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THE ONLINE MONTHLY FOR THE ALTERNATIVE INVESTMENT MARKET

# AIM JOURNAL

## AIM's October decline

AIM has achieved three consecutive years of strong growth, but it is set to decline in 2018. The FTSE AIM All Share index slumped by 11% during October, which compares with a 5% decline for the FTSE 100 index. Up until October, AIM had been outperforming the Main Market over a 12-month period, but this has changed, with the FTSE 100 4.9% lower, compared with a decline of 6.1% for the AIM All Share. However, the FTSE AIM 100 is outperforming over the past year because its fall is 3.4%.

However, the AIM 100 performed worse than the whole of AIM in October with a 12% fall. There were eleven constituents of the AIM 100 that rose during October, which compares with 16 for the FTSE 100, one of which was former AIM online gaming company GVC.

There was a rise in the share prices of two of the seventeen AIM companies that were worth more than £1bn at the beginning of October, but some of the most high-profile AIM companies lost more than a quarter of their share price. They include video games services consolidator Keywords Studios, e-learning company Learning Technologies, robotic software developer Blue Prism and queuing technology supplier accesso Technology.

Taking a longer-term view, the return on the AIM All Share is 28.9% over five years. The return on the AIM 100 over the same period is 50.4%.

## Patisserie rescue cash

Shareholders have agreed the rescue refinancing package for Patisserie Holdings at its general meeting, but the underlying financial state of the business remains uncertain. The owner of the Patisserie Valerie chain appeared to have plenty of cash, but unknown overdraft facilities were discovered and the HMRC was trying to wind-up the company because it owed £1m. This petition was dismissed on 23 October. Net debt was £9.8m.

A placing raised £15.7m at 50p a share. Trading in Patisserie Holdings shares was suspended at 429.5p a share and it is uncertain when, or if, trading resumes what the share price could fall to. Executive chairman Luke Johnson has also provided loan facilities of up to £20m.

The board says that it continues to "work with its professional advisers to understand the extent of the previously announced financial misstatements and potential fraudulent activity". No updates on the situation were given at the general meeting.

Chris Marsh has resigned as finance director of Patisserie Holdings, having initially been suspended on 9 October when the financial problems were revealed. Marsh is being investigated by the police.

In this issue

general news

# Warnings hit AIM values

AIM share prices are declining along with the market, but companies are being hit with particularly sharp share price slumps if they disappoint the market.

The share price of floor coverings manufacturer Victoria nearly halved in October. A trading statement confirmed that like-for-like revenue growth was more than 3% in the six months to September 2019. However, that growth has been achieved by reducing expected margins by up to 1.5 percentage points. Victoria attempted to refinance its two-year bank facility through the issue of a five-year €450m bond, but it coud not obtain an attractive issue price and pulled the offer.

Residential property developer Telford Homes blames an uncertain backdrop to the general economy on the increased difficulty in selling homes valued at more than £600,000 and it does not believe the situation will change in the short term. Management does argue that it could still achieve a 2018-19 pre-tax profit of more than £50m if there is no further decline in market conditions. Most of this profit will be generated in the second half. This news led to the share price falling by a quarter.

The biggest share price decline for a significantly sized company on AIM was at Yu Group, which dived by three-quarters. The energy supplier dismayed investors by revealing accounting changes relating to accrued income and increases in impairment charges for trade debtors. This will slash £10m from this year's pre-tax profit estimate, which means there will be a loss.

# Renalytix spin-off

The spin-off of Renalytix AI from EKF Diagnostics was completed on 6 November. EKF shareholders invested £1.48m via a restricted offer and this took the total raised to £22.3m at 121p a share. That valued the company at £65m. EKF has distributed its original stake in Renalytix AI to its own shareholders on the basis of one Renalytix AI share for every 21.825 EKF shares they own. EKF has invested £3.12m in new shares, which is equivalent to a 4.8% stake. Renalytix AI develops artificial intelligence-based clinical management tools for improving early diagnosis and drug development for kidney disease. The cash raised will be used to develop further products relating to the treatment of kidney disease.

# SciSys moves domicile to Ireland

IT services provider SciSys is changing its domicile from the UK to the Republic of Ireland in order to avoid uncertainties related to the UK's likely exit from the European Union. The domicile in Ireland will mean that SciSys will continue to be able to participate in EU-funded programmes. A quotation on the Enterprise Securities Market in Dublin will also be obtained.

SciSys management believes that there is a danger there could be a negative effect on its space business without the move. The space division is involved in the development of ground and on-board space systems, as well as the provision of support for space-related projects. The division is involved with projects with the European Space Agency (ESA), such as the Galileo satellite navigation programme, and it also provides services to NASA. This year a €3.9m contract has been won for the EGNOS programme from Airbus, which is the prime contractor to the ESA.

The operations will remain based in the UK and Germany and it is just the domicile of the group that will change. SciSys will still be tax resident in the UK. There is no mention of the cost implications of the move for the group, but they should not be large. Shareholder approval will be sought at a general meeting on 19 November. The scheme is expected to become effective on 27 November. SciSys will be readmitted to AIM and join the Enterprise Securities Market on the following day.

Interim revenues were 13% higher at £28.7m, while pre-tax profit improved from £872,000 to £2.3m. The space division increased revenues from £9.85m to £11.2m and had an unusually high contribution margin of 30% because of high utilisation levels. The group order book is valued at around £100m. The 2018 profit forecast is £4.5m.



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advisers

# finnCap plans December AIM flotation

AIM broker and nominated adviser finnCap has revealed plans to merge with Cavendish Corporate Finance LLP and then float on AIM in early December. Grant Thornton has been appointed as nominated adviser to the proposed flotation.

Cavendish is a mergers and acquisitions adviser with expertise in exit planning and debt advisory services. Cavendish is also a member of Oaklins, the international mergers and acquisitions adviser, which provides exposure outside the UK. Cavendish can be a volatile business. In the year to March 2014, revenues were £7.57m and profit was £4.34m. The following year revenues increased to £11.6m and then to £12.1m in 2015-16 and profit was higher. However, in 2016-17, revenues fell to £6.42m and profit was £2.59m. The majority of Cavendish's revenues are in the form of success fees. The 2017-18 accounts are yet to be filed with Companies House.

finnCap, which has been trading in its current form for eleven years, has more AIM broking and nominated adviser clients than any other broker. In the year to April 2018, the company increased its revenues from £19.3m to £22.1m, the sixth consecutive year of growth. Pre-tax profit edged up from £2.87m to £3.05m.

■ Northland Capital Partners, a sponsor of AIM Journal, is in exclusive merger talks with nominated adviser and broker SP Angel. Northland is relinquishing its nominated adviser status on 1 February 2019.

**ADVISER CHANGES - OCTOBER 2018**

| COMPANY | NEW BROKER | OLD BROKER | NEW NOMAD | OLD NOMAD | DATE |
|---|---|---|---|---|---|
| **Beowulf Mining** | SP Angel | Cantor Fitzgerald | SP Angel | Cantor Fitzgerald | 01/10/18 |
| **Feedback** | Stanford Capital/ Peterhouse/Allenby | Peterhouse/Allenby | Allenby | Allenby | 01/10/18 |
| **Herencia Resources** | VSA/WH Ireland | WH Ireland | WH Ireland | WH Ireland | 02/10/18 |
| **Crawshaw** | WH Ireland/Peel Hunt | Peel Hunt | Peel Hunt | Peel Hunt | 04/10/18 |
| **Polemos** | Peterhouse/Leander | Peterhouse/Leander | WH Ireland | Beaumont Cornish | 05/10/18 |
| **Coro Energy** | Mirabaud/Turner Pope | Turner Pope | Grant Thornton | Grant Thornton | 08/10/18 |
| **Falcon Oil & Gas Ltd** | Cenkos/Davy/RBC | Davy/RBC | Davy | Davy | 09/10/18 |
| **Sterling Energy** | GMP First Energy/ Peel Hunt | Peel Hunt | Peel Hunt | Peel Hunt | 09/10/18 |
| **GetBusy** | Liberum | Stockdale | Grant Thornton | Grant Thornton | 16/10/18 |
| **Kibo Energy** | First Equity/SVS | SVS/Novum | RFC Ambrian | RFC Ambrian | 16/10/18 |
| **TLA Worldwide** | Beaumont Cornish | Numis | Beaumont Cornish | Numis | 22/10/18 |
| **Oracle Power** | Peterhouse/ Brandon Hill | Peterhouse / Brandon Hill | Strand Hanson | Grant Thornton | 23/10/18 |
| **Eckoh** | N+1 Singer/ Cannacord Genuity | N+1 Singer/Berenberg Cannacord Genuity | N+1 Singer | N+1 Singer | 24/10/18 |
| **Pantheon Resources** | Arden | finnCap | Arden | Stifel Nicolaus | 25/10/18 |
| **Imaginatik** | WH Ireland/Peterhouse | Peterhouse | WH Ireland | finnCap | 26/10/18 |
| **Next Fifteen Communications** | Numis | Investec | Numis | Investec | 26/10/18 |
| **Solo Oil** | Shore Capital | Shore Capital/ Beaumont Cornish | Strand Hanson | Beaumont Cornish | 29/10/18 |
| **MySQUAR Ltd** | SVS/Daniel Stewart/ SP Angel | Daniel Stewart/ | SP Angel | SP Angel | 30/10/18 |
| **appScatter** | finnCap | Smith & Williamson/ Stifel Nicolaus | finnCap | Smith & Williamson | 31/10/18 |
| **Fevertree Drinks** | Numis/Investec | Investec | Numis | Investec | 31/10/18 |



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## company news

# Positive full-year figures help ASOS outperform in AIM downturn

*Online fashion retailer* *www.asosplc.com*

**ASOS** has managed to avoid the worst of the recent share-price falls on AIM despite the online fashion retailer being one of the most liquid shares on the junior market. More-liquid shares tend to fall before their less-liquid peers but ASOS has outperformed AIM in October, helped by the positive reaction to the figures for the year to August 2018.

ASOS had 18.4 million active customers last year, an increase of nearly a fifth. The average value of each sale edged up by 1% to £73.

In the year to August 2018, revenues increased from £1.92bn to £2.42bn. The fastest rate of growth in revenues was in continental Europe with a 36% increase, but that was partly attributable to positive foreign-currency movements. The ASOS Premium service was launched in major European markets and there were additional country sites for Sweden and the Netherlands. The online clothing market in continental Europe is four times the size of the UK's and it is growing faster because of lower penetration levels.

### ASOS has outperformed AIM in October

| ASOS (ASC) | | | 5456p |
|---|---|---|---|
| 12 MONTH CHANGE % | -4.2 | MARKET CAP £M | 4,409 |

ASOS has 7.4% of the UK market and 1.6% of the continental market. That is still well above the 0.5% market share in the US.

The continental European operations also helped to boost group gross margins, which rose from 48.9% to 51.2%. The US was the only part of the business where gross margin declined, albeit from higher levels – from 60.3% to 59%. The new US warehouse should lead to cost savings and improved delivery service. Overall operating margins edged up from 4.1% to 4.2%, as warehousing and depreciation charges increased. Pre-tax profit improved from £80m to £102m.

Cash was used up by higher working capital requirements, mainly due to higher stock levels, and £213m of capital investment in warehousing and online platforms. That meant that the cash pile fell from £160.3m to £42.7m. There could be up to £250m more invested this year.

Revenues are expected to increase to £3bn this year and that could generate pre-tax profit of around £120m. That still leaves ASOS on 48 times prospective earnings.

# Gearing up for second half at Gear4Music

*Musical instruments retailer* *www.gear4musicplc.com*

Although the interims from musical instruments retailer **Gear4Music** appear disappointing, the second half should be much stronger and the first-half profit shortfall is expected to be more than made up.

In the six months to August 2018, revenues grew by 36% to £45.5m, but there was a first-half loss. Gross margins fell from 25% to 22,7%. They were reduced on branded instruments as management took the decision to attempt to win market share and counteract price cutting by smaller rivals. Own-brand margins were steady.

| GEAR4MUSIC (G4M) | | | 562p |
|---|---|---|---|
| 12 MONTH CHANGE % | -30.6 | MARKET CAP £M | 117.8 |

Second-half margins have been improving and there is likely to be a higher proportion of own-brand sales in the period. The main short-term uncertainty is the level of Christmas trading.

Full-year pre-tax profit is expected to increase from £2.4m to £3.8m on a similar rate of growth in revenues. Gear4Music had a higher share price at the end of October than at the start of the month, although it has fallen sharply over the past year. The prospective multiple for 2018-19 is 55, falling to 31 for 2019-20.

Gear4Music has a good market share in the UK and strong prospects in continental Europe as the new Swedish distribution centre becomes fully operational.

## company news

# Avingtrans on course to turn around the fortunes of Hayward Tyler purchase

*Engineering* *www.avingtrans.plc.uk*

**Avingtrans** has started to reap the benefits of the £29.4m Hayward Tyler acquisition but there is more to come. The engineering company has a record of buying and improving the performance of businesses and then selling them.

Avingtrans reported slightly better than expected full-year figures. Revenues were 247% higher at £78.9m, with the acquisition helping gross margin to improve to 25.5%. The underlying pre-tax profit was £2.4m, before restructuring and acquisition costs of £3.3m, and the total dividend of 3.6p a share.

Hayward Tyler and over the year Avingtrans went from net cash to net debt of £7.1m. Capital investment will hold back the reduction of the net debt over the next two years.

There are £39m of orders for this year

Avingtrans has created separate engineered pumps and process solutions divisions to house the Hayward Tyler operations. Demand from the oil and gas sector is recovering slowly but there are other opportunities with renewables and nuclear.

The medical division made a small loss last year. Avingtrans is acquiring Texas-based Tecmag Inc for $243,000. Tecmag manufactures instrumentation for magnetic resonance imaging and nuclear magnetic resonance systems.

| AVINGTRANS (AVG) | | | 218.5p |
|---|---|---|---|
| 12 MONTH CHANGE % | -3.1 | MARKET CAP £M | 67.8 |

The share price has barely changed during October. First-quarter revenues were £22m and there are £39m of orders due for delivery in the rest of the year. A £4.3m profit is forecast for this year, much of which could come from efficiency improvements at the old Hayward Tyler operations, rising to £5.3m in 2019-20. The shares are trading on 21 times 2018-19 prospective earnings, falling to 16 the following year.

# President accelerates cash generation

*Oil and gas* *www.presidentenergyplc.com*

Argentina-focused oil and gas company **President Energy** continued to generate cash from its operations in the third quarter and this is helping to finance further development and exploration activity. The purchase of additional assets near to the company's existing blocks will enhance the value of the whole business.

President focuses on conventional assets in areas with known oil reserves. Initial third-quarter figures show a 21% increase in revenues, against the previous quarter, to $13.1m. The free cash generation from operations was 59% higher at $8.6m. Of course, some of that needs to be spent on corporate costs.

| PRESIDENT ENERGY (PPC) | | | 8.75p |
|---|---|---|---|
| 12 MONTH CHANGE % | -11.4 | MARKET CAP £M | 88.8 |

Most of this cash is generated by the Argentine assets but there is also a contribution from an investment in Louisiana.

Two fields are being acquired in Rio Negro and the deal should be completed before the end of the year. The financing of the deal is being finalised. The Puesto Prado and Las Bases acquisitions are next to the Rio Negro assets already owned by President. The added attraction of these new assets is the pipeline infrastructure that can be used to transport the company's gas.

Current production levels are 2,700 barrels of oil equivalent a day and the plan is to increase that to 5,000 barrels of oil equivalent a day by the end of 2019. There are opportunities to pick up other assets in Argentina because many major oil companies are focusing on shale assets.

In the longer term, there is potential from exploration assets in Paraguay. These are across the border from existing President assets in the north of Argentina.

Analysts estimate a 2018 pre-tax profit of $15.8m, rising to $27.3m in 2019. This will generate cash that can be used to develop the Argentine assets and explore in Paraguay.

company news

# Dotdigital continues with its impressive growth in international markets

*Email marketing technology* *www.dotdigitalgroup.com*

| DOTDIGITAL (DOTD) | | | 84p |
|---|---|---|---|
| 12 MONTH CHANGE % | -6.1 | MARKET CAP £M | 244.5 |

Email marketing services provider **Dotdigital** continues to add more customers around the world, with full-year revenues jumping from £32m to £43.1m. That was helped by the acquisition of Comapi in November, but there was still organic growth of 15% in the year to June 2018. The global market for marketing automation services is set to grow from £8.8bn in 2017 to £19.3bn in 2023 – and email marketing is the main contributor.

Comapi contributed revenues of £6.2m at an operating margin of 10%, which was in line with expectations. One of the attractions of Comapi is its omnichannel messaging and cloud communication platform, which means that dotmailer can handle correspondence via mobile, Twitter and messenger services from the likes of Facebook. Acquiring the platform saved money on developing a similar system. Comapi has been fully integrated and the messaging platform could help to enhance growth in Asia Pacific.

There was organic growth of 15%

There were 14.4 billion emails sent last year and monthly average revenues per user were £845. That figure is nearly doubled when it comes to the clients of e-commerce platform provider Magento, Dotdigital's main partner. Magento customers account for a quarter of revenues. Adobe has acquired Magento but there has been no slowing in business generated by Magento.

Underlying group pre-tax profit improved from £8.3m to £10.1m. The fastest growth in profit was in the US, although Asia-Pacific revenues grew by 85%.

This year's dividend is 0.64p a share, which will cost around £2m. There was £15m in the bank at the end of June 2018. Strong cash generation has always been one of the attractions of Dotdigital and cash could reach £19m by the end of June 2019.

finnCap forecasts a 2018-19 pre-tax profit of £12.8m. The shares are trading on 23 times prospective earnings, falling to 19 the following year. The dividend could be edged up to 0.9p a share this year.

# Netcall engages in investment boost

*Call centre technology* *www.netcall.com*

| NETCALL (NET) | | | 57.5p |
|---|---|---|---|
| 12 MONTH CHANGE % | +42 | MARKET CAP £M | 79.3 |

Customer engagement services provider **Netcall** has ended its period of enhanced dividend payments and instead the focus is on growing the business following the acquisition of MatsSoft for an initial £11.1m in cash and 3.5 million shares. The initial integration of MatsSoft technology with Netcall's Liberty platform is complete. Netcall reckons that its addressable market is growing at 20% a year.

Netcall reported a flat underlying pre-tax profit of £3.4m in the year to June 2018. That includes 11 months from MatsSoft, which added £5.2m to total revenues of £21.9m. MatsSoft's contribution helped cloud-based revenues quadruple to £4.8m.

Financing the MatsSoft purchase meant that a net cash position was turned into net debt of £739,000 at the end of June 2018 and it is set to double this year. A dividend of 0.5p a share was declared, and the new policy is to pay 25% of underlying diluted earnings per share as a dividend. That means that this year's dividend is likely to be cut to 0.3p a share.

An additional £2m is being invested in developing the business. This will complete the integration of MatsSoft and develop new partners, as well as financing additional digital marketing. The increased investment means that pre-tax profit is expected to decline to £2.1m this year. That puts the shares on a prospective multiple of 48, falling to 36 in 2019-2020.

# Duke Royalty stream finances growing dividends

*Growth capital provider* *www.dukeroyalty.com*

## Dividend

Duke Royalty is unique to AIM, although there are similar royalty income generating companies in North America. The royalty streams enable Duke to pay dividends.

A maiden dividend of 0.5p a share was paid in the summer of 2017. This was the first quarterly dividend for the financial year to March 2018 and the total payment for the year was 2.1p a share, because the fourth quarter dividend was 0.6p a share.

So far in this financial year, two quarterly dividends of 0.7p a share each have been paid. In total, £2.3m has been paid in 18 months. Dividend growth will come from increasing revenues of existing investees and additional investments.

## Business

Guernsey-registered Duke was known as Praetorian Resources before June 2015. The mining investments were sold, and the new investing policy was the provision of capital to a wide range of businesses in order to generate cash flow to pay an attractive yield.

Duke provides an injection of secured capital for a business over a period that tends to be between 25 and 40 years. This investment generates royalty revenues, which are related to the revenue performance of the business. The borrowing company can buy itself out of the agreement but there are penalties.

The long-term nature of this investment means that Duke has to carefully research the business and be comfortable that it can continue to generate growing revenues over many years. An established track record of more than 10 years and a strong management team is important.

| DUKE ROYALTY LTD (DUKE) | |
|---|---|
| Price (p) | 44.2 |
| Market cap £m | 87.9 |
| Historical yield | 4.8% |
| Prospective yield | 6.3% |

Duke focuses on the hospitality, industrial, healthcare, technology and utility sectors. The deal size tends to be between £5m and £20m.

The first investment was made in April 2017. Temarca BV provides four-star riverboat cruises on the Rhine and Danube. The initial, 25-year investment was €8m (£6.9m) and this was designed to provide an annual income of €1m (£900,000). This is adjusted depending on the growth in annual revenues. The current annualised distribution estimate is £1.01m.

There are four other investments. Conglomerate Lynx borrowed £10m to finance acquisitions, paints supplier Trimite Global Coatings borrowed £9m to finance a shareholder buyout, glass processor BGC used £6.5m for an acquisition and debt refinancing and hospital management services provider InterHealth Canada required £10m for growth.

Three-fifths of invested capital is in UK-based businesses. There are five current investments and annualised income is £5.7m – although three of the investments were made in the past nine months.

In September 2015, Duke raised £200,000 at 60p a share and a total of £35m at 40p a share during 2017. Last summer, £44m was raised at 44p a share. That provides Duke with enough cash to invest in up to nine investee companies.

# Dividend news

**Lok'nStore** has increased its dividend by a further 1p a share, to 11p a share, for the year to July 2018 and it is on course for the same increase this year. The self-storage sites operator can afford to do this even though it is stepping up investment in new sites. Capital investment was £18.1m last year and this pushed net debt up to £32.5m – still well within existing bank facilities of £50m. Another £10m will be invested this year. The shares are trading at a 14% discount to NAV of 480p a share.

Investor jitters about the second-half performance of **Proactis** proved overdone. The spend control software supplier lost two large customers in the first half but this did not prove to be a trend and downgraded forecasts were beaten in the year to July 2018. Underlying pre-tax profit more than doubled from £5.1m to £12m following the merger with Perfect Commerce last year and earnings per share grew by more than a fifth. The dividend was edged up to 1.5p a share. The 2018-19 profit forecast of £13.1m appears conservatively set so it should be achievable.

Disinfection products supplier **Tristel** continues its record of growing its dividend, which was raised by 14% to 4.58p a share for the year to June 2018. Revenues improved from £20.3m to £22.2m, while pre-tax profit increased from £4m to £4.7m. Tristel generated nearly all its growth in international markets. Net cash is £6.7m. FDA approvals in the US have been delayed further, although there could be a small contribution from some disinfectants in the US this year. The full benefit of the investment in US approvals will take longer to show through in the figures. A further rise in the dividend to 5.1p a share is forecast for 2018-19.



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## Expert view: The broker

# Thor Mining's shovel-ready tungsten project

**By Barry Gibb**

Tungsten – symbol 'W' and atomic number 74 – is a unique material, having almost no substitute across its key applications, which include extreme heat and exceptional wear resistance.

Demand for the metal tends to be driven by worldwide economic activity (GDP), with China significantly both its largest consumer and supplier ,accounting, according to US Geological Survey estimates, for 85% of 2013's global production. But in projecting minimal domestic output growth in coming years, research completed by Roskill Information Services concludes that "China is likely to further reduce exports and increase imports of tungsten products to ensure domestic demand is satisfied". Reflecting such concerns, ammonium paratungstate (APT) prices have risen more than 100% over the past two years, while both the US Department of Defense and the European Commission have identified it as a 'critical' raw material due to high economic importance and supply risk.

In order to help overcome a looming Western supply shortfall while also capitalising on strong expected medium-to-long-term pricing trends, explorer and developer Thor Mining, has poised its 100%-owned tungsten/molybdenum projects for near-term development. As well as expanding its tungsten resources, it also has a copper development project and an interest in a lithium exploration company.

Thor's Molyhil Tungsten Project in Australia's Northern Territory has recently completed an updated Definitive Feasibility Study with a view to de-risking and making it 'shovel ready'. Demonstrating a post-tax NPV5 of A$101m (US$73m) and IRR of 59%, it offers a post-tax payback period of less than 18 months based on an average APT price of US$460/mtu which represents excellent risk/return for development financiers. Significantly, with Molyhil set to become one of the lowest-cost producers around the globe, a lowly opex of just US$90/mtu provides insulation to any unexpected near-term price deterioration. Elsewhere, a Scoping Study for Thor's second advanced tungsten project, Pilot Mountain in Nevada, returned a post-tax NPV5 of US$34m and IRR of 26%, representing payback within 24 months assuming an average APT price of US$410/mtu.

Based on such metrics and rapid turnaround, Northland assumes that Thor will successfully contract a development partner(s) in 2019, enabling it to commence production at Molyhil early in 2020 and then at Pilot Mountain in 2023.

**Chart 1: Forecast Global Primary Tungsten Production and Demand**

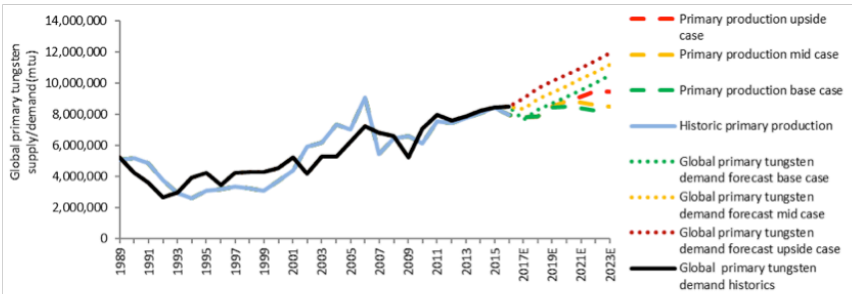



**Table 1: Valuation Summary**

| | |
|---|---|
| NCP valuation of the Molyhil (£m) | 25.3 |
| NCP valuation of the Pilot Mountain | 4.6 |
| NCP valuation of Kapunda (£m) | 2.0 |
| NCP valuation of Hawkstone Mining | 0.1 |
| Cash FY19E (£m) | 0.8 |
| NCP valuation of Thor mining (£m) | 32.8 |
| Current share price (p) | 1.70 |
| Shares in issue FY19E (m) | 790.5 |
| NCP valuation per share (p) | 4.2 |
| Upside/(downside) (%) | 140.6 |

*Source: Northland Capital Partners estimates*

Projections indicate first-year tungsten production of 200,000mtu declining marginally to 185,000mtu in 2021 and then 75,000mtu in 2022, before rising as high as 250,000mtu once Pilot Mountain comes on stream in 2023. Moreover, both operations have significant exploration potential that could extend their operational lives and improve the project economics still further.

Adopting discounted cash flow analysis for both Molyhil and Pilot Mountain, Northland applies aggressive development-stage discounts to each project before factoring in geopolitical risk. It also takes into account the market value of its holding in Hawkstone Mining and a comparable based valuation of Thor's interest in the Kapunda copper project. Adding to this a forecast net cash position based on an estimated number of shares in issue at the end of FY19, Northland rates Thor a Buy, with a valuation of 4.2p per share, an upside of almost 150%.

**Northland Capital Partners acts as corporate broker to Thor Mining plc*

BARRY GIBB is a Research Director at Northland Capital Partners

## expert views

### Expert view: The lawyer

# Force Majeure: not always an easy way out

**By James Fleming**

*James Fleming of Marriott Harrison LLP discusses the impact of two High Court decisions surrounding force majeure clauses and the issue of causation*

Under English law it is difficult for a contracting party to avoid obligations under a contract that it has freely entered into. Two recent High Court decisions have further reinforced this notion, demonstrating how difficult it can be for a party to rely on the doctrine of force majeure to excuse liability for failure to perform a contract.

Two recent High Court decisions have reinforced how difficult it can be to rely on the doctrine of force majeure

## What is force majeure?

Force majeure, from the French for 'superior force', refers to the provisions of a contract that offer an exit route for both parties when an extraordinary event prevents either from fulfilling its obligations. Although the concept originates in French civil law, under English law, force majeure is nothing more than a contractual term and what qualifies as a force majeure event depends on the wording of the agreement.

Generally speaking, a party seeking to rely on the force majeure clause must prove that:

- The event occurred and was outside its control;
- The event caused a failure or delay to the performance of its contractual obligations; and
- It did its best to mitigate the event.

The second issue – causation – was the focal point of two recent High Court decisions.

## Seadrill Ghana

In Seadrill Ghana Operations Ltd v Tullow Ghana Ltd [2018] EWHC 1640 (Seadrill), Tullow Ghana had hired a drilling rig from Seadrill Ghana for the drilling of oil off the Ghanaian coast. Two unrelated events led to Tullow Ghana being unable to perform its obligations under the hire contract: (1) Ghana imposed a drilling moratorium over parts of the oil field (a force majeure event under the contract) and (2) Tullow Ghana had failed to secure permission from the government of Ghana to develop one of the oil fields (not a force majeure event under the contract). Tullow Ghana subsequently attempted to claim force majeure.

Relying on the decision in Interadex v Leisieur [1978] 2 Lloyd's Reports 509, the judge considered that Tullow Ghana was not entitled to force majeure relief since force majeure had not been the "sole cause" of the failure to perform the obligation. The greater impediment to drilling was considered to be the Ghana government's refusal to approve Tullow Ghana's drilling plans.

## Classic Maritime

In Classic Maritime Inc. v Limbungan Makmur SDN BHD & Anor [2018] EWHC 2389 (Classic Maritime), the judge applied a different test to achieve the same result. Classic Maritime, a ship-owner, was engaged in a shipping contract with Limbungan, a charterer, for the shipment of iron-ore pellets from Brazil to Malaysia. Following the Fundao Tailings Dam disaster, Limbungan was unable to perform its shipping obligations and sought to rely on the force majeure clause in the agreement.

Teare J held that Limbungan could not rely on the force majeure clause as it emerged on the facts that it was unlikely to have performed its obligations even if the disaster had not occurred: it had already missed two shipments for unrelated reasons. In other words, "but for" the force majeure event, Limbungan's obligations would have nevertheless remained unfulfilled.

## Comment

The cases demonstrate how difficult it can be for a party to invoke a force majeure clause and seek relief from its obligations under a contract, particularly in complicated, multi-national projects in which there are numerous potential causes (both internal and external) for non-performance. The issue the courts will consider is principally that of causation of the particular force majeure event in relation to the non-performance. Where there are several layers to an arrangement and multiple dependencies, force majeure may be a harder test to satisfy to enable a party not to be bound to its performance obligations.

The issue the courts will consider is principally that of causation

JAMES FLEMING is a trainee solicitor in the Corporate Department of Marriott Harrison LLP.

# AIM award winners in 2018

## The 2018 AIM awards were spread between some of the most successful AIM companies of the past few years.

Business-focused communications services provider **Gamma Communications** won the company of the year award at this year's AIM awards, taking over from mixer drinks supplier **Fevertree Drinks**, which had to be content with the 2018 AIM growth business of the year award.

Gamma floated on AIM just over four years before the AIM awards. The current share price is around five times the placing price of 187p a share.

Andrew Taylor recently took over as chief executive from Bob Falconer. Gamma has 384,000 Cloud PBX users and a major focus is cross-selling services to existing customers. Gamma made a pre-tax profit of £16.7m in 2014 and it is on course for a 2018 pre-tax profit of £32.2m.

In October, Gamma acquired Netherlands-based DX Groep BV, which has a similar profile to the UK business, for up to €27.2m. This deal could help Gamma expand on the Continent.

### Entrepreneur

Brian Conlon won the entrepreneur of the year award. He had a background in capital markets with Morgan Stanley International and Sungard prior to founding **First Derivatives** in 1996. The company was capitalised at more than £1bn before the recent slump in the stockmarket, when the valuation fell to £800m. The software and consultancy business was valued at just over £6m when it joined AIM in 2002.

At that time, First Derivatives had secured a joint consulting and implementation partner agreement with data analytics software developer Kx Systems. The company is in the process of taking 100% control of Kx, which is an important part of the growth plans for the group.

First Derivatives also won the best technology award.

### Newcomer

Best newcomer award winner **Boku** Inc was one of the best-performing new admissions of the past year. Direct carrier billing company Boku joined AIM on 20 November 2017 at 59p a share and even though the share price is nearly one-third lower than its peak it is still more than double the issue price.

Boku processed $1.5bn-worth of transactions in the first half, for the likes of Apple, Spotify and Facebook. New products are being developed, such as services to confirm consumer identity.

Boku made a first-half loss, but it is on course to at least break even this year and steadily grow profit in the following years. The business is already generating cash and net cash of $21.3m is forecast for the end of 2018.

### Global achievement

Automotive testing systems supplier AB Dynamics has grown its capacity by moving into new premises and there is a strong order book. This is a truly international business and a new subsidiary has been set up in Germany. A recent trading statement said that **AB Dynamics** would significantly exceed market expectations for the year to August 2018. An improvement in underlying pre-tax profit from £5.9m to around £8.3m is expected to be announced on 14 November.

**Keywords Studios** won the best use of AIM award. This reflects the video games services consolidator's strong track record of acquisitions since it joined AIM. These have grown the business and generally enhanced earnings.

Healthcare IT firm **EMIS** has had a tough year; it has been required to improve the service levels of part of its business with the NHS. Performance has improved, and the share price has bounced back from its slump at the start of 2018. The handling of these problems and the information provided helped EMIS to win the best investor communication award.

The transaction of the year was patent translation services provider **RWS**'s $320m purchase of Moravia, which provides technology-enabled localisation services. The deal provides an additional leg for the group and helps to broaden the international spread of revenues, which were 85% ahead at £305m in the year to September 2018.

**Burford Capital** is the only company to win the innovative fundraising of the year award since its introduction two years ago. The litigation funding provider raised $180m from an oversubscribed 6.125% US$ bond 2025 issue that was closed early.

**Zoo Digital** was the best-performing share of the year, having risen by more than 1,000% over the year to the end of July 2018. Zoo provides localisation and dubbing services to film and TV programme makers. Demand is increasing with growing appetite for content worldwide. Zoo's cloud-based service makes it easier to provide localised versions of content.

statistics

# Market Performance, Indices and Statistics

## AIM SECTOR INFORMATION

| SECTOR NAME | % OF MARKET CAP | % OF COMPANIES |
|---|---|---|
| Financials | 17.6 | 16.2 |
| Industrials | 16 | 17.2 |
| Consumer services | 16 | 10.8 |
| Technology | 13 | 12.6 |
| Healthcare | 12.5 | 9.6 |
| Consumer goods | 10.8 | 6.1 |
| Oil & gas | 7.6 | 11 |
| Basic materials | 4.9 | 13.6 |
| Telecoms | 1.1 | 0.7 |
| Utilities | 0.4 | 1.2 |

## FTSE INDICES

ONE-YEAR CHANGES

| INDEX | PRICE | % CHANGE |
|---|---|---|
| FTSE AIM All-Share | 975.81 | -6.1 |
| FTSE AIM 50 | 5613.04 | -6.5 |
| FTSE AIM 100 | 5162.16 | -3.4 |
| FTSE Fledgling | 10282.54 | -3.9 |
| FTSE Small Cap | 5439.73 | -6.8 |
| FTSE All-Share | 3904.23 | -5.2 |
| FTSE 100 | 7128.1 | -4.9 |

## COMPANIES BY MARKET CAP

| MARKET CAP | NO. |
|---|---|
| Under £5m | 140 |
| £5m-£10m | 95 |
| £10m-£25m | 185 |
| £25m-£50m | 157 |
| £50m-£100m | 122 |
| £100m-£250m | 130 |
| £250m+ | 108 |

## KEY AIM STATISTICS

| | |
|---|---|
| Total number of AIM | 937 |
| Number of nominated advisers | 31 |
| Number of market makers | 48 |
| Total market cap for all AIM | £115.1bn |
| Total of new money raised | £110.8bn |
| Total raised by new issues | £44.6bn |
| Total raised by secondary issues | £66.2bn |
| Share turnover value (Sep 2018) | £52.3bn |
| Number of bargains (Sep 2018) | 8.4m |
| Shares traded (Sep 2018) | 396.9bn |
| Transfers to the official list | 190 |

## TOP 5 RISERS OVER 30 DAYS

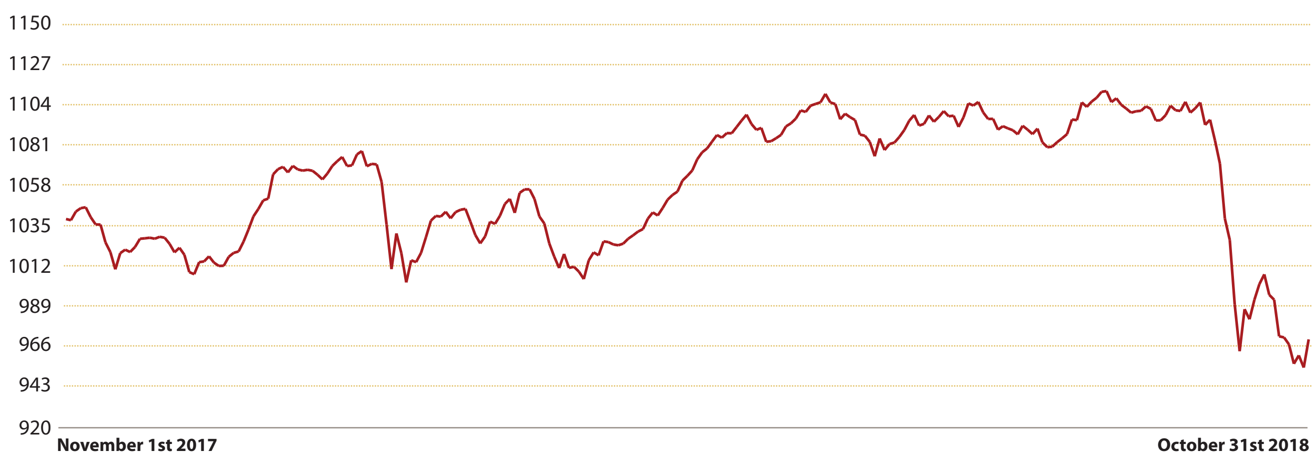
| COMPANY NAME | SECTOR | PRICE (p) | CHANGE (%) |
|---|---|---|---|
| TomCo Energy | Oil and gas | 12.25 | +104 |
| Angus Energy | Oil and gas | 15 | +87.5 |
| Ebiquity | Media | 74 | +64.4 |
| Proton Power Systems | Cleantech | 7.875 | +57.7 |
| Oilex Ltd | Oil and gas | 0.265 | +55.9 |

## TOP 5 FALLERS OVER 30 DAYS

| COMPANY NAME | SECTOR | PRICE (p) | CHANGE (%) |
|---|---|---|---|
| MX Oil | Oil and gas | 0.08 | -75.4 |
| Yu Group | Energy supplier | 212 | -75.1 |
| PhotonStar LED | Electronics | 0.04 | -73.3 |
| Diurnal | Healthcare | 31 | -72.1 |
| Quiz | Retail | 46.7 | -69.9 |

## AIM - 1 YEAR INDEX CHANGE

**Source:** London Stock Exchange




**Data: Hubinvest** Please note - All share prices are the closing prices on the 31st October 2018, and we cannot accept responsibility for their accuracy.



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Based in London, Northland Capital Partners Limited is an independent institutional stockbroker and corporate adviser. Northland enables growth companies to access capital and offers a full nomad service to AIM-quoted small and midcap companies. It has excellent connections with investors, providing them with equity research, advice and trading services. Northland has assembled a team of highly motivated and experienced professionals that aims to deliver unparalleled service to our clients.

Northland has a strong track record in advising and raising funds for growth companies. We always aim to provide innovative ideas and solutions that will enable our clients to fulfil their long-term growth ambitions in a wide range of sectors, including healthcare, TMT, consumer, resources and support services.

As the most successful growth market in the world, AIM is an important platform for helping small companies raise capital. At Northland, we see the AIM Journal as an opportunity for investors to learn more about the many great companies quoted on AIM.

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The team has international capability, with particular expertise in the healthcare and life sciences, technology, leisure and hotels, recruitment, renewables and cleantech, resources, retail and telecoms sectors.

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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