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THE ONLINE MONTHLY FOR THE ALTERNATIVE INVESTMENT MARKET

AIM JOURNAL

Budget boost for AIM

George Osborne's 2013 Budget includes plans to abolish stamp duty on "growth markets", such as AIM, but changes to the brief of the Pensions Regulator could be even more important to AIM companies with a pension deficit.

The Budget statement says that the Pensions Regulator will be given a new objective "to support scheme funding arrangements that are compatible with sustainable growth for the sponsoring employer and fully consistent with the 2004 funding legislation". This recognises the problems that companies with defined benefit schemes have suffered due to recent economic problems. It comes too late to save Dawson International, which went into administration because the Pensions Regulator rejected its proposals for dealing with its deficit. At the time, Dawson chairman David Bolton said that "it is a bitterly disappointing outcome for all concerned, putting jobs at risk, securing less money to the Pension Protection Fund while increasing the burden to the taxpayer".

The precise wording of the objective will be published later in the spring and the Pensions Regulator will revise its code of practice after that.

AIM and ISDX are called growth markets in the documentation in relation to the abolition of the 0.5% stamp duty on share trading and it is unclear whether other markets, such as GXG, will be included. There will be consultation on the proposals before they come into force next year. This comes at a time when it is increasingly likely that AIM shares will be allowed into ISAs.

Miton launches UK value fund

Investment manager Miton has launched a new UK value fund which will be investing in a range of large and small companies. AIM will be a market where it is likely to discover opportunities to invest the cash raised.

The CF Miton UK Value Opportunities Fund is managed by George Godber and Georgina Hamilton, who were previously involved in Matterley's Undervalued Assets Fund, Miton Group managing director Gervais Williams says that the new fund will start by looking at tangible assets and the true asset value of companies as well as the cash generated by those assets. Many of these companies may currently be unappreciated by the market. "We are interested in companies that sustain real wealth rather than ones that are fashionable", he adds.

The aim of the new fund is to achieve capital growth, while trying to avoid companies which look good value on the surface but on closer analysis are not. There will be a portfolio of around 50 shares across the UK market.

In this issue

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general news

Futura finds new partner for premium condom

Erectile dysfunction treatments developer Futura Medical has signed up Church & Dwight as its new partner for the CSD500 condom safety device. The Trojan condom brand owner has been awarded the licence to sell the CSD500 in the US, where it is the market leader, and key European countries.

There are no financial details but there will be an upfront payment as well as royalties on sales.

There are minimum performance guarantees to ensure that Church & Dwight does make progress with marketing the product. Edison Investment Research expects the product will be on sale in a European market by early next year and Futura could move into profit in 2014.

The CSD500 is a lubricated condom with GTN (glyceryl trinitrate) gel incorporated in the teat, which helps to maintain a firmer erection when wearing the condom. Market research suggests that this product could be sold at a 50% premium to ordinary condoms.

Following the ending of the global licence deal with Reckitt Benckiser's Durex business some steps of the regulatory approval will have to be repeated. Futura is seeking other new partners which are market leaders in other regions.

Futura believes that the PET500 enhanced sexual control product could be in US shops by the end of this year. This will be the beginning of a global roll-out that could generate royalty revenues of £8m to £10m a year for Futura if it gains a 5% market share. Ansell has a global distribution licence for this topical spray which delays ejaculation, which will be available over the counter in stores.

Upcoming events

The **Small Cap Awards** (http://www.smallcapawards.com) are being held on Wednesday 24 April at BAFTA in Piccadilly. The awards cover UK quoted companies valued at less than £50m on 1 January 2012. The 11 categories include company of the year, IPO of the year, mining and resource company of the year and small cap hero, for the person who has best promoted the case for smaller companies.

AIM Investor Focus 2013 is being held at finnCap in London on the morning of 17 April and it will allow investors to gain access to growing AIM companies. The companies presenting are Portmeirion, WYG, RWS, Judges Scientific and Mattioli Woods. Private investors can attend free of charge if they register on http://blackthornfocus.com/events/aif2013.

May Gurney proves attractive target for integrated services rivals

May Gurney Integrated Services has agreed a merger with Costain but rival Kier says that it believes that May Gurney would be a good fit with its own operations and it is considering whether to bid.

Costain and May Gurney have agreed an all-share bid of 0.8275 of a Costain share for every May Gurney share. This would give May Gurney shareholders 47% of the enlarged group which would be called Costain May Gurney. At a Costain share price of 303p, each May Gurney share is valued at just under 251p. May Gurney shareholders will also receive a second interim dividend of 5.6p a share if the deal goes ahead.

The group would have combined annual revenues of £1.6bn with a focus on transport, energy and local authority markets. Annual cost savings of £10m are expected to be achieved by 2015 and the deal should be earnings enhancing in 2014. The combined order book is worth £3.9bn.

Kier says that it has previously attempted to hold merger discussions with May Gurney, which would expand Kier's position in the regulated sector. Other integrated support services firms, such as

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advisers

VSA shareholders fight AIM cancellation plan

Small shareholders are fighting the plans of broker VSA Capital to leave AIM. One of the shareholders, Nick Brown, has set up a website called www.keepvsalisted.co.uk in order to build up support against the proposal.

The website quotes VSA's own statements about trading. Although they are not totally positive, it uses these words to argue against VSA leaving the market. However, VSA continues to lose money even though costs are being reduced. The AIM cancellation would further reduce costs. One shareholder highlights Andrew Monk's salary of £193,000 in the year to March 2012, which excludes pension contributions of £50,000.

VSA believes that it would be easier to raise money as an unquoted business.

So far, shareholders owning 8.89% of VSA say that they will vote against the resolution to cancel the AIM quotation. Shareholders owning 38.6% of VSA had already stated that they will vote for the cancellation at the general meeting on 17 April. Forms of proxy have to be lodged by 15 April. VSA requires 75% of the shares voted to go ahead with the proposal. There are plans for a trading facility for the shares and this would be administered by Capita.

VSA is the latest AIM broker to try to shed its AIM quotation. This follows the decision by Westhouse to leave AIM earlier this year. VSA has been trying to become a nominated adviser but weak trading conditions mean that it has not been involved in enough AIM transactions to gain the status as yet.

Unsurprisingly, the share price more than halved from 4p to 1.88p on the day that the proposed cancellation was announced, which valued VSA at £940,000. Since then it has fallen as low as 1p, although it did recover to 1.25p. The share price had slipped back from a high of 5.88p a share 12 months ago. This shows that although the share price has fallen over the year the main decline was due to the announcement of VSA's intention to leave AIM.

ADVISER CHANGES - MARCH 2013

COMPANY	NEW BROKER	OLD BROKER	NEW NOMAD	OLD NOMAD	DATE
Bellzone Mining	Investec/ Canaccord Genuity	Canaccord Genuity/ Renaissance Capital	Canaccord Genuity	Canaccord Genuity	01/03/2013
Global Energy Development	Northland	Westhouse	Northland	Northland	01/03/2013
Ceres Power Holdings	N+1 Singer	Investec	N+1 Singer	Investec	04/03/2013
Omega Diagnostics	finnCap	Seymour Pierce	finnCap	Seymour Pierce	04/03/2013
Access Intelligence	Sanlam Securities	Northland	Sanlam Securities	Northland	06/03/2013
Qannas Investments Ltd	finnCap	Daniel Stewart	finnCap	Deloitte	06/03/2013
Eredene Capital	Numis	Numis/Arden	Numis	Numis	08/03/2013
Adams	Peterhouse	Canaccord Genuity	Libertas	Canaccord Genuity	11/03/2013
Portmeirion Group	Panmure Gordon	Seymour Pierce	Panmure Gordon	Seymour Pierce	12/03/2013
Mediterranean Oil & Gas	RBC/Liberum	Liberum	Liberum	Liberum	13/03/2013
Oracle Coalfields	Novus	Novus/Seymour Pierce	Grant Thornton	Seymour Pierce	15/03/2013
Surgical Innovations	Panmure Gordon	Seymour Pierce	Panmure Gordon	Seymour Pierce	18/03/2013
Camper & Nicholsons Marina Investments	finnCap	Canaccord Genuity	finnCap	Canaccord Genuity	20/03/2013
Lifeline Scientific Inc	Panmure Gordon	Seymour Pierce	Panmure Gordon	Seymour Pierce	20/03/2013
Ariana Resources	Loeb Aron/Beaufort	SP Angel	Beaumont Cornish	Beaumont Cornish	25/03/2013
Security Research Group	WH Ireland	Northland	WH Ireland	Northland	25/03/2013
Enables IT	Sanlam Securities	Peterhouse	Sanlam Securities	Sanlam Securities	26/03/2013
Juridica Investments Ltd	Investec/Cenkos	Cenkos/Peel Hunt	Cenkos	Cenkos	26/03/2013
Amphion Innovations	Panmure Gordon	Seymour Pierce	Panmure Gordon	Seymour Pierce	28/03/2013
Bullabulling Gold	Westhouse	Canaccord Genuity	Westhouse	Westhouse	28/03/2013
Cupid	Peel Hunt	Peel Hunt/Numis	Peel Hunt	Peel Hunt	28/03/2013
Nanoco Group	Liberum/ Canaccord Genuity	Canaccord Genuity/ Bank of America Merrill Lynch	Canaccord Genuity	Canaccord Genuity	28/03/2013

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company news

Fairpoint claims higher cash generation from operations

Debt management services *www.fairpoint.co.uk*

Higher revenues from claims management and an improved contribution from the IVA business thanks to a reduction in costs helped debt services provider **Fairpoint** to produce a much higher profit in 2012.

Revenues improved from £25.9m to £29.9m with claims management, which is involved in claiming PPI compensation for IVA clients, generating most of the improvement. Underlying pre-tax profit jumped from £4m to £7.6m. That profit does not include the £1.3m amortisation charge and £4.3m of income related to a VAT refund, net of £200,000 reorganisation costs.

Fairpoint is highly cash generative. A £2.7m VAT rebate boosted the cash generated and helped Fairpoint to swing from net debt of £6m to net cash of £1.8m. A further VAT refund of £1.2m has already been received and £300,000 more is due. A £13m asset-based credit facility lasts until April 2016. This cash generation has enabled Fairpoint to increase its dividend from 4.5p a share to 5.5p a share. This is covered 2.4 times by adjusted earnings and provides a yield of 4.8%.

Further add-on acquisitions are planned

Further add-on acquisitions of IVA and debt management books are planned. Management says that there tends to be only one other bidder for these assets. A new debt management protocol is likely to increase costs for small operators and encourage them to sell out. As well as being a consolidator in the debt management area, Fairpoint plans to expand the claims management business and use the skills to provide other legal and professional services. Mortgage mis-selling, packaged bank accounts and interest rate swaps for small businesses are potential claims areas.

Profit growth is likely to be more modest this year. A 2013 profit of £8.1m would put the shares on around eight times prospective earnings.

FAIRPOINT(FRP)			114.75p
12 MONTH CHANGE %	+ 88.1	MARKET CAP £M	50

Continental agrees Saudi Arabian bid

Farming in eastern Europe *www.continentalfarmersgroup.com*

Continental Farmers is being acquired by a Saudi Arabian backed business less than two years after the eastern Europe-focused farming business joined AIM. The acquirer, United Farms Holding Company, is keen to secure food supplies for Saudi Arabia.

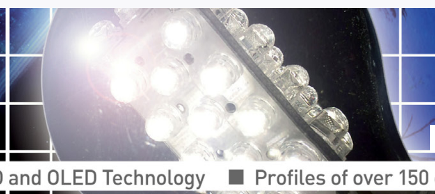
There is a cash bid of 36p a share but the main bid is 35p a share in cash and 2p a share in deferred consideration, which values Continental at £61.5m. The deferred consideration is payable if up to 7,000 hectares of unregistered leasehold land in Ukraine is registered between 1 May 2013 and the end of October 2014. There are 9,900 hectares of unregistered land in the Ukraine. The deferred consideration will be paid at the end of a quarter if at least 1,750 hectares of land has been registered and the total payable will equate to the percentage of the 7,000 hectares registered in the 18-month period.

CONTINENTAL FARMERS (CFGP)			35.5p
12 MONTH CHANGE %	+ 44.9	MARKET CAP £M	58

Continental produces sugar beet, potatoes, wheat and maize in western Ukraine and northern Poland and it joined AIM in June 2011. The placing price was 23.14p a share.

AIM-quoted agricultural firm Origin Enterprises owns 24.25% of Continental. In Origin's accounts for the year to the end of July 2012, the Continental stake had a carrying value of €16.8m, even though the market value at the balance sheet date was €10.3m. The cash bid values the stake at around £14.5m, which is equivalent to €17m, so Origin is effectively getting book value for its investment or potentially slightly more if it accepts the deferred consideration offer which is likely.

Lighting - The Third Revolution



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company news

Engineering acquisitions back up technology development by Corac

Engineering *www.corac.co.uk*

Acquiring Atmosphere Control International (ACI) and Hunt Graham a year ago has provided **Corac** with a stronger base and a source of cash flow to help finance the development of the company's compressor-based technology.

Both ACI and Hunt Graham made operating profits in 2012 and contributed nearly all of the £15.3m generated in revenues but Corac's overall loss still increased from £5.67m to £6.09m.

ACI, which supplies air purification systems for submarines, generated revenues from Spanish, French and UK defence customers. A non-European order has also been won. ACI has an order book worth £9.5m, with £5.1m due for delivery in 2013, which is 47% of 2012 revenues. There are opportunities for recurring maintenance revenues and extensions to existing programmes.

Corac is still cash hungry

Heat exchange equipment manufacturer Hunt Graham has a 12-month order book of £3.4m and there are substantial opportunities for additional contracts.

The original Corac operations are still highly cash hungry with little in the way of revenues but prospects that could start generating revenues in the next couple of years. There is a 12-month order book worth £1.1m, which relates to funded development. There are three ongoing oil and exploration programmes and another for waste energy reclamation.

CORAC (CRA)			12.38p
12 MONTH CHANGE %	+ 30.3	MARKET CAP £M	38.1

There was £6.65m in the bank at the end of 2012. The operating cash outflow was £4.07m in 2012 but this year there will be 12-month contributions from the acquisitions. Cenkos expects cash of £2.6m at the end of 2013.

Management admits the group is likely to continue to lose money in 2013 and 2014. Cenkos forecasts a £3.9m loss in 2013. The oil and gas sector still provides significant potential custom for Corac's downhole gas compression technology which enables more to be extracted from wells. However, investors will need to continue to be patient.

Fusion IP builds cash pile for new opportunities

University IP commercialisation *www.fusionip.co.uk*

University IP commercialisation company **Fusion IP** is raising £20m to finance further investments and the firm has signed up two additional universities. Fusion IP plans to secure agreements with further universities and the cash pile will give it plenty of funds to invest in new businesses as well as follow up investments in established companies.

The latest fundraising share price of 55p is almost double the price of a placing 18 months ago, although it was also a 28% discount to the market price at the time. A placing at 28p a share raised £5m in November 2011. In November 2009, £3.2m was raised at 27p a share and this is when IP Group took a stake.

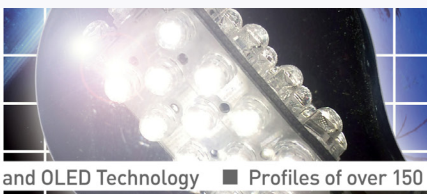
FUSION IP (FIP)			67.5p
12 MONTH CHANGE %	- 3.6	MARKET CAP £M	73.9

Fusion IP made its first major exit last year when it sold drug modelling platform developer Simcyp, which was already profitable. Fusion IP received $6.4m for its 20% stake, which the company states is a 200-fold return on its original investment.

The University of Nottingham and Swansea University are the latest universities to sign memoranda of understanding with Fusion IP, which already has agreements with the University of Sheffield and Cardiff University. Nottingham is strong in aerospace, advanced manufacturing, energy and biomedical imaging.

Fusion IP has already earmarked £1.7m of the new cash for Diurnal if its Chronocort product, a modified release version of hydrocortisone, is not licensed after phase II trials and it has to finance phase III trials.

Lighting - The Third Revolution



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company news

Dow deal provides Nanoco with route to increased quantum dot capacity

Cadmium-free quantum dots *www.nanocotechnologies.com*

Cadmium-free quantum dots developer **Nanoco**'s deal with Dow Chemical for the production of quantum dots for TVs and other displays means that it will not have to spend any of its own cash to build a new facility. It will also supply significant capacity that could help move Nanoco into profit.

This is a 15-year deal based on what Nanoco describes as a "high royalty". The royalty starts high and then moves down and Nanoco will be paid quarterly. The investment in a 2,400kg facility will be jointly funded but Nanoco's \$16.5m contribution will come from customer pre-payments and royalty reductions in the early years. This means that commercial production will start much quicker than if Nanoco had to find the investment itself. Dow already has

Commercial production will start much quicker following the Dow deal

relationships with many of the key TV and displays customers although it will take more than a year to start production.

A 60-inch TV with quantum dots costs \$150 more to produce but this should come down over time.

In the six months to January 2013, revenues nearly doubled to £2.54m and the loss was reduced. Net cash fell from £15.2m to £12.3m in the six months to January 2012. The cash outflow is a better measure than the reported loss. This cash should last a couple of years at least because capex

NANOCO (NANO)			156.25p
12 MONTH CHANGE %	+ 156.1	MARKET CAP £M	326.5

should not be significant until the additional sectors get nearer to the commercial stage.

TVs are likely to be the initial market but there are others. Nanoco has signed an additional agreement with Tokyo Electron for the next phase of development of its technology for solar film.

Canaccord Genuity forecasts 2012-13 revenues of £4m and 2013-14 revenues of £4.8m. It is 2014-15 when the revenues get going. If they hit £20m then pre-tax profit could be near to £10m. That still puts the shares on 33 times 2014-15 earnings but there is an enormous market to go for so revenues could be much higher in future years.

Biofutures transformed into Graphene NanoChem

Nanomaterials *www.graphenenanochem.com*

Biofuels supplier **Biofutures International** has been transformed through the share-based purchase of Malaysia-based nanomaterials business Platinum NanoChem. The renamed Graphene NanoChem develops and supplies Graphene-enhanced speciality chemicals and advanced materials.

Graphene nanomaterial properties include enhanced electrical and thermal conductivity, as well as exceptional mechanical load bearing capacity and performance. This enables products to be developed for oilfield chemicals, fuels, composites energy generation and storage,

GRAPHENE NANOCHEM (GRPH)			133.13p
12 MONTH CHANGE %	+ 87	MARKET CAP £M	155.1

medical devices and electronics. Revenues currently come from a speciality chemicals business but grapheme-enhanced products will be launched this summer, including drilling fluids for Scomi Group. The focus is markets where there is significant bulk demand for the graphene products.

The transaction also involved a 20-for-one share consolidation. A placing raised £30m, after £2.5m of costs, at 140p per consolidated share.

The original shareholders in Biofutures account for 7.1% of the enlarged share capital.

Graphene NanoChem needs the cash to increase capacity at its chemicals and nanomaterials plants and fund commercialisation of new products. That will cost around £16m, with the rest going on the development of further products and joint ventures as well as for working capital. There are plans to adapt Biofutures' Zurex refinery to produce nanomaterials. The focus will be oilfield chemicals and engineering plastics and other uses will be licensed to companies involved in those sectors.

Cello dividend rise indicates health of group

Market research *www.cellogroup.com*

Dividend

Market research and services firm **Cello** has consistently paid dividends since 2006 while still growing by acquisition and organically. The total dividend for 2006 was 1p a share. The dividend has been increased every year since then, with the lowest annual increases being 4% and the highest 20%. The 2012 dividend has been increased by 16% to 2p a share. That dividend is covered more than three times by 2012 earnings. The dividend could grow to 2.2p a share for 2013 which is in line with earnings growth expectations.

Net debt was £8.7m at the end of 2012. Cello still has a £30m facility which could be used for acquisitions but the plan is to focus on growing organically through recruitment of experienced staff and starting new operations because it is more cost-effective. N+1 Singer believes that Cello could be in a cash-positive position by the end of 2014.

Business

Cello originally floated in November 2004, when it raised £15m at 100p a share. Cello started out as a general marketing services business but in recent years it has evolved into a health-focused marketing services business with a smaller consumer marketing division. The health division is international, with offices in London and the US. Nine out of the top ten global pharma companies are clients. Services include market research, medical marketing, analytics and strategic consulting.

Cello reported a flat profit in 2012 but it has invested in the future and this has held back short-term profit. Gross profit was 5% higher at £65.1m, with underlying profit flat at £7m. However, this is partly due to investment in new operations and a poor first half for Cello Consumer, which did much better in the second half.

CELLO (CLL)	
Price	50.5p
Market cap £m	41.6
Historical yield	4%
Prospective yield	4.4%

Cello Health made more than two-thirds of profit and its margin was 20.8% even though six new businesses were started during the year. These probably reduced the operating profit of the division by around £1m. Cello made a small acquisition at the beginning of the year which expands its presence in the consumer health sector.

Cello Consumer makes one-third of operating profit and its margins are much lower than the healthcare side. They will always be lower but there are opportunities to improve them. The operations have been consolidated into four main brands and staff numbers reduced. This is predominantly a UK business and there are plans to expand internationally.

Since the results, Ennismore has bought more than 1m shares, taking its stake to 8.08% and Hargreave Hale has taken its stake above 5%. Finance director Mark Bentley acquired 21,276 shares at 47p each.

House broker N+1 Singer forecasts a 2013 profit of £7.7m and a reduction in net debt to £4m. The shares are trading on less than eight times prospective 2013 earnings.

Dividend news

Churchill China has increased its final dividend, having paid unchanged dividends for the previous four years. The total 2012 dividend is 14.2p a share, up from 14p a share. There is plenty of cash in the bank even though Churchill continues to invest in its production facilities. Net cash held steady at £7m at the end of 2012 even though £1.53m was paid out in dividends last year. Overall revenues fell from £42.3m to £41.4m in 2012. Pre-tax profit improved from £2.69m to £3.09m, although this was flattered by a £203,000 notional contribution from interest on the pension scheme. The core hospitality division made a lower contribution but shedding low-margin retail business helped that division to improve.

Waste management services provider **Augean** announced a larger than expected maiden dividend with its 2012 results. The 0.25p a share dividend will be paid to shareholders on the register on 14 June. The dividend was seven times covered by 2012 earnings. All of the divisions improved their revenues but there is plenty of spare capacity at the waste-processing sites. House broker N+1 Singer forecasts an improvement in revenues from £42.4m in 2012 to £48.4m in 2013 and a rise in profit from £2.6m to £4.2m.

Wealth management firm **Brooks Macdonald** continues to prosper even though financial market conditions were tough. In the six months to December 2012, underlying profit moved ahead from £4.08m to £5.31m. This excludes the £1.05m costs of acquiring the Channel Islands–based Spearpoint, which gives Brooks an offshore base. Total discretionary funds under management increased from £3.21bn to £4.62bn. Organic growth was 12%. The interim dividend was increased from 6p a share to 6.5p a share.

expert views

Expert view: The broker

Inland Homes building into 2014

By DUNCAN HALL

A more positive tone towards the South Eastern house building market leaves Inland* well positioned to self-build or dispose of land as opportunities arise while major house-builders orientate their land purchasing decisions towards the London region.

A very strong first half was buoyed up by land sales but the second half will be less dramatic without significant land transactions. We lift our revenue estimates by £5m to £24m, mainly to reflect expected housing sales.

For 2014, sales of c70 units (2013: c40) would generate c£15m revenue but leave profit still dependent on land transactions, which given sites the size of the Ashford, Drayton, Farnborough and Poole sites seems more than likely. A strong balance sheet leaves the group well positioned to fund its residential development programme and pursue land acquisition targets.

A strong balance sheet leaves the group well positioned

Building

Inland is in a period of transition while the land portfolio is reshaped and the house-building division established. The group has 146 homes under construction which will drive revenue during 2013 and 2014. Large land transactions will always skew the financial outcome year by year, but a more confident tone for housing is allowing the group the opportunity to self-build.

Completions in this financial year will be modest but will grow thereafter as the group embarks on larger self-build projects at Poole and higher-value sites such as St Johns Hospital in Chelmsford.

Taking 70 completions for 2014 would suggest a revenue target of £15.4m in the first instance and depends on the phasing of construction work, but assuming a 22% gross profit margin, results in a profit contribution in the region of £3.4m, before considering any benefit to earnings and NAV from land transactions.

Interims

A punchy first half saw PBT at £3.1m (£1.1m) and EPS of 1.3p (0.43p). Revenue increased sharply to £19.3m (£3.7m), reflecting £15.3m of land sales. Other income of £4m comprised £3.1m from 15 house sales (£208k average) with rent and development fees representing the remainder.

Year-end debt was £6.4m (excluding deferred consideration), converted to cash of £0.65m by December, with £5.9m outstanding deferred consideration (mainly for St John's South). Inland subsequently sold its stake in Howarth Homes for £1.33m, against a book value of £1m. During the period the group raised £8.1m net via a Zero Dividend Preference. The imputed 7.3% yield will see the group redeeming the ZDP in 2017 for £14.6m.

Land

Immediate land payments in prospect are £5.2m for St Johns South – due imminently – together with stage payment negotiations for DGV, although these sums are contained within the JV. The group is also in negotiation on four land transactions, in conjunction with site development proposals for Ashford, Poole and possibly St John's South.

Funding obligations will grow for the group's development portfolio but at present house-construction finance is proving easier to secure than finance for land purchases. The group tends to develop in c30 unit phases (ie, £4-5m).

The sale of 355 plots in the period for £15.3m equates to £43,200 per plot on disposal against £208,000 per house sale. The land bank comprises 647 wholly owned plots, 768 plots where ownership or planning terms have to be confirmed and 516 plots remaining at Drayton Garden Village, totalling 1,931 plots. The book value of inventory is £36m and investment property is £8.8m, making roughly £31,000/plot, excluding DGV, and group book value of £51.7m represents 28.2p per share. Thus an indicated upside of 22% implies a conservative value of 34p per share excluding any value from DGV (estimated at 5p). At £2.3m, annual administration costs equate to 1.1p/share, so at 24p the shares are inexpensive. On a case-by-case basis, we believe the upside potential will prove more pronounced.

Realistically the group requires c50 unit sales pa at 20% margins to cover administration costs. Looking into 2014 this provides the base case scenario as Inland repositions its land bank to sites with premium development potential. Group NAV is driven by recycling disposal proceeds into new development sites, hence as a minimum, NAV of 28p underpins the share price, with DGV potentially adding in excess of 5p net and the group also demonstrating commitment to an increased dividend payment.

**Inland is a corporate client of finnCap*

DUNCAN HALL is a research director at finnCap.

feature

Gold price strength expected to continue and pay dividends

A Thomson Reuters survey of the gold market suggests that the gold price will rise later this year. AIM includes gold companies that generate cash and are paying dividends out of cash flow even before any boost from a further appreciation in the gold price.

There was a time when AIM gold companies were all small, cash-hungry businesses but there are currently some that even pay dividends.

Gold is perceived by many as a safe haven and as such it has proved a popular investment in a time of financial crisis, with the price rising sharply in recent years and regularly moving to new highs. The gold price has been rising for more than a decade so the global financial problems are not the only reason for the enormous jump in the price.

Gold production started to fall from 2001 onwards because of a lack of investment in previous years – partly due to the low gold price – and declines in ore grades. There has been some improvement in supply more recently but it is still lower than a few years ago.

Higher prices have meant that older mines and discoveries have become economic again. The most productive areas are generally mined early on so older mines get to the point where only lower grades of ore are being mined and that pushes up costs.

Survey

The 47th annual Thomson Reuters GFMS gold survey has recently been published and this suggests that the gold price should continue to rise. The gold price averaged $1,632/ounce in the first quarter of 2013 and the survey forecasts a price range of $1,530-$1,850/ounce for 2013, with a full-year average price of $1,730/ounce. As the current gold price is $1,548/ounce this suggests a significant rise in the price in the rest of the year. The 2012 average of $1,669/ounce was an all time record.

Gold supply fell by 0.9% to 4,477 tonnes in 2012, with that decline due to a decline in volumes of the scrapping of gold, where volumes fell 3.2% to 1,616 tonnes. Mine Production edged up from 2,838 tonnes to 2,861 tonnes. Mine production has been increasing for the past three years and scrap gold volumes have been going in the opposite direction.

However, the pace of growth in mine production has slowed. China and Russia are behind the recent growth in production with the likes of Indonesia and South Africa producing fewer ounces. The Thomson Reuters GFM survey estimates that gold production could hit 2,900 tonnes as South African production recovers after recent labour disputes. Scrap output is also likely to rise.

Demand

There are three main sources of demand for gold: jewellery manufacturing, investment and industrial. Jewellery still accounts for the largest slab of demand, with investment the next biggest and industrial some way behind.

Jewellery demand has been falling for the past two years and industrial demand also declined last year as the electronics and dental sectors find substitutes for gold. Further declines in jewellery demand are expected.

This means that net investment demand, which is expected to rise, could overtake jewellery demand in 2013. If investment demand reaches the expected level of 1,900 tonnes this year then it would be the highest level for a decade. Investment demand could easily slip and this would hold back the gold price.

> The Thomson Reuters GFMS survey forecasts a full-year average gold price of $1,730/ounce

Some of the larger gold companies have left AIM in the past couple of years, with Avocet Mining moving back to the Main Market and European Goldfields merging with a Canadian rival. Even so, there are still plenty of gold companies on AIM.

These gold companies have diverse geographical interests and the projects are spread all around the world. They can range from relatively early-stage projects, through those constructing a mine and on to gold producers.

Some countries already have a mining infrastructure. When a

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feature

country, or an area of the country, does not have a history of mining it can cost more to set up the required infrastructure such as roads. That will significantly increase the cost of setting up a mine and the underlying cost of producing the gold.

Dividends

There are AIM gold miners that pay dividends but these tend to be dependent on the level of cash flow. This means that the dividends are not necessarily going to be consistent.

Pan African Resources paid a dividend of 0.5p a share in 2011 but dividend payments have stopped for the time being because the company has just acquired 100% of the Evander gold mine located in Mpumalanga, South Africa for R1.5bn (£114m) in cash. This deal was financed by a combination of debt and shares. House broker finnCap does not expect another dividend until the 2014 financial year. Evander is highly cash generative so the balance sheet will be much stronger by then. A 2014 dividend of 0.5p a share is forecast.

Gold recovery services and miner Goldplat paid a maiden dividend of 0.6p a share, costing £1m, for the year to June 2012. However, it appears to have changed its strategy and it is talking about buying back shares instead of a dividend.

There are AIM gold miners paying consistent dividends as well as companies that are planning to become consistent dividend payers.

Highland Gold

Highland Gold Mining pays dividends which are dependent on cash flow. The first was an interim of 5p a share in October 2011, which was broken down as a 2.5p a share ordinary dividend and a 2.5p a share special dividend. That dividend cost $25.7m. The following October a 4.8p a share special dividend was paid at a cost of £15.5m. There was still net cash of $52.6m at the end of 2012. Broker Westhouse is forecasting a total dividend of 7p a share for 2012 and expects that to be maintained for 2013 but to fall to 5p a share in 2014. At 85.75p a share, the prospective 2012 dividend yield is 8.2%.

Highland has interests in Russia and central Asia including three producing gold mines. These mines are in the far east of Russia. The main mine is Mnogvershinnoye in the Khabarovsk region, while the Belaya Gora mine is in the same region and the Novoshirokinskoye mine is in the Chita region. Mnogvershinnoye is producing 145,000-155,000 ounces of gold a year. Novoshirokinskoye started shipping concentrate at the beginning of 2010 and Belaya Gora started production at the end of 2010. Total 2012 production was 216,900 ounces of gold.

There are AIM gold miners that pay dividends

The dividend payments have not stopped Highland making acquisitions. At the beginning of April, Highland announced that it is acquiring the Kekura mine for $223m. Kekura is in the Chukotka region and it is 250km east of the Klen gold project that Highland is developing. Kekura has a JORC compliant resource of 2.89m ounces at an average ore grade of 8.69 g/t. It could add 180,000-220,000 ounces of gold a year to Highland's total production.

The cash for the acquisition is coming from a $250m debt facility provided by Gazprombank. According to Westhouse figures, Highland can reduce its borrowings from operational cash generation even after financing its dividends.

Caledonia Mining

Gold miner Caledonia Mining Corporation has just started paying dividends. The initial dividend of C$0.005 per non-consolidated share, or 5 cents a share following a ten-for-one share consolidation, is payable on 30 April. The shares go ex-dividend on 17 April. At 8.25p a share, the yield is 3.6%.

The dividend will use up around one-tenth of Caledonia's cash. Management says that every year it will review Caledonia's ability to pay a dividend. The next decision on a dividend will be after the 2012 annual report is finalised.

Caledonia has a 49% stake in the Blanket gold mine in Zimbabwe, which produced 45,623 ounces of gold in 2012, a 27% increase over the previous year. The cash cost of the production of $571/ounce is relatively low. All-inclusive costs for 2012 were 15% lower than the year before at $759/ounce. The mine sold 45,181 ounces of gold during 2012 at an average gold price of $1,666/ounce. There are plans to increase annual production to 76,000 ounces by 2016.

Archipelago Resources

Archipelago Resources has recently announced a formal dividend policy which involves the distribution of at least 10% of operating cash flows. There could also be one-off special dividends. Archipelago believes that it is important to reward shareholders for their backing and patience. The maiden dividend will be 1.25p a share, equivalent to 12% of operating cash flow plus a 1p a share special dividend. At 57.75p a share, the core dividend yield is 1.7% and the total dividend yield is 3.9%.

Archipelago owns 95% of the Toka Tindung Gold Mine in North Sulawesi, Indonesia. In 2012, which was the first full year of production, Archipelago produced 139,000 ounces of gold at a cost of $635/ounce net of silver credits and this is expected to rise to around 150,000 ounces in 2013 and the production cost could be lower.

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statistics

Market Performance, Indices and Statistics

AIM SECTOR INFORMATION

SECTOR NAME	% OF MARKET CAP	% OF COMPANIES
Oil & gas	22.7	11.8
Financials	19.7	18.9
Basic materials	12.8	16.6
Industrials	11.5	18.2
Consumer services	9.9	9.6
Technology	9	9.7
Consumer goods	6.4	5.4
Health care	5.3	5.8
Telecoms	2.2	1.2
Utilities	1	1.2

FTSE INDICES

ONE-YEAR CHANGES

INDEX	PRICE	% CHANGE
FTSE AIM All-Share	731.11	-8.3
FTSE AIM 50	3487.25	+9.6
FTSE AIM 100	3300.11	-9.2
FTSE Fledgling	5260.59	+14.5
FTSE Small Cap	3805.59	+21.1
FTSE All-Share	3380.64	+11.9
FTSE 100	6411.74	+10.4

COMPANIES BY MARKET CAP

MARKET CAP	NO.
Under £5m	266
£5m-£10m	126
£10m-£25m	221
£25m-£50m	180
£50m-£100m	145
£100m-£250m	108
£250m+	48

KEY AIM STATISTICS

Total number of AIM	1094
Number of nominated advisers	52
Number of market makers	55
Total market cap for all AIM	£65.9bn
Total of new money raised	£80.5bn
Total raised by new issues	£35.7bn
Total raised by secondary issues	£44.9bn
Share turnover value (2013)	£4.9bn
Number of bargains (2013)	0.8m
Shares traded (2013)	37.6bn
Transfers to the official list	162

TOP 5 RISERS OVER 30 DAYS

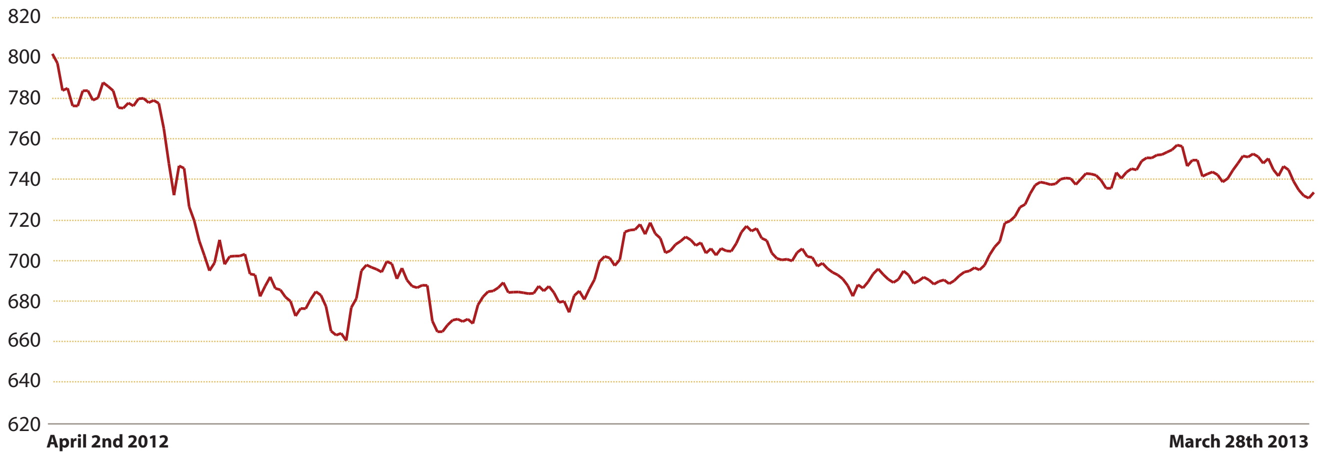
COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
Neos Resources	Cleantech	0.54	+463.2
Turbo Power Systems	Technology	0.41	+277.3
Churchill Mining	Mining	21.88	+150.7
Enables IT	Technology	33.5	+116.1
Thalassa Holdings	Oil and gas	144	+100

TOP 5 FALLERS OVER 30 DAYS

COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
Cleardebt	Financials	0.2	-77.1
Phorm Corporation	Technology	5.5	-77.1
Antrim Energy	Oil and Gas	11.5	-64.2
Noventa	Mining	0.66	-58.8
Kibo Mining	Mining	4.12	-56.4

AIM - 1 YEAR INDEX CHANGE

Source: London Stock Exchange



Data: Hubinvest Please note - All share prices are the closing prices on the 31st March 2013, and we cannot accept responsibility for their accuracy.

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finnCap

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

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

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