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AIM JOURNAL

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AIM mining sector declines

Accountant Ernst & Young's Mining Eye index has underperformed the FTSE AIM index over the past quarter and the funds raised by the sector in that period were the lowest since the third quarter of 2004. The accountant believes that AIM companies are likely to continue to find raising finance difficult for the rest of the year.

The Mining Eye index slumped by 31% over the second quarter as higher costs and an uncertain global economic outlook hit minerals prices. In the same period, the FTSE AIM All Share index fell by 15%.

Mining companies raised £96m in the second quarter of 2012. When cash is raised it can be highly dilutive to existing shareholders because of weak share prices. Alternative sources and forms of financing that will not be as dilutive are being considered by companies. Many AIM-quoted mining companies are looking for strategic partners in order to finance the development of their projects. They are also looking to sell non-core assets.

Mining used to be the largest sector on AIM but it is currently dwarfed by oil and gas, which accounts for 26% of AIM's market capitalisation. Mining is 13% of the junior market. At the end of 2010, oil and gas was 23.6% of AIM and the mining sector was not far behind at 22.7%.

PSQ Analytics relaunch

Argus Research is relaunching small company research provider PSQ Analytics and redesigning its research reports in order to provide more insight and analysis of the prospects of the companies covered. New services provided on the research company's website will include information and fundamental data on every AIM-quoted company and shareholder data provided by sister company Argus Vickers. The website (www.psqanalytics.com) will also be redesigned so that it is easier to use. The original idea behind PSQ Analytics was to provide research on small companies at a reasonable cost. A handful of companies signed up following its launch in 2009 and few have been added since then. The original target universe was more than 1,000 companies on AIM and the Main Market. There were originally three firms involved in the initiative, which was encouraged by the London Stock Exchange. They were Argus Research, which has offices in London and New York, India-based Pipal Research and former AIM company Independent International Investment Research. PSQ Analytics has been providing sector reports on sectors, such as clean technology and telecoms, and the range of sectors is being widened. PSQ Analytics is effectively competing against the likes of Edison and Equity Development.

HubInvest publishes AIM Journal

www.hubinvest.com

general news

NYSE Euronext plans new European rival to AIM

NYSE Euronext is planning a new European smaller companies market to rival AIM. The plan is to design a new market that will encourage smaller companies to float and raise money through share and loan issues.

The new market has been dubbed the Entrepreneurs Exchange and it is likely to subsume NYSE Euronext's current AIM rival, NYSE Alternext, as well as the smaller companies on the main Euronext market. If all the companies on Euronext capitalised at less than €1bn (£784m) are transferred along with Alternext companies the new market could have more than 1,000 companies. There could also be a so-called foyer market associated with the Entrepreneurs Exchange.

There is talk of trying to bring down the costs of being quoted and improving liquidity. This is very easy to say but there is no indication of how this will be done. Any smaller companies market will struggle when underlying stock market conditions are tough.

There have been other attempts to set up junior markets in Europe but they have either had a limited life, such as the Neuer Markt in Germany which prospered during the technology boom and then faded before its closure, or remain relatively small when compared with AIM. Alternext is an example of this. In the past seven years, companies on Alternext have raised €2.7bn (£2.1bn). To put this in perspective, AIM companies raised £1.76bn in the first half of 2012 alone. There are 183 companies quoted on Alternext, which is less than one-sixth of the number of companies still on AIM.

IFA stays on AIM

Shareholders in Lighthouse Group have voted against the board's proposal to cancel its AIM quotation. Shareholders normally agree to proposed AIM cancellations and if they do not then they tend to narrowly fail to receive the approval of 75% of the shares voted. In this case, Lighthouse did not even manage a majority for its proposal because 53.2% of the shares voted were against the AIM cancellation. The IFA had argued that it was not getting any benefit from being on AIM and it wanted to save money. Following the vote, the Lighthouse chairman says that the board will continue to respect the shareholders' preferences.

The Lighthouse share price has recovered but it remains below the level it was prior to the board's proposal to leave AIM.

Noble farm out deal for Falkland Oil & Gas

Falkland Oil & Gas Ltd (FOGL) has signed a farm-out agreement with US oil explorer Noble Energy, although the deal excludes the Loligo and Nimrod-Garrodia prospects. Noble will earn a 35% stake in the relevant licence areas. This agreement follows Rockhopper Exploration's deal with fully listed Premier Oil.

Noble will pay $25m to cover costs already spent and carry FOGL on 25% of its share of the cost of the first exploration well on the Scotia prospect and an exploration well in the southern licence area. Noble will also pay 10% of FOGL's share of a discretionary exploration well. FOGL will have a 40% stake in these prospects, Noble 35% and Italian explorer Edison International 25%. FOGL signed a farm-out deal with Edison earlier this year.

Noble has a market capitalisation of around $16bn and it is active in the US, western Africa and the eastern Mediterranean. Having a US-based partner may be useful to FOGL given the political problems with Argentina.

FOGL will continue to own 75% of the Loligo prospect. Noble is interested in oil and Loligo is more likely to be a gas discovery.

Drilling has started on Loligo and the rig will then move to the Scotia prospect. Even with the financial contributions from the farm-out agreements, Merchant Securities estimates capital spending by FOGL of more than $200m over the three years to the end of 2014.

There has been negative news for another Falkland Islands oil explorer. Geological complications led Borders & Southern to abandon the Stebbing well in the South Falkland Basin. There were no liquid hydrocarbon shows from the drilling, which was stopped before the targeted depth was reached.

advisers

Singer and N+1 Brewin plan merger

Singer and N+1 Brewin are the latest brokers planning to merge. This comes six months after Spain-based N+1 completed the acquisition of the broking business of Brewin Dolphin. The merged entity would be called N+1 Singer.

Tim Cockroft, chief executive of Singer, is likely to be chief executive of the merged business, while the chairman of N+1 Group, Santiago Eguidazu, is likely to take that role at the broker. N+1 Group will have a 25% stake in the merged entity, while directors and employees will hold 60%, with investment managers Artemis, Henderson and Brewin Dolphin holding the remaining 15%.

Regulatory approval for the N+1 Brewin deal took more than one year but there does not appear to be any reason why this latest deal should take anywhere near as long to complete.

Combined 2011 revenues of the merged businesses were £23m. The combined group will have around 130 corporate clients with the majority on AIM.

Bermuda Commercial Bank has increased its stake in Westhouse Holdings to 46.1% following the conversion of its perpetual convertible loan into shares and the purchase of 4.17m new shares at 30p a share. Sandra Pope has been appointed to the board as the representative of BCB.

Westhouse has been building up its team of analysts. Joanna Parsons has become head of equity research, Michael Donnelly has joined as a support services analyst and Nick Hatch as head of mining research. Parsons and Hatch were previously with RBS.

In the six months to May 2012, WH Ireland reported a two-thirds decline in underlying profit to £490,000. Acquiring the client base of Pritchards Stockbrokers and hiring additional staff has increased the broker and wealth manager's cost base. Corporate broking increased its revenues from £2.48m to £4.02m but its underlying contribution, before investment gains and losses and amortisation, fell from £927,000 to £855,000. Hiring ten corporate financiers and analysts added £1m to annual costs.

Arden Partners' corporate finance division grew revenues from £1.48m to £2.1m in the six months to April 2012. However, there was a sharp fall in the revenues of the equities trading operations. Underlying group profit fell from £1.5m to £1m.

ADVISER CHANGES - JULY 2012

COMPANY	NEW BROKER	OLD BROKER	NEW NOMAD	OLD NOMAD	DATE
SKIL Ports & Logistics Ltd	Arden/Cenkos	Cenkos	Cenkos	Cenkos	02/07/2012
Sunkar Resources	Strand Hanson	RFC Ambrian	Strand Hanson	RFC Ambrian	02/07/2012
Immupharma	Cenkos/Panmure Gordon/ Espirito Santo	Panmure Gordon/ Espirito Santo	Panmure Gordon	Panmure Gordon	03/07/2012
Red Rock Resources	Simple Investments	Simple Investments	Grant Thornton	Religare	03/07/2012
Regency Mines	Simple Investments	Simple Investments	Grant Thornton	Religare	03/07/2012
Avia Health Informatics	Allenby	Panmure Gordon	Allenby	Panmure Gordon	04/07/2012
Circle Oil	Liberum/Investec	Investec	Investec	Investec	04/07/2012
Red Emperor Resources NL	Fox Davies/Old Park Lane	Fox Davies/Old Park Lane	Fox Davies	Cairn	04/07/2012
UniVision Engineering Ltd	Zeus Capital	Allenby	Zeus Capital	Allenby	06/07/2012
Trap Oil Group	FirstEnergy/Mirabaud	Mirabaud	Strand Hanson	Strand Hanson	09/07/2012
Concha	Strand Hanson	Seymour Pierce	Strand Hanson	Seymour Pierce	11/07/2012
Plastics Capital	First Columbus/Cenkos	Cenkos	Cenkos	Cenkos	13/07/2012
ReThink Group	Shore Capital	Merchant	Shore Capital	Merchant	13/07/2012
Green Dragon Gas Ltd	Peel Hunt/Macquarie	Evolution/Macquarie	Smith & Williamson	Smith & Williamson	16/07/2012
Mission Marketing Group	finnCap	Seymour Pierce	finnCap	Seymour Pierce	18/07/2012
Great Western Mining	Davy/Shore Capital	Shore Capital	Shore Capital	Shore Capital	23/07/2012
Independent Resources	Charles Stanley/Seymour Pierce	Seymour Pierce	Seymour Pierce	Seymour Pierce	23/07/2012
Lansdowne Oil and Gas	Cenkos	finnCap	Cenkos	finnCap	23/07/2012
Finsbury Food	Cenkos	Panmure Gordon	Cenkos	Panmure Gordon	24/07/2012
Hangar 8	Seymour Pierce	Daniel Stewart	Seymour Pierce	Daniel Stewart	24/07/2012
Zenergy Power	finnCap	Panmure Gordon	finnCap	Panmure Gordon	25/07/2012
China New Energy Ltd	XCAP/SVS	SVS	Cairn	Cairn	27/07/2012
DP Poland	Peel Hunt	Seymour Pierce	Peel Hunt	Seymour Pierce	30/07/2012
Desire Petroleum	Peel Hunt	Seymour Pierce	Peel Hunt	Seymour Pierce	31/07/2012
Goldstone Resources Ltd	WH Ireland/Optiva	Optiva/Westhouse	WH Ireland	Westhouse	31/07/2012

company news

ECO Animal Health set to enter US market with animal drug Aivlosin

Animal drugs *www.ecoanimalhealthgroupplc.com*

ECO Animal Health has received the first US marketing authorisation for Aivlosin but it may take many months before the benefits show through. There is unlikely to be any significant effect on this year's figures.

Aivlosin is an antibiotic used to treat respiratory and enteric diseases in pigs and poultry. The US is one-third of the potential global market for Aivlosin and the initial approval enables it to be sold in the US for the first time. It has taken many years to reach this point and it has cost ECO a significant amount of money. The approval is for Aivlosin 625 mg/g water soluble granules for swine.

Revenues rose 5% to £28.3m in the year to March 2012, with much of that growth coming in the second half. There was a 23% rise in Latin American revenues and a Mexican subsidiary has been set up.

> The US is one-third of the potential global market for Aivlosin

Pre-tax profit was flat at £2.32m as admin expenses increased. The profit was boosted by a £555,000 compensation award against a former adviser relating to tax losses not claimed within the time limit. It is also struck after amortisation of £3.59m, up from £3.24m, and share-based payments charges of £291,000 (£304,000). Cash flow was strong and it more than covered investment and the cost of dividends.

ECO ANIMAL HEALTH (EAH)			253p
12 MONTH CHANGE %	+10	MARKET CAP £M	132.9

ECO had net cash of £9.5m at the end of March 2012. ECO is rebuilding its dividend and it has been increased from 3p a share to 3.75p a share. Back in 2008-09, the dividend was 7.15p a share but it was cut to 2.3p a share the following year in order to conserve cash.

House broker Cenkos forecasts a full-year profit of £3.3m, rising to £4.6m in 2013-14 when the US business starts to take off. The shares are trading on 34 times prospective 2013-14 earnings. ECO could be attractive to a larger rival that has the distribution network in place to exploit the potential of Aivlosin.

ANGLE to seek Parsortix partners

Medical diagnostics *www.angleplc.com*

Medical diagnostics-focused investment company **ANGLE** continues to pin its hopes on Parsortix, which has technology that can capture circulating tumour cells (CTCs) in cancer patient blood, but it has other investments which could be valuable.

CTCs are shed into the bloodstream by primary cancer tumours and they can end up causing secondary cancers. They are difficult to isolate and there can be as few as one CTC in one billion blood cells. The market for an efficient diagnostic test could be worth £6bn a year.

ANGLE (AGL)			41p
12 MONTH CHANGE %	+ 49.1	MARKET CAP £M	16.5

ANGLE has been increasing its stake in Parsortix and currently owns 90%. Parsortix is getting to the point where it will start to consider joint development programmes with corporate partners. Two or three initial applications have been identified. There is already corporate interest and a licence for a specific type of cancer is most likely. Cash should not be a problem in the short term because ANGLE has raised £900,000 at 40p a share. This will provide enough funds for the next 12 months.

ANGLE may sell its 33% stake in computer graphics software developer Geomerics. ANGLE also owns 92% of Novocellus, which is developing IVF embryo viability technology. The intention is to complete trials by the middle of next year and then bring the product to market. A partner has been secured for this technology and there are potential milestone payments of up to £4.5m and 25% royalties which potentially could generate £25m a year.

company news

Market research firm BrainJuicer invests in US market share growth

Online market research *www.brainjuicer.com*

BrainJuicer has been one of AIM's great successes in recent years and it has continued to post growing profits. The online market research firm is on course to achieve further progress this year and it is building up its presence in the US market.

First-half revenues are 13% ahead of the same time last year. Trading is tough in Europe outside of Switzerland so BrainJuicer is benefiting from its international scope. Switzerland is a strong market because a number of multinational consumer businesses have their head offices there. Trading in China, Brazil and the US has been strong. The US is growing in importance but BrainJuicer still has a tiny share of the market and it will take time to develop sales of its more innovative services.

Trading in China, Brazil and the US has been strong

BrainJuicer offers traditional methods of market research along with its own tools. BrainJuicer's own market research tools generated 66% of revenues in the first half of 2012, compared with 53% in the first half of 2011.

Edison Investment Research forecasts growth in underlying profit from £2.8m in 2011 to £3.1m this year. That is a lot slower than growth in forecast revenues from £20.7m to £26m due to investment in the business.

BRAINJUICER (BJU)			326.5p
12 MONTH CHANGE %	+ 16.6	MARKET CAP £M	40.8

BrainJuicer has always met or improved on its forecasts, and with the last few months normally strong, the outcome could be even better. The dividend is forecast to rise from 3p a share to 3.5p a share.

The business is highly cash generative with minimal capital spending and there is expected to be £1.5m of cash generated after all outflows, including tax and dividends. Net cash of £5.23m is forecast by the end of 2012.

BrainJuicer has a high rating and this reflects potential for earnings growth and the niche product range.

International growth propels Ebiquity

Media analytics *www.ebiquity.com*

Media analysis services provider **Ebiquity** is showing that it can get the most out of the acquisitions it has made over the past couple of years. The international spread of activities has also helped, with more than three-quarters of revenues coming from outside the UK.

Ebiquity enables its clients to measure the effectiveness of their advertising and marketing spending. Revenues rose from £44.2m to £52.9m, while profit rose at an even faster rate – from £4.8m to £7.6m – as cost savings came through. Organic profit growth was 35%. Net debt was £12.2m at the end of April 2012.

EBIQUITY (EBQ)			93p
12 MONTH CHANGE %	+ 5.7	MARKET CAP £M	55

The media analytics and optimisation division accounted for 53% of revenues last year and it is the main focus of growth. Acquisitions have contributed to this growth but they also lowered the overall margins of the division.

The advertising monitoring division continues to benefit from the integration of the April 2010 acquisition of Xtreme but revenues declined because of the disposal of a non-core business.

Numis forecasts a rise in profit to £9.6m in 2012-13, which puts the shares on less than 11 times prospective earnings. This growth in profit could be supplemented by further acquisitions. Numis is forecasting a rise in net debt this year even without new acquisitions. That is due to deferred consideration on past acquisitions.

Edison reckons that Ebiquity has the ability to grow at 15% a year over the medium term as it continues to grow its international operations. Multinationals increasingly need their marketing spending to be effective and they require Ebiquity's services to measure that effectiveness.

African Eagle exits Zambia to concentrate on nickel project

Mining *www.africaneagle.co.uk*

African Eagle Resources is selling its Zambian copper assets in order to focus on its Dutwa nickel project in Tanzania. A bankable feasibility study on Dutwa is due to be completed in the first quarter of 2013.

Elephant Copper is buying Katanga Resources Ltd and 49.9% of Kujima Mining and Exploration Ltd. These companies own prospecting licences plus 49% of a company that holds a mining licence for the Mkushi copper mine.

African Eagle will receive 15m shares in Elephant Copper and a 2% net smelter return on the Katanga assets once they reach production. Elephant Copper is unquoted but it intends to reverse into TSX Venture Exchange-quoted shell company Credent Capital Corporation. The book value of the assets was £4.2m at the end of 2011 but this will be revalued in the next interim figures.

> African Eagle is focusing on the Dutwa project

The deal requires Zambian regulatory approval and it is expected to be completed within three months.

Seymour Pierce reckons that the consideration for the Zambian assets is worth 0.7p a share. The broker also estimates that the Dutwa project is worth 2.4p a share. African Eagle also has a stake in a joint venture developing a Miyabi gold project.

AFRICAN EAGLE (AFE)			3.13p
12 MONTH CHANGE %	- 48.3	MARKET CAP £M	21.7

Dutwa has an indicated and inferred resource of 98.6m tonnes at a nickel grade of 0.93%. The nature of the deposit means that it should be straightforward to extract the nickel and recoveries could be as high as 80%.

There was £2.29m in cash in the balance sheet at the end of 2011. A further £9.56m was raised from a placing and open offer at 4p a share during April.

Gulf Keystone increases Shaikan resource figure

Oil and gas *www.gulfkeystone.com*

Gulf Keystone Petroleum has increased the estimate of oil in place at the Shaikan field in the Kurdistan region of Iraq. Management has declared it a commercial discovery and plans to submit a field development plan by the end of next January.

The gross oil in place volumes for Shaikan are a P90 figure of 12.4bn barrels, increased from 8bn barrels, and a P10 value of 15bn barrels. This upgrade is the fourth in three years. Gulf Keystone has a 75% interest in the Shaikan block. The plan is to have gross production of at least 400mbbl/day by 2016. It will require significant investment to bring the field into production.

One concern is that the area does not currently have the infrastructure required for significant production. Trucking capacity is around 40mbbl/day and local demand is limited. A pipeline is required to export the oil. Gulf Keystone has already submitted a plan for a 440mbbl/day pipeline, which would cost $170m. This would connect Shaikan to the Kirkuk-Ceyhan export pipeline. This still requires approval from the authorities. The company hopes to complete the pipeline by the end of 2013. However, the pipeline's design may have to be changed following plans to build a pipeline network between Kurdistan and Turkey. Even this plan has its own problems because the Kurdistan regional government is bypassing the Baghdad-based Iraq government. Political disputes between the regional and central governments could hamper progress, as could political instability in Iraq.

GULF KEYSTONE PETROLEUM (GKP)			215p
12 MONTH CHANGE %	+ 64.8	MARKET CAP £M	1883.8

Excalibur Ventures is claiming up to 30% of Gulf Keystone's stakes in Kurdistan and the trial has been set for October. Gulf Keystone believes that it will defeat this claim.

Edison Investment Research estimates that the NAV of Gulf Keystone is 271p a share, which includes 55p a share for exploration assets.

Allocate returns to dividend list after 13 years

Workflow software *www.allocatesoftware.com*

ALLOCATE SOFTWARE (ALL)	
Price	74p
Market cap £m	47.2
Historical yield	1.6%
Prospective yield	1.8%

Dividend

Allocate Software has declared its first dividend in more than a decade but this time it intends to continue to grow the dividend. The workflow and optimisation software provider paid an interim of 0.75p a share back in 1999 when it was called MSW Technology. This was just after the company floated and a slump into loss in the year to May 1999 put paid to any more dividends for more than a decade.

The latest dividend is 1.2p a share and this is covered six times by underlying earnings for the year to June 2012. The dividend is expected to rise to 1.3p a share this year and then to 1.4p a share next year. The dividend cover will reduce slightly but it would still be near to six times on current earnings forecasts.

Net cash was £4.34m at the end of June 2012, although this will have been reduced by the recent acquisition of RealTime Health. Even allowing for that latest cash outflow, Allocate is forecast to have net cash of £5.8m by June 2013.

Business

Allocate's main focus is the healthcare, defence and maritime markets and it already supplies the vast majority of NHS Trusts. However, most of them only take one of its products so there is scope to sell more to each customer.

Healthcare accounts for more than two-thirds of revenues. Allocate has integrated a number of acquisitions into its Allocate HealthSuite. This has modules that cover rosters, risk and compliance, processing tasks and performance management. Allocate has 141 NHS Trust customers and it also has customers in Sweden and Australia.

The latest acquisition is UK-based patient flow software supplier RealTime Health, which cost an initial £1.2m in cash. Up to £6m more could become payable although that is dependent on meeting billing targets during the next 24 months.

The acquisition generated £600,000 of billings in the first half of 2012 and Oxford-based RealTime will benefit from Allocate's marketing expertise and customer base. The patient flow software enables hospitals to improve clinical processes and optimise resources, thereby reducing costs. So far, eight NHS Trusts have installed this software and Allocate can offer it as part of a full suite of products to existing and new customers.

Defence contracts can take longer to secure and last year's figures benefited from a £3m-plus Australian armed forces contract that has finally come through. There is unlikely to be another large order this year so defence revenues will decline.

Revenues grew 22% to £36.6m in the year to June 2012 and 10% of that growth was organic. Underlying profit grew more modestly, from £5.4m to £6.2m. A profit of £6.5m is forecast for this year.

The share price is at a similar level to 12 months ago and the prospective 2012-13 multiple is 10.

Dividend news

Vimto soft drinks producer **Nichols** increased its interim dividend by 12% to 5.62p a share and it is on course to pay a total dividend of 18.4p a share in 2012. That would be covered more than two times by earnings. Revenues were 10% ahead at £55.4m in the six months to June 2012. Export sales were 14% higher. Pre-tax profit improved from £7.2m to £8.3m, while strong cash generation meant that net cash has increased by £3.5m to £23.6m. The UK market remains tough, with continued promotional activity by rivals, but there is growth in the Middle East and Africa.

Confectionery and snacks maker **Zetar** increased its full-year dividend from 2.25p a share to 3p a share even though its underlying pre-tax profit fell from £6.7m to £5.5m in the year to April 2012. This rise in the dividend reflects confidence about the future and strong cash generation. which reduced net debt from £14.9m to £10.8m at the end of April 2012. The dividend is still covered more than 11 times. Like-for-like sales were 7% ahead in the first 11 weeks of this financial year and annual overheads have been cut by £600,000. This will help Zetar to move towards its 2012-13 profit forecast of £7.2m.

Portfolio analytics software supplier **StatPro** increased its underlying profit by 29% to £2.68m in the six months to June 2012 while revenues were 3% higher at £16.1m. A restructuring of operations led to lower employment costs and a reduction in overheads, which enabled the interim operating margin to improve from 15.3% to 18.4%. The interim dividend was increased from 0.75p a share to 0.8p a share. The cloud-based StatPro Revolution product doubled its six-month revenues to £1.02m. The first modules of the new StatPro Revolution Plus product will start to come through in 2013.

expert views

Expert view: The broker

Focus on growth with limited risk

By LORNE DANIEL

SCISYS is a small-cap stock with large-cap quality of operations. Its software development projects tend to be large, highly technical and mission critical – usually for blue-chip or public-sector clients – so it operates to the highest standards.

The quality running through the business gives investors security in the delivery of its strategy of steady earnings accretion whilst mitigating risk. Professional fees are growing strongly on the back of a burgeoning reputation for delivery of complex projects and the experienced management team is driving steady improvement in margins. Risk is mitigated through a range of markets and careful control and review of projects; notably the balance between fixed price and time and materials work undertaken. The earnings growth translates into strong cash generation and a progressive dividend.

> Earnings growth translates into strong cash generation and a progressive dividend

Divisions

Total revenue declined in 2011. However, the reduction was in low-margin, third-party hardware and software re-sales. SCISYS core professional fees grew 11%, driven by a strong performance in the Space business; fees from this market grew over 30% and now provide 41% of the total, despite strong double-digit growth in the areas of Government and Defence; Media & Broadcast (M&B) and Application Support. The strength in these markets more than compensated for a sharp decline (down 41%) in fees from Environment projects, an area that suffered from government spending cuts.

SCISYS entered this year with a very healthy order book of £26.7m and this had risen to £29m by the end of March – even ahead of the Warrior armoured fighting vehicle upgrade.

In 2012, we expect continuing success in the Space division; notably with the European Space Agency, where the Columbus and Galileo programmes will continue to provide work.

Defence sales should also be good, notably in conjunction with Lockheed Martin, working on geospatial intelligence capability for the MoD as well as refurbishing the Warrior (where SCISYS should get the work on upgrading the electronics architecture package). There are overseas opportunities for the M&B division, particularly in Northern Europe, although we suspect political instability will delay some investment by Middle Eastern media.

Environment is unlikely to see any recovery in spending in the near term. Meanwhile, Apps Support should continue to benefit from ongoing requirements to reduce maintenance costs and improve service through system improvements and the premium pricing achievable for work on such specialist systems.

Margin recovery

We expect the steady improvement in underlying margins to continue, towards the stated target of 7%. SCISYS gains ever more experience in resourcing its projects and its growing software library increasingly allows reuse of code. For example, the Warrior upgrade is likely to make use of software already developed for the RNLI. The purchase of the Chippenham offices last year should also see a reduction in the full-year overheads, with rent swapped for lower interest costs over a full year, and there is further potential for tenants to take up unused space.

First-half performance seems to have been stronger than expected, due to a combination of earlier client deliveries, the operating efficiencies achieved and deferred costs, leading the board to be confident of meeting market forecasts.

Overall, we expect further earnings growth, forecasting adjusted pre-tax profit up from £2.2m in 2011 to £2.4m for 2012, translating into cash generation and a progressive dividend policy. We expect an attractive 2.4% yield on top of the potential for share price accretion.

The use of the cash to purchase property masks the true enterprise value (EV) of the company; whilst SCISYS holds a minimal net cash balance, half the £15m market capitalisation is represented by property assets. That leaves just a £7.5m enterprise value for a business with sales well in excess of £40m and an excellent reputation with a blue-chip client base.

Those sales are delivering reliable EBITDA of over £3m pa, which is growing strongly (up 13% last year) and is converted directly into cash. We feel the underlying 2x EV/EBITDA rating is far too low for this company and is due a revaluation. Whilst the IT services sector in general trades on a forward EV/EBITDA multiple in excess of 5x, even an increase to 4x for SCISYS gives us a 70p target price in the near term.

LORNE DANIEL is a technology analyst at finnCap

feature

AIM retains UK core despite internationalisation

AIM is an international market but UK companies remain a major part of the junior market's total capitalisation.

The London Stock Exchange has made a point of attracting international companies to AIM and it has certainly been successful. However, investor interest has not always been there for all of these international businesses. Even so, many have prospered and proved good investments.

Comparing the figures for AIM companies and their main country of business operations between June 2008 and June 2012 provides interesting information on how the make-up of AIM is changing.

Although the overall number of AIM companies has fallen sharply from 1,657 to 1,114, the percentage of those companies whose main operations are outside the UK has risen from 36.3% to 40.1%. A number of small UK companies have left AIM in recent years and that is part of the reason why the number of UK companies has declined from 1,055 to 667. Even so, the average market capitalisation of UK companies has risen from £30.7m to £41.1m. That compares with an average company size of £54.5m for the market as a whole.

Israel, Australia and the 'other offshore' category – Cayman Islands, Bahamas, etc – are the only other regions where the companies have a lower average market capitalisation than the UK. That is not totally surprising because it makes sense that international companies tend to have to be larger than UK ones in order to benefit from an AIM quotation. This is because the costs of floating an international business can be higher because of due diligence costs.

Even though the percentage of AIM companies with a UK focus has declined, they account for a higher percentage of AIM's value. In June 2008, UK companies accounted for 35.5% of AIM and they currently account for 45.1%.

The number of UK companies valued at less than £25m has fallen from 729 to 418 in the four years since June 2008. In contrast, there are a greater number of large companies.

Climate Exchange, which was valued at £858.4m, was the largest UK company back in June 2008 and the only one worth more than £500m. There are currently seven UK companies worth more than £500m, including online fashion retailer ASOS, valued at £1.4bn.

The number of UK companies has declined, but they account for more of AIM's value

Dual quotes

The number of companies with activities focused in Canada has more than halved. This reflects some companies with listings in Toronto electing to drop the AIM quotation and concentrate on their main listing.

There are still AIM companies with TSX, ASX or other overseas listings but many have found that trading in the company's shares tends to be focused on one market with minimal trading in the other market. Having an additional quotation is an additional expense and there is extra management time taken up. This is why many companies dropped their AIM quotation. However, there are still companies joining AIM that have listings elsewhere. These are predominantly mining companies that want to tap the UK's expertise and finance in this sector.

Sometimes AIM is not the market that is dropped. Paperboard manufacturer Powerflute, whose operations are in Finland, ditched its quotation on First North Finland in June. This secondary quotation was secured early in 2008, less than one year after Powerflute joined AIM. The idea was that investors in Finland and other European countries would find it easier to trade on a market outside of the UK. However, the volume of trading never justified the additional quotation, with most trades going through AIM.

Regional changes

The Isle of Man has become an increasingly popular country of incorporation for AIM companies but there are also ten companies that are categorised as having their principal operations on the island. That is double the number four years ago. These companies are predominantly financial and online gaming companies but there are other more surprising companies included, such as African Medical Investments, which operates health centres in Africa. This is an example of how these categorisations

Four Chinese companies joined AIM in the first half of 2012

feature

can at least be debated.

The number of Channel Islands-focused companies has risen even faster thanks to the flotation of a number of property companies and shells since June 2008.

The number of Middle East-based companies has also increased. These are mainly resources and financial services businesses. The average value of Middle East companies is £167m, which is the highest average value per company for any region.

There are more companies in Africa than in any other region outside of the UK and Western Europe and the number has increased from 46 to 56 over the four-year period. This reflects increasing mining and oil activities in Africa, although there are a handful of non-resources companies such as agricultural products supplier Zambeef Products and IT services provider Datatec.

Asia

China and southeast Asia is a region of the world where there are signs of increased interest in AIM. The number of southeast Asia-focused companies has increased by 13 to 38 – the largest increase in terms of number of companies but not the highest percentage increase. Like Africa, resources companies account for many of these companies but in recent years the majority of new companies from this region have been outside of the resources sector. Datacentre operators CSF and Teliti plus Singapore-based Feng Shui consultancy New Trend Lifestyle Group have widened the choice of companies in Asia.

Four Chinese companies joined AIM in the first half of 2012 and the same number joined from southeast Asia. Except for the UK, no other countries or regions have been a source of as many new companies.

China Chaintek United Co Ltd is the latest Chinese company planning to join the junior market in London. China Chaintek (chaintek-united.com) provides logistics services to sports shoes and apparel manufacturers in China. The company provides outsourced storage and transport for these businesses.

Hong Kong-based children's educational and activity packages supplier LZYE Group is also planning a float on AIM and it wants to raise cash to enable it to expand into China, where there is demand for extra-curricular activities.

China accounted for 7.1% of AIM in 2010, second only to the UK in importance, but it has fallen back to 5.3%. Southeast Asia has consistently gained in importance over the past four years, rising from 2.5% to 5.1%. If the current trends continue then China and southeast Asia could continue to grow their share of AIM's market value.

NUMBER OF AIM COMPANIES

COUNTRY	JUNE 2012	JUNE 2011	JUNE 2010	JUNE 2009	JUNE 2008
Africa	55	56	48	53	46
Australia	26	23	28	34	48
Canada	16	17	19	23	42
Central & Eastern Europe	20	23	24	26	28
Channel Islands	13	7	7	6	3
China	42	41	48	50	68
India & Bangladesh	25	29	26	28	27
Isle of Man	10	10	13	14	5
Israel	9	9	9	12	16
Japan	1	1	3	4	4
Latin America	24	26	26	29	34
Middle East	10	11	12	14	7
Other offshore	10	12	12	13	16
Russia & CIS	38	40	40	45	49
Southeast Asia	38	36	34	38	25
UK	667	698	760	859	1055
USA	49	44	52	69	80
Western Europe	61	68	74	96	104
Total	**1114**	**1151**	**1235**	**1413**	**1657**

AIM REGIONS BY MARKET VALUE

COUNTRY	JUNE 2012 £M	JUNE 2011 £M	JUNE 2010 £M	JUNE 2009 £M	JUNE 2008 £M
Africa	4,375	8,371	4,448	2,912	4,818
Australia	840	1,233	1,949	2,163	3,583
Canada	1,903	3,826	3,672	1,864	4,918
Central & Eastern Europe	836	1,248	758	523	1,612
Channel Islands	936	881	512	1,062	138
China	3,221	4,095	4,172	2,700	4,747
India & Bangladesh	3,750	3,532	2,585	2,360	3,501
Isle of Man	1,252	1,155	1,341	1,324	230
Israel	144	67	104	125	432
Japan	100	86	97	77	146
Latin America	1,779	1,998	1,958	1,149	2,270
Middle East	1,670	2,052	1,115	616	1,686
Other offshore	394	945	716	996	2,538
Russia & CIS	1,841	3,187	2,666	2,248	11,565
Southeast Asia	3,113	3,749	2,880	2,156	2,294
UK	27,384	31,268	23,917	18,714	32,401
USA	3,072	3,092	2,607	3,279	7,355
Western Europe	4,114	4,740	3,398	3,578	7,092
Total	**60,735**	**75,525**	**58,895**	**47,844**	**91,327**

statistics

Market Performance, Indices and Statistics

AIM SECTOR INFORMATION

SECTOR NAME	% OF MARKET CAP	% OF COMPANIES
Oil & gas	26.4	11.7
Financials	17.5	21.9
Basic materials	13	15.4
Industrials	11.1	18.8
Technology	9	9.4
Consumer services	7.8	9.5
Consumer goods	6.3	5.2
Health care	6.1	5.8
Telecoms	1.9	1.2
Utilities	1	1.1

FTSE INDICES

ONE-YEAR CHANGES

INDEX	PRICE	% CHANGE
FTSE AIM All-Share	676.33	-18.1
FTSE AIM 50	2844.69	-15.2
FTSE AIM 100	3057.15	-19.1
FTSE Fledgling	4314.66	-10.7
FTSE Small Cap	3033.83	-3.7
FTSE All-Share	3000.51	+3.4
FTSE 100	5787.28	+3.6

COMPANIES BY MARKET CAP

MARKET CAP	NO.
Under £5m	270
£5m-£10m	150
£10m-£25m	229
£25m-£50m	201
£50m-£100m	127
£100m-£250m	91
£250m+	46

KEY AIM STATISTICS

Total number of AIM	1,114
Number of nominated advisers	56
Number of market makers	57
Total market cap for all AIM	£60.7bn
Total of new money raised	£78.8bn
Total raised by new issues	£35.1bn
Total raised by secondary issues	£43.7bn
Share turnover value (2012)	£23.6bn
Number of bargains (2012)	3.24bn
Shares traded (2012)	114.9bn
Transfers to the official list	162

TOP 5 RISERS OVER 30 DAYS

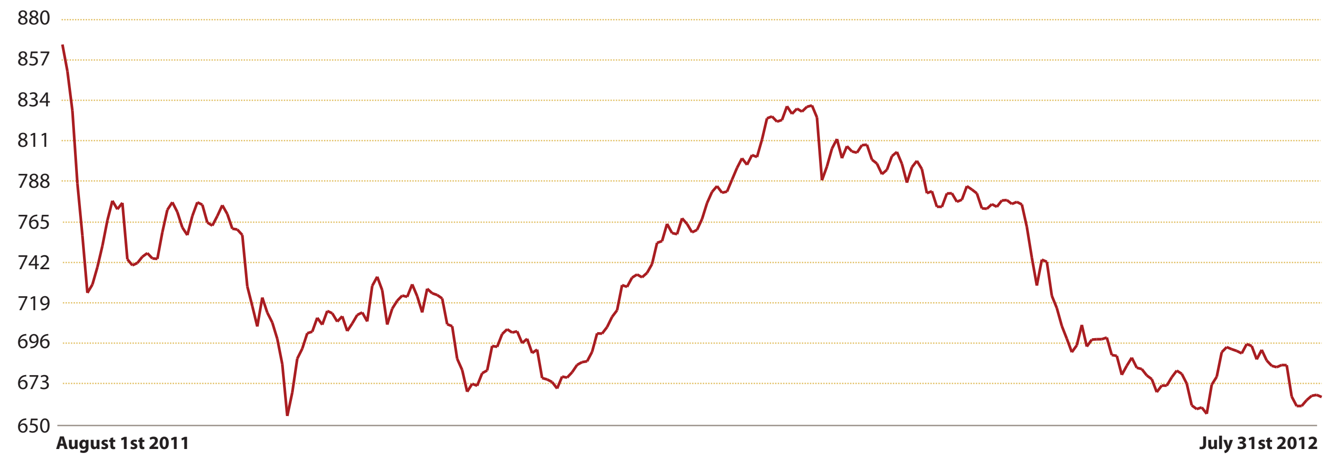
COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
Sunrise Resources	Mining	1.27	+96.2
Zoltav Resources Inc	Financials	3.75	+76.5
ECR Minerals	Mining	0.65	+72
Condor Gold	Mining	117	+59.2
Active Energy	Cleantech	2.5	+53.9

TOP 5 FALLERS OVER 30 DAYS

COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
Borders & Southern	Oil and gas	17.5	-71.7
Dawson International	Textiles	0.35	-69.6
Renewable Energy Holdings	Cleantech	3.88	-62.2
CAP-XX	Technology	10.62	-49.4
Sound Oil	Oil and gas	0.56	-44.9

AIM - 1 YEAR INDEX CHANGE

Source: London Stock Exchange



Data: Hubinvest Please note - All share prices are the closing prices on the 3rd August 2012, 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 helped finnCap become the fastest growing broker in both 2009 and 2010. finnCap is ranked as the number two broker/nominated adviser on AIM by overall client numbers. It is number one ranked in healthcare, technology and industrials sectors.

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. It has also been shortlisted for best research at the AIM Awards. finnCap's corporate broking and sales trading teams have achieved Extel Top 10 rankings for two years running.

finnCap has a strong track record of raising money for clients and it has advised on £280m of fundraisings and more than £300m of M&A transactions since June 2009. More than £140m was raised for clients in the year to June 2011.

Clients have a combined market value of around £3bn, with an average market capitalisation of approximately £40m. The top 20 clients have an average market capitalisation of more than £100m.

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