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AIM JOURNAL

Shore in Stockdale talks

Consolidation continues in the AIM broking sector. Following the merger of SP Angel and Northland, Shore Capital is in talks to acquire Stockdale Securities. The combined broker would be one of the largest AIM advisers by number of clients.

Bermuda-based Somers Ltd values its investment in Stockdale at £4.1m, which equates to 1.3% of the value of Somers investments. That is based on a 55% stake. Although Somers owns 75% of the broker it is transferring a 20% stake to Stockdale employees due to the achievement of performance conditions. This suggests a potential valuation of £7.5m for Stockdale.

In the year to September 2018, Stockdale reported a pre-tax profit of £1.51m, down from £1.73m, on a 13% decline in revenues to £11.3m. A sharp fall in directors' remuneration helped to reduce the decline in profit. There was £1.2m in the bank at the end of September 2018, following the repayment of a £1.47m loan from Somers and investment in new offices. Corporate clients generate annual recurring retainer revenues of £2.5m.

According to the London Stock Exchange website, Shore Capital and Stockdale each has 26 nominated adviser clients, while Shore has 41 AIM broking clients and Stockdale has 33. Not all Stockdale clients will make the switch, though. Stockdale also has a 20% stake in Capital for Business, which helps Enterprise Investment Scheme qualifying companies to raise funds.

Knights' Oxford deal

Knights Group Holdings has made its third, and largest, acquisition, since floating on AIM last June. The legal services provider is paying up to £10m in cash and shares for Oxford-based commercial law firm BrookStreet des Roches. The deal is earnings enhancing, with broker Numis increasing its forecast for the year to April 2020 by 13% to 16.5p a share. It also means that the forecast dividend for that year has been raised by a similar percentage to 3.3p a share.

Knights already has an Oxford office and there will be savings on property costs. The acquisition will take the number of fee earners in the area from 95 to 140.

A fortnight earlier, Knights acquired Leicester-based legal services business Cummins for £1.57m in cash and shares. That fits well with Knights' existing East Midlands operations.

In the six months to October 2018, Knights reported a group 37% increase in revenues to £23.9m and organic growth was 10%. Underlying pre-tax profit doubled to £4.4m. The maiden interim dividend is 0.6p a share. Net debt was £9.5m at the end of October 2018.

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general news

United Main move

Dublin-based United Oil & Gas is the latest company moving from the Main Market to AIM. The standard listed oil and gas explorer is run by two former directors of Tullow Oil and it plans to move at the end of February. The move is expected to lead to significant cost and administrative savings. United is following Circassia Pharmaceuticals, but Game Digital will not be moving as planned.

The company started out as a shell called Senterra Energy and acquired its initial oil and gas interests in July 2017. In December 2017, £1.25m was raised at 4p a share and £2.5m was raised at 4.25p a share in April 2018. The most recent fundraising was £3m at 5.5p a share. There is a portfolio of interests in onshore and offshore UK, Italy and Jamaica.

The asset nearest to production is the Selva gas field in northern Italy. Preliminary approval for the development of the field has been granted. The plan is to target gas production of up to 150,000 cubic metres a day in 2020. Further wells will be drilled on the licence.

TSX Venture Exchange-listed Greenfields Petroleum is seeking a secondary quotation on AIM later this month. Greenfields holds 80% of the Bahar gas field and the Gum Deniz oil field in the South Caspian basin, offshore Azerbaijan. Production is 4,400 barrels of oil equivalent a day.

Video games retailer Game Digital did not get the required level of shareholder approval for its switch from the Main Market to AIM, even though nearly 63% of the shares voted were for the move. Game will stay fully listed.

NSCI decline

The Numis Smaller Companies index (NSCI), which covers the bottom 10% of the market capitalisation of the Main Market, underperformed the FTSE All Share index last year, but the index outperformed AIM. The NSCI total return was -11% in 2018, compared with -9.5% for the FTSE All Share. Excluding investment companies, the underperformance was even more stark, with a total return of -15.3%. Even so, this was still better than the 17.1% decline in the total return of the AIM All Share index, the best-performing AIM index. Between 1955 and 2018, the NSCI has provided an annualised return of 14.7%, which is 3.3 percentage points above the All Share index. It is also a better return than for houses and gilts.

Bad month for auditor Grant Thornton

It has been a tough month for Grant Thornton, with the collapse of Patisserie Valerie owner Patisserie Holdings and a £21m court award relating to its auditing of AssetCo. The Financial Reporting Council (FRC) had previously fined and severely reprimanded Grant Thornton because of its audit failings at AssetCo, which provided fire equipment and outsourced services.

Patisserie Holdings has been placed in administration after it failed to raise additional funding to cover the enormous shortfall in the accounts. There may be an attempt to obtain a rebate from the HMRC of at least some of the £16m of corporation tax payments made on false profits over the past five years.

There have been 71 stores and concessions, plus a bakery in Spitalfields, closed by the administrator. That leaves 122 outlets that are still operating. The administrator has sent information to potential bidders for the loss-making cakes retailer and it says that accounts audited by Grant Thornton going back to the beginning of 2013 could be unreliable. It is thought that the figures may have included fake invoices.

AssetCo had been seeking £40m from Grant Thornton and the settlement will be increased when interest is calculated. Grant Thornton can appeal. The judgement relates to the AssetCo accounts for the financial years to March 2009 and March 2010. The original 2009-10 accounts showed net assets of £60.8m but this was restated to net liabilities of £85.4m. The FRC said the audit suffered from “a significant failing in the application of professional scepticism”. The auditor admitted its guilt.

During January, Grant Thornton chief executive David Dunckley told MPs that there was an expectation gap concerning the role of auditors. “We are not looking for fraud, we are not looking at the future, we are not giving a statement that the accounts are correct”, he argued. He said that the auditor is saying that the accounts are reasonable and it is not necessarily going to spot a sophisticated fraud.

advisers

Northland clients find new homes

ADVISER CHANGES - JANUARY 2019

COMPANY	NEW BROKER	OLD BROKER	NEW NOMAD	OLD NOMAD	DATE
Eagle Eye Solutions	Shore/Investec	Investec	Investec	Investec	02/01/19
Botswana Diamonds	SVS	SVS	Beaumont Cornish	Northland	03/01/19
Gear4Music	N+1 Singer/Peel Hunt	Panmure Gordon/ Peel Hunt	N+1 Singer	Panmure Gordon	04/01/19
Gateley	finnCap/N+1 Singer	Cantor Fitzgerald	finnCap	Cantor Fitzgerald	08/01/19
IG Design	Canaccord Genuity	Cenkos	Canaccord Genuity	Cenkos	08/01/19
Agriterra	Strand Hanson	Cantor Fitzgerald	Strand Hanson	Cantor Fitzgerald	09/01/19
SEC	WH Ireland	Peterhouse/WH Ireland	WH Ireland	WH Ireland	10/01/19
Obtala Ltd	Arden	Northland	Arden	Northland	11/01/19
Autins Group	N+1 Singer	Cantor Fitzgerald	N+1 Singer	Cantor Fitzgerald	15/01/19
Ideagen	Canaccord Genuity/ finnCap	finnCap	finnCap	finnCap	15/01/19
Clontarf Energy	Novum	Novum	Strand Hanson	Northland	16/01/19
Petrel Resources	Novum	Novum	Strand Hanson	Northland	16/01/19
CyanConnode	Arden	finnCap	Arden	finnCap	17/01/19
Water Intelligence	WH Ireland	finnCap	WH Ireland	finnCap	17/01/19
FAIRFX	Canaccord Genuity/ Cenkos	Cenkos	Cenkos	Cenkos	18/01/19
Connemara Mining	SP Angel/First Equity	Northland/First Equity	SP Angel	Northland	21/01/19
Live Company	Shard	Shard/Stockdale	Strand Hanson	Stockdale	21/01/19
SimplyBiz Group	Peel Hunt/Zeus	Zeus	Zeus	Zeus	21/01/19
Evgen Pharma	finnCap/WG Partners	Northland/WG Parthers	finnCap	Northland	22/01/19
SIMEC Atlantis Energy	JP Morgan/ Cantor Fitzgerlad	Cantor Fitzgerald	Cantor Fitzgerald	Cantor Fitzgerald	22/01/19
Polarean Imaging	SP Angel	Northland	SP Angel	Northland	24/01/19
Active Energy Group	SP Angel/Optiva	Northland/Optiva	SP Angel	Northland	28/01/19
EQTEC	Strand Hanson	Northland	Strand Hanson	Northland	28/01/19
James Latham	SP Angel	Northland	SP Angel	Northland	28/01/19
Edenville Energy	SP Angel	Northland	SP Angel	Northland	29/01/19
Holders Technology	SP Angel	Northland	SP Angel	Northland	29/01/19
Volvere	Hobart	N+1 Singer	Cairn	N+1 Singer	29/01/19
GCM Resources	Strand Hanson	Northland	Strand Hanson	Northland	30/01/19
Photonsar LED	Peterhouse	Peterhouse/Northland	Allenby	Northland	30/01/19
Alexander Mining	Turner Pope	Turner Pope	Cairn	Northland	31/01/19
Management Resource Sols	Arden	Northland	Arden	Northland	31/01/19
Modern Water	Turner Pope/ WH Ireland	WH Ireland	WH Ireland	WH Ireland	31/01/19
SalvaRx Group	SP Angel/ Peterhouse	Northland/Peterhouse	SP Angel	Northland	31/01/19

company news

Support services provider Sureserve slims down to focus on profitable core

Compliance and fire services *www.sureservegroup.co.uk*

Sureserve rebranded its operations and sold non-core construction and property services businesses in the past year. This enables it to concentrate on its compliance and energy support services operations.

Full-year revenues from the continuing operations were 5% higher at £191m and underlying pre-tax profit improved from £5.4m to £6.6m. This was better than expected. The improved profit came from more than halving central costs and a reduced interest charge.

The compliance division provides maintenance and repair services to local authorities and housing associations for regulated areas, such as gas, fire, water and lifts. The growth in revenues came from this division, but profit was lower. There was a dip in the revenues of the energy efficiency division, but it maintained its profit contribution.

Profit was better than expected

There was a cash outflow from operations. Net debt was £11.4m at the end of September 2018. At that date, this debt was all short-term. The bank facilities were renewed in December and they last until the end of January 2022. There is an overdraft facility of £5m and a £25m revolving credit facility. The dividend has been halved to 0.25p a share, which was not predicted. It may possibly be restored to 0.5p a share this year.

SURESERVE (SUR)			26.5p
12 MONTH CHANGE %	-32.9	MARKET CAP £M	41.7

Both divisions should improve their profit contribution this year, although longer-term growth in the energy efficiency division will depend on the timing of the roll-out of smart meters. Stockdale forecasts a 2018-19 pre-tax profit of £7.8m, up from £7.3m previously, which puts the shares on seven times prospective earnings. The forecast yield is 1.9%.

Mporium clinches game changing deal

Advertising targeting technology *www.mporium.com*

Mporium has unveiled a significant contract with claims management services provider Allay, which will utilise the company's IMPACT platform that enables an advertiser to choose the optimum time to publish an advertisement on television, online or in other media. Specific events or television programmes stimulate the interest of consumers and money can be spent efficiently on advertising.

This is the first major contract secured by Mporium that is directly with the end client. Previously, business has come through marketing and advertising agencies – and this will continue to be a revenue stream.

MPORIUM (MPM)			5p
12 MONTH CHANGE %	-34.4	MARKET CAP £M	31.7

Mporium will supply exclusive digital lead generation services to Newcastle-based Allay, which spends "low single digit millions per month" on generating leads for PPI, timeshare, flight delay and loans claims. To put this in perspective, Mporium generated revenues of £2m in 2017. Allay will be issued with 25% of the enlarged share capital of Mporium in return for this exclusive contract. If the performance reaches the targets set, the stake will be increased to 29.9%.

The size of the Allay deal and the fact that the existing providers will be replaced exclusively by Mporium provides part of the reason why the share issue is justified. Mporium has to buy media space upfront, whereas previously this was handled by agencies, but Allay is paying more promptly than standard payment terms.

Mporium has been a loss-making, cash-hungry business and the Allay deal helps it to become a profitable and cash generating company.

Investors appear to have focused on the dilutive effect of the share issue and the potential in terms of additional revenues is not fully appreciated. There is currently no forecast for 2019 and when that is forthcoming it could generate more interest in Mporium.

Marriott Harrison MARRIOTT HARRISON www.marriottharrison.co.uk

company news

Previous investment and warm summer feeds first-half growth at NWF

Fuels, feed, food distribution *www.nwf.co.uk*

NWF (NWF)			169p
12 MONTH CHANGE %	+1.2	MARKET CAP £M	82.4

NWF benefited from the warm weather in terms of demand for its dairy feeds but it hampered the progress of the fuel distribution operations. The food distribution business moved back into profit in the first half following a second-half loss.

In the six months to November 2018, revenues were 12% ahead at £330.5m and pre-tax profit improved from £2.2m to £2.4m. Improved contributions from food distribution and feeds offset a decline in fuels due to the warm summer weather. The interim dividend is maintained at 1p a share.

Feeds has not just benefited from an improvement in the milk price and poor cattle grazing due to the hot weather increasing demand. Past capital investment is also improving efficiency and the product range is being broadened.

The dividend will continue to increase

Another depot has been added to the fuels division and 49 new tankers have been ordered and this should improve efficiency. NWF is the third-largest company in the sector and there are other consolidation opportunities.

The food distribution division has replaced the customers it lost, and activity levels are high. NWF says that its customers are storing 5,000 extra pallets in its warehouse in preparation for the withdrawal of the UK from the EU. There could be short-term volatility, but NWF does not expect significant long-term consequences. One warehouse is set aside for e-commerce fulfilment business. There are four customers and more that are interested in the services, which generates better returns than the food storage operations.

NWF is unlikely to match last year's profit due to the strong comparisons and a 10% fall to £9m is forecast, but the dividend will continue to be increased. Cash generation will reduce year-on-year net debt. The shares are trading on less than 12 times prospective earnings.

Milk price boost for Wynnstay

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

WYNNSTAY (WYN)			420p
12 MONTH CHANGE %	-12.1	MARKET CAP £M	83

Wynnstay Group reported record full-year results helped by the higher milk price and hot summer weather, which led to increased demand for dairy feed.

In the year to October 2018, revenues grew from £390.7m to £462.7m and pre-tax profit moved from £7.9m to £9.5m. There was the normal second-half cash inflow, but it was not as great as in the past, so net debt was nearly £1m. The cyclical nature of cash flow is still pronounced but not as much as previously because of greater fertiliser sales in the winter. The dividend has been raised 6% to 13.4p a share.

The agriculture and retail divisions both improved their profit. There were record feed volumes because of the dry weather, with increases in demand from dairy and poultry customers. Fertiliser sales were better than expected. There was pressure on the margins of the grain trading operations. Farmers have been guaranteed subsidies until 2022 and there may be more opportunities in the UK market.

The retail operations have been refocused on the core farming customer base. Additional sites were acquired in the second half, but they lost money in the period. Making these sites profitable provides scope for further profit growth this year and retail is likely to be the source of any improvement in group profit.

Shore Capital forecasts a small rise in 2018-19 pre-tax profit to £9.6m, reflecting the one-off weather-based contribution last year. The shares are trading on less than eleven times prospective earnings.

company news

Angle ready to take advantage of increasing potential for Parsortix cancer test

Diagnostic technology *www.angleplc.com*

ANGLE (AGL)			60p
12 MONTH CHANGE %	+20	MARKET CAP £M	86.1

Diagnostic test developer **Angle** has provided more evidence of how valuable the Parsortix liquid biopsy cancer test could become for the company. University research using Parsortix shows that it is more effective than its rivals because it can harvest metastatic circulating tumour cell (CTC) clusters. Angle is also making further progress towards gaining FDA approval for breast cancer use. There is enough cash to last until 2020 so management can focus on commercial opportunities.

The latest peer-reviewed paper has been published by the University of Basel, which is an international leader in the field of CTC clusters, which are cells tethered together as a single mass that can be associated with a greater spread of the disease.

Parsortix was used to isolate the CTC clusters

Parsortix was used to isolate the CTC clusters in mice, enabling the researchers to show that existing drugs could be used to break down these CTC clusters and significantly reduce the spread of cancer.

The University of Basel plans a clinical trial for breast cancer patients in 2019. Angle is undertaking a separate clinical trial for breast cancer in the US as part of the strategy to get FDA approval. This should be completed in the next few weeks and a filing to the FDA could happen in the middle of the year. There are 260,000 new metastatic breast cancer patients in Europe and the US each year and Parsortix could be used as a companion diagnostic for these people. On top of this there are other cancers where it could be used.

Revenues from sales for research use and from grants are increasing but the costs of development and trials are much higher. Net cash was £14.9m at the end of October 2018 and it is forecast to be £9.1m by the end of April 2019.

There are already partnerships with major healthcare firms and gaining FDA approval will provide further momentum.

Benchmark set to reap benefits of investment

Aquaculture products and services *www.benchmarkplc.com*

BENCHMARK (BMK)			56.5p
12 MONTH CHANGE %	-18.1	MARKET CAP £M	315

Aquaculture health and nutrition company **Benchmark** is a business that has been investing in products and capacity and it will take time to build revenues on the back of this investment. In the year to September 2018, revenues were 8% ahead at £151.5m and would have been higher at constant exchange rates. There are one-offs but Benchmark made an underlying pre-tax profit of £5.6m last year, up from £4.7m, and that profit could nearly double this year.

Net debt was £55.7m. Investment continues, and net debt could be around £65m at the end of September 2019 before declining in subsequent years.

Some non-core activities have been sold and there could be others that will be disposed of. Benchmark is trying to out-license its companion animal products.

Production has started at the new salmon egg facility in Norway and this will increase capacity by 75%. There was strong demand for salmon eggs last year and not enough capacity to supply that demand. There is also a joint venture in Chile – the world's second-largest salmon market. Trials of disease-resistant shrimp have been undertaken in Thailand, Vietnam and China.

The shares are trading on around 40 times 2018-19 earnings, falling to less than 30 next year. The high rating reflects the fact that enormous investment has been put into the business, but the full benefits have not been achieved yet.

Gateley continues growing dividend policy

Legal services *www.gateleyplc.com*

Dividend

Gateley was the first solicitors firm to float on AIM back in June 2015. Since then it has paid an increasing dividend. The 2015-16 dividend was 5.66p a share, rising to 6.6p a share the following year. Last year's total dividend was 7p a share, which was covered 1.6 times by earnings. The most recent interim dividend was raised from 2.2p a share to 2.6p a share.

This year's total dividend is forecast to be 8.1p a share and next year's forecast is 8.6p a share. These dividends will have a similar level of earnings cover to last year. Strong cash conversion enables Gateley to pay these dividends. Net debt was £8.2m at the end of October 2018 and without further acquisitions, an unlikely thing, debt will decline.

Business

Gateley was one of the first partnerships to become an LLP and the second law firm to gain approval to change to a corporate structure. The business has five main areas of operation. They are property, employee pensions and benefits banking and financial services, business services and corporate. The largest client is less than 3% of total annual revenues and the top ten account for 17.8%.

Property generates two-fifths of revenues and nearly half of the group profit contribution. The next most profitable area is banking and financial services. Litigation work is spread between the five divisions and it accounts for a quarter of annual revenues, but the revenue recognition policy is conservative.

Gateley has completed four acquisitions since it floated, and they were all made at no more than five times EBITDA. The most recent ones were Guildford-based, property-focused GCL Solicitors in May 2018 and Kiddy & Partners, which specialises in talent management and assessment for executives, in July 2018. Kiddy's staff relocated to Gateley's London office.

GATELEY (GTLY)	
Price (p)	169
Market cap £m	187.4
Historical yield	4.1%
Prospective yield	4.6%

The pipeline of potential acquisitions is stronger than it has ever been before. Gateley is seeking cross-selling potential and a good cultural fit. They should also be earnings enhancing.

Growth is also coming from hiring additional lawyers and new hires are offered the chance of equity participation. More than three-fifths of the company is owned by its staff.

The latest interim figures show a one-fifth improvement in revenues to £46.4m and 19% rise in pre-tax profit to £5m. There were initial contributions from GCL and Kiddy, but organic revenue growth was 10%. Corporate was the one part of the business where revenues were lower in the first half. The corresponding period was strong, and this can be a lumpy area.

The UK legal services sector is worth more than £30bn so Gateley is still small in relation to that market. Newly appointed broker finnCap expects a rise in full-year pre-tax profit from £15.4m to £18.2m. The shares are trading on 13 times prospective earnings.

Dividend news

Student accommodation development activities fuelled the growth of **Watkin Jones** last year, but private rental developments will become increasingly important from this year. There are 1,500 apartments that are due to be developed over the next three financial years. Richard Simpson has taken over as chief executive. In the year to September 2018, revenues increased from £301.9m to £363.1m and underlying pre-tax profit improved from £43.3m to £50.1m. Net cash was £80.2m at the end of September 2018. The dividend was raised from 6.6p a share to 7.6p a share. The dividend could increase to 8.1p a share this year and that would be twice covered by forecast earnings.

Small business finance provider **1PM** announced a maiden interim dividend of 0.28p a share and the shares go ex-dividend on 4 April. Interim revenues improved by 15% to £16m and nearly all this increase was organic. Pre-tax profit was 11% higher at £3.9m. Blended cost of borrowings edged down to 4% even though there has been a base-rate increase. There are £71m of facilities available for further growth. A rise in full-year pre-tax profit from £7.85m to £8.7m is forecast. A total dividend of 0.9p a share is expected.

K3 Capital was expected to report lower figures in the first half due to the timing of larger corporate finance deals. Interim revenues of the mergers and acquisitions adviser ended up 4% lower at £7.2m. Pre-tax profit fell from £3.21m to £3.05m. The interim dividend was raised from 2.85p a share to 3.6p a share, but that is a rebalancing of the dividend between interim and final. The second-half trading should be better, but full-year pre-tax profit is forecast to fall from £7.3m to £7m. The total dividend is expected to be 4% lower at 10.8p a share.

feature

Consolidating wealth management

AIM-quoted companies are leading the way in the consolidation of the independent financial adviser (IFA) sector.

Regulatory changes are making smaller wealth management and IFA businesses consider their positions and whether they would be better off as parts of bigger groups. The number of registered financial advisers has declined to around 14,000 for the past decade, but demand is increasing.

An ageing population and the requirement for more pension savings are part of the reason for increasing demand for advice. Yet, firms have to cope with increasing capital adequacy requirements and need to invest in technology.

Harwood Wealth Management and AFH Financial have been the most active AIM-quoted consolidators

The banks have reduced their exposure to this area of the market, providing greater opportunities for independents.

Harwood Wealth Management and AFH Financial have been the two most active AIM-quoted consolidators in the sector. Kingswood Holdings, which was formerly known as European Wealth Group, is also following an acquisitive strategy.

The greater the scale the more profitable these businesses can be, and the AIM companies are rapidly increasing their scale. Harwood and AFH tend to make acquisitions every few weeks on average. Importantly, they have built up a good track record when choosing acquisitions.

Harwood

Harwood joined AIM in March 2016 and its focus is individuals with net assets, excluding their main home, of between £200,000 and £500,000. The focus of acquisitions has been southern England, although Harwood also has a network services division, which supports appointed representatives around the country.

Last month, Harwood reported its figures for the year to October 2018, which showed revenues 16% higher at £32.7m and a 63% increase in pre-tax profit to £2m. Nine acquisitions were made during the period.

Harwood has assets under influence of £4.8bn and that includes assets under management of £1.7bn. Both have grown via acquisition, but assets under management have risen faster as existing and acquired clients move their funds to the management of Harwood. Harwood also won a mandate to manage assets for Frenkel Topping.

AFH Financial

AFH started off on Plus Markets (now NEX Exchange) before gaining an AIM quotation in 2014. Prior to joining AIM, AFH had been highly acquisitive but the deals were small and the move to AIM enabled access to funding to make much larger purchases. Two years later, it made a bid approach to fellow AIM-quoted IFA Lighthouse, but that was rebuffed. The offer was 13p a share in cash and shares and the current Lighthouse share price is double that level.

Although AFH is keen to widen its geographic footprint the focus of acquisitions has historically been in the Midlands and the North.

AFH continues to prosper, with revenues 51% higher at £50.7m in the year to October 2018 and pre-tax profit that nearly doubled to £6m. Despite the additional shares issued to part-finance these acquisitions, underlying earnings per share were one-third higher. There have been four more acquisitions since the end of the financial year.

Management believes that AFH can double funds under management to £10bn in three to five years.

Kingswood

Kingswood has a December year end, so the most recent results are the interims to June 2018. A loss is expected for 2018 and then a move into profit in 2019. Kingswood also has international aspirations and an office in South Africa.

The company has changed significantly in the past six months. Last October, Kingswood acquired Marchant McKechnie for up to £4m and recently announced the earnings enhancing purchase of Oxfordshire-based Thomas & Co for up to £3.3m.

Dividends

Both Harwood and AFH are paying growing dividends. Harwood increased its dividend by 8% to 3.5p a share and, on a share price of 139p, the yield is 2.5%. That is more than twice covered by underlying earnings. AFH raised its dividend by 50% to 6p a share, which offers a yield of 1.8% - on a share price of 335p. The AFH dividend is covered more than three times by earnings and it is expected to increase significantly over the next couple of years while slightly improving the cover. Kingswood does not pay a dividend.

feature

Assessing AIM bid-offer spreads

Bid-offer spreads are important for share prices and while there are some wide spreads on AIM there are more liquid companies with narrower spreads.

Liquidity is an important topic for AIM and one of the key elements is the bid-offer spread for individual share prices. Wide bid-offer spreads can put off investors, but that investor interest is needed to increase liquidity and thereby narrow the spread.

Although there are many AIM companies with wide spreads, there are some with narrow spreads, particularly constituents of the FTSE AIM 100 index.

The figures for this article are based on one day of trading (Thursday 31 January 2019) and all shares have periods of trading during the year when they are less or more active, such as around results and other announcements. Generally, though, the ones with the larger spreads are likely to be that way most of the time.

AIM 100

Trading in the shares of recruitment and training firm Staffline was suspended at the end of January because invoicing concerns led to a delay to its 2018 results so there were 99 of the AIM 100 constituents trading on 31 January.

There were eleven companies in the AIM 100 with a bid-offer spreads of more than 5%. Nearly one-third of the companies had spreads of more than 3%.

Andrews Sykes was the only company with a spread in double figures and its spread is nearly double that of AlphaFX, which is the next highest. There was no trading in Andrews Sykes shares during the day and that is not unusual. There were seven days in January where there were two or more trades.

There were 38 companies with spreads of less than 1% and 61 companies that had spreads of more than 1%. There are ten companies that have bid-offer spreads of less than 0.25%.

Trading levels

The obvious thing is that the more trading there is the narrower the spread. That is certainly borne out by the figures for the AIM 100.

It is easy to understand the lack of trading in Andrews Sykes. One shareholder, EOI Sykes Sarl, which is owned by two trusts, owns 86.25% of the air-conditioning sales and hire business. The shares not in public hands total 90.4% of the share capital. The shares could not be admitted to the Main Market because of the lack of shares in public hands.

Lombard Trust is the majority shareholder in Impellam Group and five shareholders own more than 70%. There is more trading than in Andrews Sykes but there were still three days in a row with no trades.

Mobile payment technology services provider Boku Inc is the one exception in the top ten widest spreads because

WIDEST BID-OFFER SPREADS IN FTSE AIM 100

COMPANY	CODE	BUSINESS	SPREAD (%)	TRADES	VALUE £M	VALUE £M
Andrews Sykes	ASY	Air conditioning	12.1	0	0	242.5
Alpha FX	AFX	Foreign exchange	6.3	3	0.94	226.6
AB Dynamics	ABDP	Automotive engineering	6.3	27	15	317.8
Sumo	SUMO	Video games services	6.2	3	0.12	192.8
Applegreen	APGN	Petrol forecourts	5.6	1	0.93	645.3
Boku	BOKU	Mobile services	5.6	19	60	200.3
Brooks Macdonald	BRK	Financial adviser	5.3	6	4	233.9
Benchmark	BMK	Aquaculture services	5.3	6	1	315
Impellam	IPEL	Recruitment	5.3	1	2	279.9
Quixant	QXT	Games machines components	5.3	5	6	187.5
Arbuthnot Banking	ARBB	Banking	5.2			

Source: SharePad, London Stock Exchange. Information for 31 January 2019.

30% of its market value was traded on the day. However, this was the second-highest level of trading in the month and in the majority of days during January the value traded was less than £5m. Also, there were only 19 trades on the day and the number of trades can have a bigger effect on liquidity, because a large number of small trades is better for liquidity than a limited number of large-value trades.

The top ten narrowest spreads are in the top 17 most traded shares on AIM during December 2018. In terms of value traded, they are in the top 21 AIM companies.

Online fashion retailers ASOS and boohoo.com unsurprisingly have some of the narrowest spreads, and ASOS is the only company with a spread of less than 0.1%.

Other than those two companies there is a wide range of sectors included in the constituents with the narrowest spreads. The same is also true of the widest spreads.

The value of shares traded in ASOS was three-quarters of its market value on the day and the shares traded in Hurricane Energy were valued at 55% of its market value.

Smaller

The AIM 100 constituents are, of course, the larger companies on AIM so they are going to tend to be more liquid and have narrower spreads.

More than 93% of AIM-quoted companies have spreads of more than 1% and the majority have spreads of more than 5%. Nearly 8% of AIM companies have spreads of more than 20%.

To put that in perspective, there are 95 FTSE Fledgling index constituents and 34 of them have spreads of more than 5% and 86 have spreads of more than 1%.

This indicates that the high spread has more to do with size than whether a company is on AIM or the Main Market. The Fledgling index does not include standard list companies because they do not qualify. The smallest Main Market companies tend to be on the standard list because many are shells.

However, when there is significant interest in a relatively small AIM company, the spread can be much narrower. For example, even though it is a penny share, Infrastrata has a spread of less than 4%. The Northern Ireland-focused gas storage project developer has a market value of less than £15m.

Trading has increased significantly in January with 2,990 trades, which is more than the total number of trades in the previous four months. The value traded during the month was £849m and that is nearly as much as the total for the previous five months.

The share price was higher in the middle of January than it was at the end of the month, but the value traded during January is still many times the peak market valuation in the month. There have been investors exercising warrants during the month and this may have led to additional trading.

There has been plenty of news flow from Infrastrata during January, both positive and disappointing. In the middle of the month, £1.5m was raised at 1.2p a share, which is similar to the current share price. The most trading was on 29 January when there were 310 trades. That was the day that Infrastrata announced that an application for an EU grant for the project was not successful, but another application will be filed during March.

Sometimes investor interest can be sparked by news and the increased trading levels continue into the subsequent months. This can happen to large or small companies. Graphene-based technology developer Versarien has gained more interest in the past couple of years and this has boosted trading levels as well as the share price. The company's valuation was similar to Infrastrata's two years ago and it is currently more than £200m. The spread is less than 1%.

NARROWEST BID-OFFER SPREADS IN FTSE AIM 100

COMPANY	CODE	BUSINESS	SPREAD (%)	TRADES	VALUE £M	VALUE £M
ASOS	ASC	Online retail	0.06	4,559	2135	2767.8
RWS	RWS	Patent translation	0.11	422	105	1280.2
Burford Capital	BUR	Litigation funding	0.11	1,545	1072	4014.4
Fevertree Drinks	FEVR	Mixer drinks	0.12	2,649	1325	2985.2
boohoo.com	BOO	Online retail	0.13	2,797	1015	2185.5
Abcam	ABC	Reagents supplier	0.15	1,044	366	2725.9
Highland Gold Mining	HGM	Mining	0.18	1,024	154	598.5
Clinigen	CLIN	Pharma services	0.19	900	205	1055.5
Hurricane Energy	HUR	Oil and gas	0.22	1,083	538	980.2
EMIS	EMIS	Healthcare IT	0.22	392	103	567.3

Source: SharePad, London Stock Exchange. Information for 31 January 2019.

Market Performance, Indices and Statistics

AIM SECTOR INFORMATION

SECTOR NAME	% OF MARKET CAP	% OF COMPANIES
Financials	18.6	16.3
Industrials	16.8	17.1
Consumer services	14.1	10.6
Healthcare	12.6	9.5
Technology	11.7	12.8
Consumer goods	10.4	5.7
Oil & gas	8.4	11.1
Basic materials	5.7	13.1
Telecoms	1.2	0.7
Utilities	0.5	1.2

FTSE INDICES

ONE-YEAR CHANGES

INDEX	PRICE	% CHANGE
FFTSE AIM All-Share	919.14	-14
FTSE AIM 50	5057.93	-18.8
FTSE AIM 100	4756.04	-14.1
FTSE Fledgling	10157.07	-8.8
FTSE Small Cap	5374.4	-8.9
FTSE All-Share	3825.62	-7.5
FTSE 100	6968.85	-7.5

COMPANIES BY MARKET CAP

MARKET CAP	NO.
Under £5m	152
£5m-£10m	112
£10m-£25m	185
£25m-£50m	140
£50m-£100m	127
£100m-£250m	121
£250m+	86

KEY AIM STATISTICS

Total number of AIM	923
Number of nominated advisers	29
Number of market makers	48
Total market cap for all AIM	£91.3bn
Total of new money raised	£111.8bn
Total raised by new issues	£44.9bn
Total raised by secondary issues	£66.9bn
Share turnover value (Dec 2018)	£68.8bn
Number of bargains (Dec 2018)	11.2m
Shares traded (Dec 2018)	488.3bn
Transfers to the official list	190

TOP 5 RISERS OVER 30 DAYS

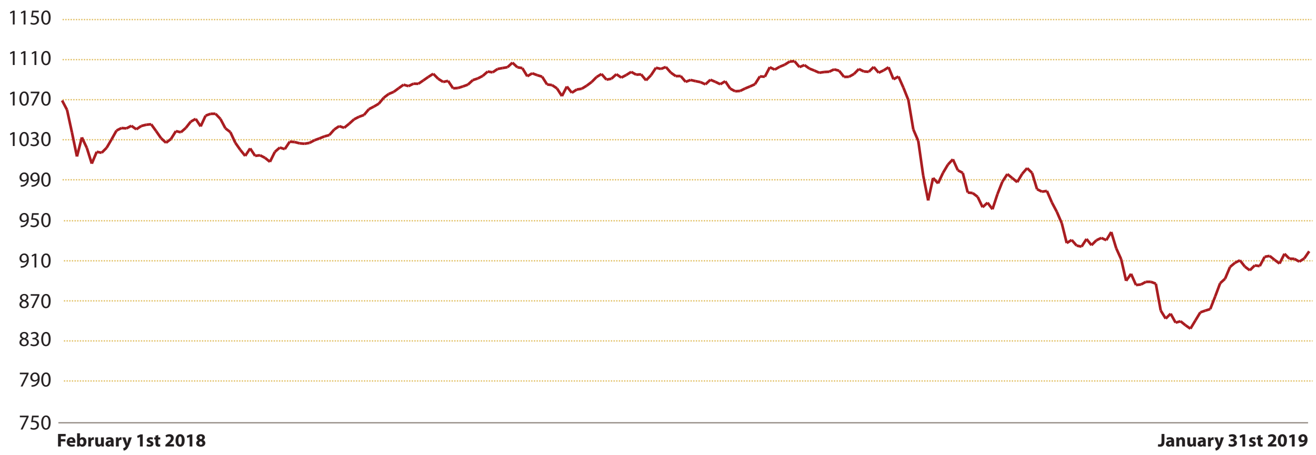
COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
Metals Exploration	Mining	1.25	+213
Futura Medical	Healthcare	14.25	+132
Patagonia Gold	Mining	97.5	+74.1
Cloudbuy	Software	3.4	+70
Yu Group	Energy	125	+67.8

TOP 5 FALLERS OVER 30 DAYS

COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
NRichoux	Restaurants	1.125	-83.9
Altona Energy	Mining	16.5	-83.1
Utilitywise	Support services	1.9	-77.1
Vinaland Ltd	Financials	0.6c	76.5
Alien Metals	Mining	0.045	-66.7

AIM - 1 YEAR INDEX CHANGE

Source: London Stock Exchange



Data: Hubinvest Please note - All share prices are the closing prices on the 31st January 2019, and we cannot accept responsibility for their accuracy.

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AIM Journal

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

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

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

The pdf-based publication has an email database of company directors and advisers and an email with a link to the latest edition is sent out each month when the AIM Journal is published. The AIM Journal can also be accessed via http://www.hubinvest.com/AimJournalDownload.htm.

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

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We host a regular Nomad Forum which has been established to provide nomads with the opportunity to discuss AIM regulatory issues on a Chatham House basis, and to provide briefings on key legal developments. Submissions are often subsequently made to AIM Regulation as a result of discussions held.

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