

MARCH 2013

# AIM JOURNAL

THE ONLINE MONTHLY FOR THE ALTERNATIVE INVESTMENT MARKET

## Ocean Thermal Energy heads to AIM

US-based Ocean Thermal Energy Corporation (OTE) is planning to float on AIM later this year. OTE was quoted by Bloomberg as considering an AIM flotation around 18 months ago and it has made progress since then. OTE ([www.otecorporation.com](http://www.otecorporation.com)) supplies onshore and floating ocean thermal energy conversion (OTEC) and sea water district cooling systems – an alternative to standard air conditioning.

OTEC is a process that uses the temperature difference between ocean surface water and cold deep water to generate power and clean water. OTE plans to build, own and operate OTEC-based renewable energy systems.

The business goes back 15 years, although the company's chief science

officer, Dr Stephen Oney, was involved in the development of OTEC technology in Hawaii prior to that. Although its base is Pennsylvania, OTE also has an office in London. OTE is currently building two commercial OTEC plants in the Bahamas.

Last month, OTE signed a memorandum of understanding with geothermal inland power systems developer Kongsberg Devotek for joint development of sustainable clean energy systems. The two company's technologies have aspects in common and Kongsberg Devotek will also bring in other organisations with additional experience of floating platforms, deep sea systems development and other key aspects of getting these systems installed and up and running.

## VCT investments gain popularity

Venture Capital Trusts (VCTs) are attractive investments because they are a legitimate tax-efficient investment and many have an attractive income stream. A survey of VCT investors by VCT fund manager Octopus Investments shows that nearly 80% invested because they wanted to diversify their portfolios and many of them like the feel-good factor of supporting UK smaller companies.

According to Tax Efficient Review ([www.taxefficientreview.com](http://www.taxefficientreview.com)) just short of £110m has been raised by VCTs so far in this tax year. That is well down on the £330m raised last

year but there is one month left and this is the most active part of the year for VCTs. Tax Efficient Review estimates that VCTs are seeking more than £400m in total.

AIM VCTs are seeking to raise £74.3m. This includes £20m being raised by Octopus for Octopus AIM VCT and Octopus Second AIM VCT, while Hargreave Hale is seeking £20m for two of its VCTs, Amati £30m for its two VCTs and Unicorn AIM VCT has recently announced a £4.3m top-up offer. So far, £2.7m of this cash has been successfully raised by the first six of these AIM VCTs.

### In this issue

**02 GENERAL NEWS**  
Wildhorse partner

**03 ADVISERS**  
WH Ireland adds FUM

**04 NEWS**  
Forbidden partners

**06 NEWS**  
Ithaca acquisition

**07 DIVIDENDS**  
Abcam continues growth

**08 EXPERT VIEWS**  
Front line views on AIM

**09 FEATURE**  
High Growth Segment

**11 STATISTICS**  
Market indices and statistics

## general news

### E.ON potential partner for Wildhorse on Hungarian UGC project

Wildhorse Energy has signed a memorandum of understanding with German power generator E.ON, which will evaluate the feasibility of the underground coal gasification (UCG) project Wildhorse is developing in Hungary. The assessment should be completed by the end of the second quarter of 2013 and, if positive, the idea is that E.ON will become a partner in the project. This will enable Wildhorse to prove the technology works to a European audience and provide opportunities for similar projects in other parts of central Europe. The UCG process is used elsewhere but it has not been used in modern-day Europe. It involves directional drilling and the production of syngas that is used to generate electricity. The Mecsek Hills project has 383m tonnes of inferred coal

resources and it will involve a 50MW pilot power plant costing €90m. This should show the commercial viability of the project and future projects could be on a larger scale. Once the initial project is shown to be commercial there should be much more interest from other central European countries with coal assets that could be extracted in the same way. Wildhorse has been applying for coal resources in Poland and the Czech Republic in order to build up a portfolio of assets that will increase in value when the potential is recognised. Wildhorse also has uranium interests in the same area of Hungary, which underpins much of its valuation. There is a resource of 77m lbs of uranium. Wildhorse should have \$5m in the bank at the end of June 2013.

### New start for Wright

Former IS Pharma chief executive Tim Wright has started a new speciality pharma business, which will develop and commercialise licensed and unlicensed medicines in niche and poorly served areas. Southampton-based Solent Pharma Ltd ([www.solentpharma.com](http://www.solentpharma.com)) has already acquired the rights to Idecortex in the UK, Ireland and France from Prospera Pharma Ltd/Prorero Pharma Innovation. Idecortex is registered in Portugal for management of cognitive disorders. Solent managed to secure the rights because the founders have worked with the owner before. Solent is seeking further medicines that it can commercialise in the UK and Europe. Wright's fellow founder director, Geoff McMillan, is a former chief executive of AIM-quoted Biofocus, which was acquired by Galapagos NV in 2005. Last year, Wright stepped down as a non-executive director of Sinclair IS Pharma.

## Dividend payers show significant outperformance on AIM

Broker Allenby Capital says that a portfolio of the top-50-yielding shares on AIM outperformed both AIM as a whole and the FTSE 100 in 2012. According to its publication, Dividends on AIM, the top 50 dividend payers produced a return of 12.2% and it would have been 18.3% if the dividends were reinvested.

This compares with a 2% return for AIM and a 5.8% return for the FTSE 100, where 97 companies pay dividends. Even with dividends reinvested the FTSE 100 return is 10% – much lower than for the AIM dividend portfolio. The underperformance of AIM as a

whole partly reflects the poor performance of mining companies, most of which do not pay dividends – although this is changing. It also reflects that the dividend payers are more solid companies that have the cash flow, balance-sheet strength and long-term prospects to make them comfortable regularly paying dividends.

The top 50 dividend payers each yield more than 4.2%. Of course, a high dividend yield is not necessarily good – it depends on whether these dividends are repeatable over the long term. Lower dividend yielders may have much better dividend growth prospects. The highest

estimated yield of 14.5% is provided by litigation loans provider Juridica Investments. However, electronic displays supplier Densitron Technologies is second, with 10.8%, but there is a danger of a dividend cut.

Allenby estimates that around 250 AIM companies will pay a dividend in 2013. Natural resources companies account for 6% of these companies, while one-third of them are in the industrials sector, which includes support services and engineering. The average market capitalisation of these AIM dividend payers is £86m, against £58m for AIM.

 **advisers**

# WH Ireland snaps up Seymour business

WH Ireland has acquired the private wealth management operations of Seymour Pierce for £25,000. Cantor Fitzgerald has already acquired broking and corporate finance assets from Seymour Pierce, which is in administration under the name Tenebris Realisations.

WH Ireland is buying the client list of the wealth management business and taking on around £270m of funds under management – equivalent to a 15% increase in the total assets under the management of WH Ireland. The London-based business being acquired made a £200,000 profit in the year to September 2012. The transaction should be earnings enhancing for WH Ireland in the current financial year.

The London Stock Exchange has allowed Seymour Pierce to remain

as a nominated adviser for a short period of time even though it is in administration. This is to allow its clients time to move to another nominated adviser. Cantor Fitzgerald was given temporary nominated adviser status on 8 February. This will enable Cantor to make a formal application.

AIM-focused corporate finance and broking firm Zeus Capital has appointed a new chairman and two joint chief executives. Manchester-based Zeus has been building up its London office over the past 18 months.

The new chairman Stuart Lane and joint chief executive Tim Metcalfe are both joining from rival Northland Capital and they will be based in the London office. Metcalfe has a background in corporate finance and

he previously worked at Westhouse.

The other joint chief executive, John Goold, joined Zeus in June 2012. Goold was a founder of Arden Partners ten years ago and he left to become head of equities at Zeus.

In the past year, Zeus has been involved in the flotations of Venn Life Sciences, LZYE Group, New Trend Lifestyle Group and Eden Research, as well as advising Myriad Group AG on its hostile takeover of mobile messaging services provider Synchronica.

Getco Holding's \$1.4bn bid for Knight Capital Group should be completed by the summer. Knight Capital is a major US market maker and it started making markets in AIM shares one year ago. It is unclear whether its new owner will continue to take an interest in AIM.

## ADVISER CHANGES - FEBRUARY 2013

COMPANY	NEW BROKER	OLD BROKER	NEW NOMAD	OLD NOMAD	DATE
<b>Forbidden Technologies</b>	Cenkos	Cenkos	Cenkos	N+1 Brewin	01/02/2013
<b>Sirius Petroleum</b>	Strand Hanson	Strand Hanson	Cairn	Strand Hanson	01/02/2013
<b>African Minerals Ltd</b>	Jefferies Hoare Govett	Deutsche Bank	Jefferies Hoare Govett	Deutsche Bank	04/02/2013
<b>Victoria Oil &amp; Gas</b>	Fox Davies	Fox Davies/Macquarie	Strand Hanson	Strand Hanson	06/02/2013
<b>Global Petroleum Ltd</b>	RFC Ambrian/FirstEnergy	FirstEnergy/Northland	RFC Ambrian	Northland	07/02/2013
<b>Nostra Terra Oil &amp; Gas</b>	XCAP/Alexander David	Alexander David	Shore	Shore	15/02/2013
<b>Sound Oil</b>	Peel Hunt	Westhouse	Smith & Williamson	Smith & Williamson	15/02/2013
<b>Blavod Wines &amp; Spirits</b>	Simple Investments	Simple Investments/ N+1 Singer	SPARK	N+1 Singer	18/02/2013
<b>InterQuest Group</b>	Charles Stanley	finnCap	Charles Stanley	finnCap	18/02/2013
<b>Reach4Entertainment</b>	First Columbus/ Seymour Pierce	XCAP/ Seymour Pierce	Seymour Pierce	Seymour Pierce	18/02/2013
<b>Stellar Diamonds</b>	Charles Stanley/ Daniel Stewart	Northland/ Daniel Stewart	Charles Stanley	Northland	18/02/2013
<b>Alecto Minerals</b>	XCAP/Fox Davies	Fox Davies	Fox Davies	Fox Davies	19/02/2013
<b>DiamondCorp</b>	Panmure Gordon/ SP Angel	SP Angel/ Ocean Equities	Panmure Gordon	SP Angel	20/02/2013
<b>Hambledon Mining</b>	Strand Hanson	SP Angel	Strand Hanson	SP Angel	20/02/2013
<b>Coms</b>	XCAP	XCAP/Northland	Grant Thornton	Northland	21/02/2013
<b>URU Metals Ltd</b>	WH Ireland	SP Angel/ Daniel Stewart	WH Ireland	SP Angel	21/02/2013
<b>Fusion IP</b>	Cenkos	Seymour Pierce	Cenkos	Seymour Pierce	25/02/2013
<b>ILX Group</b>	finnCap	finnCap	SPARK	finnCap	27/02/2013
<b>Beximco Pharmaceuticals</b>	Daniel Stewart	Libertas	Libertas	Libertas	28/02/2013

March 2013 : 3

## company news

# Partnerships will help to drive Forbidden growth

Video editing technology

[www.forbidden.co.uk](http://www.forbidden.co.uk)

Securing additional partners will help video technology developer **Forbidden Technologies** to grow rapidly without any significant capital spending or set-up costs. Forbidden will be able to increase its geographical reach and make greater inroads into markets such as social media.

A deal with systems integrator Atos covering Africa provides a model for expanding the global coverage of the FORscene video editing technology. Up until now all of the FORscene cloud servers have been operated by Forbidden but Atos will install its own server dedicated to FORscene in South Africa. There is a small upfront payment but the real attraction of the deal is a royalty revenue stream from Atos as it signs up customers. This way Forbidden does not have to make any upfront investment. A

## Forbidden is seeking a social media partner

media customer base is envisaged in South Africa. Atos may choose to install FORscene servers in other parts of Africa in order to tap other markets.

There is no reason that this model cannot be used for other parts of the world, such as Asia. This will enable Forbidden to focus its cash resources on further development of its technology.

Forbidden is seeking a partner in the social media sector that can provide a platform to generate revenues from the consumer market. There is already an Android app of the video editing technology but this is only likely to scratch the surface of the potential market. A large mobile

FORBIDDEN TECHNOLOGIES (FBT)		25.5p
12 MONTH CHANGE %	-31.1	MARKET CAP £m 22.2

service provider or consumer social media site will provide access to a much greater customer base.

Revenues are growing strongly but remain relatively modest at £813,000, with a loss of £270,000 reported for 2012. There was £460,000 in the bank at the end of 2012. Last year's cash outflow was £349,000, partly offset by £116,000 raised from share issues. The majority of the outflow was due to capitalised development costs.

The latest contract gain gives Forbidden a much stronger position in the sports sector. Sports media services provider deltatre has acquired a FORscene licence so its clients can produce near-live highlights.

# Netcall seeks to repeat acquisition success

Telecoms services software

[www.netcall.com](http://www.netcall.com)

Telecoms call-back and speech-recognition-technology supplier **Netcall** is reaping the benefits of recent acquisitions and subsequent cost savings. The strong balance sheet means that more acquisitions are likely if the right targets can be found.

In the six months to December 2012, revenues improved 12% to £8.16m. Recurring revenues are nearly two-thirds of the total. Pre-tax profit improved from £920,000 to £1.34m. The figures include three months from content management

NETCALL (NET)		37.75p
12 MONTH CHANGE %	+65	MARKET CAP £m 45.5

software supplier Serengeti. In the longer term, the acquisition will enable Netcall to cross-sell its products to its customer base. All of the products and services have been put on Netcall's customer engagement platform. Netcall has been reducing its dependence on the public sector, although Serengeti is mainly focused on the NHS, local

authorities and housing associations.

Net cash was £8.18m at the end of December 2012, after spending £1.7m on Serengeti during the period. This cash provides Netcall with the ability to finance further acquisitions.

The house broker forecasts a rise in full-year profit from £3.3m to £3.9m – a 2% upgrade on the previous forecast. That puts the shares on 16 times prospective 2012-13 earnings. The tax rate is rising but it remains below the standard level.

## company news

# Lombard doubles potential market size through US FDA approval

Medical devices

[www.lombardmedical.com](http://www.lombardmedical.com)

Medical devices developer **Lombard Medical Technologies** has finally gained US Food and Drug Administration approval for its Aorfix endovascular stent graft for treating abdominal aortic aneurysms, which are a balloon-like enlargement of the aorta that can rupture and cause death. This will trigger the remaining £14.1m due from the staggered fundraising announced in May 2011.

That original fundraising was at 140p a share (0.7p a share adjusted for a subsequent 200-for-one share consolidation), which is well below the current share price following a jump on the back of the FDA approval. The initial tranche of the fundraising raised £12.2m net of expenses. A £3m convertible loan note will be repaid out of the latest cash call.

## The market for endovascular repair of aortic aneurysms is estimated at \$1.2bn

The additional cash will help to finance the launch of the product in the US, which should happen in the second half of 2013. Lombard will use its own direct sales force in the US. Lombard will also need to expand production capacity and extend the range of device sizes.

One of the selling points of the Aorfix device is that it can be used to treat patients with highly angled aortic necks. The market for endovascular repair of aortic

LOMBARD MEDICAL TECHNOLOGIES (LMT) 216p	
12 MONTH CHANGE % +5.4	MARKET CAP £M 43.5

aneurysms is estimated at \$1.2bn, with 50% of that in the US. The US market is forecast to grow at 8% a year.

Current sales are predominantly in the UK, Germany, Italy and Spain. Revenues should more than double in 2013 but Lombard will still be making a hefty loss and it will need all the cash it is raising. Lombard could still end 2013 with net debt. Lombard admits that it will require additional cash in order to make the most of the opportunity in the US. Edison Investment Research estimates a discounted cash flow value of 346p a share for Lombard.

# FFastFill agrees £106m bid from largest shareholder

Derivatives software

[www.ffastfill.com](http://www.ffastfill.com)

Derivatives software services provider **FFastFill** has agreed to a 20p a share bid from its main shareholder ION Group through its subsidiary Pattington. The bid values FFastFill at £106.1m.

ION already owned 25.1% of FFastFill prior to the bid and it acquired AIM-quoted electronic trading systems provider Patsystems last year. The two companies will be run separately but there could be opportunities to cross-sell to their customers. Being part of a larger group may make it easier to finance further add-on acquisitions.

Analysts had forecast a doubled

FFASTFILL (FFA) 19.75p	
12 MONTH CHANGE % +83.7	MARKET CAP £M 97.5

underlying profit of £3.9m in the year to March 2013, which is equivalent to earnings of 0.7p a share. That suggests an acquisition multiple of 29. The growth in the business is coming from the Software-as-a-Service (SaaS) offering to financial institutions, which covers front, middle and back office functions for derivatives trading. Two-thirds of the order book of £22.1m relates to SaaS, which is

helping FFastFill to gain market share. There are still cross-selling opportunities from the acquisitions that the company has made in recent years.

FFastFill is attractive to ION because it has an international presence and customers include BGC, ED&F Man and Tullett Prebon. FFastFill has been quoted on AIM since November 2010 when it was little more than a start-up. The flotation raised £14m at 120p a share but the share price has not been as high as 20p in the past decade so the bid price represents a good offer to shareholders.

March 2013 5

## Lighting - The Third Revolution

Major new publication by Cleantech Investor ■ Essential background on LED and OLED Technology ■ Profiles of over 150 companies in the sector

Infocus

[www.cleantechinvestor.com](http://www.cleantechinvestor.com)

## company news

# Ithaca more than doubles production through Valiant acquisition

Oil and gas

[www.ithacaenergy.com](http://www.ithacaenergy.com)

Canada-based **Ithaca Energy** is acquiring fellow North Sea oil and gas producer Valiant Petroleum in a cash and shares bid valued at £203m, 475p a share, although the exact value will depend on how the Ithaca share price performs. The recommended bid is slightly lower than the core valuation of Valiant by some brokers.

Ithaca is bidding 307p a share in cash and 1.33 of its own shares for each Valiant share. At the Ithaca share price prior to the bid of 126p a share, Valiant is valued at £203m. Ithaca will also take on around \$150m of debt as part of the deal and including this debt the bid values Valiant's 19mmbbls of 2P

## The bid values Valiant at £203m

reserves at just over \$24/barrel. That does not take account of any of the tax benefits that come with Valiant. Management believes those tax benefits could be worth as much as \$13 a barrel.

The combined portfolio of assets is estimated to be 74mm barrels of oil equivalent, valued at \$11.37 a barrel, according to Westhouse Securities. Ithaca's forecast production for 2013 will more than double to 14-16,000 barrels of oil equivalent a day, which could

ITHACA ENERGY (IAE)		128.25p
12 MONTH CHANGE %	-28	MARKET CAP £m 333.4

generate cash of \$400m, rising to more than \$700m in 2015 as production is ramped up to 25,000 barrels a day.

Westhouse even believes that the merger of the two companies could make Ithaca an attractive bid target.

The bid comes at a time when dissident shareholders, JEC Capital Partners, JEC II Associates and Anthon Master Fund, have requisitioned a general meeting to appoint two of their nominees to the Ithaca board. The meeting will be held on 8 April.

# Tertiary moves forward with Nevada project

Fluorspar exploration

[www.tertiaryminerals.com](http://www.tertiaryminerals.com)

Fluorspar explorer **Tertiary Minerals** reported positive estimates for its asset in Nevada but it needs to spend money on producing a JORC resource.

Tertiary has paid Wardell Armstrong International to assess previous exploration data for the MB project in Eureka County, Nevada, and it has estimated a resource of 85-105 million tonnes grading 9-11% fluorspar (CaF<sub>2</sub>) at 8% CaF<sub>2</sub> cut-off. This is based on just part of the mineralised system in the area, although the overall grade is likely to be lower. There are also other potential minerals at the project. There will be drilling in the spring and a JORC resource estimate

TERTIARY MINERALS (TYM)		8.63p
12 MONTH CHANGE %	NIL	MARKET CAP £m 11.5

is expected by the end of 2013.

The EC says fluorspar is one of 14 critical mineral raw materials where shortages are expected. China accounts for more than 50% of world fluorspar production but its exports have been declining as domestic demand increases. This makes the market for fluorspar outside of China increasingly tight and fluorspar prices are five times higher than they were at the turn of the century. Fluorspar is used for steel and aluminium production, refrigeration gases, chemical

crackers and coatings manufacture, ie, Teflon.

Tertiary also has fluorspar interests in Scandinavia. The Storuman project in Sweden was originally identified in the 1960s. A preliminary feasibility study should be completed by the end of the year and a mining lease application will be filed at around that time. An indicated resource for the Lassedalen project in Norway should be firmed up in the third quarter.

Tertiary has cash in the bank and a SEDA facility provided by Darwin Strategic, which could provide up to £10m. Annual overheads are running at £300,000 a year.

6 March 2013

## Lighting - The Third Revolution

Infocus

[www.cleantechinvestor.com](http://www.cleantechinvestor.com)

Major new publication by Cleantech Investor ■ Essential background on LED and OLED Technology ■ Profiles of over 150 companies in the sector

## dividends

# Abcam dividend grows despite US uncertainty

Online antibodies retailer

www.abcam.com

### Dividend

Online antibodies retailer Abcam has been a consistent dividend payer since it joined AIM and it has increased its payout ratio over time. The current policy is to distribute equivalent to 40% of full year post-tax profit. The 2011-12 dividend total was 6.05p a share. The latest interim dividend was increased by 15% to 1.94p a share. A full-year dividend of at least 6.6p a share is forecast. The total dividend for the first year as a quoted company was 2.7p a share, but there was a five-for-one share sub-division in November 2010, so the equivalent total is 0.56p a share. Abcam was launched in 1998 and joined AIM in November 2005 when it raised £10m at the equivalent of 33.4p a share. At that point, Abcam was valued at £57.5m. Abcam is a highly cash generative business and it has been able to pay dividends and finance acquisitions from its own cash pile. Net cash was £24.4m at the end of 2012 – an increase of £6.9m on the figure at the end of June 2012.

### Business

Abcam has managed to grow consistently during its time on AIM by adding additional products to the catalogue and raising prices. The company is also earning additional revenues by providing more data services. Nearly all of the older products are still growing their revenues or they are only declining at a modest rate.

Organic growth has been supplemented by acquisitions. The latest is Epitomics, which was bought a year ago for \$150m, of which 50% was in shares. This purchase took

ABCAM (ABC)	
Price	425.5p
Market cap £m	845
Historical yield	1.4%
Prospective yield	1.6%

Abcam into the new area of rabbit monoclonal antibodies (RabMabs). Most monoclonal antibodies are produced in mice but those produced in rabbits have a stronger reaction between the antigen and the antibody making detection easier. However, RabMabs are more difficult to produce.

Abcam continues to produce impressive financial figures but there is some concern about US spending. The US makes up two-fifths of revenues and the underlying improvement was 6% in the first half, lower than the 12% increase for the group as a whole. US research spending is likely to come under further pressure and US growth could be low or even non-existent in the coming months.

There has been faster growth in Japan where the government is increasing funding and Asia Pacific, including China, grew by 17% at the interim stage. In the half year to December 2012, revenues grew from £44.7m to £57.3m, and underlying pre-tax profit rose from £17.3m to £21.7m.

Abcam is a highly rated company and this reflects the strong performance since flotation. It is always going to get tougher to grow at such a rapid rate when the company is much larger. In the short term, the growth in earnings per share could be more modest, which makes the rating look full.

## Dividend news

**Somero Enterprises Inc** has returned to the dividend list following a swing from loss to profit in 2012 as North American revenues recovered sharply and are almost back to their level in 2006. US-based Somero supplies laser concrete screening equipment that is used to ensure that the concrete floors of buildings are flat. The dividend is 0.8 cents a share and it is 2.5 times covered by 2012 earnings per share. Net debt was reduced from \$4.6m to \$1.9m over the year. Somero has not paid a dividend since the 3 cents a share interim in 2008.

A strong performance from the division supplying CCTV equipment to the oil and marine sectors was the main driving force behind the growth in revenues and profit by **Synectics** last year. In the year to November 2012, the total revenues of Synectics rose from £69.1m to £77m, while underlying operating profit improved from £3.54m to £5.71m with pre-tax profit, excluding restructuring and write-offs, showing a similar improvement from £3.51m to £5.66m. The final dividend has been increased from 4.5p a share to 5p a share, taking the total for the year to 7.5p a share. This is the first time that the final dividend has been increased since 2008.

Stockbroker **Share** raised its dividend from 0.36p a share to 0.43p a share even though its profit fell because of lower commissions revenues. The dividend is still twice covered by underlying earnings. Cash in the bank improved from £11m to £12.2m. The dividend has been increased by 20% a year for the past three years. Share has refocused its business on private client stockbroking by selling its funds administration and Sharemark businesses. Share's private client broker The Share Centre continues to increase its market share. Share believes the Retail Distribution Review will provide opportunities for the business.

March 2013 : 7

## Lighting - The Third Revolution

Major new publication by Cleantech Investor ■ Essential background on LED and OLED Technology ■ Profiles of over 150 companies in the sector

Infocus

www.cleantechinvestor.com

 expert views

 **Expert view: The broker**

## Encouraging interims as Avingtrans focuses on aerospace

By DAVID BUXTON

**R**ecent M&A activity, which occurred just before the end of the half year, has put greater focus on Avingtrans\* aerospace activities and rewarded the company with important long-term agreements (LTAs) with major customers. We see these changes as having huge significance, giving a second-half weighting to profits and a significant full-year impact in 2014. We believe further earnings accretive acquisitions are likely over the next year. The shares remain attractively rated on a P/E of 10 times.

Management has reshaped the group, disposing of its industrial division (comprising its German machine tools and spindles operation, Jena-Tec), and reinvesting part of the proceeds in the acquisition of additional aerospace businesses. The Jena-Tec disposal raised £13.45m last November. A profit on disposal and a five-month trading profit

declared with the promise of an accelerated full-year payout. Net cash of £0.3m, compared with debt of £8.4m last year.

### Acquisitions

The acquisition of Aerotech (costing £1.9m), took place just before the group's half-year end, while the PFW purchase (costing £1.85m) was completed just after the period end. It is expected that second-half group margins will reflect the increased revenue investment being made to scale up aerospace operations, which will suppress divisional margins in the short term.

Post the acquisitions, around 63% of group sales will be derived from Aerospace, an activity that generates superior margins and is less cyclical than the former industrial operations. It also has stronger growth prospects and

which produces diffusion-bonded heat exchangers. There are also encouraging prospects for nuclear reprocessing and waste storage equipment.

### Outlook

The half-year results are encouraging, as they highlight the underlying buoyancy of aerospace sector demand while also reflecting a period largely before the group's recent M&A activity. In 2013 we expect a part-year contribution from these acquisitions, but overall EPS will be lower as disposal proceeds have not yet been fully reinvested. This year we also look for recovery in medical and energy, particularly with the long anticipated ramp-up in production for Siemens new MRI scanner.

We see potential for further earnings accretive acquisitions over the next year, possibly a US-based aerospace operation, which will give scope to increase forecasts.

We believe the group is part way through a transformation, which we thoroughly support, which will focus the group on higher-margin and higher-quality businesses – the result should be rewarded by a positive rerating over time. A full-year impact of these changes is visible in 2014 earnings, which highlights that the group continues to trade at a discount to the sector. There is balance sheet capacity to make additional acquisitions and we believe the shares have further upside. They currently trade on a 2014 P/E of 10 times, which appears good value. Our target price of 130p places the shares on a fair value P/E of 13 times, in the expectation of further acquisitions.

\*finnCap provides research services to Avingtrans



DAVID BUXTON is a research director at finnCap.

### We see potential for further earnings accretive acquisitions

from the Industrial operations totalled £6.3m.

Two new LTAs with Rolls-Royce and Safran Aircelle take the long-term order book to over £125m. This represents an expansion of the scope and volume of annual activity with both customers, demonstrating the importance of the group's wider product platform and improving market share.

Interim results place Avingtrans on track to achieve full-year forecasts. Turnover from continuing operations increased by 19% to £16.9m, with EBITDA up from £1m to £1.1m. Adjusted pre-tax profit at £0.3m was similar to last year, as was adjusted EPS at 1p. Aerospace sales increased by 25%, while the medical & energy division's sales rose by 12%.

An interim dividend of 0.7p was

good forward visibility.

The group is now well on its way to building an important position in aerospace pipe assembly markets, with a dominant position in the UK and EU markets, but is clearly absent a US-based facility, which we believe is an area of ambition.

Medical & energy accounts for the rest of the sales and the division is now trading close to breakeven. The Metalcraft operation saw a significant decline in demand from Cummins, its largest customer in the energy market - management believes there is scope for some improvement towards the year end. Production of the new Siemens MRI product is finally seeing good growth. In addition, production is starting to ramp up from a low base on a new product for Heatric (part of Meggitt)

 feature

# AIM has nothing to fear from High Growth Segment

The London Stock Exchange is trying to attract high-technology and other high-growth businesses to the Main Market but AIM will still be more accessible and attractive to smaller companies.

There is a perception that London is missing out on flotations of growth companies and the London Stock Exchange has decided to try to attract more of these growth companies by launching a new market segment. This could be seen as impinging on AIM's remit but in reality there is little overlap.

The proposed High Growth Segment (HGS) of the Main Market is designed to attract these companies and provide a way of grouping them together so investors can

for technology companies. When techMARK was announced the press release said that "streamlined rules will provide a wider range of young, innovative growth companies with access to the UK equity market" and talked about "increasing the profile and visibility of technology shares".

At the time, there was speculation that techMARK would usurp AIM as a market for small, growing technology companies but AIM continued to prosper.

Although the HGS is a wider-

finance provider Private & Commercial Finance has listed convertibles on the Standard listing but it has kept its shares on AIM. Other companies have moved straight from AIM to a Premium listing.

## Requirements

The HGS will require companies to produce a prospectus approved by the financial regulator. On AIM the prospectus has to be overseen only by the company's nominated adviser, which makes sure that the company complies with regulations.

The HGS companies will have what is known as a Key Adviser, which appears a nod to AIM, but it is purely a sponsor. It will have to make sure that the company complies with the requirements for the HGS and that it is financially sound before it applies to join the segment.

There are three main requirements for joining the HGS:

The first is that the company should be incorporated in the European Economic Area (EEA). This is the EU plus Iceland, Norway and Liechtenstein.

The second is that the minimum free float has to be 10% and it has to be worth a minimum of £30m. The majority of that £30m needs to be raised at the time of the flotation, although it does not matter if they are new shares or existing shares sold by shareholders. This is

## The proposed High Growth Segment is designed to attract growth companies

easily identify the opportunities. The companies that join this segment will have to be based in the UK and continental Europe and they would be expected to transfer to UKLA's Official List after a period of time.

Technically the HGS will not be a listing but it will be a segment of the London Stock Exchange's EU regulated market.

This is not the first time that the London Stock Exchange has come up with a new segment or grouping since AIM was formed in 1995 and none of them have had an appreciable effect on AIM itself.

techMARK was developed by the London Stock Exchange in 1999 to create new finance opportunities

ranging market and it is not seeking to quote companies with a short track record there are some similarities. Both techMARK and HGS are designed to provide a focus for investors who are looking for high-growth companies.

More recently there was the launch of the Standard listing, which led to predictions of a significant migration of the larger companies on AIM to the new listing level. This did not happen. There have been six companies that moved from AIM to a Standard listing, or seven if you include accountant RSM Tenon, which used to be on AIM but moved to a Premium listing prior to the recent switch to a Standard listing. Another AIM company,

## feature

obviously to try to ensure that there are shares available to trade in the market. The idea behind this lower free-float percentage is that some entrepreneurs and initial investors are not keen to offer outside shareholders the required number of shares to comply with the normal Main Market free-float rule of 25%. They want to hold on to a bigger share and not to dilute too soon.

The third main requirement is that the historical compound annual growth rate of revenues has to be at least 20% over a three-year period. This means that the companies have to have a minimum three-year track record like any fully listed company.

### Differentiation

HGS offers a different level of quotation combined with a specific focus on growing companies. However, the new entrants already have to be a significant size before they will be able to join.

## The free float has to be a minimum of £30m

AIM will still have a number of differentiating factors that make it more attractive to some companies than the HGS and companies not eligible for the HGS can still join the junior market.

Non-EEA incorporated companies make up a significant proportion of the companies on AIM. For example, this might be US or Canadian companies or those incorporated offshore in the likes of the British Virgin Islands. They will not be eligible for the HGS so they will continue to choose AIM if they are coming to London.

HGS companies must have a trading business, which means that resources exploration and investment companies will not be eligible. This represents a large chunk of the companies on AIM.

AIM companies, but not HGS

### FORMER AIM COMPANIES WITH STANDARD LISTING

DATE JOINED	COMPANY
28/05/2010	Great Eastern Energy
15/07/2010	Entertainment One
28/10/2010	Medusa Mining
30/06/2011	Park Plaza Hotels
01/07/2011	Ablon Group
13/07/2012	Canaccord Financial

ones, can be eligible for EIS and VCT investment. On top of this the class tests to assess whether a deal requires a circular and shareholder approval are stricter for the HGS than for AIM. In other words, a smaller deal relative to the size of company would require a circular if the company were on HGS. This involves additional costs.

Looking back on the AIM new issues last year, none would appear to have been eligible for the HGS if it had existed at the time. The only ones

that might have been big enough or raised a significant amount of money tend to have been either international companies based outside of Europe or they are companies that may operate in Europe but are incorporated in an offshore jurisdiction. Small technology companies, such as WANdisco, have successfully floated and raised cash.

Even back in 2007, when the new-issue market was in full swing and there were more than 280 new entrants including reversals, there are few companies that joined AIM that would have been potential HGS companies – based on the proposed rules. This is before even assessing whether they would have grown their revenues fast enough to qualify for the HGS.

Adult stem cell storage bank operator Cryo Save could possibly have joined the HGS if it had been

around but it could also have gained a full listing. The Netherlands-incorporated company had a three-year track record and the CAGR of its revenues was greater than 20%. It also raised just over £40m, of which two-thirds was new money, and there was no problem generating institutional support. The total market capitalisation was just over £101m so the free float was around 40%. Therefore Cryo Save had the option of joining the Main Market at that time but decided on AIM. Cryo Save might have considered joining the HGS if it had been available

It is not just about raising money when a company joins a market; it is also about future financings. AIM has a history of secondary fundraisings and there have been some significant recent fundraisings from the likes of Advanced Computer Software and e-therapeutics.

Advanced Computer Software was able to raise £44m of cash to finance acquisitions without revealing exactly what it was going to spend the money on. The placing was equivalent to 13% of the enlarged share capital. The company did not waste much time in revealing the £110m acquisition of Computer Software Holdings, which had previously been run by Advanced Computer Software boss Vin Murria.

Drug discovery company e-therapeutics raised £39m after expenses in order to finance Phase II trials of a potential cancer drug and further research into other drugs. The company has enough cash to get it to 2017.

This shows that the money is out there and being quoted on AIM is not a barrier to raising cash.

The London Stock Exchange has asked for feedback on the HGS proposals and this will be assessed. It will then confirm the final rules for the new market segment and when it will officially be launched.

The HGS is going to come into existence and it appears that it will complement AIM rather than be a rival.

## statistics

# Market Performance, Indices and Statistics

AIM SECTOR INFORMATION		
SECTOR NAME	% OF MARKET CAP	% OF COMPANIES
Oil & gas	23.4	11.8
Financials	19	20.7
Basic materials	13.6	16.6
Industrials	11.1	18.2
Consumer services	9.7	9.4
Technology	8.6	9.6
Consumer goods	6.2	5.3
Health care	5.2	5.7
Telecoms	2	1.2
Utilities	1	1.2

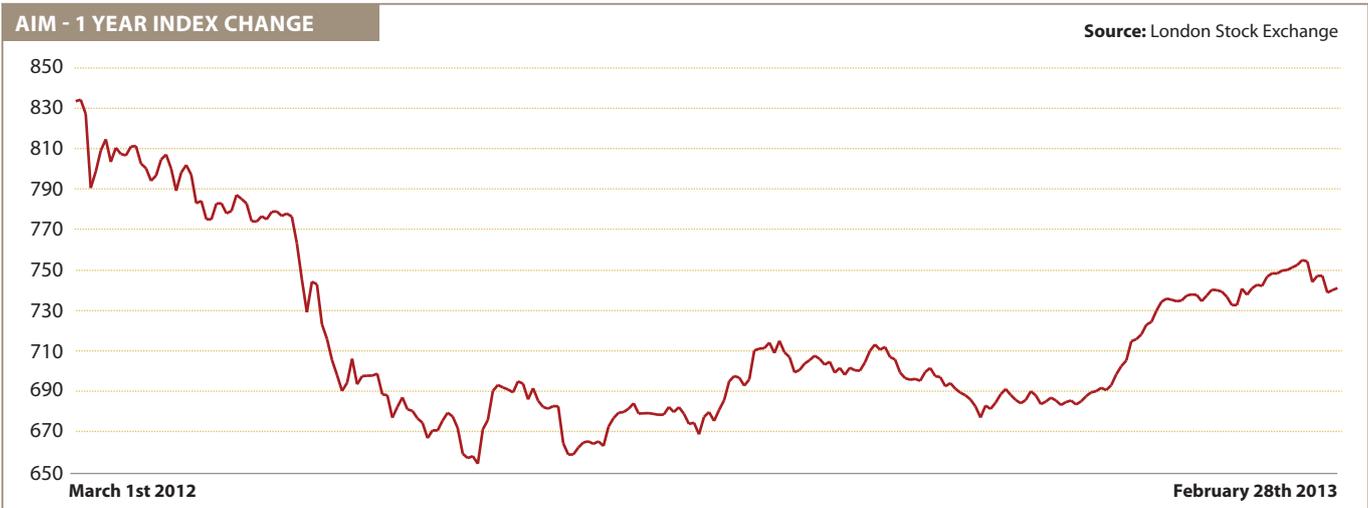
KEY AIM STATISTICS	
Total number of AIM	1,096
Number of nominated advisers	52
Number of market makers	53
Total market cap for all AIM	£64.8bn
Total of new money raised	£80.3bn
Total raised by new issues	£35.6bn
Total raised by secondary issues	£44.7bn
Share turnover value (2013)	£2.5bn
Number of bargains (2013)	0.42m
Shares traded (2013)	18.4bn
Transfers to the official list	162

FTSE INDICES		
INDEX	PRICE	ONE-YEAR CHANGES % CHANGE
FTSE AIM All-Share	741.06	-10.4
FTSE AIM 50	3342.38	+1.5
FTSE AIM 100	3293.94	-14.1
FTSE Fledgling	5229.29	+15.4
FTSE Small Cap	3739.68	+20.4
FTSE All-Share	3349.39	+9.0
FTSE 100	6360.81	+7.3

COMPANIES BY MARKET CAP	
MARKET CAP	NO.
Under £5m	262
£5m-£10m	125
£10m-£25m	223
£25m-£50m	184
£50m-£100m	145
£100m-£250m	105
£250m+	47

TOP 5 RISERS OVER 30 DAYS			
COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
Sunkar Resources	Mining	13.75	+233.3
Evocutis	Health	2.6	+215.2
Pentagon Protection	Security	13.25	+140.9
i-design	Software	59	+138.4
Thalassa Holdings	Oil and gas	131	+133.9

TOP 5 FALLERS OVER 30 DAYS			
COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
Imaginatik	Software	0.08	-70.7
Neos Resources	Cleantech	0.08	-69.1
Noventa Ltd	Mining	1.45	-66.3
Plethora Solutions	Health	1.78	-61.6
Ferrum Crescent	Mining	1.48	-43.8



Data: Hubinvest Please note - All share prices are the closing prices on the 28th February 2013, and we cannot accept responsibility for their accuracy.

 **sponsors**

# finnCap

finnCap is an independent, client-focused institutional broker and corporate adviser, whose chairman is Jon Moulton. The firm is 95% employee owned and it has a dedicated small cap focus.

finnCap's goal is to be the leading adviser and broker in the small cap space. The broker has a full service offering, plus strong aftermarket care and client service. A proactive team approach means that there is support from all departments for all of the firm's corporate clients. This

has helped finnCap to grow rapidly in recent years.

At the end of 2012, finnCap became 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 adviser in the oil and gas sector and number five in the basic materials sector.

finnCap won the Best Research award at the 2012 AIM Awards.

finnCap was shortlisted for AIM Broker of the year, AIM Adviser of the year and Analyst of the year at the 2011 Growth Company Awards. finnCap's corporate broking and sales trading teams have achieved Extel Top 10 rankings for three years running.

In the six months to October 2012, finnCap reported a 14% increase in revenues to £5.7m and operating profit quadrupled to £1.1m. finnCap has a strong track record of raising money for clients and it raised £80m during the period.



Quoted Cleantech

- Monthly newsletter covering cleantech stocks from Cleantech Investor (publisher of Cleantech magazine)

- Expanded in size in October 2009

Register online for a **FREE** trial

[www.quotedcleantech.com](http://www.quotedcleantech.com)

<b>PUBLISHED BY:</b>	Hubinvest Ltd,	<b>Mobile:</b>	07849 669 572
<b>ADDRESS:</b>	1C Beaufort Road, Kingston-upon-Thames, Surrey. KT1 2TH.	<b>EDITOR:</b>	Andrew Hore
<b>TELEPHONE:</b>	020 8549 4253	<b>DATA:</b>	Andrew Hore
		<b>PRODUCTION &amp; DESIGN:</b>	David Piddington

**SPONSORSHIP & ADVERTISING** editor@aimmicro.com  
or telephone 020 8549 4253

Hubinvest Ltd uses due care and diligence in the preparation of the AIM Journal but is not responsible or liable for any mistakes, misprints or typographical errors. Information in the AIM Journal is for general information only and is not intended to be relied upon by individual readers in making or not making investment decisions. Appropriate independent advice should be sought. You acknowledge and agree that you bear responsibility for your own investment research and investment decisions, and that Hubinvest or its employees shall not be held liable by you or any others for any decision made or action taken by you or others based upon reliance on or use of information or materials obtained or accessed through use of the AIM Journal. Journalists and contributors to the AIM Journal, from time to time, may hold shares in the companies they write about. The views expressed by contributors, both professional and amateur, are not necessarily those of the publishers. All rights reserved, reproduction in whole or in part without written permission from the publisher is strictly prohibited.