution from software company Datasys and organic growth. The total dividend was increased from 0.8p a share to 1p a share.

Net cash is expected to be £5m next July

There was net cash of £13.3m at the end of July 2015, with just over £2m of this spent on two subsequent acquisitions. SEP provides event parking and management services and fits into the traffic and data division. Mobile analytics provider Citi Logik, where Tracsis acquired a 29% stake, analyses the interaction of people and transport via the Vodafone network. Even after the Ontrac acquisition, Tracsis is expected to have net cash of £5m at the end of July 2016.

TRACSIS (TRCS)			487.5p
12 MONTH CHANGE %	+24.5	MARKET CAP £M	123

WH Ireland expects Ontrac to contribute £1m in the seven months it will be part of the group in the current year. This will enhance the earnings per share forecast by 15% to 21.5p. The 2016-17 profit forecast has been increased from £6.7m to £8.5m, while earnings per share have been upgraded from 20.1p to 25.2p.

The shares are trading on 19 times prospective 2016-17 earnings. The profit targets are not excessive given that, in the year to January 2015, Ontrac made an underlying pre-tax profit of £2.4m on revenues of £7.1m and there are also cross-selling opportunities.

AB Dynamics growing into new facility

Automotive testing services *www.abd.uk.com*

House broker Panmure Gordon has upgraded its forecasts for **AB Dynamics** on the back of the better than expected full-year figures from the automotive testing business. AB benefits from a strong international spread of revenues and growth is coming from track testing services, which includes driving robots and soft crash vehicles.

In the year to August 2015, revenues grew from £13.8m to £16.5m, while pre-tax profit jumped from £2.68m to £3.82m. The total dividend was raised to 2.75p a share. Cash flow is strong and net cash was £7.97m. This means that AB has plenty of cash to finance the construction of its new facility in Bradford-on-Avon. The facility should be completed by early 2017 and AB will still have a cash pile after this additional investment. The 2015-16 earnings per share forecast has been raised from 18.8p to 20.8p and the 2016-17 figure increased from 21.3p to 23.6p. That puts the shares on less than 14 times 2016-17 prospective earnings. These benefits of the investment in the new facility will flow through in the following year.

AB DYNAMICS (ABDP)			320p
12 MONTH CHANGE %	+87.1	MARKET CAP £M	55.2

company news

Transformation continues at data analytics firm IS Solutions

Analytics services *www.issolutions.co.uk*

Buying Cerebus Technologies has transformed the business of analytics and content management services provider **IS Solutions** and planned changes will transform the management of the company.

IS Solutions has been quoted for nearly two decades and co-founder John Lythall has been the boss all that time. He is stepping down as managing director at the end of March. Fellow co-founder Peter Kear will take over as chief executive. Mark Boxall has rejoined the company as operations director. Carmel Warren, who was Cerebus's finance director, has taken up the same role for the group.

Cerebus manages data feeds and provides consumer internet and mobile site information. The two companies had already been working together prior to the acquisition. Celebrus cost £7.5m, of which £1.3m was in cash and the rest in shares, although IS Solutions already owned 11% of the company – which cost £800,000. The latest interims include the first full contribution from Cerebus; this helped gross margins jump from 32% to 47% in the six months to September 2015.

Hargreave Hale has increased its stake to 13.1%

Interim revenues grew from £3.88m to £8.47m and a loss of £350,000 was turned into an underlying profit of £1.54m. The interim dividend is 0.5p a share. Net cash was £306,000 at the end of September 2015.

The company has already secured £150,000 of recurring revenues for the second half. House broker

IS SOLUTIONS (ISL)			100p
12 MONTH CHANGE %	+124.7	MARKET CAP £M	36.7

finnCap forecasts a full-year profit of £2.8m, which is well above the £1.2m profit made in the previous 15 months. A 2016-17 profit of £3.2m is forecast. The shares are trading on a prospective multiple of 16, falling to 14 in 2016-17.

Chairman Peter Simmonds spent some of the cash raised from selling part of his stake in email marketing group dotdigital to buy 50,000 shares at 97.75p each, but non-executive director Roger McDowell sold 500,000 shares at 98.2p each. Hargreave Hale has increased its stake from below 10% to 13.1% and River and Mercantile raised its stake from 3.47% to 5.25%, although Helium has trimmed its shareholding to 9.59%.

Sanderson highlights digital future

Enterprise software *www.sanderson.com*

Enterprise software supplier **Sanderson** reported figures in line with expectations but the dividend was increased by a greater percentage than expected because of the strong operational cash flow. Sanderson is changing the format of its reporting so that the growth of the digital retail business will be more apparent.

In the year to September 2015, revenues improved from £16.4m to £19.2m and just over 50% of those revenues are recurring. Underlying pre-tax profit moved ahead from £2.71m to £3.17m. Net cash was £4.61m at the end of September 2015, even after acquisition spending on warehouse software provider Proteus and other deferred consideration. The total dividend increased from 1.8p a share to 2.1p a share. The order book is worth £2.35m.

SANDERSON (SND)			67.5p
12 MONTH CHANGE %	-1.1	MARKET CAP £M	37.1

Sanderson currently has two divisions: multi-channel retail and manufacturing. The growth in profit came from the multi-channel retail division, partly thanks to the mobile activities. The breakdown will be changed to digital retail and enterprise divisions. Digital retail currently contributes revenues of £5.87m, up 30% on the previous year.

Pre-tax profit is forecast to rise to £3.46m this year, and then to £3.81m in 2016-17. The shares are trading on 12 times prospective earnings for this year and the yield, on a forecast dividend of 2.3p a share, is 3.4%.

company news

Alliance deal doubles revenues and provides cost cutting opportunities

Pharma products supplier *www.alliancepharmaceuticals.com*

Alliance Pharma should double its revenues though the acquisition of the health products division of Sinclair IS Pharma. Alliance believes that integrating the business could reduce costs by £5m a year. That is likely to make the deal significantly earnings enhancing in 2016 even though shares are being issued at a large discount to the market price.

Alliance is paying £127.5m for the business, plus £4.7m for inventory. The funding for the deal is predominantly coming from a placing at 41p a share, a one-fifth discount to the then market price of 51p, which raised £78.5m. House broker Numis exercised an option at the same share price in order to satisfy demand for a further £5m-worth of shares. The rest will be funded by debt.

> The deal is significantly earnings enhancing in 2016

The group has an acquisition strategy and has consistently bolted on additional treatments but the latest deal is the most significant yet. This acquisition brings another 27 products to Alliance's portfolio and increases its geographic exposure – although there will be a greater exposure to euros. The main focus of the products is dermatology and wound care. Five drugs have been identified as having significant growth potential and they generate annual revenues of £24m. The enlarged group will have pro forma annual revenues of £88m. The deal is classed as a reverse takeover and it should be completed on 17 December.

ALLIANCE PHARMA (APH)			49.5p
12 MONTH CHANGE %	+53.5	MARKET CAP £M	125

Alliance has agreed compensation of £6.7m in settlement of its claims against Sanofi following the suspension of manufacturing of bladder cancer treatment ImmuCyst in the middle of 2012. Alliance hopes to recommence selling ImmuCyst in the UK before the end of this year but there could be supply constraints.

ULS set to reap benefits of online investment

Online legal services *www.ulsgroup.co.uk*

Online legal services provider **ULS Technology** is highly cash generative and it has significant scope for growth from its current property-based legal services as well as additional services. ULS has grown its revenues from its core conveyancing services even though the overall market was flat and this was supplemented by an initial contribution from compliance business Legal Eye.

Intermediaries, such as mortgage brokers, go to ULS's online platform to find lawyers to carry out conveyancing for their clients. Once the lawyer is chosen it is instructed by ULS. The typical charge by the lawyer is around £600 and ULS would receive £240 of this fee, which is then shared with the mortgage broker. ULS also generates revenues from other legal searches and ID checks. There are opportunities to widen the range of services that are offered by ULS.

ULS TECHNOLOGY (ULS)			66.25p
12 MONTH CHANGE %	+69.3	MARKET CAP £M	42.9

In the six months to September 2015, revenues improved from £8.23m to £9.76m, while the underlying pre-tax profit jumped from £1.3m to £1.81m. That was after £300,000 of investment in estate agency comparison site (estateagent4me.co.uk), which is a new source of conveyancing leads. Net cash was £2.72m at the end of September 2015. There is potential contingent consideration due on the Legal Eye acquisition payable in October 2016 and October 2017. The interim dividend was 1.05p a share.

ULS reckons that it is gaining market share. Reliance on Lloyds has been reduced from 72% to 58% of instructions and this should fall further. House broker Numis expects a full-year profit of £3.6m, rising to £3.8m next year. The shares are trading on 14 times prospective 2016-17 earnings. The prospective yield is more than 3%.

dividends

Fulcrum multi-utility income growth

Utility services *www.fulcrumutilityserviceslimited.co.uk*

Dividend

Gas and electricity infrastructure services provider Fulcrum Utility Services Ltd paid its maiden dividend last year after it moved into profit. That initial dividend was 0.4p a share and this year's interim has been set at 0.3p a share – the ex-dividend date is Christmas Eve. A total dividend of 0.75p a share is forecast for the full year and it is expected to rise to 0.98p a share next year. The prospective dividend cover is 2.5 times for this year and next year.

Fulcrum can pay these dividends and still grow its cash pile. Net cash was maintained at £5.6m at the end of September 2015 and it is forecast to improve to £5.9m by March 2016 and then to £7.2m a year later. The figure will depend on how much is invested in the company's own pipeline assets or whether any acquisitions are made.

Business

Fulcrum's core business is gas pipe installation and other services. This business is underpinned by the 26 months renewal (up until January 2018) of the British Gas framework contract – worth up to £5m a year. There are 18 key customers but there are a large number of other customers, with some coming via the company's online brand FirstGas. Fulcrum has a relatively small market share in a fragmented market worth around £300m. There is scope to grow this core business as well as building up other utility services.

In the past, Fulcrum had to turn down electricity business but it has started to offer these additional services. The electricity market could be as large as the gas market.

FULCRUM UTILITY SERVICES LTD (FCRM)	
Price (p)	25.38
Market cap £m	39.3
Historical yield	1.6%
Prospective yield	2.9%

Electricity work is being gained via the British Gas framework contract.

The management team has turned around the fortunes of Fulcrum, which was making substantial losses. Sharp reductions in costs have helped to improve margins and profit. Bringing services in house and shunning low-margin work has helped to improve performance. In the six months to September 2015, revenues were 2% higher at £17.1m, while underlying operating profit improved from £369,000 to £1.62m. In the first half, there have been further costs savings worth £500,000 a year.

Installation contributes the vast majority of revenues but Fulcrum is also building up a portfolio of pipeline assets. These generate predictable and recurring income, which is running at an annualised rate of £1.1m, with most of that dropping through to profit. Fulcrum is currently building a 13km pipeline to four distilleries in Scotland for £4m.

House broker Cenkos forecasts an improvement in full-year profit from £1.2m to £3.3m – a figure it had previously been predicting for 2016-17. Next year's profit forecast has been upgraded to £4.2m. Past tax losses mean that there is no tax charge. The shares are trading on ten times prospective 2016-17 earnings even though the share price has soared since the interims were published.

Dividend news

Gift packaging and products supplier **International Greetings** is paying an interim dividend of 0.75p a share, which follows its return to the dividend list with last year's 1p a share final dividend. The UK and US businesses reported much higher profits in the first half as they reap the benefits of investment in production capacity, while in Europe these benefits were offset by currency movements. The interim profit was one-third higher at £5.2m and a full-year profit of £10.1m is forecast. The total dividend is expected to be 2p a share. Year-end net debt is expected to fall from £29.4m to £26m.

Strong demand for workspace in major German cities is helping **Sirius Real Estate** grow its NAV. In the six months to September 2015, NAV improved from €0.475 to €0.501 a share. Sirius continues to add to its portfolio of properties and gross annualised rental income is €53.4m. Stripping out non-cash items, such as property revaluations, underlying recurring profit was €8.6m in the six months to September 2015, with like-for-like growth of 35%. An interim dividend of €0.0092 a share has been declared, which is more than last year's final. The intention is to pay 65% of underlying cash generated from operations.

Vouchers and prepaid gift cards supplier **Park Group** had a strong first half with a much reduced seasonal loss and it has increased its interim dividend from 0.8p a share to 0.85p a share. Park is expected to improve the total dividend for the year from 2.4p a share to 2.6p a share, which would be in line with target dividend cover of two times. The Christmas savings business is growing but the main momentum is coming from the corporate division, which grew even though the previously important consumer credit company market has slumped. Underlying corporate billings were 17% higher.

expert views

Expert view: The broker

Financing new mines in current markets

By MARTIN POTTS

All mines become depleted sooner or later, so there is a continuing need to construct new ones. In late 2015, this process appears to have become interrupted.

There are two distinct ways in which the capital needed to build new mines is funded. Large mining companies with a portfolio of existing and profitable operations will normally use cash flow and balance sheet debt.

Smaller companies, in particular those building their first mines, will typically use a combination of equity and project debt, occasionally supplemented with cash in exchange for royalties and commodity streaming deals.

Larger companies

Larger companies' operational cash flow has fallen substantially since 2011. Commodity prices have collapsed and margins have been massively eroded. In fact, around half of global production of some commodities is currently being mined at a cash loss – often a substantial loss. Why are loss-making mines still operating? This is because a high-cost operating mine is an option on higher commodity prices whereas a closed mine is simply a hole in the ground.

The result of this collapse in cash generation is that some of the more highly geared companies are struggling to service debt (Glencore, for example) or indeed may be on the verge of collapse unless a rescue funding and general restructuring can be implemented (Lonmin, obviously). Many of the larger companies are addressing this shortage of cash from operations by generating cash from the sale of what they claim to be non-core operations, but in some instances the damage is so great that there are no takers for the assets. The exception appears to be iron ore where a few investors are quietly picking up some of the better distressed assets on the cheap.

The net effect is that many projects have been deferred. For the most part, current commodity prices mean that the new projects will no longer achieve corporate hurdle rates in terms of IRR, but also some companies no longer have the financial strength to build the mines, no matter how economically attractive they may still be.

This can be seen in the recent results of some of the largest companies in the sector. BHP Billiton reported a capex and exploration spend of US$11bn for 2015, down 24% on 2014. What is more, it is forecasting spending US$8.5bn in 2016 and US$7bn in 2017. BHP Billiton has gearing of only 6%, which is not exactly stretched. Nevertheless, planned capex and exploration are being cut below levels needed to sustain longer-term business.

To summarise, the large mining companies have not completely stopped investing in new mines, but it requires an exceptional project to be able to demonstrate the accepted 15% real IRR minimum hurdle rate in the present environment.

Smaller companies

Smaller companies generally do not have significant positive cash flow ahead of financing their first mine. Therefore, the entire capital cost has to be funded by the financial markets, typically by a combination of project debt finance and share issues. For this to be successful, potential investors have to be convinced that the proposed mine will generate a highly positive return (in compensation for the inherent risks). The lending banks have to be convinced that there will be a sufficient cash surplus over and above the need to service the debt in order to minimise the risk of default.

The current unusually weak commodity price markets have put several recently funded mining projects and companies under considerable strain. Debt packages that looked to be straightforward to service and pay down using commodity price projections of two to three years ago are finding that with current commodity prices there may not be sufficient cash to meet payment schedules. Weatherly's announcement that it is renegotiating the project debt for its Tschudi copper mine is a recent example.

Many projects have been deferred

Given the current situation in the mining sector, we would be surprised to see many (or indeed any) new mine financings agreed with smaller companies until the cycle has firmly turned positive. We think that this is at least a year away.

The lead indicators will be sustained falls in stocks of mined materials. This is most obviously visible in the base metals, where London Metal Exchange stocks are reported daily. Other commodities will show that the supply has tightened when prices start to rise on a sustained basis.

MARTIN POTTS is a finnCap research director specialising in mining

feature

Paysafe move highlights concentration of AIM trading

Paysafe moving to the Main Market will make a dent in the trading volumes on AIM and it might be difficult to replace these volumes in the short term.

Paysafe, formerly known as Optimal Payments, has finally secured a date for its move to the Main Market following the acquisition of rival online payments company Skrill. The online payments technology company is set to switch from AIM on 23 December. This is a good example of how a company can grow on AIM and then graduate to the Main Market but it also shows just how much AIM trading volumes can be hit by the loss of certain companies.

Paysafe, which is set to move into the FTSE 250 index next March, has been one of the most traded companies on AIM in the past year and the move to the Main Market could significantly hit AIM trading volumes from the beginning of next year.

Paysafe was less than 3% of trading volumes last January but this figure reached 12.5% in April – the month after the acquisition of Skrill was announced – and peaked at 14.8% in September. The tables show that Paysafe has consistently accounted for more than 10% of the value of AIM trading in the past four months.

Trades in Paysafe shares are also a significant percentage of total AIM trades. In the most recent two months, Paysafe has generated more than one in ten of the trades on AIM. This suggests that both institutional and small investors are interested in the company.

It could be argued that the expected move by Paysafe to the Main Market could have sparked additional interest in the shares from investors who would not be interested if they thought it was staying on AIM. The move was foreshadowed more than six months ago so some of the upturn in trading could be due to that. The large share issue to fund the acquisition of Skrill has also made the company more liquid, with a greater number of shares available to trade.

ASOS

Online fashion retailer ASOS continues to dominate trading on AIM and volumes would undoubtedly slump if it decided to move to the Main Market. Founder and former boss Nick Robertson never seemed particularly keen to leave AIM but the new management team might have different ideas in the future.

> In the most recent two months, Paysafe has generated more than one in ten of the trades on AIM

One-sixth of the trading volume of AIM, so far this year, is accounted for by ASOS. In July and September, the figure was more than one-fifth. ASOS issued its trading statement for the first four months of the financial year in July and announced that the founder was becoming a non-executive director in September. Even when there is little or no news ASOS trading volumes remain high. There were no major announcements in June, but ASOS still generated around 14% of the trading volumes of AIM.

ASOS and Paysafe have accounted for between a quarter and a third of trading volumes on AIM for the past five months. They are slightly less dominant in terms of the number of trades but they still account for between 24.2% and 30% over that period.

Gulf move

Iraq-focused oil and gas explorer and producer Gulf Keystone Petroleum moved to the Main Market in March 2014. Gulf Keystone had consistently been one of the most traded companies on AIM in the previous few years. However, it had been overtaken by a number of other companies by the time it left AIM and the trading volumes were a fraction of what they had been. There was an upturn in activity in its final three weeks on AIM and shares worth £132.7m were traded but that was less than 3% of the trading volume for the whole month. It also made up little more than 4% of the trades.

In the previous month Gulf Keystone accounted for 2% of the AIM trading volumes and less than 3% of the trades. Even back in March 2011, when Gulf Keystone was past its peak activity levels, it was accounting for 6% of trading volumes.

Gulf Keystone was therefore on the opposite trajectory to Paysafe when it made the move and that meant that the loss of liquidity was more easily absorbed by AIM. There is seasonality to overall AIM trading volumes but

feature

they rose in April before falling back in May, suggesting that the market took the Gulf Keystone departure in its stride.

The problem with trying to compare overall AIM trading volumes before and after a large AIM company has moved to the Main Market is that the main thing that affects them is the strength of the market – and in some cases unusually significant interest in one or two companies. So April 2014 volumes are higher than April 2013, which had been inflated by a large volume of trading in Highland Gold Mining.

Quindell, now known as Watchstone, alone accounts for more than 10% of the January total but trading levels have already fallen this year and 90p a share will be returned to shareholders before the end of December – assuming the courts agree to the capital return. That means that volumes in monetary terms will inevitably be much lower. There has also been the demise of Globo, although January was its quietest month of the year in terms of trading.

This could mean that nearly one-fifth of the January 2015 trading volumes will need to be made up by other companies even if the January 2016 figure is going to be flat. However, the loss of Paysafe is likely to have an even bigger effect on trading volumes later in the year.

Of course, AIM is a dynamic market so new companies joining the junior market should make up for the companies that leave. However, this does not tend to happen overnight.

Branded mixer drinks supplier Fevertree Drinks has become increasingly popular with investors and it has moved into the top 20 AIM companies by monthly trading volumes but it is still some way below Paysafe in terms of activity. In November, Fevertree's trading volume was £29m, more than treble the previous month but less than half of the July figure when Lloyds Development Capital sold its remaining stake. Other newer companies, such as Clinigen and Horizon Discovery, are also building up trading volumes but the volumes are still small compared with Paysafe.

Overall trading volumes in money terms remain well below their peak in 2007 and 2015 has not been a strong year. The number of trades in 2015 has not managed to reach the peaks achieved in 2014 but they could still end up nearly as high as the second best ever figure of 5.73 million in 2011.

The total AIM volumes still appear relatively good and indicate a market that is generating investor interest but the dependence on a few companies for that volume is a negative. In November, the third-largest company in volume terms accounted for just over 4% of the total compared with 26.8% for ASOS and Paysafe.

The largest and best known companies tend to dominate any market but it is important that AIM can continue to attract companies that can build up trading volumes over time and take up the mantle when the more established businesses get taken over or move to the Main Market.

One-sixth of the trading volume of AIM, so far this year, is accounted for by ASOS

January 2015

Looking at the January 2015 trading figures, the top 12 companies include Paysafe and quantum dot technology developer Nanoco, which subsequently moved to a premium listing. There is also Canary Wharf owner Songbird Estates and Advanced Computer Software, which have both been taken over. These four companies accounted for just over 8% of the total volume of £2.74bn because Paysafe was not as extensively traded prior to the announcement of the Skrill deal.

AIM TRADING VOLUMES

	PAYSAFE SHARE OF VOLUMES (%)	PAYSAFE AND ASOS SHARE OF VOLUMES (%)	AIM MONTHLY VOLUMES (£BN)
Jan	2.9	21	2.7
Feb	2.3	19.4	2.4
Mar	6.7	25.2	2.9
Apr	12.5	26.5	3.3
May	7.6	20.7	2.6
Jun	4.6	18.9	2.7
Jul	7.1	27.4	2.5
Aug	14.8	32.7	2.0
Sep	11.3	34	2.6
Oct	12.4	29.7	2.6
Nov	13.4	26.8	2.4

NUMBER OF AIM TRADES

	PAYSAFE SHARE OF TRADES (%)	PAYSAFE AND ASOS SHARE OF TRADES (%)	AIM MONTHLY TRADES
Jan	4.4	23.5	536,495
Feb	3.7	20.8	436,888
Mar	6.6	25.6	513,365
Apr	15.1	30	542,073
May	7.7	22.7	487,239
Jun	5.7	19.7	478,990
Jul	8	27.1	460,946
Aug	9.7	25.8	435,623
Sep	9.7	30	467,270
Oct	11.4	29.9	467,270
Nov	11.3	24.2	460,093

statistics

Market Performance, Indices and Statistics

AIM SECTOR INFORMATION

SECTOR NAME	% OF MARKET CAP	% OF COMPANIES
Financials	22.3	18.5
Industrials	16.5	16.9
Consumer services	15.8	10.9
Healthcare	13.3	7.9
Technology	10.2	10.8
Consumer goods	7	5.7
Oil & gas	5.9	11.4
Basic materials	5.7	15.3
Telecoms	2	1.4
Utilities	1.1	1.3

FTSE INDICES

ONE-YEAR CHANGES

INDEX	PRICE	% CHANGE
FTSE AIM All-Share	737.32	+1.7
FTSE AIM 50	4015.18	+11.9
FTSE AIM 100	3468.68	+8.2
FTSE Fledgling	7755.95	+13.9
FTSE Small Cap	4576.68	+4.8
FTSE All-Share	3492.13	-2.8
FTSE 100	6356.09	-5.5

COMPANIES BY MARKET CAP

MARKET CAP	NO.
Under £5m	252
£5m-£10m	137
£10m-£25m	199
£25m-£50m	148
£50m-£100m	138
£100m-£250m	111
£250m+	71

KEY AIM STATISTICS

Total number of AIM	1056
Number of nominated advisers	35
Number of market makers	50
Total market cap for all AIM	£73.6bn
Total of new money raised	£94.5bn
Total raised by new issues	£40.2bn
Total raised by secondary issues	£54.3bn
Share turnover value (2015)	£26.1bn
Number of bargains (2015)	4.83m
Shares traded (2015)	330.2bn
Transfers to the official list	176

TOP 5 RISERS OVER 30 DAYS

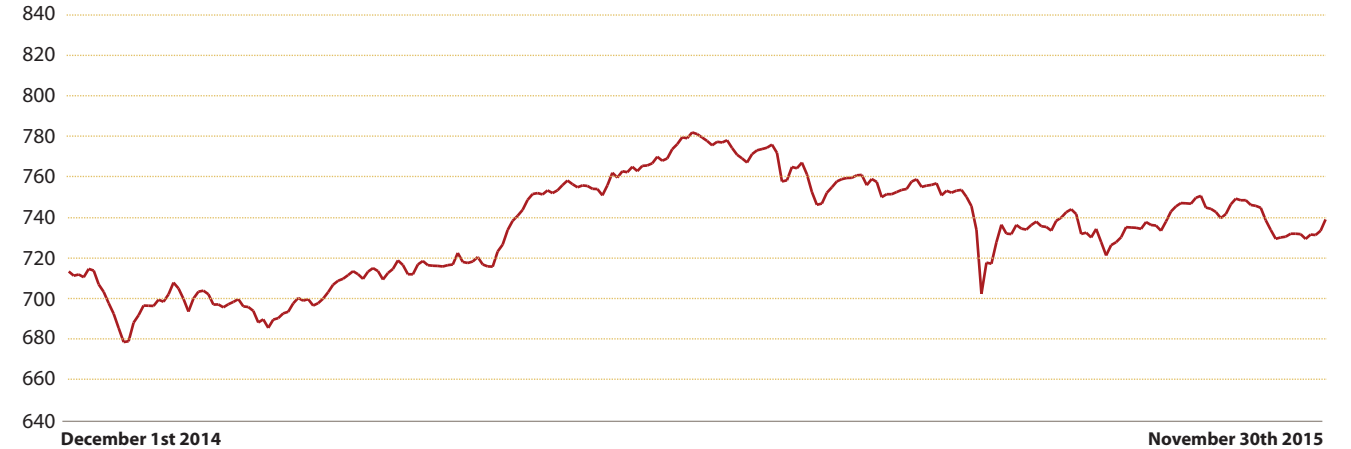
COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
CSF Group		2.5	+100
China New Energy Ltd		3.68	+90.9
Forbidden Technologies		8.75	+84.2
Plethora Solutions		4.87	+77.3
Kimberly Enterprises NV		0.2	+60

TOP 5 FALLERS OVER 30 DAYS

COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
ZincOx Resources		0.6	-92.1
PeerTV		3.13	-82.1
Sovereign Mines of Africa		0.16	-79.1
DX (Group)		21.75	-74.9
Weatherly International		0.22	-67.9

AIM - 1 YEAR INDEX CHANGE

Source: London Stock Exchange



Data: Hubinvest Please note - All share prices are the closing prices on the 2nd December 2015, and we cannot accept responsibility for their accuracy.

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finnCap's mission is to help ambitious companies grow and to be the leading independent broker to ambitious companies, focused on fuelling growth through long term partnerships. We will exceed client expectations through faultless execution, joined-up service and proactive thinking, all tailored to the needs of each individual client.

finnCap, whose chairman is Jon Moulton, is 95% employee-owned and is the top AIM broker by overall client numbers, according to research compiled by financial website Morningstar. The broker is also the number one adviser in the technology, industrials and healthcare sectors, number three broker in the oil and gas sector and in the top five in the basic materials sector.

In 2013, finnCap commenced market making and launched fAN Club, a new offering aimed at providing specialist support to ambitious small private businesses seeking pre-IPO funding.

finnCap was presented with the Best Research award at the 2015 AIM Awards, while finnCap's corporate broking and sales trading teams have achieved Extel Top 10 rankings for three years running. finnCap is a sponsor of the AIM Awards, the plc Awards and the UK tech Awards.

In the year to April 2015, finnCap's reported revenues were 4% higher at £16.1m, while pre-tax profit was £2.2m. The finnCap 40 Mining index, finnCap 40 E&P index and finnCap 40 Tech index were all launched during 2014.

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